

FOOD BANK FOR THE HEARTLAND, INC.
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
YEAR ENDED JUNE 30, 2011

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2 – 3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6 – 7
Notes to Financial Statements	8 – 16
Supplementary Information:	
Schedule of Expenditures of Federal Awards	17
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	18 – 19
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	20 – 21
Schedule of Findings and Questioned Costs	22 – 23

BLACKMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
Food Bank for the Heartland, Inc.
Omaha, Nebraska

We have audited the accompanying statement of financial position of Food Bank for the Heartland, Inc. (a nonprofit organization) as of June 30, 2011, and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of Food Bank for the Heartland, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 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 Food Bank for the Heartland, Inc. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2011, on our consideration of Food Bank for the Heartland, Inc.'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 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 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Blackman & Associates, P.C.

Omaha, Nebraska
October 25, 2011

FOOD BANK FOR THE HEARTLAND, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2011

	2011		
	Unrestricted	Temporarily Restricted	Total
ASSETS			
CURRENT ASSETS			
Cash and temporary investments (Notes A, I and N)			
General cash	\$ 342,003	\$ --	\$ 342,003
Designated cash	--	749,600	749,600
Accounts receivable (Note G)	186,117	--	186,117
Prepaid expenses	34,433	--	34,433
Food inventory (Notes A and M)	903,176	--	903,176
Back pack inventory	19,865	--	19,865
After school snack inventory	1,256	--	1,256
Investments (Notes A, D and E)	<u>1,277,839</u>	<u>--</u>	<u>1,277,839</u>
Total Current Assets	2,764,689	749,600	3,514,289
PROPERTY AND EQUIPMENT (Note A)			
Land	517,700	--	517,700
Building	5,362,064	--	5,362,064
Equipment	758,584	--	758,584
Building improvements	826,498	--	826,498
Vehicles	644,770	--	644,770
Less accumulated depreciation	<u>(1,807,918)</u>	<u>--</u>	<u>(1,807,918)</u>
Total Property and Equipment	<u>6,301,698</u>	<u>--</u>	<u>6,301,698</u>
	<u>\$ 9,066,387</u>	<u>\$ 749,600</u>	<u>\$ 9,815,987</u>

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

FOOD BANK FOR THE HEARTLAND, INC.
STATEMENT OF FINANCIAL POSITION - Continued
June 30, 2011

	2011		
	Unrestricted	Temporarily Restricted	Total
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 209,671	\$ --	\$ 209,671
Accrued salaries	45,719	--	45,719
Other current liabilities (Note J)	4,065	--	4,065
Deferred revenue (Note H)	346,432	--	346,432
Current portion of note Payable (Note O)	--	--	--
Total Current Liabilities	605,887	--	605,887
LONG TERM LIABILITIES			
Note payable (Note O)	508,086	--	508,086
Less current portion	(--)	--	(--)
Total long-term Liabilities	508,086	--	508,086
Total Liabilities	1,113,973	--	1,113,973
NET ASSETS			
Operating Fund	6,658,875	749,600	7,408,475
Funded Depreciation Fund (Note B)	767,775	--	767,775
Endowment Fund – Board Designated (Note C)	525,764	--	525,764
Total Net Assets	7,952,414	749,600	8,702,014
	\$ 9,066,387	\$ 749,600	\$ 9,815,987

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

FOOD BANK FOR THE HEARTLAND, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

	2011		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND TRANSFERS			
Agency handling fees (Note G)	\$ 425,038	\$ --	\$ 425,038
Public contributions –			
Food	12,111,755	--	12,111,755
Monetary	2,243,252	1,599,909	3,843,161
USDA commodities	2,343,552	--	2,343,552
State reimbursement –			
Emergency Food Assistance	409,551	--	409,551
Special events (net of direct costs of \$89,692) (Note K)	414,546	--	414,546
Purchase Product	117,430	--	117,430
SNAP	26,840	--	26,840
FEMA	8,000	--	8,000
Investment income	2,188	--	2,188
In-kind Donation	19,734	--	19,734
Funded depreciation fund (Note B)	277,451	--	277,451
Board designated fund (Note C)	<u>307,818</u>	<u>--</u>	<u>307,818</u>
Total Support and Transfers	18,707,155	1,599,909	20,307,064
Net assets released from restrictions	<u>1,001,176</u>	<u>(1,001,176)</u>	<u>--</u>
Total Revenues after release of restrictions	19,708,331	598,733	20,307,064
EXPENSES AND TRANSFERS			
Program services	18,556,620	--	18,556,620
Supporting services –			
General and administration	354,997	--	354,997
Fund-raising	<u>259,978</u>	<u>--</u>	<u>259,978</u>
Total Operating Expenses and Transfers Out	<u>19,171,595</u>	<u>--</u>	<u>19,171,595</u>
Change in Total Net Assets	536,736	598,733	1,135,469
Net Assets at Beginning of Year	<u>7,415,678</u>	<u>150,867</u>	<u>7,566,545</u>
Net Assets at End of Year	<u>\$ 7,952,414</u>	<u>\$ 749,600</u>	<u>\$ 8,702,014</u>

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

FOOD BANK FOR THE HEARTLAND, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

	2011
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in total net assets	\$ 1,135,469
Adjustments for Non-cash Items and Investing Activities Affecting Change in Total Net Assets:	
Cash received with temporary restrictions	(598,733)
Net investment (gain) loss on restricted investments	(322,622)
Contributions to restricted investments	(8,603)
Unrealized (gain) loss on investments	(254,044)
Food donations	(14,455,307)
Distributions to other agencies	15,557,307
Depreciation	<u>323,909</u>
	1,377,376
Adjustments to Reconcile Change in Total Net Assets to Cash Provided by Operating Activities:	
(Increase) decrease in Operating Assets:	
Accounts receivable	(135,358)
Prepaid expenses	16,240
Purchased and back pack inventory	(9,632)
Increase (Decrease) in Operating Liabilities:	
Accounts payable	38,588
Other current liabilities	(446)
Accrued salaries	(418)
Deferred revenue	<u>(281,784)</u>
	<u>(372,810)</u>
 Net Cash Provided by Operating Activities	 <u>1,004,566</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Transfers from investments to operating fund	3,170,000
Purchases of equipment and improvements	<u>(4,749,014)</u>
 Net Cash (Used) by Investing Activities	 <u>(1,579,014)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on long-term debt	(111,603)
Proceeds from long-term debt	<u>508,086</u>
 Net Cash Provided by Financing Activities	 <u>396,483</u>
Net (Decrease) in Cash	(177,965)
Cash at Beginning of Year	<u>519,968</u>
Cash at End of Year	<u>\$ 342,003</u>
Supplemental information:	
Interest paid	<u>\$ 5,111</u>

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

FOOD BANK FOR THE HEARTLAND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2011

	2011			
	Supporting Services			
	Program Services	General and Admin	Fund- Raising	Total
Salaries and Related Expenses:				
Salaries	\$ 877,115	\$ 177,644	\$ 55,514	\$ 1,110,273
Employee benefits	234,075	47,408	14,815	296,298
Payroll taxes	76,972	15,589	4,872	97,433
Payroll service expense	3,412	691	216	4,319
Total Salaries and Related Expenses	1,191,574	241,332	75,417	1,508,323
Food distributed to agencies:				
Public support	13,204,781	--	--	13,204,781
USDA commodities	2,352,526	--	--	2,352,526
FEMA purchases	7,850	--	--	7,850
Sack Lunch	24,081	--	--	24,081
Food Bank Fresh	1,253	--	--	1,253
Kids Café	113,485	--	--	113,485
Back Pack	372,068	--	--	372,068
Hunger Free Heartland	78,678	--	--	78,678
Agencies	119,903	--	--	119,903
SNAP	7,269	--	--	7,269
After School Snacks	8,562	--	--	8,562
Senior Outreach	18,922	--	--	18,922
Summer Food	53,426	--	--	53,426
Freight	22,554	--	--	22,554
Maintenance:				
Building	19,128	3,375	--	22,503
Equipment	24,095	2,142	535	26,772
Computer	33,953	3,018	754	37,725
Other	43,351	--	--	43,351
Public relations	106,368	--	159,552	265,920
Utilities	65,096	3,426	--	68,522
Warehouse rental	73,685	--	--	73,685
Insurance	36,066	7,304	2,283	45,653
Warehouse supplies	18,394	--	--	18,394
Conferences and travel	52,129	10,558	3,299	65,986
Postage and printing	15,478	3,135	980	19,593
Memberships	20,185	--	--	20,185
Vehicle expense	115,590	23,411	7,316	146,317
Telephone	17,793	3,604	1,126	22,523
Office supplies	--	8,077	--	8,077
Professional fees	--	24,454	--	24,454
Administrative fees	750	--	--	750

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

FOOD BANK FOR THE HEARTLAND, INC.
 STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
 Year Ended June 30, 2011

	2011			
	Program Services	Supporting Services		Total
		General and Admin	Fund- Raising	
Other	20,729	12,502	5,253	38,484
Total Expenses Before Depreciation & Interest	18,239,722	346,338	256,515	18,842,575
Depreciation	312,145	8,403	3,361	323,909
Interest	4,753	256	102	5,111
Total Expenses	\$ 18,556,620	\$ 354,997	\$ 259,978	\$ 19,171,595

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

FOOD BANK FOR THE HEARTLAND, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of Food Bank for the Heartland, Inc.

1. Organization. Food Bank for the Heartland, Inc. (the Organization) is a not-for-profit organization that collects food and redistributes it to agencies in 77 counties in Nebraska and 16 counties in western Iowa. The Organization is supported primarily by donor contributions of food and money.
2. Financial Statement Presentation. The financial statements are presented in accordance with the FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to the following three classes of net assets:
 - a. Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation.
 - b. Temporarily restricted net assets are those net assets whose use by the Organization has been limited by donors to later periods of time or after specified dates or to specified purposes.
 - c. Permanently restricted net assets are those net assets whose use by the Organization has donor-imposed restrictions that stipulate resources be maintained permanently but may permit the Organization to use up or expend part or all of the income (or economic benefits) derived from the donated assets. The Organization has no permanently restricted net assets at June 30, 2011.
3. Basis of Accounting. The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.
4. Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
5. Cash and Cash Equivalents. For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

FOOD BANK FOR THE HEARTLAND, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Investments. The Organization accounts for its investments in accordance with the FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. In accordance with FASB ASC 820, investments in equity securities with readily determinable fair values and all debt securities are measured at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

7. Property and Equipment. Purchased property and equipment are recorded at cost and depreciated using the straight-line and accelerated methods over the following lives:

Building and improvements	39 years
Equipment	3 – 15 years
Vehicles	5 – 7 years

Donated property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated property and equipment are depreciated in the same manner and over the same lives as purchased property and equipment. Depreciation expense for the year ended June 30, 2011 was \$323,909.

8. Contributions. The Organization accounts for contributions in accordance with the FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. In accordance with FASB ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

9. Food Inventory. The Organization maintains an inventory consisting of donated food items, USDA commodities, and purchased products. The donated product received and distributed by the Organization during the year has been valued and recorded in the accompanying financial statements at the estimated weighted average wholesale amount per pound as determined by Feeding America, a national consortium of regional food banks. The USDA commodities are valued individually at amounts established by the sponsoring state agencies. The purchased products are valued individually at the weighted average cost.

FOOD BANK FOR THE HEARTLAND, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Special Events. Food Bank for the Heartland, Inc. sponsors fund raising events in order to generate necessary operating funds. Income from the special events is recognized as it is received.
11. Functional Expenses. The costs of providing 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.
12. Income Tax Status. The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income taxes are included in these financial statements. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509 (a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's federal Exempt Organization Business Income Tax Returns Form 990T for 2008, 2009, and 2010 are subject to examination by the IRS, generally for three years after they were filed.
13. Subsequent Events. Subsequent events were considered through October 25, 2011, which is the date the financial statements were available to be issued.

NOTE B – FUNDED DEPRECIATION FUND

The Funded Depreciation Fund was established by the Board to accumulate internally generated funds to be used to purchase equipment, make improvements to the present facility, and for future additions/replacements as they become necessary. This fund is characterized as temporarily restricted corpus.

During the year, the Organization recognized the following support and transfers from the funded depreciation fund:

Investment earnings, net of expenses of \$2,017	\$ 19,486
Net realized gains on securities sales	152,461
Unrealized gains in value of investments	<u>105,504</u>
Increase in funded depreciation fund	<u>\$ 277,451</u>

NOTE C – ENDOWMENT FUND – BOARD DESIGNATED

The Board established the Endowment Fund in September 1987 to hold those contributions made with a request that only the income from the amount donated be used for operating expenses and the principal amount preserved as a permanent fund. In addition, the Board has transferred excess unrestricted cash to the Endowment Fund from time-to-time. The Board-designated funds are characterized as restricted corpus and are subject to the same restrictions as the outside contributions. Contributions and income earned from investments of

FOOD BANK FOR THE HEARTLAND, INC.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 June 30, 2011

NOTE C – ENDOWMENT FUND – BOARD DESIGNATED – CONTINUED

the corpus are all a part of the corpus of the Endowment Fund. The Board may request up to 5% of the Corpus of the Endowment Fund annually. With approval of 75% of the Board, the Organization may request a greater percentage of the corpus, not to exceed 20%. The Endowment Fund may be terminated or amended at any time with the unanimous consent of the Board.

During the year, the Organization recognized the following support from the board designated fund:

Public contributions	\$ 8,603
Investment earnings, net of expenses of \$2,476	11,623
Net realized gains on securities sales	139,052
Unrealized gains in value of investments	<u>148,540</u>
Increase in board designated fund	<u>\$ 307,818</u>

NOTE D – INVESTMENTS

Financial instruments that potentially subject the Organization to credit risk consist principally of interest-bearing investments. The risk associated with this concentration is mitigated by ongoing credit review procedures.

Management places substantially all interest-bearing investments with major financial institutions. In accordance with Organization policies, the amount of credit exposure to any one financial institution is limited.

A summary of investments and other financial instruments at June 30 is as follows:

	<u>2011</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Available for sale investments:		
Mutual funds	\$ 1,144,763	\$ 1,144,763
Common stocks	97,158	97,158
Money market	35,463	35,463
Accrued income	<u>455</u>	<u>455</u>
Total investments	<u>\$ 1,277,839</u>	<u>\$ 1,277,839</u>

The Organization determines fair values based on quoted market prices. The net unrealized gains on available-for-sale securities were \$199,294 on June 30.

Activity related to the Organization's available-for-sale investment portfolio was as follows:

	<u>2011</u>
Proceeds from sales and maturities	<u>\$ 6,931,140</u>
Realized gains on sales	\$ 372,360
Realized losses on sales	<u>(80,848)</u>
Net realized gains/(losses) on sales	<u>\$ 291,512</u>

FOOD BANK FOR THE HEARTLAND, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2011

NOTE E – FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures of investments in debt and equity securities that are classified as available-for-sale on a recurring basis.

The Fair Value Measurements Topic of the FASB Accounting Standards Codification defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. The disclosures required under this Topic have been included in this note.

FAIR VALUE HIERARCHY

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

DETERMINATION OF FAIR VALUE

Under the Fair Value Measurements Topic of the FASB Accounting Standards Codification, the Organization bases its fair value on 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. It is the Organization's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon management's own estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future value.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value (disclosures required by the Fair Value Measurements Topic of the FASB Accounting Standards Codification).

FOOD BANK FOR THE HEARTLAND, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2011

NOTE E – FAIR VALUE MEASUREMENTS – CONTINUED

CASH AND CASE EQUIVALENTS, SHORT-TERM FINANCIAL INSTRUMENTS, ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND SHORT-TERM BORROWINGS

The carrying amounts approximate fair value because of the short maturity of these instruments.

INVESTMENTS IN DEBT AND EQUITY SECURITIES

Investments in debt and equity securities that are classified as available-for-sale are recorded at fair value on a recurring basis. When quoted market prices are unobservable, management uses quotes from independent pricing vendors based on independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating and other factors such as credit loss assumptions. The pricing vendors may provide the Organization with valuations that are based on significant unobservable inputs, and in those circumstances the Organization classifies the fair value measurements of the investment securities as Level 3. Management conducted a review of its pricing vendor to validate that the inputs used in that vendor's pricing process are deemed to be market observable or unobservable as defined in the standard. Based on the review performed, management believes that the valuations used in its financial statements are reasonable and are appropriately classified in the fair value hierarchy.

ASSETS AND LIABILITIES MEASURED AND RECOGNIZED AT FAIR VALUE ON A RECURRING BASIS

The table below presents the amounts of assets and liabilities measured at fair value on a recurring basis as of June 30:

<u>June 30, 2011</u>	<u>Amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available for sale investments:				
Mutual funds	\$ 1,144,763	\$ 1,144,763	\$ --	\$ --
Common Stocks	97,158	97,158	--	--
Money Market	35,463	35,463	--	--
Accrued Income	455	455	--	--
Total investments	<u>\$ 1,277,839</u>	<u>\$ 1,277,839</u>	<u>\$ --</u>	<u>\$ --</u>

CHANGES IN LEVEL 3 INSTRUMENTS FOR THE YEAR ENDED JUNE 30, 2011

The table below summarizes the activity for investments in debt and equity securities classified as available-for-sale measured at fair value on a recurring basis using significant Level 3 inputs for the year ended June 30.

	<u>2011</u>
Net realized/unrealized gains included in income	\$ --
Purchases, sales, issuances and settlements	--
Transfers in and/or out of Level 3	--
June 30, 2011	<u>\$ --</u>

FOOD BANK FOR THE HEARTLAND, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2011

NOTE F – DONATED SERVICES

The Organization received 13,400 volunteer hours, substantially all of which were incurred to assist the Food Bank in achieving the goals of its program services. However, no value for these services have been recorded as specialized skills were not required.

NOTE G – HANDLING FEES

The Organization charges from 0 – 16 cents per pound (handling fees) to the recipient agency, affiliate, church or other charitable organizations which take the donated food and commodities and redistributes such items to the poor, needy and hungry. This handling fee offsets a portion of the receiving, storage and redistribution costs incurred by the Organization.

At June 30, 2011 accounts receivable include \$186,117 of outstanding handling fees which arose in the ordinary course of operations. The Board considers all such receivables to be fully collectible, and no allowance for uncollectible fees has been established as of June 30, 2011.

During the year, several donors requested that their contributions be set aside to enable certain designated agencies, that otherwise would have difficulty in paying the Organization's handling fee, to obtain food from the Organization. The donors' funds were given to the Organization to offset the handling fees as food orders are provided to the designated agencies. These contributions are not recognized as revenue but are utilized to reduce amounts receivable from certain designated agencies.

NOTE H – DEFERRED REVENUE

Deferred revenue consists of monies that were received during the year ended June 30, 2011 from the Emergency Food and Shelter Program that will not be expended until the following year. It also consists of the difference between USDA foods received and distributed during the year ended June 30, 2011.

NOTE I – CONCENTRATION OF RISK

The Organization maintains its cash at various financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). These accounts, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE J – OTHER CURRENT LIABILITIES

Other Current Liabilities listed on the balance sheet consisted of the following amounts:

Payroll Withholding	\$ <u>4,065</u>
Total	\$ <u><u>4,065</u></u>

FOOD BANK FOR THE HEARTLAND, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2011

NOTE K – SPECIAL EVENTS

During the year, the Organization recognized the following net revenues from special fund raising events:

	Gross Revenues	Direct Benefit to Donor	Net Revenues
Celebrity Chef Fundraiser	\$ 181,422	\$ 43,419	\$ 138,003
Derby Duck Race	72,436	42,639	29,797
Shine the Light on Hunger	206,448	--	206,448
Dine Out for Hunger	16,273	3,634	12,639
Pampered Chef	11,346	--	11,346
Bank of the West/Memorial Park Concert	3,119	--	3,119
Harrah's Canfest	8,800	--	8,800
Playing With Fire	1,907	--	1,907
Z-92 Hours of Caring	<u>2,487</u>	<u>--</u>	<u>2,487</u>
Total	<u>\$ 504,238</u>	<u>\$ 89,692</u>	<u>\$ 414,546</u>

NOTE L – COMMITMENTS AND CONTINGENCIES

The Organization entered into a two-year business property lease agreement in June 2008 (extended to May 31, 2011) for the purpose of warehousing and distribution of food and related products. Monthly lease payments are \$4,410 plus the Organization's share of operating expenses, which consist primarily of taxes and maintenance. The monthly charge for operating expenses is \$1,540.

For the year ended June 30, 2011, rental expense was \$71,400.

NOTE M – FOOD INVENTORY

Food inventory as of June 30, 2011 consisted of 1,047,711 lbs at a value of \$924,297. Of the total above, USDA inventory consisted of 703,946 lbs at a value of \$353,646 and the purchased products, back pack, and after school snack inventory consisted of 12,915 lbs valued at \$21,121. The remaining inventory consisted of 330,850 lbs value at \$549,530.

As of June 30, 2011, public food donations received in pounds was 7,296,238. The amount of public food distributed in pounds for the years ended June 30, 2011 was 5,568,111. These amounts do not include purchased product or USDA commodities.

FOOD BANK FOR THE HEARTLAND, INC.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 June 30, 2011

NOTE N – TEMPORARILY RESTRICTED NET ASSETS

In 2007, The Robert D. Wilson Foundation provided a grant to fund equipment replacement. Under FASB ASC 958, the grant amounts were recorded as temporarily restricted support and revenue based upon the donor-imposed restriction; at the time the monies are used for the replacement of equipment, such amounts will be reclassified to unrestricted net assets. During the year ended June 30, 2011, the Organization expended \$39,986 of this grant for the acquisition of replacement equipment. As of June 30, 2011, temporarily restricted net assets under the equipment grant totaled \$110,881.

In 2011, The Organization received restricted contributions to construct a new building. Under FASB ASC 958, the contributions were recorded as temporarily restricted support and revenue based upon the donor-imposed restriction; at the time the monies are used for the building, such amounts will be reclassified to unrestricted net assets. During the year ended June 30, 2011, the Organization expended \$961,190 for the construction of the new building. As of June 30, 2011, temporarily restricted net assets for the building totaled \$638,719.

NOTE O – NOTE PAYABLE

In December 2009, Food Bank for the Heartland, Inc. obtained an \$111,603 note with a variable interest rate ranging from 0% to 4% from Feeding America with a delivery truck pledged as collateral. The note requires annual principal payments of \$27,901 plus interest with the final payment due December 31, 2013. This note was paid in full during the year ended June 30, 2011.

In June 2011, Food Bank for the Heartland, Inc. obtained a \$2,600,000 note with an interest rate of 4.25% from American National Bank with a building pledged as collateral. The note allows for draws of principal on the loan with interest only payments due until June 2012 at which time the principal becomes fixed. The balance is then amortized over a 20 year period and principal and interest payments begin. As of June 30, 2011 only \$508,086 of principal has been drawn on the loan.

Principal payments for the note for the next five years are as follows:

Year ending June 30,	<u>Amount</u>
2012	\$ --
2013	17,701
2014	17,151
2015	17,895
2016	18,670
Thereafter	<u>436,669</u>
Total	<u>\$ 508,086</u>

SUPPLEMENTARY INFORMATION

FOOD BANK FOR THE HEARTLAND, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

<u>Federal Grantor</u>	<u>Program Title</u>	<u>Contract Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture	Emergency Food Assistance – Administrative Costs (Iowa Food)	-	10.568	\$ 508,863
U.S. Department of Agriculture	Emergency Food Assistance – Administrative Costs (Iowa Other)	-	10.569	40,765
U.S. Department of Agriculture	Emergency Food Assistance – Administrative Costs (Nebraska Food)	-	10.568	1,843,663
U.S. Department of Agriculture	Emergency Food Assistance – Administrative Costs (Nebraska Other)	-	10.569	205,000
U.S. Department of Agriculture	Emergency Food Assistance – CACFP (Nebraska Other)	-	10.558	58,682
U.S. Department of Agriculture	Emergency Food Assistance – SNAP (Nebraska Other)	-	10.561	<u>26,840</u>
Total Federal Awards				\$ <u>2,683,813</u>

BLACKMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards*

To the Board of Directors of
Food Bank for the Heartland, Inc.

We have audited the financial statements of Food Bank for the Heartland, Inc. (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Food Bank for the Heartland Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Food Bank for the Heartland Inc.'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 a 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as item 2011-2. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Food Bank for the Heartland Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2011-1.

Food Bank for the Heartland, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Food Bank for the Heartland, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, others within the entity, 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.

Blochman & Associates, P.C.

Omaha, Nebraska
October 25, 2011

BLACKMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over Compliance
in Accordance With OMB Circular A-133

To the Board of Directors
Food Bank for the Heartland, Inc.

Compliance

We have audited the compliance of Food Bank for the Heartland, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2011. Food Bank for the Heartland, Inc.'s major federal programs are identified in the summary of auditor's 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 Food Bank for the Heartland, Inc.'s management. Our responsibility is to express an opinion on Food Bank for the Heartland, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Food Bank for the Heartland, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Food Bank for the Heartland, Inc.'s compliance with those requirements.

In our opinion, Food Bank for the Heartland, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02.

Internal Control Over Compliance

Management of Food Bank for the Heartland, Inc. 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 Food Bank for the Heartland, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Food Bank for the Heartland, Inc.'s internal control over compliance.

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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Food Bank for the Heartland, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Food Bank for the Heartland, Inc.'s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the board of directors, 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.

Bleechman & Associates, P.C.
Omaha, Nebraska
October 25, 2011

Food Bank for the Heartland, Inc.
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of Auditors' Report Issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? Yes X No

Significant deficiencies identified that are not considered to be a material weakness? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weaknesses identified? Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? X Yes

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes No

Identification of Major programs:

CFDA Number	Name of Federal Program or Cluster
<u>10.568</u>	<u>Emergency Food Assistance Program – Administrative Costs</u>

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

Auditee qualified as low-risk auditee? X Yes No

Food Bank for the Heartland, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Finding 2011-01:

Criteria: The Food Bank is required to submit its annual audits to the Federal Single Audit Database.

Condition: The Food Bank has failed to submit the audit report for the year ended April 30, 2010 to the Federal Single Audit Database on a timely basis.

Cause: The Food Bank employees were unaware of these reporting requirements.

Effect: The Food Bank did not fulfill its reporting requirements to Federal Single Audit Database.

Recommendation: The Food Bank should gather the required information and report it in a timely manner to the Federal Single Audit Database.

Food Bank response: The Food Bank will submit the audit report for the year ended April 30, 2010 and all future audits to the Federal Single Audit Database in a timely manner.

Finding 2011-02:

Criteria: The Food Bank should have systems in place to value their Federal Commodity inventory and create reports for the inventory value in a timely manner.

Condition: The Food Bank was unable to generate reports to value their Federal Commodity inventory received from the USDA on a timely basis.

Questioned Costs: \$83,099

Cause: The systems put in place did not have the correct cut-off dates recorded to determine the correct quantity and prices of their Federal Commodity inventory.

Effect: The Food Bank management is unaware of the correct monetary value of their Federal Commodity inventory to determine if an A-133 audit is needed.

Recommendation: The Food Bank should put systems and processes in place as well as educate employees to be able to create these reports in a timely fashion.

Food Bank response: The Food Bank will start to create these reports on a monthly basis.