

Hawaii Foodbank, Inc.

Financial Statements

June 30, 2010 and 2009 and

Years Ended June 30, 2010, 2009 and 2008

Hawaii Foodbank, Inc.

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Report of Independent Auditors

To the Board of Directors of
Hawaii Foodbank, Inc.

In our opinion, the accompanying statements of financial position and the related statements of activities, functional expenses and cash flows present fairly, in all material respects, the financial position of Hawaii Foodbank, Inc. (the "Company") at June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years ended June 30, 2010, 2009 and 2008 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Acuity LLP

Honolulu, Hawaii
September 24, 2010

Hawaii Foodbank, Inc.
Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
Assets		
Cash	\$ 3,385,310	\$ 3,220,000
Contribution and trade receivables, net of allowance for uncollectible accounts of \$29,491 in 2010 and 2009	480,339	195,456
Food inventory, net of reserve for unsalvageable food of \$27,562 and \$28,704 in 2010 and 2009, respectively	947,038	1,040,092
Prepaid expenses and other	170,589	34,566
Board designated funds		
Building expansion	200,000	200,000
Agency assistance	2,200,000	2,100,000
Building and equipment replacement	1,950,000	1,950,000
Disaster mitigation and relief	500,000	500,000
Food purchase	1,596,421	1,496,421
Rainy day	30,000	-
Neighbor island emergency	785,000	-
Property and equipment, net	3,259,720	3,416,981
Beneficial interest in perpetual trust	193,943	180,843
Endowment for building maintenance	400,000	400,000
Endowment for agency assistance	400,000	400,000
Total assets	<u>\$ 16,498,360</u>	<u>\$ 15,134,359</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 223,050	\$ 204,603
Accrued salaries and wages	312,752	288,873
Deferred revenue	189,679	217,932
Due to agencies	181,202	133,187
Total liabilities	<u>906,683</u>	<u>844,595</u>
Net assets		
Unrestricted		
Invested in property and equipment	1,899,720	2,000,314
Board designated	7,261,421	6,246,421
Other	3,478,714	3,209,095
Total unrestricted	<u>12,639,855</u>	<u>11,455,830</u>
Temporarily restricted	1,957,879	1,853,091
Permanently restricted	993,943	980,843
Total net assets	<u>15,591,677</u>	<u>14,289,764</u>
Total liabilities and net assets	<u>\$ 16,498,360</u>	<u>\$ 15,134,359</u>

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

Hawaii Foodbank, Inc.
Statements of Activities
Years Ended June 30, 2010, 2009 and 2008

	2010	2009	2008
Unrestricted revenues, gains and other support			
Food contributions	\$ 19,699,600	\$ 17,398,255	\$ 15,825,466
Contributions from the public	3,521,935	3,642,043	2,348,251
Shared maintenance fees	692,008	650,852	610,290
Special events revenue	311,596	310,572	406,898
Investment and other income	112,536	147,792	273,899
	<u>24,337,675</u>	<u>22,149,514</u>	<u>19,464,804</u>
Net assets released from restrictions	1,031,472	971,674	636,544
Total unrestricted revenues, gain and other support	<u>25,369,147</u>	<u>23,121,188</u>	<u>20,101,348</u>
Expenses			
Program services	22,757,310	20,046,369	17,868,169
Management and general	507,055	546,996	440,616
Fund raising	820,143	753,884	636,616
Other	100,614	77,353	127,747
Total expenses	<u>24,185,122</u>	<u>21,424,602</u>	<u>19,073,148</u>
Increase in unrestricted net assets	<u>1,184,025</u>	<u>1,696,586</u>	<u>1,028,200</u>
Changes in temporarily restricted net assets			
Contributions from the public	1,130,240	815,606	648,320
Interest income	6,020	22,476	40,389
Net assets released from restrictions	(1,031,472)	(971,674)	(636,544)
Increase (decrease) in temporarily restricted net assets	<u>104,788</u>	<u>(133,592)</u>	<u>52,165</u>
Changes in permanently restricted net assets			
Change in value of charitable trust	13,100	(49,842)	(29,586)
Increase (decrease) in permanently restricted net assets	<u>13,100</u>	<u>(49,842)</u>	<u>(29,586)</u>
Increase in net assets	1,301,913	1,513,152	1,050,779
Net assets			
Beginning of year	<u>14,289,764</u>	<u>12,776,612</u>	<u>11,725,833</u>
End of year	<u>\$ 15,591,677</u>	<u>\$ 14,289,764</u>	<u>\$ 12,776,612</u>

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

Hawaii Foodbank, Inc.
Statement of Functional Expenses
Year Ended June 30, 2010 with Comparative Totals for 2009 and 2008

Account Description	Program Services	Management and General	Fund Raising	Other	Total		
					2010	2009	2008
Food donations to agencies	\$ 20,050,479	\$ -	\$ -	-	\$ 20,050,479	\$ 17,519,596	\$ 15,896,424
Salaries and wages	843,728	193,614	361,364	-	1,398,706	1,349,087	1,213,978
Neighbor island and agency support	771,165	-	-	-	771,165	653,489	321,416
Payroll taxes, employee benefits and training	296,193	94,098	130,464	-	520,755	456,046	439,551
Equipment, supplies and miscellaneous expenses	156,648	64,220	28,858	-	249,726	201,235	112,651
Depreciation expense	206,880	20,072	20,072	-	247,024	278,475	240,123
Occupancy	191,424	17,064	15,843	-	224,331	245,723	225,007
Transportation	181,280	82	3,275	-	184,637	200,070	165,123
Fund raising event direct costs	6,702	-	129,661	-	136,363	122,990	78,807
Printing and bulk mail costs	276	14,173	119,405	-	133,854	132,641	112,688
Cost of direct benefit provided to donors	-	-	-	100,614	100,614	77,353	127,747
Professional fees	116	79,345	-	-	79,461	87,826	47,638
Insurance	35,523	4,454	4,747	-	44,724	45,729	44,725
Dues, subscriptions, membership fees and meeting expenses	4,767	19,933	2,802	-	27,502	35,974	35,379
Volunteer expenses	12,129	-	3,652	-	15,781	18,368	11,891
	<u>\$ 22,757,310</u>	<u>\$ 507,055</u>	<u>\$ 820,143</u>	<u>\$ 100,614</u>	<u>\$ 24,185,122</u>	<u>\$ 21,424,602</u>	<u>\$ 19,073,148</u>

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

**Hawaii Foodbank, Inc.
Statements of Functional Expenses
Years Ended June 30, 2009 and 2008**

Account Description	2009				2008					
	Program Services	Management and General	Fund Raising	Other	Total	Program Services	Management and General	Fund Raising	Other	Total
Food donations to agencies	\$ 17,519,596	\$ -	\$ -	\$ -	\$ 17,519,596	\$ 15,896,424	\$ -	\$ -	\$ -	\$ 15,896,424
Salaries and wages	816,172	195,340	337,575	-	1,349,087	752,640	177,188	284,150	-	1,213,978
Neighbor island and agency support	653,489	-	-	-	653,489	321,416	-	-	-	321,416
Payroll taxes, employee benefits and training	260,772	82,865	112,409	-	456,046	253,010	78,850	107,691	-	439,551
Equipment, supplies and miscellaneous expenses	91,923	84,799	24,513	-	201,235	36,697	54,242	21,712	-	112,651
Depreciation expense	233,221	22,627	22,627	-	278,475	201,101	19,511	19,511	-	240,123
Occupancy	205,872	23,333	16,518	-	245,723	193,237	15,885	15,885	-	225,007
Transportation	196,272	227	3,571	-	200,070	161,932	237	2,954	-	165,123
Fund raising event direct costs	10,497	-	112,493	-	122,990	2,127	-	76,680	-	78,807
Printing and bulk mail costs	370	18,031	114,240	-	132,641	192	13,140	99,356	-	112,688
Costs of direct benefit provided to donors	-	-	-	77,353	77,353	-	-	-	127,747	127,747
Professional fees	-	87,826	-	-	87,826	-	47,638	-	-	47,638
Insurance	36,276	4,700	4,753	-	45,729	35,516	4,694	4,515	-	44,725
Dues, subscriptions, membership fees and meeting expenses	6,074	27,248	2,652	-	35,974	4,335	29,231	1,813	-	35,379
Volunteer expenses	15,835	-	2,533	-	18,368	9,542	-	2,349	-	11,891
	<u>\$ 20,046,369</u>	<u>\$ 546,996</u>	<u>\$ 753,884</u>	<u>\$ 77,353</u>	<u>\$ 21,424,602</u>	<u>\$ 17,868,169</u>	<u>\$ 440,616</u>	<u>\$ 636,616</u>	<u>\$ 127,747</u>	<u>\$ 19,073,148</u>

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

Hawaii Foodbank, Inc.
Statements of Cash Flows
Years Ended June 30, 2010, 2009 and 2008

	2010	2009	2008
Cash flows from operating activities			
Increase in net assets	\$ 1,301,913	\$ 1,513,152	\$ 1,050,779
Adjustments to reconcile increase in net assets to net cash provided by operating activities			
Change in value of charitable trust	(13,100)	49,842	29,586
Depreciation	247,024	278,475	240,123
Contributions received for purchases of equipment	(90,000)	-	(208,093)
Uncollectible pledge expense	-	26,491	-
Change in certain operating assets and liabilities			
Contribution and trade receivables	(284,883)	(40,017)	73,100
Food inventory	93,054	(91,793)	(28,966)
Prepaid expenses and other	(136,023)	5,195	22,825
Board-designated agency assistance	(8,828)	(13,448)	(39,776)
Accounts payable and accrued expenses	17,226	59,265	16,856
Accrued salaries and wages	23,879	16,859	112,410
Deferred revenue	(28,253)	(1,050)	(6,001)
Due to agencies	48,015	133,187	-
Net cash provided by operating activities	<u>1,170,024</u>	<u>1,936,158</u>	<u>1,262,843</u>
Cash flows from investing activities			
Purchases of equipment	(88,542)	(316,522)	(280,238)
Board designation of funds for agency assistance	(91,172)	(345,643)	(495,349)
Board designation of funds for equipment replacement, refurbishment, and repair	-	(350,000)	-
Board designation of funds for purchase of food	(100,000)	(303,993)	(495,349)
Board designation of funds for rainy day	(30,000)	-	-
Board designation of funds for neighbor island emergency	(785,000)	-	-
Net cash used in investing activities	<u>(1,094,714)</u>	<u>(1,316,158)</u>	<u>(1,270,936)</u>
Cash flows from financing activities			
Amounts restricted for purchase of equipment	90,000	-	208,093
Net cash provided by financing activities	<u>90,000</u>	<u>-</u>	<u>208,093</u>
Net change in cash	165,310	620,000	200,000
Cash			
Beginning of year	<u>3,220,000</u>	<u>2,600,000</u>	<u>2,400,000</u>
End of year	<u>\$ 3,385,310</u>	<u>\$ 3,220,000</u>	<u>\$ 2,600,000</u>

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

Hawaii Foodbank, Inc.
Notes to Financial Statements
June 30, 2010 and 2009 and
Years Ended June 30, 2010, 2009 and 2008

1. Organization

Hawaii Foodbank, Inc. (the "Company") is a 501(c)(3) nonprofit organization established to collect, warehouse and distribute salvageable food to social agencies that feed the needy of Oahu, Hawaii. The Company is a certified member of Feeding America, formerly known as America's Second Harvest, a nonprofit organization that provides surplus food, employee and technical training, and fund assistance to a nationwide network of food banks.

2. Significant Accounting Policies

Financial Statement Presentation

The Company maintains its accounting records on the accrual basis of accounting and classifies its financial statements based on the existence or absence of donor-imposed restrictions. Accordingly, net assets in the financial statements are reported in three categories, as follows:

- Unrestricted net assets are not restricted by donors, or are donor-imposed restrictions that have expired. Contributions received are considered available for unrestricted use unless specifically restricted by the donor.
- Temporarily restricted net assets are subject to donor-imposed restrictions that permit the Company to use or expend the assets as specified. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets are subject to donor-imposed stipulations that the principal is maintained in perpetuity and only income is expended for specific purposes.

Management Estimates

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

Concentrations of Credit Risk

The Company maintains portions of its cash in bank deposit and brokerage accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts, and management believes that the Company is not exposed to any significant credit risk related to cash.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Board Designated Funds

The Company has cash and various investment instruments that have been set aside by the Company's Board of Directors for future building expansion, agency assistance, building and capital equipment, disaster mitigation needs, food purchases, a rainy day and neighbor island emergencies. These investment instruments are held at fair value. The Company's investments are exposed to various risks, including interest rate, market and credit risk.

Hawaii Foodbank, Inc.
Notes to Financial Statements
June 30, 2010 and 2009 and
Years Ended June 30, 2010, 2009 and 2008

Contribution and Trade Receivables

Contributions receivable are expected to be collected during the next fiscal year. Management analyzes the collectibility of the contributions receivable and the allowance for uncollectible contributions was \$26,491 at June 30, 2010 and 2009.

Trade receivables are stated at unpaid balances, less an allowance for doubtful accounts, which was \$3,000 at June 30, 2010 and 2009. The allowance is based on experience and other circumstances, which may affect the ability of agencies to meet their obligations. Receivables are considered impaired if payments are not received in accordance with the contractual terms. It is the Company's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. There were no amounts written off during 2010 or 2009.

Food Inventory

Food inventory, which consists primarily of food, beverages, and other sundry items, is valued based on management's estimate of the average wholesale value per pound of food. Management's estimate is based on the results of a product valuation survey provided by Feeding America.

Property and Equipment

Purchased property and equipment are recorded at cost. The Company capitalizes property and equipment purchased with government grants, where the property is legally owned by the granting agency, if management considers it probable that the Company will be permitted to keep the property and equipment for the estimated useful lives of the assets.

Depreciation is provided using the straight-line method over the estimated useful lives of 30 years for the building and 3 to 10 years for vehicles, computers, equipment and furniture.

The carrying values of long-lived assets are reviewed when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. If the undiscounted future cash flows (without interest charges) are less than the carrying amount of an asset, an impairment loss is recognized to the extent the asset's carrying amount exceeds its fair value. No impairment loss was recognized in 2010, 2009 or 2008.

Contributed Property and Equipment

Contributed property and equipment is recorded at fair value at the date of donation. In the absence of donor stipulations regarding how long the contributed assets must be used, the Company has adopted a policy of implying a time restriction on contributions of such assets that expires over the assets' useful lives. As a result, all contributions of property and equipment, and of assets contributed to acquire property and equipment, are recorded as restricted support.

Beneficial Interest in Perpetual Trust

The Company recognizes charitable trusts such as perpetual trusts when a donor makes an initial irrevocable gift to a trust in which the Company has a beneficial interest. Beneficial interest in perpetual trusts represents assets held in perpetual trusts by independent trustees and represent resources neither in the possession nor under the control of the Company, although the Company derives income from the assets of such trusts. The Company's percentage of the beneficial interest in the trust is carried at fair value as reported to the Company by the trustee.

Deferred Revenue

Deferred revenue represents special event monies collected in advance that are deferred until the related event is held and services are provided.

Hawaii Foodbank, Inc.
Notes to Financial Statements
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Years Ended June 30, 2010, 2009 and 2008

Due to Agencies

The Company receives contributions that are restricted for its Grant-In-Aid ("GIA") program to assist agencies with paying for the shared maintenance fees. The GIA funds are applied to the accounts of agencies either at the Company's discretion or by donor designation. At June 30, 2010 and 2009, the due to agencies balance represents amounts to be applied to various agency accounts.

Donated Food

Food contributions received by the Company are capitalized as food inventory and recorded as unrestricted revenue. Upon distribution, food inventory is recorded as a decrease in unrestricted net assets and is charged to expense as food donations to agencies.

Contributions and Exchange Transactions

The Company receives monies from the community to purchase food to distribute to the public and to cover overhead costs. The Company evaluates each transaction to determine whether it is a contribution or an exchange transaction. Unconditional promises to give are recognized as contribution revenue in the period in which the promise is received, and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized as contribution revenue when the conditions are substantially met. Revenues from exchange transactions are recognized when earned and expenses are recognized when incurred and reported in the statements of activities as unrestricted revenues and expenses.

Contributed Merchandise and Other In-Kind Contributions

Contributed merchandise and other in-kind contributions, including equipment, are reflected as contributions at their estimated fair values when received or when an unconditional promise to give has been received by the Company.

Shared Maintenance Fees

The Company distributes food to nearly 300 agencies that are charged for products on a per pound basis, not to exceed eighteen cents per pound. These charges are reflected as shared maintenance fees in the accompanying financial statements.

Grant Expenditures

Grant expenditures are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the Company. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Company does not expect such amounts, if any, to have a material effect on the Company's financial statements.

Allocation of Functional Expenses

Certain costs of the Company are detailed in the accompanying statement of functional expenses. These costs have been allocated among program services, management and general, and fund raising expense classifications based on management's estimates of resources consumed by these functions.

Contributed Services

Unpaid volunteers assist in the warehousing, boxing, weighing and carrying of food for agencies. The value of these contributed services is not reflected in the accompanying financial statements, as the services provided do not meet the criteria for recognition according to accounting principles generally accepted in the United States.

Hawaii Foodbank, Inc.
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Tax Status

The Company is a nonprofit organization exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Company has been classified as an organization that is not a private foundation. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Conflict of Interest

The Company's board of directors, committee members and volunteers are from the financial, food wholesale, retail and distribution industries. These individuals provide valuable assistance to the Company in the development of policies and programs and in the evaluation of awards and grants. The Company has a conflict-of-interest policy whereby board and committee members must advise the board of any direct or indirect interest in any transaction or relationship with the Company and may not participate in decisions regarding any action, which may affect their individual, professional, or business interest.

Fair Value Measurements

The Company measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value, as follows:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- **Level 2:** Inputs other than quoted market prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- **Level 3:** Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs should be used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

Subsequent Events

The Company has reviewed all events that have occurred from July 1, 2010 through the date of the financial statement issuance for proper accounting and disclosure in the financial statements.

3. Board Designated and Other Endowment Funds

The Company's Board of Directors has set aside funds for future building and capital equipment, disaster mitigation needs, food purchases and emergencies. At June 30, 2010 and 2009, the Board designated funds consisted of the following investments:

	2010	2009
Cash and equivalents	\$ 2,385,636	\$ 3,401,542
Certificates of deposit	731,879	726,964
Government securities	1,114,999	-
Mutual funds	804,583	-
Equity investments	24,324	17,915
	<u>\$ 5,061,421</u>	<u>\$ 4,146,421</u>

Hawaii Foodbank, Inc.
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The Company also has cash and investments set aside by the Board of Directors for an agency assistance program. Earnings from the investments are Board designated for use to pay the shared maintenance fees of certain food distribution agencies. At June 30, 2010 and 2009, the endowment funds consisted of the following investments:

	2010	2009
Cash and equivalents	\$ 2,156,419	\$ 2,061,629
Mutual funds	<u>43,581</u>	<u>38,371</u>
	<u>\$ 2,200,000</u>	<u>\$ 2,100,000</u>

The endowment for building maintenance and agency assistance consist of restricted time certificate of deposits ("TCDs") received from the Weinberg Foundation, which are reported at carrying value. The Company has access to the interest income generated by the TCDs, but not to the principal, which must be invested in perpetuity (permanently restricted). Interest income is restricted for the repair and maintenance of the Company's warehouse and office facility and the agency assistance program which pays the shared maintenance fees of certain food distribution agencies. The TCD related to the endowment for building maintenance matures annually in June, and bore interest of 0.90%, 1.00% and 2.85%, at June 30, 2010, 2009 and 2008, respectively. The TCD related to agency assistance matures annually in February, and bore interest of 0.71%, 1.01% and 2.22%, at June 30, 2010, 2009 and 2008, respectively. The agency assistance agreement required that the Company match the \$200,000 funding by the grantor and maintain the funds in perpetuity.

Investment and other income consisted of the following:

	2010	2009	2008
Interest and dividend income	\$ 18,271	\$ 61,469	\$ 148,678
Net realized and unrealized gains	81,352	81,029	110,928
Other income	<u>12,913</u>	<u>5,294</u>	<u>14,293</u>
	<u>\$ 112,536</u>	<u>\$ 147,792</u>	<u>\$ 273,899</u>

Hawaii Foodbank, Inc.
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4. Fair Value Measurements

The Company has determined the fair value of its investment and the underlying assets in the beneficial interest in perpetual trust measured on a recurring basis at June 30, 2010 and 2009 as follows:

	Total	Level 1	Level 2
2010			
Board designated funds			
Cash and equivalents	\$ 4,542,055	\$ 4,542,055	\$ -
Certificates of deposit	731,879	-	731,879
Government securities	1,114,999	592,811	522,188
Mutual funds – domestic	848,164	848,164	-
Equity investments – domestic	24,324	24,324	-
	<u>\$ 7,261,421</u>	<u>\$ 6,007,354</u>	<u>\$ 1,254,067</u>
Beneficial interest in perpetual trust			
Cash and equivalents	\$ 14,599	\$ 14,599	\$ -
Common stock – domestic	76,053	76,053	-
Common stock – international	3,797	3,797	-
Mutual funds – domestic	78,008	78,008	-
Mutual funds – international	21,486	21,486	-
	<u>\$ 193,943</u>	<u>\$ 193,943</u>	<u>\$ -</u>
2009			
Board designated funds			
Cash and equivalents	\$ 5,463,171	\$ 5,463,171	\$ -
Certificates of deposit	726,964	-	726,964
Mutual funds – domestic	38,371	38,371	-
Equity investments – domestic	17,915	17,915	-
	<u>\$ 6,246,421</u>	<u>\$ 5,519,457</u>	<u>\$ 726,964</u>
Beneficial interest in perpetual trust			
Cash and equivalents	\$ 1,621	\$ 1,621	\$ -
Common stock – domestic	106,621	106,621	-
Common stock – international	3,760	3,760	-
Mutual funds – domestic	54,344	54,344	-
Mutual funds – international	14,497	14,497	-
	<u>\$ -</u>	<u>\$ 180,843</u>	<u>\$ -</u>

There were no assets or liabilities using Level 3 unobservable inputs to determine fair value. Valuation techniques utilized to determine fair value are consistently applied.

Hawaii Foodbank, Inc.
Notes to Financial Statements
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Years Ended June 30, 2010, 2009 and 2008

5. Food Inventory

The following summarizes food inventory transactions:

	Pounds	Value
Balance at June 30, 2007	543,985	\$ 919,333
Food contributions	9,953,123	15,825,466
Food distributions	(8,681,116)	(13,802,974)
Unsalvageable food and valuation adjustment	(1,179,550)	(2,001,164)
Other	-	7,638
Balance at June 30, 2008	<u>636,442</u>	<u>948,299</u>
Food contributions	11,334,368	17,398,255
Food distributions	(10,129,256)	(15,548,408)
Unsalvageable food and valuation adjustment	(1,183,268)	(1,773,926)
Other	-	15,872
Balance at June 30, 2009	<u>658,286</u>	<u>1,040,092</u>
Food contributions	12,389,685	19,699,600
Food distributions	(11,338,670)	(18,028,485)
Unsalvageable food and valuation adjustment	(1,117,403)	(1,765,311)
Other	-	1,142
Balance at June 30, 2010	<u>591,898</u>	<u>\$ 947,038</u>

Food inventory was valued at \$1.60, \$1.58 and \$1.49 per pound at June 30, 2010, 2009 and 2008, respectively, based on management's estimate of the average wholesale value per pound of food.

6. Property and Equipment

Property and equipment at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Building	\$ 1,971,330	\$ 1,971,330
Building Phase II	2,369,413	2,369,413
Vehicles	798,928	758,515
Office furniture and equipment	557,896	538,684
Warehouse equipment	244,312	214,173
	<u>5,941,879</u>	<u>5,852,115</u>
Accumulated depreciation	(2,682,159)	(2,435,134)
	<u>\$ 3,259,720</u>	<u>\$ 3,416,981</u>

Included in property and equipment were vehicles purchased through a state grant of federal pass-through funds. At June 30, 2008, the net book value of those vehicles was zero. Pursuant to the terms of this grant, the State of Hawaii maintains legal title to the vehicles. During 2009, the Company disposed of these vehicles.

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7. Retirement Plan

The Company maintains a simplified employee pension plan. The Company made annual contributions to eligible employees' retirement accounts equal to approximately 10% of applicable wages in 2010, 2009 and 2008. Pension expense recognized by the Company approximated \$125,000, \$115,000 and \$104,000 in 2010, 2009 and 2008, respectively.

8. Land Lease

The Company's warehouse and office facility is located on land leased from the State of Hawaii under a 55-year lease that expires in 2047. The lease provides that rent will be adjusted to 20% of the prevailing fair market lease rent every ten years of the lease.

Future minimum lease payments under this noncancelable operating lease are as follows:

Years ending June 30

2011	\$ 27,940
2012	27,940
2013	27,940
2014	27,940
2015	27,940
Thereafter	894,080
	<u>\$ 1,033,780</u>

Total rent expense approximated \$28,000 in 2010, 2009 and 2008.

9. Net Assets

At June 30, 2010 and 2009, the Company's permanently and temporarily restricted net assets consisted of the following:

	Permanently Restricted		Temporarily Restricted	
	2010	2009	2010	2009
Weinberg Foundation	\$ 600,000	\$ 600,000	\$ -	\$ -
Funds designated for matching grant	200,000	200,000	-	-
Beneficial interest in perpetual trust	193,943	180,843	-	-
CDBG Grant	-	-	1,360,000	1,416,667
Senior Farmers Market Nutrition Program	-	-	247,585	-
Aloha United Way	-	-	133,098	170,377
Emergency Food and Shelter Program	-	-	62,171	32,273
Wong Foundation	-	-	36,736	26,195
Friends of Hawaii Charities	-	-	25,000	-
HMSA Foundation	-	-	20,000	-
Feeding America	-	-	10,000	78,529
LeBurta Atherton Foundation	-	-	-	39,306
Cooke Foundation	-	-	-	30,000
Other	-	-	63,289	59,744
	<u>\$ 993,943</u>	<u>\$ 980,843</u>	<u>\$ 1,957,879</u>	<u>\$ 1,853,091</u>

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The temporarily restricted net assets consist of: 1) receivables that will become unrestricted upon their due date, 2) contributions that will be released from restrictions once the purpose for which it was restricted has been fulfilled, and 3) funds received under a CDBG grant that were used to expand and modernize the Company's facilities and which will be released from restrictions as depreciation expense on the capitalized costs is recognized.

During the years ended June 30, 2010, 2009 and 2008, net assets of \$1,031,472, \$971,674 and \$636,544, respectively, were released from temporarily restricted net assets as a result of the satisfaction of time restrictions and/or incurrence of certain costs by the Company.

10. Uniform Prudent Management of Institutional Funds Act

In 2009, the State of Hawaii enacted a version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which provides guidance and authority to charitable organizations concerning the management and investment of funds held by those organizations, and imposes additional duties on those who manage and invest charitable funds. Portions of the Company's temporarily restricted net assets and permanently restricted net assets would be termed endowment funds under UPMIFA.

The Company includes in their endowment both donor-restricted and board designated temporarily restricted net assets and endowment net assets. Net assets associated with endowment funds, including funds designated by the Board to function as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

The Company invests their permanently restricted funds in certificates of deposit when received unless otherwise designated by the donors. The funds are maintained in perpetuity and the earnings on the investments are released for unrestricted use in the subsequent year.

The Company's spending policy for the endowment assets provides funding in addition to the amounts that are raised during the fiscal year. The spending policy provides that the investment income earned on permanently restricted net assets should be reported as temporarily restricted income in the year that it is earned and be used in the subsequent year for purposes that the endowment was established.

The endowment net asset composition as of June 30, 2010 and 2009 was as follows:

	Unrestricted Restricted	Temporarily Restricted	Permanently Restricted	Total
2010				
Donor-restricted endowment funds	\$ -	\$ 2,020	\$ 800,000	\$ 802,020
	<u>\$ -</u>	<u>\$ 2,020</u>	<u>\$ 800,000</u>	<u>\$ 802,020</u>
2009				
Donor-restricted endowment funds	\$ -	\$ -	\$ 800,000	\$ 800,000
Board designated endowment funds	-	11,076	-	11,076
	<u>\$ -</u>	<u>\$ 11,076</u>	<u>\$ 800,000</u>	<u>\$ 811,076</u>

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Changes in endowment net assets for the years ended June 30, 2010 and 2009 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2008	\$ -	\$ 40,389	\$ 800,000	\$ 840,389
Interest income	-	22,476	-	22,476
Appropriation of endowment earnings for expenditure	51,789	(51,789)	-	-
Expenditure of endowment earnings	<u>(51,789)</u>	<u>-</u>	<u>-</u>	<u>(51,789)</u>
Total change in endowment net assets	<u>-</u>	<u>(29,313)</u>	<u>-</u>	<u>(29,313)</u>
Endowment net assets, June 30, 2009	<u>-</u>	<u>11,076</u>	<u>800,000</u>	<u>811,076</u>
Interest income	-	6,020	-	6,020
Appropriation of endowment earnings for expenditure	15,076	(15,076)	-	-
Expenditure of endowment earnings	<u>(15,076)</u>	<u>-</u>	<u>-</u>	<u>(15,076)</u>
Total change in endowment net assets	<u>-</u>	<u>(9,056)</u>	<u>-</u>	<u>(9,056)</u>
Endowment net assets, June 30, 2010	<u>\$ -</u>	<u>\$ 2,020</u>	<u>\$ 800,000</u>	<u>\$ 802,020</u>

11. Subsequent Event

Effective June 30, 2010, the Company terminated its partner distribution organization agreement with the Kauai Food Bank. On July 1, 2010, the Company created the Hawaii Foodbank Kauai Branch to provide food collection and salvaging services to the island of Kauai. The Hawaii Foodbank Kauai Branch will solicit food and monetary donations for distribution to Kauai agencies but will be supported and administered by the Hawaii Foodbank.