

PHILABUNDANCE

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR
SEPTEMBER 30, 2010)**

**PHILABUNDANCE
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Philabundance
Philadelphia, Pennsylvania

We have audited the accompanying statement of financial position of Philabundance (a nonprofit organization) as of September 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. The prior year summarized comparative information has been derived from Philabundance's 2010 financial statements and, in our report dated December 9, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philabundance as of September 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of Philabundance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Philabundance taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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.


LarsonAllen LLP

Plymouth Meeting, Pennsylvania
December 21, 2011

PHILABUNDANCE
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2010)

ASSETS	2011	2010
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,025,700	\$ 1,502,976
Investments	1,437,773	1,432,992
Accounts Receivable	362,294	393,891
Grants Receivable	5,000	6,214
Pledges Receivable	48,868	138,158
Inventory	2,657,590	2,478,071
Other Current Assets	164,659	78,792
Prepaid Expenses, Deposits and Other	188,449	100,615
Total Current Assets	5,890,333	6,131,709
PLEDGES RECEIVABLE, LESS CURRENT PORTION	29,000	36,612
PROPERTY AND EQUIPMENT	9,031,439	8,596,367
RESTRICTED CASH EQUIVALENTS	-	1,200,000
BENEFICIAL INTEREST	11,645	12,346
Total Assets	\$ 14,962,417	\$ 15,977,034
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Capital Leases	\$ 178,344	\$ 129,278
Current Maturity of Long-Term Debt	281,769	-
Accounts Payable and Accrued Expenses	853,596	571,477
Deferred Income	97,939	166,127
Total Current Liabilities	1,411,648	866,882
LONG-TERM LIABILITIES		
Long-Term Debt, Less Current Maturities	2,866,632	4,654,336
Capital Leases, Net of Current Portion	658,711	408,422
Total Long-Term Liabilities	3,525,343	5,062,758
Total Liabilities	4,936,991	5,929,640
NET ASSETS		
Unrestricted	8,552,477	8,140,154
Temporarily Restricted	1,088,305	1,523,796
Permanently Restricted	384,644	383,444
Total Net Assets	10,025,426	10,047,394
Total Liabilities and Net Assets	\$ 14,962,417	\$ 15,977,034

See accompanying Notes to Financial Statements.

PHILABUNDANCE
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
OPERATING REVENUE					
In-Kind Food	\$ 25,410,200	\$ -	\$ -	\$ 25,410,200	\$ 24,465,903
In-Kind Goods	288,593	-	-	288,593	211,613
In-Kind Services	47,130	-	-	47,130	20,342
Grants and Contributions	7,512,724	1,584,292	1,200	9,098,216	7,801,559
Fees for Service	1,768,175	-	-	1,768,175	1,762,537
Community Purchase Program	1,176,783	-	-	1,176,783	1,158,868
Net Assets Released from Restrictions	2,019,783	(2,019,783)	-	-	-
Total Operating Revenue	<u>38,223,388</u>	<u>(435,491)</u>	<u>1,200</u>	<u>37,789,097</u>	<u>35,420,822</u>
EXPENSES					
Program Services	34,252,358	-	-	34,252,358	32,297,211
Management and General	1,541,366	-	-	1,541,366	1,073,874
Fundraising	2,088,543	-	-	2,088,543	1,961,765
Total Operating Expenses	<u>37,882,267</u>	<u>-</u>	<u>-</u>	<u>37,882,267</u>	<u>35,332,850</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	341,121	(435,491)	1,200	(93,170)	87,972
NONOPERATING ACTIVITIES					
Interest Income and Dividends	14,306	-	-	14,306	39,878
Change in Beneficial Interest	(701)	-	-	(701)	1,743
Endowment Distribution Income	22,676	-	-	22,676	20,276
Realized Gain on Investments	16,946	-	-	16,946	19,919
Unrealized Gain (Loss) on Investments	(10,061)	-	-	(10,061)	83,279
Gain on Disposal of Equipment	4,224	-	-	4,224	1,125
Other Income	23,812	-	-	23,812	12,815
Total Nonoperating Activities	<u>71,202</u>	<u>-</u>	<u>-</u>	<u>71,202</u>	<u>179,035</u>
CHANGE IN NET ASSETS	412,323	(435,491)	1,200	(21,968)	267,007
Net Assets - Beginning of Year	<u>8,140,154</u>	<u>1,523,796</u>	<u>383,444</u>	<u>10,047,394</u>	<u>9,780,387</u>
NET ASSETS - END OF YEAR	<u>\$ 8,552,477</u>	<u>\$ 1,088,305</u>	<u>\$ 384,644</u>	<u>\$ 10,025,426</u>	<u>\$ 10,047,394</u>

See accompanying Notes to Financial Statements.

PHILABUNDANCE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2010)

	Program Services	Management and General	Fundraising	2011 Total	2010 Total
Payroll and Related Costs	\$ 4,445,673	\$ 899,741	\$ 463,082	\$ 5,808,496	\$ 4,837,530
Agency Support	69,807	-	-	69,807	256,624
Community Engagement	76,514	-	-	76,514	106,604
Contract Labor	92,822	113,452	-	206,274	167,461
Credit Card and Bank Fees	490	21,271	38,166	59,927	67,145
Depreciation	887,767	43,608	29,072	960,447	751,379
Donated Food	25,306,086	-	-	25,306,086	24,483,434
Dues and Subscriptions	31,587	1,901	2,487	35,975	32,311
Facilities	469,210	39,863	26,575	535,648	551,313
Food Acquisition	1,509,286	-	-	1,509,286	1,272,093
Freight	110,593	-	-	110,593	207,326
Information Technology	117,503	23,599	32,770	173,872	51,083
Interest	134,399	25,489	16,992	176,880	124,224
Mailing Services	16,641	602	802,765	820,008	778,657
Marketing and Design	28,911	1,966	240,413	271,290	296,280
Meetings and Training	1,555	39,548	81,353	122,456	106,503
Miscellaneous	12,635	3,204	1,603	17,442	14,602
Printing	14,955	837	323,896	339,688	309,965
Professional Fees	56,915	210,301	12,192	279,408	112,384
Supplies	259,116	41,357	3,343	303,816	222,691
Telephone	120,274	27,779	13,282	161,335	91,126
Temporary Help	94,780	46,848	552	142,180	203,783
Transportation	394,839	-	-	394,839	288,332
Total	<u>\$ 34,252,358</u>	<u>\$ 1,541,366</u>	<u>\$ 2,088,543</u>	<u>\$ 37,882,267</u>	<u>\$ 35,332,850</u>

See accompanying Notes to Financial Statements.

PHILABUNDANCE
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (21,968)	\$ 267,007
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Realized Gain on Investments	(16,946)	(19,919)
Unrealized (Gain) Loss on Investments	10,061	(83,279)
Gain on Disposal of Equipment	(4,224)	(1,125)
Donated Vehicle	95,844	-
Change in Beneficial Interest	701	(1,743)
Depreciation	960,447	751,379
Contributions Restricted to Secure Long-Term Debt	-	(1,200,000)
(Increase) Decrease in:		
Accounts Receivable	31,597	8,680
Grants Receivable	1,214	(6,214)
Pledges Receivable	96,902	153,637
Inventory	(179,519)	134,857
Other Current Assets	(85,867)	(44,486)
Prepaid Expenses, Deposits and Other	(87,834)	36,034
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	282,119	(258,239)
Deferred Income	(68,188)	111,435
Net Cash Provided (Used) by Operating Activities	1,014,339	(151,976)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(1,331,085)	(66,964)
Purchase of Property and Equipment	(1,016,847)	(3,318,708)
(Increase) Decrease in Restricted Cash to Secure Long-Term Debt	1,200,000	(1,200,000)
Proceeds from Sale of Investments	1,333,189	1,505,401
Proceeds from Sale of Property and Equipment	5,000	-
Net Cash Provided (Used) by Investing Activities	190,257	(3,080,271)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (Payments) from Long-Term Debt	(1,505,935)	2,802,457
Long-Term Debt, Less Current Maturities	-	1,200,000
Principal Payments on Capital Lease	(175,937)	(106,249)
Net Cash Provided (Used) by Financing Activities	(1,681,872)	3,896,208
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(477,276)	663,961
Cash and Cash Equivalents - Beginning of Year	1,502,976	839,015
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,025,700	\$ 1,502,976
SUPPLEMENTAL DISCLOSURE		
Cash Paid for Interest, Net of Capitalized Interest	\$ 176,880	\$ 124,224
NONCASH INVESTING AND FINANCING ACTIVITIES		
Vehicles Acquired Through Capital Leases	\$ 475,292	\$ 118,657

See accompanying Notes to Financial Statements.

**PHILABUNDANCE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Philabundance (also referred to as the "Organization"), is a Pennsylvania not-for-profit hunger relief organization that provides an array of programs designed to end hunger and malnutrition in the Delaware Valley. The core program is acquiring food from food industry sources and distributing the food through organizations serving people in need and through Philabundance's direct service programs, such as Fresh for All. The Organization also maintains kitchen operations that produce meals which are provided to the City of Philadelphia and to other organizations for distribution to those in need. As an adjunct to the meal production program, the Organization conducts a job training program that prepares people coming off welfare for jobs in the food service industry. The Organization also directly provides on-site meal service to the City of Philadelphia's Woodstock Shelter for Women and Children. In addition to the in-kind donations of food, revenues are also primarily derived from contributions (largely from individual donors), grants and fees for services provided.

Basis of Financial Statements

The accompanying financial statements are accounted for on the accrual method of accounting in accordance with U.S. generally accepted accounting principles.

Basis of Presentation

Activities are recorded according to three categories of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted net assets consist of normal operations. The Board determined that unrestricted funds that were previously designated should be undesignated and the 2010 fund balances were reclassified to conform to the 2011 presentation.

Temporarily restricted net assets consist of contributions specifically restricted by a donor. Upon meeting the restriction (either a stipulated time period ends or a purpose restriction is accomplished), these temporarily restricted net assets are reclassified to unrestricted and reposted in the statement of activities as net assets released from unrestricted.

Permanently restricted net assets consist of contributions specifically restricted by the donor to be held in perpetuity.

Use of Estimates

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

PHILABUNDANCE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of In-Kind Donations

Entities receiving contributions are to recognize them at the estimated fair value of the assets received. The estimated fair value of donated food is based on the average wholesale value per pound of donated product type as determined by an independent annual survey commissioned by Feeding America, a national hunger relief, public policy and advocacy organization.

Details of the estimated food value donations for the year ended September 30, 2011 with comparative amounts for the year ended September 30, 2010 are shown in the following table:

	Year Ended September 30, 2011			Year Ended September 30, 2010		
	Value per Pound	Total Pounds	Total Value	Value per Pound	Total Pounds	Total Value
Non-Food	\$ 2.11	22,343	\$ 47,143	\$ 3.41	18,643	\$ 63,573
Baby Food	\$ 3.05	31,086	94,812	\$ 2.45	300	735
Beverage	\$ 0.64	269,862	172,712	\$ 0.48	405,905	194,834
Bread/Bakery	\$ 2.58	674,977	1,741,440	\$ 2.25	612,786	1,378,769
Cereal	\$ 3.08	301,350	928,157	\$ 3.25	287,590	934,668
Meals, Soups, Entrees	\$ 1.93	491,616	948,818	\$ 1.97	390,574	769,431
Dairy	\$ 1.56	1,073,105	1,674,044	\$ 1.62	709,958	1,150,132
Dessert	\$ 2.18	42,065	91,702	\$ 2.26	199,902	451,779
Dressing	\$ 2.12	20,981	44,480	\$ 2.01	5,860	11,779
Fruit	\$ 1.59	30,750	48,893	\$ 1.58	15,197	24,011
Grain	\$ 1.22	82,281	100,383	\$ -	-	-
Health/Beauty	\$ 8.87	870	7,717	\$ 9.32	15,044	140,210
Cleaning	\$ 1.88	3,770	7,088	\$ 1.88	74,369	139,814
Juice	\$ 0.71	962,804	683,591	\$ 0.77	1,014,036	780,808
Meat	\$ 3.46	1,442,080	4,989,596	\$ 3.46	1,145,833	3,964,582
*Mixed Foods	\$ 1.66	3,242,077	5,381,848	\$ 1.60	1,933,806	3,094,090
Non-Dairy	\$ 1.41	459,692	648,166	\$ 2.15	252,232	542,299
Paper - Household	\$ 1.86	7,560	14,062	\$ 2.78	996	2,769
Paper - Personal	\$ 3.35	14,364	48,119	\$ -	-	-
Pasta	\$ 2.14	240,438	514,537	\$ 1.36	385,118	523,760
Protein	\$ 1.67	95,606	159,663	\$ 2.42	132,962	321,768
Snack Food	\$ 2.60	298,898	777,135	\$ 2.76	534,340	1,474,778
Condiments	\$ 1.75	19,796	34,643	\$ 1.63	4,569	7,447
Vegetables	\$ 1.08	680,832	735,299	\$ 1.18	480,902	567,464
Produce	\$ 0.63	8,755,799	5,516,152	\$ 0.65	12,140,295	7,891,192
Totals	\$ 1.32	<u>19,265,001</u>	<u>\$ 25,410,200</u>	\$ 1.18	<u>20,770,917</u>	<u>\$ 24,465,903</u>

* Mixed food: Philabundance receives substantial donations (such as from canned food drives) which are received in a mixed state and later sorted into individual categories prior to distribution.

PHILABUNDANCE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of In-Kind Donations (Continued)

It also recognizes contributed services meeting certain criteria at fair value.

Donated services are recognized as contributions if the services: (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and otherwise would be purchased by the Organization. During the year ended September 30, 2011, the Organization received \$47,130 in donated services.

The Organization also receives donations of various goods throughout the year. The value of all other in-kind donations was \$288,593. Total in-kind donations for the year ended September 30, 2011 amounted to \$335,723.

Contributions

The Organization distinguishes between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets.

Cash and Cash Equivalents

The Organization considers all highly liquid investments in traditional bank accounts, money market funds, and certificates of deposit with a maturity of three months or less when purchased to be cash equivalents. At times, cash in bank may exceed FDIC insurable limits.

Accounts Receivable

The Organization uses the allowance method to provide for losses on accounts receivable which is based on management's judgment considering historical information. Services are provided on an unsecured basis. Past due accounts are reviewed for collectibility and written off as necessary. In addition an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At September 30, 2011 the allowance for uncollectible accounts was \$4,975.

Fair Value of Financial Instruments

Philabundance has adopted the fair value measurements standard. This standard applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. It emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

**PHILABUNDANCE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Investments

Investments are recorded at fair value. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for credit rating, prepayment assumptions, and other factors such as credit loss assumptions.

The investments in shares of mutual funds are valued at the net asset value of shares held by the Organization at year-end.

Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near-term and that such changes could be material.

Inventory

Donated inventory is recorded at the estimated fair value as determined by its national hunger relief network and consists primarily of food available for distribution. Purchased inventory is recorded at the lower of average cost or market.

Property and Equipment and Depreciation

Physical property and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Philabundance capitalizes all fixed assets over \$2,500 with an estimated life greater than one year. Donated equipment with a nominal value at the date of donation, which will be distributed or disposed of, is not recorded. Property and equipment has useful lives as follows:

Buildings and Improvements	40 Years
Vehicles	5 - 7 Years
Computers	3 - 5 Years
Equipment	5 Years
Furniture and Fixtures	5 Years

**PHILABUNDANCE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fees for Services

Philabundance provides food access and delivery services for several not-for-profit food distribution organizations on a fee basis. Revenue from these services is recognized as earned on the date of delivery.

Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

Philabundance is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Philabundance has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for the maximum charitable contributions deduction for individual donors.

The Organization follows the income tax standard for uncertain tax positions. The organization believes there are no uncertain tax positions that need to be disclosed in the financial statements. The Organization is not aware of any activities that would jeopardize its tax-exempt status. The Organization's informational tax returns for years ended September 30, 2008, 2009 and 2010 are subject to review and examination by federal, state, and local authorities.

Comparative Financial Information

The financial statements include certain prior year summarized comparative totals which do not include detail by net asset classification and detailed expenses by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's September 30, 2010 financial statements, from which the comparative totals were derived. Also, certain reclassifications have been made to the prior year comparative data to conform with the current year presentation.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 21, 2011, the date the financial statements were available to be issued.

**PHILABUNDANCE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 2 INVESTMENTS

Investments consist of the following at September 30, 2011:

	<u>Cost</u>	<u>Fair Value</u>
Equity Mutual Funds	\$ 798,145	\$ 1,004,921
Fixed Income Mutual Funds	419,796	431,852
Preferred Stock	1,000	1,000
Total	<u>\$ 1,218,941</u>	<u>\$ 1,437,773</u>

NOTE 3 FAIR VALUE MEASUREMENT

Philabundance uses fair value measurements to record fair value adjustments to investments and the beneficial interest. For additional information on how Philabundance measures fair value refer to Note 1 – Summary of Significant Accounting Principles.

The following table presents Philabundance's fair value hierarchy for those assets measured at fair value on a recurring basis as of September 30, 2011.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Mutual Funds	\$ 1,004,921	\$ -	\$ -	\$ 1,004,921
Fixed Income Mutual Funds	431,852	-	-	431,852
Preferred Stock	1,000	-	-	1,000
Total Investments	<u>1,437,773</u>	<u>-</u>	<u>-</u>	<u>1,437,773</u>
Beneficial Interest	-	-	11,645	11,645
Total	<u>\$ 1,437,773</u>	<u>\$ -</u>	<u>\$ 11,645</u>	<u>\$ 1,449,418</u>

The change in Level 3 assets for the year ended September 30, 2011 is as follows:

	<u>Beneficial Interest</u>
Balance October 1, 2010	\$ 12,346
Change in Value of Beneficial Interest	<u>(701)</u>
Balance September 30, 2011	<u>\$ 11,645</u>

NOTE 4 PLEDGES RECEIVABLE

Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected beyond one year are recorded at their net present value of estimated future cash funds. Due to the current average potential earnings, recognition of a discount to net present value is deemed unnecessary due to its immateriality.

PHILABUNDANCE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 4 PLEDGES RECEIVABLE (CONTINUED)

As of September 30, 2011, pledges receivable consisted of:

<u>Year Ending September 30,</u>	<u>Amount</u>
2012	\$ 48,868
2013	26,000
2014	3,000
Total Pledges Receivable	<u>\$ 77,868</u>

Philabundance provides for uncollectible pledges using the allowance method, which is based on management's judgment concerning analysis of individual pledges. Past due pledges receivable are individually analyzed for collectibility and written off when all efforts have been exhausted. As of September 30, 2011 all pledges receivable are deemed collectible.

NOTE 5 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at September 30, 2011:

	<u>Amount</u>
Land	\$ 541,830
Buildings and Improvements	8,153,256
Furniture and Fixtures	241,049
Equipment	1,997,497
Computer Hardware and Software	1,389,519
Vehicles	1,375,287
Total	13,698,438
Less: Accumulated Depreciation	4,666,999
Total Property and Equipment	<u>\$ 9,031,439</u>

NOTE 6 BENEFICIAL INTEREST

During the year ended September 30, 2003, Philabundance transferred \$10,000 of unrestricted funds to the Philadelphia Foundation (a community foundation). Under the terms of organizational endowment fund agreement, the community foundation will provide an annual distribution to Philabundance as long as Philabundance maintains its present 501(c)(3) status. Accordingly, the projected income is classified as part of unrestricted net assets at September 30, 2011. Given the nature of the promises as well as the inability to compute the present value of the income stream, the beneficial interest has been recorded on the statement of financial position at the market value of Philabundance's proportionate share. As of September 30, 2011 the value of the beneficial interest was \$11,645. The decrease in the beneficial interest of \$701 is recorded in the statement of activities as a change in unrestricted net assets for the year ended September 30, 2011.

PHILABUNDANCE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 7 LINE OF CREDIT

On October 16, 2009, Philabundance negotiated financing for its construction project (see Note 8). As part of the financing, a \$500,000 operating line of credit was made available. The line of credit is unsecured but is supported by a negative pledge on the property located at 302 West Berks Street, Philadelphia, Pennsylvania. Effective October 16, 2009, any advances are payable on demand and accrue interest at a rate equal to 30 day LIBOR (0.2309 at September 30, 2011) plus 2.5%. As of September 30, 2011, no amount was outstanding on the line of credit. The line will be reviewed by the bank for renewal on March 31, 2012.

NOTE 8 LONG-TERM DEBT

Construction/Permanent Mortgage

On October 16, 2009, Philabundance entered into a \$4,000,000 construction/permanent mortgage loan with Citizen's Bank to refinance the existing term debt and fund building renovations. A principal payment of \$1,800,000 was made in 2011, with an additional principal payment of \$148,401 made in October 2011 to bring the balance to \$2,000,000. The remaining portion of the construction loan was converted to a \$2,000,000 permanent mortgage and amortized over a 20 year period with a call option at the end of years 5, 10 and 15. The note includes various restrictive covenants and requires interest only payments during the initial 24 month drawdown period for building renovations during which the loan served as a non-revolving construction line of credit.

During the interest only period, the interest rate was the 30 day LIBOR rate plus 2.75%. After the interest only period, the loan requires monthly installments of principal in equal amounts to cause the permanent mortgage loan to be fully amortized between conversion date and the construction/permanent mortgage loan maturity date and interest accrued thereon at the 30 day LIBOR rate (0.2309% at September 30, 2011) plus 2.75%, will be due. The loan is collateralized by real property owned by Philabundance at 3600-3614, 3616-3640 and 3642-3644 South Galloway Street, Philadelphia, Pennsylvania. The outstanding balance on the loan was \$2,148,401 as of September 30, 2011.

Subordinate Financing

A second loan, in the amount of \$1,000,000, was also negotiated on October 16, 2009 with The Reinvestment Fund. The loan is a 22 year note which required interest only payments for the first 24 months and thereafter carries a fixed rate of 4% for the remaining 20 years. After the initial interest only period, monthly installments of principal and interest, in the amount of \$6,060 will be due on the outstanding principal balance during the preceding month and based upon a hypothetical term of two hundred forty months. The maturity date is September 30, 2031. Lender has call options at the end of years 10 and 15. The outstanding balance on the loan was \$1,000,000 as of September 30, 2011.

The loan is collateralized by a second priority Mortgage, Security Agreement and Fixture Filing covering real property owned by Philabundance at 3600-3614, 3616-3640 and 3642-3644 South Galloway Street, Philadelphia, Pennsylvania.

**PHILABUNDANCE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 8 LONG-TERM DEBT (CONTINUED)

Principal amounts due for the permanent and subordinate mortgages for the next five years and thereafter are as follows:

<u>Year Ending September 30,</u>	Citizens	The Reinvestment Fund	Total
2012	\$ 248,401	\$ 33,368	\$ 281,769
2013	100,000	34,680	134,680
2014	100,000	36,093	136,093
2015	100,000	37,561	137,561
2016	100,000	39,094	139,094
Thereafter	1,500,000	819,204	2,319,204
Total	<u>\$ 2,148,401</u>	<u>\$ 1,000,000</u>	<u>\$ 3,148,401</u>

Interest expense amounted to \$176,880 for the year ended September 30, 2011.

NOTE 9 CAPITAL LEASE OBLIGATIONS

Philabundance leases vehicles that meet the provisions of a capital lease. These leases vary in term from three years to seven years. The fair value of the related vehicles were recorded as assets and are being amortized over the life of the related leases. The leased vehicles have the following book value at September 30, 2011:

Vehicles	\$ 1,191,335
Less: Accumulated Depreciation	(382,523)
Total	<u>\$ 808,812</u>

The future minimum payments for the terms of these capital leases as of September 30, 2011 are as follows:

<u>Year Ending September 30,</u>	Amount
2012	\$ 237,170
2013	229,330
2014	194,504
2015	138,472
2016	114,441
Thereafter	27,835
Total Minimum Lease Payments	\$ 941,752
Less: Amount Representing Interest	(104,697)
Present Value of Minimum Lease Payments	<u>\$ 837,055</u>

PHILABUNDANCE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2011 are available for the following purposes:

	<u>Amount</u>
Restrictions Due to Time	\$ 16,000
Restrictions Due to Purpose:	
Emergency Relief	39,835
Children's Programs	87,291
Building	486,956
Community Kitchen	50,848
Various Other Programs	407,375
Total	<u>\$ 1,088,305</u>

NOTE 11 ENDOWMENT

Philabundance's endowment consists of a fund restricted in perpetuity to continue the purpose of the organization. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Philabundance considers the following factors when making a determination to appropriate or accumulate donor-restricted endowment funds; the duration and preservation of the fund, the purposes of Philabundance and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments and the investment policies of Philabundance. In addition Philabundance is guided in its total return policy by Commonwealth of Pennsylvania Act 141, which dictates the amount of allowable distributions to be made from a restricted endowment. The act states that the annual distribution cannot exceed 7% of the principal (value of the principal is the fair market value of the endowment assets averaged over a period of three or more preceding years).

Endowment activity and investment balances for the year ended September 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets			
October 1, 2010	\$ 132,337	\$ 383,444	\$ 515,781
Investment Income	12,485	-	12,485
Net Realized and Unrealized Gains	2,585	-	2,585
Distribution of Endowment Income	(22,676)	-	(22,676)
September 30, 2011	<u>\$ 124,731</u>	<u>\$ 383,444</u>	<u>\$ 508,175</u>

The permanently restricted net assets related to these donor restricted endowment funds are stated at \$383,444.

**PHILABUNDANCE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 12 PERMANENTLY RESTRICTED NET ASSETS

The income from permanently restricted net assets is to be used for operations. Permanently restricted net assets as of September 30, 2011 are \$384,644.

NOTE 13 OPERATING LEASE COMMITMENTS

Philabundance leases office equipment under operating leases. Expenses for these leases amounted to \$21,468 for the year ended September 30, 2011. Future minimum payments on all operating leases having a noncancelable term exceeding one year as of September 30, 2011 are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2012	<u>\$ 4,621</u>

NOTE 14 RETIREMENT PLAN

Philabundance has a qualified retirement plan under Internal Revenue (IRS) Code Section 403(b) covering eligible employees. Philabundance provides a 50% employer match on voluntary employee contributions up to 4% of the employee's salary. In addition Philabundance contributes 1% of each employee's salary amount. These contributions are made after each payroll. Additionally at fiscal year end, employees are allowed to elect to contribute unused vacation hours calculated at 80% of their value to the 403(b) plan as allowed by the IRS. Contributions by Philabundance for the year ended September 30, 2011 were \$84,208.

NOTE 15 COMMITMENTS AND CONTINGENCIES

Philabundance has signed an agreement of sale to purchase property for \$750,000 in Chester, Pennsylvania as part of a new project to open and operate a non-profit store intended to offer a combination of free food and food for purchase at low prices. Prior to September 30, 2011, the initial deposit of \$37,500 was required upon execution of the agreement of sale and is included in "Prepaid Expenses, Deposits and Other" in the Statement of Financial Position. The remainder of the purchase price is to be paid at settlement. The agreement of sale contains a financing contingency that states that the obligation to close and take title to the property is contingent upon Philabundance receiving grants under terms and conditions satisfactory to Philabundance from the Commonwealth of Pennsylvania and other local economic development organizations totaling not less than \$1.9 million dollars, on or before the approval date. To the extent that Philabundance does not receive such grants, they shall have the option of terminating the agreement and receiving a refund of the initial deposit. While this level of government funding has not been reached as of the financial statement issuance date, Philabundance intends to continue to develop the project and pursue certain other funding in order to subsidize the project.

As of the audit report date, Philabundance has received conditional pledges for this project totaling approximately \$1,850,000 from many different sources.

PHILABUNDANCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Pass-through the PA Association of Regional Food Banks:			
Commodity Supplemental Food Program (Food Commodities)	10.565	N/A	\$ 5,519,189
Commodity Supplemental Food Program (Administrative Cost)	10.565	N/A	566,424
Total U.S. Department of Agriculture			<u>6,085,613</u>
<u>U.S. Department of Homeland Security</u>			
Pass-through the Federal Emergency Management Agency:			
Emergency Food and Shelter National Board Program	97.024	73100-038	14,708
Total U.S. Department of Homeland Security			<u>14,708</u>
Total Federal Awards			<u>\$ 6,100,321</u>

PHILABUNDANCE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 1 GENERAL INFORMATION

The accompanying Schedule of Federal Awards presents the federal awards of Philabundance. All financial assistance received directly from federal agencies as well as financial assistance passed through other governmental agencies or nonprofit organizations are included on the schedule.

NOTE 2 BASIS OF ACCOUNTING

The accompanying Schedule of Federal Awards is presented on the accrual basis of accounting. The amounts reported in this schedule as expenditures may differ from certain financial reports submitted to federal, state or city agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

NOTE 3 RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards expenditures are reported on the Statement of Functional Expenses as program services. In certain programs, the expenditures reported in the basic financial statements may differ from the expenditures reported in the Schedule of Federal Awards due to program expenditures exceeding grant or contract budget limitations which are not included as federal awards.



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**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**

Board of Directors
Philabundance
Philadelphia, Pennsylvania

We have audited the financial statements of Philabundance (the Organization) as of and for the year ended September 30, 2011, and have issued our report thereon dated December 21, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 the Organization'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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 the Organization'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Organization in a separate letter dated December 21, 2011.

Board of Directors
Philabundance

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


LarsonAllen LLP

Plymouth Meeting, Pennsylvania
December 21, 2011



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Philabundance
Philadelphia, Pennsylvania

Compliance

We have audited Philabundance's (the Organization) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2011. The Organization's major federal programs are identified in the summary of auditors' 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 the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 the Organization'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 of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Board of Directors
Philabundance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information and use of the Board of Directors, management, and 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.


LarsonAllen LLP

Plymouth Meeting, Pennsylvania
December 21, 2011

**PHILABUNDANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011**

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of Philabundance.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements were disclosed and reported in the 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*.
3. No instances of noncompliance material to the financial statements of Philabundance, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs were disclosed during the audit and reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The Independent Auditors' Report on compliance for the major federal award programs for Philabundance expresses an unqualified opinion on all major programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The following program was tested as a major program:

<u>Major Program</u>	<u>Federal CFDA #</u>
Commodity Supplemental Food Program	10.565

8. The threshold for distinguishing type A and B programs was \$300,000.
9. Philabundance was not determined to be a low-risk auditee.

**PHILABUNDANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Not applicable

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Not applicable

D. PRIOR YEAR FINDINGS

Finding FA 10-01 –Review and Approval of Submitted Inventory Report (CFDA 10.565)

Condition:

As part of our audit we reviewed reports submitted to PARF related to the CSFP program. We noted that the reports were submitted by email without any indication of review or approval.

Auditors' Recommendation:

We would recommend that the inventory control manager print out a copy of the completed report which should be given to the program manager for review and approval prior to email submission. All approved copies should be stored in folders and be available for review.

Status:

Philabundance has implemented the recommended procedures. No similar findings were noted in the September 30, 2011 audit.

