

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Feeding America Southwest Virginia and Subsidiary
Salem, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Feeding America Southwest Virginia (the "Food Bank") and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012 and the related consolidated statements of activities, cash flows and functional expenses for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Feeding America Southwest Virginia and Subsidiary as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying Schedules of Food Received and Distributed are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated 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 consolidated financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013 on our consideration of the Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the Food Bank's internal control over financial reporting and compliance.

Arthur & Reed, LLP

Roanoke, Virginia
November 22, 2013

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012**

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 210,879	\$ 436,553
Receivables (Note 2)	206,902	103,530
Inventory (Note 3)	1,028,291	1,232,747
Sinking funds (Note 6)	300,000	-
Total current assets	1,746,072	1,772,830
Cash restricted for acquisition of property and equipment	340,000	-
Sinking funds (Note 6)	27,901	315,813
Property and equipment, net (Note 4)	4,594,025	4,694,037
Other	3,105	7,245
Total assets	\$ 6,711,103	\$ 6,789,925
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable, including for 2013 \$87,000 payable in monthly installments of \$15,000	\$ 197,586	\$ 190,938
Accrued expenses	117,230	100,452
Lines of credit (Note 5)	420,298	257,885
Current portion of long-term debt (Note 6)	110,014	193,147
Total current liabilities	845,128	742,422
Interest rate swap (Note 6)	65,495	145,640
Long-term debt (Note 6)	3,507,557	3,619,731
Total liabilities	4,418,180	4,507,793
Net assets		
Unrestricted	1,649,262	2,125,606
Temporarily restricted (Note 7)	550,659	69,909
Permanently restricted (Note 7)	93,002	86,617
Total net assets	2,292,923	2,282,132
Total liabilities and net assets	\$ 6,711,103	\$ 6,789,925

**FEEDING AMERICA SOUTHWEST VIRGINIA
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**CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2013 and 2012**

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND SUPPORT				
Contributions – monetary	\$ 1,996,731	\$ 407,159	\$ 250	\$ 2,404,140
Contributions – in-kind	265,322	-	-	265,322
Grants	782,914	143,500	-	926,414
USDA reimbursements	349,392	-	-	349,392
Other handling fees	876,701	-	-	876,701
Sale of purchased food	173,285	18,405	6,135	197,825
Other	7,938	-	-	7,938
Net assets released from restrictions	88,314	(88,314)	-	-
Total revenues and support	4,540,597	480,750	6,385	5,027,732
EXPENSES				
Program expenses	3,798,457	-	-	3,798,457
Management and general	412,161	-	-	412,161
Fund-raising	642,320	-	-	642,320
Total expenses	4,852,938	-	-	4,852,938
Change in net assets before food activity and interest rate swap	(312,341)	480,750	6,385	174,794
DONATED FOOD ACTIVITY				
Donated food received	30,250,526	-	-	30,250,526
Donated food distributed and disposed	(30,494,674)	-	-	(30,494,674)
Net food activity	(244,148)	-	-	(244,148)
Unrealized gain on interest rate swap (Note 6)	80,145	-	-	80,145
Change in net assets	(476,344)	480,750	6,385	10,791
NET ASSETS				
Beginning	2,125,606	69,909	86,617	2,282,132
Ending	\$ 1,649,262	\$ 550,659	\$ 93,002	\$ 2,292,923

2012

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 2,083,854	\$ 50,000	\$ 150	\$ 2,134,004
240,395	-	-	240,395
760,631	-	-	760,631
472,571	-	-	472,571
907,848	-	-	907,848
152,249	20,682	6,894	179,825
4,497	40	-	4,537
144,420	(144,420)	-	-
<u>4,766,465</u>	<u>(73,698)</u>	<u>7,044</u>	<u>4,699,811</u>
3,581,108	-	-	3,581,108
484,633	-	-	484,633
658,096	-	-	658,096
<u>4,723,837</u>	<u>-</u>	<u>-</u>	<u>4,723,837</u>
42,628	(73,698)	7,044	(24,026)
25,352,392	-	-	25,352,392
(25,223,314)	-	-	(25,223,314)
129,078	-	-	129,078
57,832	-	-	57,832
229,538	(73,698)	7,044	162,884
1,896,068	143,607	79,573	2,119,248
<u>\$ 2,125,606</u>	<u>\$ 69,909</u>	<u>\$ 86,617</u>	<u>\$ 2,282,132</u>

**FEEDING AMERICA SOUTHWEST VIRGINIA
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**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012**

	2013	2012
OPERATING ACTIVITIES		
Change in net assets	\$ 10,791	\$ 162,884
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	387,597	356,279
Permanently restricted contributions and grants	(250)	(150)
Contributions restricted for long-term purpose	(447,989)	(241,506)
In-kind contributions of property and equipment	(43,172)	(25,050)
Unrealized gain on interest rate swap agreement	(80,145)	(57,832)
Change in current assets and liabilities:		
Decrease (increase):		
Receivables	(103,372)	257,807
Inventory	204,456	(179,873)
(Decrease) increase:		
Accounts payable and accrued expenses	23,426	(20,938)
Net cash provided by (used in) operating activities	(48,658)	251,621
INVESTING ACTIVITIES		
Purchase of property and equipment	(240,273)	(356,179)
Increase in funds restricted for acquisition of property and equipment	(340,000)	-
Net cash used in investing activities	(580,273)	(356,179)
FINANCING ACTIVITIES		
Permanently restricted contributions and grants	250	150
Contributions restricted for acquisition of property and equipment	447,989	241,506
Proceeds from long-term debt	-	200,000
Payments on long-term debt	(195,307)	(110,177)
Deposits to sinking fund	(12,088)	(112,088)
Net borrowings on lines of credit	162,413	61,949
Net cash provided by financing activities	403,257	281,340
Increase (decrease) in cash and cash equivalents	(225,674)	176,782
CASH AND CASH EQUIVALENTS		
Beginning	436,553	259,771
Ending	\$ 210,879	\$ 436,553
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 185,825	\$ 179,609
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment financed with debt/capital leases	\$ -	\$ 48,868

The Notes to Financial Statements are
an integral part of these statements.

**FEEDING AMERICA SOUTHWEST VIRGINIA
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**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2013 and 2012**

	2013			Total
	Program Services	Management and General	Fund Raising	
PERSONNEL				
Salaries	\$ 1,283,150	\$ 237,244	\$ 337,764	1,858,158
Payroll taxes	105,684	19,540	27,819	153,043
Fringe benefits	157,792	29,175	41,536	228,503
Total personnel	<u>1,546,626</u>	<u>285,959</u>	<u>407,119</u>	<u>2,239,704</u>
OTHER				
Cost of purchased food	589,179	-	-	589,179
Consultants and contract services	112,936	74,192	6,033	193,161
Travel	12,534	2,149	1,000	15,683
Occupancy	306,032	11,687	5,846	323,565
Materials and supplies	44,896	366	183	45,445
Postage and printing	5,655	221	194,750	200,626
Equipment expense	121,820	-	-	121,820
Depreciation	382,597	2,500	2,500	387,597
Telephone	48,819	2,077	1,039	51,935
General insurance	76,759	3,266	1,633	81,658
Dues and registrations	25,328	2,064	559	27,951
Trucking expenses	288,222	-	-	288,222
Promotion	12,594	6,297	6,297	25,188
Interest expense	173,050	7,364	3,682	184,096
Other costs	51,410	14,019	11,679	77,108
Total other	<u>2,251,831</u>	<u>126,202</u>	<u>235,201</u>	<u>2,613,234</u>
Total expenses	<u>\$ 3,798,457</u>	<u>\$ 412,161</u>	<u>\$ 642,320</u>	<u>\$ 4,852,938</u>

2012

Program Services	Management and General	Fund Raising	Total
\$ 1,173,213	\$ 293,625	\$ 356,720	1,823,558
92,629	23,183	28,164	143,976
146,420	36,645	44,520	227,585
<hr/>	<hr/>	<hr/>	<hr/>
1,412,262	353,453	429,404	2,195,119
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562,734	-	-	562,734
110,789	56,708	15,932	183,429
18,000	909	4,000	22,909
321,881	12,572	6,286	340,739
62,146	626	313	63,085
6,390	3,120	173,585	183,095
100,944	-	-	100,944
334,902	14,251	7,126	356,279
45,681	1,944	972	48,597
86,112	3,664	1,832	91,608
25,925	1,103	552	27,580
280,641	-	-	280,641
13,729	6,864	6,864	27,457
166,623	7,090	3,545	177,258
32,349	22,329	7,685	62,363
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2,168,846	131,180	228,692	2,528,718
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\$ 3,581,108	\$ 484,633	\$ 658,096	\$ 4,723,837
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**FEEDING AMERICA SOUTHWEST VIRGINIA
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012**

Note 1. Nature of Operations and Significant Accounting Policies

Feeding America Southwest Virginia (Food Bank) is a nonprofit organization established to collect, warehouse, and distribute salvageable food. The Food Bank operates from locations in Salem and Abingdon Virginia, and distributes food to qualified agencies. The Food Bank is affiliated with Feeding America, a national hunger relief organization.

Principles of consolidation:

The financial statements include the accounts of the Food Bank and its wholly-owned subsidiary SWVAFB Property Corporation, which leases certain facilities and provides warehouse services to the Food Bank. All material intercompany transactions have been eliminated in consolidation.

Basis of financial statement presentation and accounting:

The financial statements of the Food Bank are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

The accompanying financial statements present information regarding the Food Bank's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The three classes are differentiated based on the existence or absence of donor-imposed restrictions, as described below:

Unrestricted net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Temporarily restricted net assets are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Food Bank pursuant to those stipulations.

Permanently restricted net assets are amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs. These net assets include permanent endowment funds and a revolving food purchase fund.

Cash and cash equivalents:

Cash equivalents consist of highly liquid investments with an initial maturity of three months or less. All cash accounts are held at one bank. The balance in these accounts may, at times, exceed federally insured limits; however, the Food Bank does not believe it is subject to any significant credit risk as a result of these deposits.

**FEEDING AMERICA SOUTHWEST VIRGINIA
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012**

Note 1. Operations and Significant Accounting Policies (Continued)

Handling fees:

Although food is distributed to agencies at no cost, the Food Bank charges its agencies a handling fee to help offset food storage and distribution costs. This revenue is recognized when food is distributed to the agency. The Food Bank does not charge agencies a handling fee for federal commodities distributed. This cost is reimbursed by the federal government subject to funding availability and is recorded as revenue when the amount becomes known by the Food Bank.

Inventory:

Donated food inventories are stated at the nationally calculated average price per pound of \$1.69 and \$1.66 as of June 30, 2013 and 2012, respectively. This average per pound is based on an independent study by Feeding America. Purchased food is valued at cost. USDA commodities are stated at the value assigned by USDA.

Property and equipment:

Property and equipment in excess of \$2,500 are capitalized. Acquisitions are recorded at cost if purchased and at fair market value if donated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets generally as follows:

Buildings	39 years
Refrigerated trucks	5 years
Cooler, freezers, forklifts	7 years
Other equipment, including computers	5 years
Software	3 years
Furniture	7 years

Contributions:

Contributions, including unconditional promises to give or contributions receivable, are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, in the period the donor's commitment is received. Unrestricted, unconditional promises to give are recognized as temporarily restricted revenues unless the donor explicitly stipulates its use to support current period activities.

**FEEDING AMERICA SOUTHWEST VIRGINIA
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012**

Note 1. Operations and Significant Accounting Policies (Continued)

Contributions: (Continued)

Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Food Bank.

Volunteers provided various services to the Food Bank throughout the year that are not recognized as contributions in the financial statements since the recognition criteria are not met. The Food Bank received over 37,000 volunteer hours from over 3,900 volunteers during 2013.

Income taxes:

The Food Bank is exempt from federal income taxes under Section 501(c)(3) of the *Internal Revenue Code* and did not conduct unrelated business activities. The subsidiary is subject to income taxes; however, as it had no taxable income for the current year, the Food Bank has made no provision for income taxes. In addition, the Food Bank has been determined by the IRS not to be a "private foundation" within the meaning of Section 509(a) of the *Internal Revenue Code*.

The federal tax related filings of the Food Bank are subject to examination by the IRS, generally for three years after they are filed.

Advertisement costs:

The Food Bank utilizes many forms of self-promotion and advertising as part of its fundraising activities. All costs are expensed as incurred.

Functional allocation of expenses:

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

**FEEDING AMERICA SOUTHWEST VIRGINIA
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012**

Note 1. Operations and Significant Accounting Policies (Continued)

Reclassifications:

Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

Subsequent events:

Management has evaluated subsequent events through November 22, 2013, the date which the financial statements were available for issue.

Note 2. Receivables

Receivables consist of the following:

	2013	2012
Due from member organizations	\$ 39,956	\$ 86,757
Unconditional promises to give	168,659	19,909
	208,615	106,666
Less allowance for doubtful accounts	1,713	3,136
	\$ 206,902	\$ 103,530

Note 3. Inventory

Inventory consists of the following:

	2013	2012
Purchased	\$ 86,757	\$ 76,994
Donated	606,487	1,110,120
USDA commodities	335,047	45,633
	\$ 1,028,291	\$ 1,232,747

**FEEDING AMERICA SOUTHWEST VIRGINIA
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012**

Note 4. Property and Equipment

Property and equipment consist of the following:

	2013	2012
Buildings and other equipment	\$ 4,381,747	\$ 4,098,302
Vehicles	925,624	925,624
Equipment under capital lease	36,342	36,342
	5,343,713	5,060,268
Less accumulated depreciation	(1,869,688)	(1,486,231)
	3,474,025	3,574,037
Land	1,120,000	1,120,000
	\$ 4,594,025	\$ 4,694,037

Note 5. Lines of Credit

The Food Bank has two lines of credit with SunTrust Bank. The lines are due on demand and secured by a first credit line deed of trust and a blanket lien on all assets. The maximum amount available for both lines of credit was \$650,000 for 2013 and \$500,000 for 2012. Interest was at prime plus 1% (4.25%) for 2013. Both lines were refinanced subsequent to year end as disclosed in Note 11.

**FEEDING AMERICA SOUTHWEST VIRGINIA
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012**

Note 6. Long-Term Debt

Long-term debt consists of the following:

	2013	2011
Rural Housing Service (RHS) Abingdon Facility:		
Note payable, \$8,627 with interest at 4.5% monthly through 2049. Secured by real property and equipment.	\$ 1,836,370	\$ 1,856,420
Note payable, \$1,447 monthly with interest at 4.5% through 2017. Secured by equipment.	54,744	69,422
SunTrust Bank Salem Facility:		
Note payable, interest at LIBOR less 1%, monthly interest payments of approximately \$6,400, annual principal payment of \$36,000, through maturity at March 2014. An interest rate swap fixes the rate. Secured by real property.	1,584,000	1,620,000
Note payable, \$3,333 monthly with interest at the bank's prime rate plus 1% (4.25% at June 30, 2013) through September, 2016. Secured by receivables, inventory and equipment.	130,000	170,000
Note payable, interest at 4.13%, paid annually, principal due December 2012. Secured by a vehicle.	-	75,000
Capital lease obligation for equipment, through 2015.	12,457	22,036
	3,617,571	3,812,878
Less current portion	110,014	193,147
	\$ 3,507,557	\$ 3,619,731

The current portion of long-term debt above, and the future maturities of long-term debt below reflect the refinancing disclosed in Note 11.

**FEEDING AMERICA SOUTHWEST VIRGINIA
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012**

Note 6. Long-Term Debt (Continued)

Long-term debt maturities and sinking fund requirements are as follows:

<u>Fiscal Year Ended</u>	<u>Long-term Debt</u>	<u>Sinking Fund</u>
2014	\$ 110,014	\$ 10,641
2015	129,932	10,352
2016	134,160	10,352
2017	91,824	10,352
2018	80,740	10,352
2019 and thereafter	3,486,901	29,335
	<u>\$ 4,033,571</u>	<u>\$ 81,384</u>

Sinking funds:

Both RHS notes require a sinking fund deposit equal to 10% of the monthly debt payment until an amount equal to 12 monthly payments is accumulated.

The note payable to SunTrust Bank due March 2014 required annual sinking fund deposits of \$100,000 until total deposits reach \$500,000. In December, 2012 the requirement was reduced to \$300,000.

Sinking funds consist of the following:

	<u>2013</u>	<u>2012</u>
RHS	\$ 27,901	\$ 15,813
SunTrust Bank	<u>300,000</u>	<u>300,000</u>
	<u>\$ 327,901</u>	<u>\$ 315,813</u>

In connection with the refinancing disclosed in Note 11, the SunTrust Bank sinking fund will be applied to the related debt. The new debt requires a reserve fund in the amount of \$150,000.

Interest rate swap:

The Food Bank entered an interest rate swap agreement to manage its interest rate exposure on one of the SunTrust notes. Interest rate swaps are agreements to exchange interest rate payment streams based on a notional (specified) principal amount. The bank has a floating rate position. The swap effectively fixes the rate at 4.43%.

The estimated fair value of the swap agreement (see Note 10) is included in liabilities. The change in the fair value of the swap agreement is included in the change in net assets.

**FEEDING AMERICA SOUTHWEST VIRGINIA
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012**

Note 7. Net Assets

Temporarily restricted net assets consist of the following:

	2013	2012
Property and equipment	\$ 340,000	\$ -
Other specific purpose	42,000	50,000
Unconditional promises to give	168,659	19,909
	\$ 550,659	\$ 69,909

Permanently restricted net assets consist of the following:

	Pamela Irvine Endowment	Revolving Food Fund	Total Permanently Restricted Net Assets
Permanently restricted net assets			
June 30, 2011	\$ 27,000	\$ 52,573	\$ 79,573
Contributions/grants	150	-	150
Reinvested sales proceeds	-	6,894	6,894
June 30, 2012	27,150	59,467	86,617
Contributions/grants	250	-	250
Reinvested sales proceeds	-	6,135	6,135
June 30, 2013	\$ 27,400	\$ 65,602	\$ 93,002

The revolving food fund represents amounts contributed by the Roanoke Women's Foundation. The funds are to be used to purchase food for resale to member agencies. Sales proceeds equal to the cost of food purchased replenish the fund, plus an additional twenty-five percent of the markup is required to be permanently added to the fund.

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012**

Note 8. Pension Plan

The Food Bank has a 401(k) plan for the benefit of its employees. Employees become eligible to make elective deferrals after 30 days of employment, and are eligible to have employer contributions credited to their account after two years of service. The Food Bank may make matching, non-elective, and discretionary contributions to the plan. During 2013 and 2012, the Food Bank contributed \$65,622 and \$94,333 respectively, to the plan.

Note 9. Leases

The Food Bank leases from a related party a 20% undivided interest in its Salem facility of approximately 98,090 square feet for an annual rental of \$172,966. However, the lessor considers the rent a donation to the Food Bank which is recognized as an in-kind contribution.

The Food Bank subleases unused warehouse and parking space to third parties on a short-term basis. Occupancy expense for 2013 and 2012, not including contributed rent, was \$164,782 and \$201,182 net of sublease rental income of \$14,183 and \$33,409, respectively.

Note 10. Fair Value of Financial Instruments

The Food Bank's financial instruments consist of receivables, accounts payable, debt, and an interest rate swap. The carrying value of receivables and accounts payable is a reasonable estimate of their fair value due to the short-term nature of these instruments. The carrying value of debt is a reasonable estimate of its fair value based on rates and terms currently available for similar debt.

Authoritative guidance prioritizes the reliability of inputs used in measuring fair value into three Levels. The guidance categorizes inputs within a hierarchy ranging from observable Level 1 (reflecting market assumptions based on independent data) to unobservable Level 3 (reflecting management's assumptions from its own data). The fair value of the interest rate swap is the estimated amount the Food Bank would pay to terminate the agreement based on reference to market rate inputs and the net present value of future cash flows as determined by the lender. In management's opinion, this is a Level 2 measurement because it is based on significant observable inputs.

Note 11. Subsequent to year end, the Food Bank refinanced its SunTrust line of credit and long-term debt with another lender. The new line of credit has availability of \$500,000. The two long-term notes, with a combined balance of \$1,740,000 at June 30, 2013, were replaced with a \$2,130,000 commercial mortgage.

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Expenditures
Pass-through Virginia Department of Agriculture and Consumer Services (VDACS Agency Number 67-500):		
USDA – Emergency Food Assistance Program:		
Food Commodities	10.569	\$ 2,750,652
Administrative Costs	10.568	349,392
Virginia Child and Adult Care Food Program (operating costs)	10.558	289,140
USDA – Community Facilities Loans and Grants	10.766	34,728
		<u>\$ 3,423,912</u>

NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Note A. Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting and in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note B. Food Distribution

Non-monetary assistance is reported at the fair value of the commodities received and distributed. At June 30, 2013 and 2012, the Food Bank had food commodities totaling \$335,047 and \$45,633, respectively, in inventory.

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INDEPENDENT AUDITOR'S 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
Feeding America Southwest Virginia and Subsidiary
Salem, Virginia

We have audited, in accordance with the 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, the consolidated financial statements of Feeding America Southwest Virginia and Subsidiary (the "Food Bank"), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 22, 2013.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Food Bank's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the Food Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control.

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. *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.

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 that might be material weaknesses or significant deficiencies. **Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Food Bank's consolidated 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*.**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

And + Reed, LLP

Roanoke, Virginia
November 22, 2013

ANDERSON & REED, LLP

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Feeding America Southwest Virginia and Subsidiary
Salem, Virginia

Report on Compliance for Each Major Federal Program

We have audited Feeding America Southwest Virginia and Subsidiary's (the "Food Bank") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The Food Bank's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Our responsibility is to express an opinion on compliance for each of the Food Bank's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the Food Bank'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Food Bank's compliance.

Opinion of Each Major Federal Program

In our opinion, the Food Bank complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of the Food Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Food Bank's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Food Bank'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. *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.

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 material weaknesses or significant deficiencies. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A. L. & Reed, LLP

Roanoke, Virginia
November 22, 2013

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements were reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion on all major federal programs**.
6. The audit disclosed **no audit findings relative to the major programs**.
7. The programs tested as major programs included:
 - 10.569 USDA – Emergency Food Assistance Program (food commodities)
 - 10.568 USDA – Emergency Food Assistance Program (administration costs)
8. The **threshold** for distinguishing Types A and B programs was \$300,000.
9. **Feeding America Southwest Virginia was determined to be a low-risk auditee.**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

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

None.

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

SCHEDULES OF FOOD RECEIVED AND DISTRIBUTED

For the Years Ended June 30, 2013 and 2012

Year Ended June 30, 2013	<u>Pounds</u>	<u>Dollars</u>
Beginning inventory	843,436	\$ 1,232,747
Donated food received	16,272,115	27,499,874
USDA commodities received	4,473,354	2,750,652
Purchased food	<u>882,261</u>	<u>628,871</u>
Total food available	<u>22,471,166</u>	<u>32,112,144</u>
Less food distributed and adjustments	<u>21,537,454</u>	<u>31,083,853</u>
Ending Inventory	<u><u>933,712</u></u>	<u><u>\$ 1,028,291</u></u>
Year Ended June 30, 2012		
Beginning inventory	1,106,478	\$ 1,052,874
Donated food received	14,397,123	23,899,224
USDA commodities received	2,438,657	1,453,168
Purchased food	<u>992,712</u>	<u>613,529</u>
Total food available	<u>18,934,970</u>	<u>27,018,795</u>
Less food distributed and adjustments	<u>18,091,534</u>	<u>25,786,048</u>
Ending Inventory	<u><u>843,436</u></u>	<u><u>\$ 1,232,747</u></u>