

OREGON FOOD BANK, INC.

**Audited Financial
Statements
And Reports Required
By OMB Circular A-133**

**For the Year Ended
June 30, 2008**



McDONALD JACOBS

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Oregon Food Bank, Inc.
Portland, Oregon

We have audited the accompanying statement of financial position of Oregon Food Bank, Inc. (a nonprofit corporation) as of June 30, 2008, 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 audits. The prior year summarized comparative information has been derived from the Organization's 2007 financial statements which were audited by other auditors whose report dated November 26, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oregon Food Bank, Inc. as of June 30, 2008, and 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.

Strength in Numbers

- 1 -

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2008, on our consideration of Oregon Food Bank, 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 the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.

A handwritten signature in black ink that reads "McDonald Jacobson, P.C." The signature is written in a cursive style and is centered on the page.

October 15, 2008

OREGON FOOD BANK, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2008
(With comparative totals for 2007)

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 652,333	\$ 1,625,850
Pledges receivable	60,000	10,000
Investments	6,031,664	3,036,929
Unemployment deposit	78,132	68,411
Accounts and other receivables	412,502	523,973
Prepaid expenses	508,843	373,545
Inventory	4,186,420	3,222,457
Total current assets	11,929,894	8,861,165
Designated quasi-endowment investment	1,698,980	1,617,162
Designated investments for annuity agreements	200,085	191,366
Pledges, net	112,693	68,763
Property and equipment, net	8,715,212	8,857,420
TOTAL ASSETS	\$ 22,656,864	\$ 19,595,876
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 133,717	\$ 133,311
Agency pass-through payable	166,863	26,394
Reserve for return	1,462	166,753
Accrued payroll and vacation	287,123	186,953
Advance deposits	269,454	365,185
Annuity agreement liability, current portion	16,223	13,133
Total current liabilities	874,842	891,729
Annuity agreement liability, less current portion	134,891	116,226
Total liabilities	1,009,733	1,007,955
Net assets:		
Unrestricted:		
Undesignated	4,729,770	4,142,170
Board designated	4,195,980	2,367,162
Net property and equipment	8,715,212	8,857,420
Total unrestricted	17,640,962	15,366,752
Temporarily restricted	4,006,169	3,221,169
Total net assets	21,647,131	18,587,921
TOTAL LIABILITIES AND NET ASSETS	\$ 22,656,864	\$ 19,595,876

See notes to financial statements.

OREGON FOOD BANK, INC.
STATEMENTS OF ACTIVITIES
For the year ended June 30, 2008
(With comparative totals for 2007)

	2008			2007 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Corporations	\$ 1,084,932	\$ -	\$ 1,084,932	\$ 384,502
Foundations	1,832,985	208,391	2,041,376	1,044,064
Social and religious	70,442	-	70,442	55,561
Individuals	5,403,731	-	5,403,731	3,920,804
Waterfront Blues Festival, net of expenses of \$1,323,240 for 2008 and \$1,302,584 for 2007	392,287	-	392,287	585,037
Harvest dinner, net of expenses of \$136,299 for 2008 and \$0 for 2007	430,108	-	430,108	79,500
Community fundraising drives	1,010,115	-	1,010,115	872,757
Government Support	1,419,904	-	1,419,904	1,423,875
Share contributions	788,027	-	788,027	692,339
Food to buy program	1,487,336	-	1,487,336	1,260,598
Donated goods and services	15,045	27,883,303	27,898,348	27,824,904
Government Commodities	-	2,819,199	2,819,199	2,695,062
Investment income	234,993	-	234,993	206,371
Net realized/unrealized investment (loss) gain	(45,803)	-	(45,803)	235,816
Hunger Relief Task Force	-	-	-	212,931
Other income	33,167	-	33,167	6,557
Net assets released from restrictions:				
Satisfaction of program restrictions	30,125,893	(30,125,893)	-	-
Total support and revenue	44,283,162	785,000	45,068,162	41,500,678
Expenses:				
Food Collection, Warehousing & Distribution Programs:				
Regional Food Bank Services:				
Clackamas, Multnomah & Clark Counties	13,666,319	-	13,666,319	15,914,210
SE Oregon-Harney & Malheur Counties	731,883	-	731,883	660,242
Tillamook County	559,351	-	559,351	464,590
Washington County	3,940,202	-	3,940,202	4,206,706
Statewide food bank services	20,413,880	-	20,413,880	20,065,062
Other Programs:				
Advocacy	344,590	-	344,590	289,519
Hunger Relief Task Force	-	-	-	58,478
Nutrition education and gardens	192,710	-	192,710	125,192
Total program services	39,848,935	-	39,848,935	41,783,999
Supporting services:				
Management and general	738,909	-	738,909	721,907
Fundraising	1,421,108	-	1,421,108	1,066,420
Total expenses	42,008,952	-	42,008,952	43,572,326
Change in net assets	2,274,210	785,000	3,059,210	(2,071,648)
Net assets:				
Beginning of year	15,366,752	3,221,169	18,587,921	20,949,546
Prior period adjustments	-	-	-	(289,977)
End of year	\$ 17,640,962	\$ 4,006,169	\$ 21,647,131	\$ 18,587,921

See notes to financial statements.

OREGON FOOD BANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2008
(With comparative totals for 2007)

	2008				2007 <u>Total</u>	
	<u>Food Programs</u>	<u>Other Programs</u>	<u>Management & General</u>	<u>Fund Raising</u>		<u>Total</u>
Operating Activities:						
Salaries	\$ 2,738,466	\$ 338,821	\$ 355,616	\$ 752,411	\$ 4,185,314	\$ 3,682,010
Payroll taxes	272,938	33,227	28,323	76,395	410,883	327,098
Employee benefits	486,856	61,791	40,494	137,224	726,365	627,113
Purchased contract services	29,678	-	32,461	21,009	83,148	172,328
Fees for services	1,903	-	88,029	53,632	143,564	103,758
Computer support	85,311	7,593	20,356	52,151	165,411	140,304
Supplies	96,157	3,040	21,339	28,119	148,655	61,516
Telephone	31,294	4,127	4,883	6,745	47,049	35,383
Postage and shipping	11,479	6,515	1,674	80,719	100,387	74,590
Transportation	442,234	-	-	63	442,297	391,727
Occupancy	334,036	15,248	27,544	18,069	394,897	432,666
Insurance	71,880	1,181	8,447	2,756	84,264	83,255
Equipment and maintenance	91,861	674	30,815	2,095	125,445	53,337
Printing and publications	27,404	14,618	6,375	140,760	189,157	191,326
Travel	53,975	10,765	11,131	9,107	84,978	77,489
Conferences and meetings - Internal	23,343	6,772	24,130	13,582	67,827	67,891
Conferences and meetings - External	26,558	289	2,421	2,191	31,459	35,798
Food related costs	278,329	14,416	2,932	-	295,677	349,404
Dues and fees	27,752	6,460	3,886	935	39,033	37,576
Depreciation	405,400	11,763	25,631	22,323	465,117	528,119
Miscellaneous	2,025	-	2,422	822	5,269	2,144
Total operating activities	<u>5,538,879</u>	<u>537,300</u>	<u>738,909</u>	<u>1,421,108</u>	<u>8,236,196</u>	<u>7,474,832</u>
Pass-Through Activities:						
RFB USDA/TEFAP Reimbursement	176,525	-	-	-	176,525	196,166
Agency grants	518,484	-	-	-	518,484	296,924
Donor designated contributions to outside organizations	117,230	-	-	-	117,230	45,483
RFB equipment	-	-	-	-	-	103,177
Change in value of annuity agreements and payments	15,532	-	-	-	15,532	13,133
Hunger Relief Task Force	-	-	-	-	-	58,478
Total pass-through activities	<u>827,771</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>827,771</u>	<u>713,361</u>
Value of Product Distributed:						
USDA/TEFAP goods distributed	2,723,926	-	-	-	2,723,926	2,714,281
Donated goods distributed	27,403,551	-	-	-	27,403,551	30,525,738
Food to buy goods distributed	1,623,421	-	-	-	1,623,421	1,454,636
Purchased product distributed	1,194,087	-	-	-	1,194,087	689,478
Total value of product distributed	<u>32,944,985</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,944,985</u>	<u>35,384,133</u>
Total expenses	<u>\$ 39,311,635</u>	<u>\$ 537,300</u>	<u>\$ 738,909</u>	<u>\$ 1,421,108</u>	<u>\$ 42,008,952</u>	<u>\$ 43,572,326</u>

See notes to financial statements.

OREGON FOOD BANK, INC.
STATEMENT OF CASH FLOWS
For the year ended June 30, 2008
(With comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,059,210	\$ (2,071,648)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	465,117	521,120
Gain on sale of assets	(4,500)	-
Net realized/unrealized (gain) loss on investments	45,803	(235,815)
Prior period adjustment	-	(289,977)
(Increase) decrease in:		
Accounts and pledges receivable	17,541	36,940
Inventory	(963,963)	2,688,432
Prepaid expenses	(135,298)	156,943
Unemployment deposit	(9,721)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	100,576	(174,185)
Agency pass-through payable	140,469	4,244
Reserve for return	(165,291)	166,753
Advance deposits	(95,731)	29,126
Annuity agreements	13,036	(34,148)
Net cash provided by operating activities	<u>2,467,248</u>	<u>797,785</u>
Cash flows from investing activities:		
Purchase of property and equipment	(322,909)	(125,652)
Proceeds from the sale of assets	4,500	-
Proceeds from investments	139,540	806,715
Additions to investments	(3,180,078)	-
Additions to designated investments	(81,818)	(617,466)
Net cash provided by (used in) investing activities	<u>(3,440,765)</u>	<u>63,597</u>
Net increase (decrease) in cash and cash equivalents	(973,517)	861,382
Cash and cash equivalents - beginning of year	<u>1,625,850</u>	<u>764,468</u>
Cash and cash equivalents - end of year	<u>\$ 652,333</u>	<u>\$ 1,625,850</u>

See notes to financial statements.

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

1. DESCRIPTION OF THE ORGANIZATION

Oregon Food Bank's (OFB or the Organization) mission is to eliminate hunger and its root causes ... *because no one should be hungry.*

OFB formed in 1988, when Interagency Food Bank merged with Oregon Food Share. The Interagency Food Bank collected and distributed donated food in the Portland metropolitan area; Oregon Food Share collected and distributed donated food to Interagency Food Bank and the rest of the state of Oregon. Today OFB serves as the hub of a network of hunger relief agencies that serve Oregon's 36 counties, and Clark County, Washington.

Food is received from farms, manufacturers, wholesalers, retailers and individuals. OFB is authorized through the State of Oregon to receive commodities from the United States Department of Agriculture (USDA) for distribution in Oregon. Oregon Food Bank also purchases food to supplement donations received.

Food is distributed to twenty Regional Food Banks (RFBs) in Oregon and Clark County, Washington. The RFBs in turn, distribute the food to 915 (903 during the year ended June 30, 2007) food pantries, soup kitchens, shelters, and other programs that offer assistance to low-income individuals and families. These programs are referred to as Local Agencies (LA's).

OFB operates four of the twenty regional food banks. The number of sites and agencies served by Oregon Food Bank's RFBs are:

	As of June 30	
	<u>2008</u>	<u>2007</u>
Metro	205	206
Washington County	106	97
Southeast Oregon	12	12
Tillamook County	20	17

In addition to collecting and distributing food, OFB operates advocacy and public education programs. Advocacy efforts focus on outreach to underserved populations, research, and public policy issues that affect the root causes of hunger. In addition, "Learning Gardens" and nutrition education programs seek to increase peoples' abilities to grow, purchase and prepare their own food.

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

1. DESCRIPTION OF THE ORGANIZATION, Continued

OFB secures funding for and acts as a pass-through fiscal agent of funds and food for RFBs and selected local agencies. Additionally, OFB served as the fiscal agent for Oregon Hunger Relief Task Force through June 30, 2007. OFB is a certified member of Feeding America (formerly named America's Second Harvest: The Nation's Food Bank Network), a national hunger-relief organization of food banks and food rescue organizations.

U.S. Government Programs

The Emergency Food Assistance Program (TEFAP)

TEFAP supplements the diets of some low-income Americans, by providing them with emergency food and nutrition assistance at no cost. The U.S. Department of Agriculture (USDA) allocates TEFAP commodities to each state. States designate an agency to order, store, distribute and track TEFAP commodities, as well as monitor distribution sites. These distribution sites provide the commodities for household consumption or use them to prepare and serve meals in a congregate setting. Recipients of food for home use must meet income eligibility criteria set by the states. Recipients of foods prepared from USDA commodities at congregate feeding sites are presumed to be low income and are therefore not subject to eligibility criteria.

Oregon Housing and Community Services (OHCS) is the designated state agency responsible for oversight of TEFAP commodities and operating funds. OHCS has contracted with OFB to serve as the State Coordinating Agency (SCA) for distributing TEFAP commodities and operating funds.

As an SCA, OFB contracts with RFBs for the distribution of commodities to local agencies (LAs) who distribute food to low-income people. In addition, as an RFB, OFB contracts with LAs in Clackamas, Multnomah, Washington, Tillamook, Malheur and Harney counties, to distribute commodities to low-income people.

Agencies receiving commodities for distribution must be members in good standing with OFB and meet the State and Federal requirements for eligibility which include tax exempt status, capacity to ensure accountability through proper record keeping and inventory procedures, and safe storage and distribution practices. Agencies also must complete and sign the USDA Sub-Distribution Agreement (for emergency food box programs, EFB) or Congregate Meal Site (CMS) Agreement.

TEFAP funds are allocated to the RFBs using the 2000 US Census county-level statistics in Oregon for poverty (weighted 60%) and unemployment (weighted 40%). Unemployment figures are updated twice each year.

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

1. DESCRIPTION OF THE ORGANIZATION, Continued

TEFAP commodities are allocated using the same formula after a .75% base allocation is allotted to each RFB.

Regional Food Banks submit reimbursement requests to OFB for their personnel, storage, distribution and other related expenses. Reimbursement for these expenses, up to the allocated amount of funds available, represents grants of federal funds to subrecipients.

A portion of direct costs of personnel, storage, and distribution expenses incurred by OFB and RFBs for the USDA commodities are reimbursed by the State of Oregon using funds provided by the United States Department of Agriculture through the Emergency Food Assistance Program (TEFAP).

Emergency Food and Shelter Program (EFSP)

Oregon Food Bank makes bulk purchases of food for local agencies in Clackamas, Multnomah, Washington, Tillamook and Malheur counties. It is reimbursed for its bulk purchases with funds from the U.S. Federal Emergency Management Agency (FEMA) Emergency Food and Shelter Program (EFSP) which are passed through by government or other agencies.

Continued funding levels of TEFAP and FEMA EFSP programs are subject to annual renewal by the Congress of the United States.

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.
- Permanently restricted net assets represent net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

The Organization had only unrestricted and temporarily restricted net assets as of June 30, 2008 and 2007.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

Investments

Investments are held in marketable securities and are carried at fair value.

Inventory

Inventory, determined by the standard cost method, consists of donated food and grocery products, US Department of Agriculture (USDA) commodities and purchased product. The donated goods inventory is stated at \$1.50 per pound, which is the estimated wholesale fair market value of the donation. USDA commodities are stated at the value provided by the Department of Agriculture as of June 30 of the prior fiscal year and used for the subsequent fiscal year. Purchased product inventory is stated at average cost.

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received.

Depreciation

Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years.

Income Tax Status

Oregon Food Bank, Inc. is a nonprofit corporation exempt from income tax under section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is made in the accompanying financial statements, as the Organization has no activities subject to unrelated business income tax. The Organization is not a private foundation.

Donated Assets and Services

Donations of food and grocery products by the food industry, other businesses, community organizations and individuals are recorded as support at their estimated wholesale fair market value currently stated at \$1.50 per pound. To arrive at the estimated wholesale fair market value per pound OFB uses the approximate average value for the past five years based on an independent accountants' report to Feeding America (formerly known as America's Second Harvest: The Nation's Food Bank Network). The two most recent reports valued donated product at \$1.49 and \$1.69 in calendar years 2007 and 2006, respectively.

During the year, approximately 18.6 million pounds of donated product (approximately 17.4 million pounds in 2007) were received from the above referenced sources.

Inventory of current year-product donations not distributed is reflected as a temporarily restricted net asset.

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No amounts have been reflected in the financial statements for donated services which do not require specialized skills. However, a substantial number of volunteers have donated their time in various OFB programs and special events.

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Pledges Receivable

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Organization is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Bequests are recorded as revenue at the time the Organization has an established right to the bequest and the proceeds are measurable.

Restricted and Unrestricted Revenue and Support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other 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 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.

Advertising

Advertising costs are charged to expense as incurred.

Expense Allocation

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.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Use of Estimates

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

Summarized Financial Information for 2007

The financial information as of June 30, 2007 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

3. ACCOUNTS RECEIVABLE

Accounts receivable are unsecured and consist of the following at June 30, 2008 and 2007:

	2008	2007
Share contributions and food-to-buy receivable from regional food banks and local agencies, net of allowance for doubtful accounts of \$1,000	\$ 111,746	\$ 168,131
Federal and state appropriations	300,756	147,384
Other	-	208,458
Total accounts receivable	\$ 412,502	\$ 523,973

4. PLEDGES RECEIVABLE

Pledges receivable represent unconditional promises to give as follows:

	2008	2007
Receivable within one year	\$ 60,000	\$ 10,000
Receivable in two to five years	100,000	50,000
Receivable in more than five years	20,000	40,000
	180,000	100,000
Discount on pledges due in more than one year	7,307	21,237
Net pledges receivable	\$ 172,693	\$ 78,763

Long-term contributions receivable have been discounted to present value using a discount rate of 2%.

5. INVESTMENTS

Investments at June 30, 2008 and 2007 are carried at fair value and consist of the following:

	2008	2007
Money market	\$ 1,186	\$ -
Certificates of deposit	6,030,478	2,449,379
U.S. agency securities	-	587,550
	\$ 6,031,664	3,036,929

Investments with original maturities of three months or less, included in cash and cash equivalents total \$546,829 at June 30, 2008 (\$600,000 at June 30, 2007).

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

6. INVENTORY

Inventory amounts are restricted to distribution programs serving the needy. Therefore, the value of ending inventory which has been donated is reflected as a temporarily restricted contribution. Distribution of donated inventory on hand at the beginning of the year is reflected in the Statement of Activities as net assets released from restrictions during the year. Inventory consisted of the following at June 30, 2008 and 2007:

	2008	2007
Donated product	\$ 3,313,124	\$ 2,804,292
USDA Food	336,144	248,366
Purchased product	537,152	169,799
	\$ 4,186,420	\$ 3,222,457

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2008 and 2007:

	2008	2007
Land	\$ 2,263,142	\$ 2,263,142
Buildings	6,985,377	6,976,819
Office furniture and equipment	393,614	353,637
Computer equipment and software	492,994	453,472
Warehouse equipment	697,361	658,720
Vehicles	1,460,326	1,288,066
Artwork	13,800	13,800
	12,306,614	12,007,656
Less accumulated depreciation	3,591,402	3,150,236
Property and equipment, net	\$ 8,715,212	\$ 8,857,420

8. UNEMPLOYMENT DEPOSIT

Deposits include a certificate of deposit in the amount of \$78,132 at June 30, 2008 (\$68,411 at June 30, 2007), posted with the State of Oregon, Department of Employment, under a special election to self-insure unemployment claims in lieu of making unemployment tax payments.

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

9. CONTINGENCIES

Amounts received or receivable from various contracting agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of the Organization if so determined in the future. It is management's belief that no significant amounts received or receivable will be required to be returned in the future.

10. LEASE COMMITMENTS

The Organization leases warehouse space in Washington County under a non-cancellable operating lease which expires June 2010 and may be renewed for one additional year. Monthly rent under the lease is \$8,745.

The Organization leases office and warehouse space in Ontario, Oregon under a non-cancellable operating lease which expires June 2011 and may be renewed for five additional years. Monthly rent under the lease is \$1,500 with scheduled increases.

The Organization leases office and warehouse space in Tillamook, Oregon under a month-to-month lease.

Total rent expense under these leases approximated \$108,000 and \$115,000 for the years ended June 30, 2008 and 2007, respectively.

Future minimum lease payments under non-cancellable leases are as follows:

June 30, 2009	\$	122,940
2010		123,840
2011		18,900

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

11. BOARD DESIGNATED NET ASSETS

On February 25, 1998, the Board of Directors adopted a policy to establish a quasi-endowment investment account at the Oregon Community Foundation (OCF). This policy expresses the intent of the Board of Directors to apply the income from the quasi-endowment fund in such amounts as they may determine, to provide a long-term source of revenue to supplement the Annual Fund and to protect major capital investments in order to best serve the mission of the Oregon Food Bank and achieve its long-term strategic goals. OCF was not given variance power under the agreement. The funds may be withdrawn upon a majority vote of all the Board of Directors of Oregon Food Bank and if, in the sole judgment of the Board of Directors of OCF, the requested distribution is consistent with the objectives and purposes of Oregon Food Bank and with the charitable, educational, and scientific needs of the State of Oregon.

OCF establishes policies on the amount that may be distributed or paid out annually from the endowment fund to OFB. On June 27, 2007 the Board of Directors voted to spend income earned by the quasi-endowment fund up to the maximum allowed under OCF management policies in order to address the extraordinary expense for food acquisition that is the result of changes in the food supply. The distribution made in the year ended June 30, 2008 was \$64,423. No distribution was made in prior years.

Board designated net assets consist of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
OCF Quasi-endowment	\$ 1,698,980	\$ 1,617,162
Network support	250,000	250,000
Strategic plan	497,000	500,000
Food purchase reserve	500,000	-
Capital improvement	<u>1,250,000</u>	<u>-</u>
Total Board designated net assets	<u>\$ 4,195,980</u>	<u>\$ 2,367,162</u>

Undesignated net assets consist of \$4,729,770 and \$4,142,170 at June 30, 2008 and 2007, respectively.

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2008 and 2007:

	2008	2007
Food Distribution:		
Donated product	\$ 3,313,123	\$ 2,804,292
USDA food	336,144	248,366
Unemployment insurance deposit	78,132	68,411
Other programs	198,770	100
Time restricted	80,000	100,000
Total temporarily restricted net assets	\$ 4,006,169	\$ 3,221,169

13. RETIREMENT PLAN

The Organization's retirement plan includes the employee salary deferral provisions of a 401(k) plan. The plan covers substantially all of its employees with more than one year of service. Under the terms of the plan, OFB may make discretionary contributions based on eligible compensation. However, no matching contributions are required for the employee deferral feature of the plan. The investment decisions regarding the employer-contributed assets and employee deferrals are made by each employee. During the year ended June 30, 2008, contributions of five to seven percent of qualified compensation (depending on years of continuous service), totaling \$187,352 (\$149,092 in 2007), were made to the plan and charged to operations.

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

14. ANNUITY AGREEMENTS

OFB has entered into charitable gift annuity agreements with donors. Under the agreements, OFB is required to pay a guaranteed amount (annuity) for the lifetime of the donor or beneficiary (annuitant). Unless restricted by the donor, the remainder is placed in the Board directed fund for endowment.

OFB's charitable gift annuity funds are held in a separate trust, which is managed in accordance with the trust's investment policy.

There is an obligation to make annuity payments under 11 charitable gift annuity agreements to 7 annuitants (9 agreements to 7 annuitants in 2007).

	<u>2008</u>	<u>2007</u>
Investments held under annuity agreements	\$ 200,085	\$ 191,366
Current annuity agreement liability	(16,223)	(13,133)
Non-current annuity agreement liability	<u>(134,891)</u>	<u>(116,226)</u>
Net assets held under annuity agreements	\$ <u>48,971</u>	\$ <u>62,007</u>
Earnings (losses) and other revenue	\$ (11,031)	\$ 21,160
Contributions	35,282	36,419
Annuity payments	(15,532)	(13,133)
Brokerage fees, other expenses and transfers out	<u>-</u>	<u>(76,443)</u>
Change in investments held for annuity agreements	\$ <u>8,719</u>	\$ <u>(31,997)</u>

OREGON FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

15. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2008 and 2007 OFB purchased goods or services from or provided grants to regional food banks and a local agency whose employees served on the Board of Directors.

These transactions are in the normal course and have been approved by the Board of Directors. OFB's by-laws require participation by regional food banks and local agencies on the Board of Directors.

During the year ended June 30, 2008, OFB provided funding to organizations with membership on the Board in the amount of \$188,951. Agencies receiving funding were EMO Northeast Emergency Food Program (\$24,473), Access, Inc. (\$113,808), and Community Action Program of East Central Oregon (\$47,670).

During the year ended June 30, 2007, OFB provided funding to organizations with membership on the Board in the amount of \$138,812. Agencies receiving funding were Food for Lane County (\$92,748), Access, Inc. (\$28,230), and Community Action Program of East Central Oregon (\$17,833).

The above-referenced transactions do not include reimbursing or paying directly the expenses of some Board members for mileage, lodging and related expenses to attend meetings.

16. CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The Organization maintains its cash balances in several financial institutions located in Portland. The balances in each financial institution are insured by the Federal Deposit Insurance Corporation up to \$100,000 (\$250,000 effective October 3, 2008 through December 31, 2009). Additionally, the Organization maintains both long-term and short-term certificates of deposit which may not be insured. At June 30, 2008, uninsured cash balances totaled \$413,050.

17. COMMITMENT

In April 2008, the Organization entered into an agreement to purchase a building in Washington County for additional warehouse and office space. Under the terms of the purchase agreement, the Organization is required to provide earnest money in the form of a promissory note for \$50,000. The purchase is expected to close later in 2008. Total approximate purchase price for the property is \$2,950,000.

**REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
AND OMB CIRCULAR A-133**



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Oregon Food Bank, Inc.
Portland, Oregon

We have audited the financial statements of Oregon Food Bank, Inc. (a nonprofit organization) as of and for the year ended June 30, 2008 and have issued our report thereon dated October 15, 2008. We conducted our audit in accordance 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 Oregon Food Bank, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that the misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

Strength in Numbers

- 20 -

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

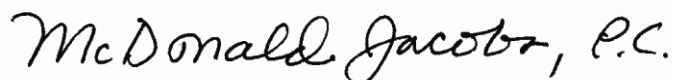
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies 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 Oregon Food Bank, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Oregon Food Bank, Inc. in a separate letter dated October 15, 2008.

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.

A handwritten signature in black ink that reads "McDonald Jacobz, P.C." The signature is written in a cursive style.

October 15, 2008



McDONALD JACOBS

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**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
Oregon Food Bank, Inc.
Portland, Oregon

Compliance

We have audited the compliance of Oregon Food Bank, 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, 2008. Oregon Food Bank, 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 Oregon Food Bank, Inc.'s management. Our responsibility is to express an opinion on Oregon Food Bank, 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 Oregon Food Bank, 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 Oregon Food Bank, Inc.'s compliance with those requirements.

Strength in Numbers

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In our opinion, Oregon Food Bank, 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, 2008.

Internal Control Over Compliance

The management of Oregon Food Bank, 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 Oregon Food Bank, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A control deficiency in an organization's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the organization's internal control.

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

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

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.

McDonald Jacobson, P.C.

October 15, 2008

OREGON FOOD BANK, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal Grantor/Pass-through Grantor Program title	Federal CFDA Number	Award Amount	Federal Expendi- tures
U.S. Department of Agriculture			
Pass through from Oregon State Housing and Community Services			
Emergency Food Assistance Program - Administration	10.568	\$ 607,374	\$ 607,374
Emergency Food Assistance Program - Food Commodities	10.569	2,723,926	<u>2,723,926</u>
Total Department of Agriculture			<u>3,331,300</u>
Department of Homeland Security			
Passed through from Washington County			
EFSP-Bulk Purchase	97.024	43,700	43,736
Passed through from Multnomah County			
EFSP-Bulk Purchase	97.024	115,163	112,306
Passed through from Clackamas County			
EFSP-Bulk Purchase	97.024	64,698	62,246
Passed through from Malheur County			
EFSP-Bulk Purchase	97.024	7,351	<u>7,871</u>
Total Department of Homeland Security			<u>226,159</u>
Total expenditures of federal awards			<u>\$ 3,557,459</u>

See notes to schedule of expenditures of federal awards.

OREGON FOOD BANK, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes all federal grant activity of Oregon Food Bank, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

Total expenditures of federal awards	\$ 3,557,459
Non federal expenditures	<u>38,451,493</u>
Total expenses per Statement of Activities	<u>\$ 42,008,952</u>

2. FOOD DISTRIBUTION

The value of USDA food commodities received during the year was estimated by the State of Oregon and USDA. The value of USDA food commodities distributed during the year includes amounts held in inventory at the beginning of the year. As of June 30, 2008, Oregon Food Bank, Inc. had an inventory of USDA food commodities of \$336,144.

3. PASS THROUGH GRANTS

The federal expenditures for the Emergency Food Assistance Program include grants to subrecipients totaling \$176,525. Expenditures were made to 17 agencies, none exceeding \$100,000.

OREGON FOOD BANK, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended June 30, 2008

NONE: There were no prior year audit findings.

OREGON FOOD BANK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2008

Section 1 - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Type of auditor's 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 OMB Circular A-133?	No

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.568	Emergency Food Assistance Program - Administration
10.569	Emergency Food Assistance Program - Commodities

Dollar threshold used to distinguish between Type A and Type B programs.	\$300,000
Auditee qualified as low-risk auditee?	Yes

OREGON FOOD BANK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the year ended June 30, 2008

Section 2 - Financial Statement Findings

None reported.

Section 3 - Federal Award Findings and Questioned Costs

No matters reported.

**OREGON FOOD BANK, INC.
CORRECTIVE ACTION PLAN
For the year ended June 30, 2008**

There were no audit findings.