



FINANCIAL REPORT

JUNE 30, 2014

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' 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 and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of Feeding America Southwest Virginia and Subsidiary as of June 30, 2013, were audited by other auditors whose report dated November 22, 2013, expressed an unmodified opinion on those statements.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements 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 consolidated 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 consolidated 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 consolidated financial statements or to the consolidated 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2014 on our consideration of Feeding America Southwest Virginia and Subsidiary'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 Feeding America Southwest Virginia and Subsidiary's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Roanoke, Virginia
October 17, 2014

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013**

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 144,348	\$ 210,879
Receivables (Note 2)	84,975	206,902
Inventory (Note 3)	770,895	1,028,291
Sinking funds (Note 6)	-	300,000
	1,000,218	1,746,072
Cash restricted for acquisition of property and equipment	327,000	340,000
Sinking funds (Note 6)	189,989	27,901
Property and equipment, net (Note 4)	5,213,485	4,594,025
Other assets	23,458	3,105
	\$ 6,754,150	\$ 6,711,103
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 116,647	\$ 197,586
Accrued expenses	120,843	117,230
Lines of credit (Note 5)	-	420,298
Current portion of long-term debt (Note 6)	101,385	110,014
	338,875	845,128
Interest rate swap (Note 6)	-	65,495
Long-term debt (Note 6)	3,913,138	3,507,557
	4,252,013	4,418,180
Net assets		
Unrestricted	2,021,104	1,649,262
Temporarily restricted (Note 7)	380,783	550,659
Permanently restricted (Note 7)	100,250	93,002
	2,502,137	2,292,923
	\$ 6,754,150	\$ 6,711,103

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

Feeding America Southwest Virginia and Subsidiary

Consolidated Statements of Activities

June 30, 2014 and 2013

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**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2014 and 2013**

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND SUPPORT				
Contributions - monetary	\$ 1,878,241	\$ 380,783	\$ 300	\$ 2,259,324
Contributions - in-kind (Note 9)	677,743	-	-	677,743
Grants	316,007	-	-	316,007
USDA reimbursements	351,070	-	-	351,070
Other handling fees	726,854	-	-	726,854
Sale of purchased food	613,058	-	6,948	620,006
Other	39,830	-	-	39,830
Net assets released from restrictions	550,659	(550,659)	-	-
Total revenues and support	5,153,462	(169,876)	7,248	4,990,834
EXPENSES				
Program expenses	3,443,211	-	-	3,443,211
Management and general	496,461	-	-	496,461
Fund-raising	646,708	-	-	646,708
Total expenses	4,586,380	-	-	4,586,380
Change in net assets before food activity and interest rate swap	567,082	(169,876)	7,248	404,454
DONATED FOOD ACTIVITY				
Donated food received	31,750,131	-	-	31,750,131
Donated food distributed and disposed	(31,986,784)	-	-	(31,986,784)
Net food activity	(236,653)	-	-	(236,653)
Realized and unrealized gains on interest rate swap (Note 6)	41,413	-	-	41,413
Change in net assets	371,842	(169,876)	7,248	209,214
NET ASSETS				
Beginning	1,649,262	550,659	93,002	2,292,923
Ending	<u>\$ 2,021,104</u>	<u>\$ 380,783</u>	<u>\$ 100,250</u>	<u>\$ 2,502,137</u>

2013

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
1,996,731	\$ 407,159	\$ 250	\$ 2,404,140
265,322	-	-	265,322
782,914	143,500	-	926,414
349,392	-	-	349,392
876,701	-	-	876,701
173,285	18,405	6,135	197,825
7,938	-	-	7,938
88,314	(88,314)	-	-
4,540,597	480,750	6,385	\$ 5,027,732
3,798,457	-	-	3,798,457
412,161	-	-	412,161
642,320	-	-	642,320
4,852,938	-	-	4,852,938
(312,341)	480,750	6,385	174,794
30,250,526	-	-	30,250,526
(30,494,674)	-	-	(30,494,674)
(244,148)	-	-	(244,148)
80,145	-	-	80,145
(476,344)	480,750	6,385	10,791
2,125,606	69,909	86,617	2,282,132
\$ 1,649,262	\$ 550,659	\$ 93,002	\$ 2,292,923

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

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013**

	2014	2013
OPERATING ACTIVITIES		
Change in net assets	\$ 209,214	\$ 10,791
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	437,068	387,597
Gain on disposal of leased copiers	(423)	-
Permanently restricted contributions	(300)	(250)
Contributions restricted for long-term purpose	(327,000)	(447,989)
In-kind contributions of property and equipment	(570,000)	(43,172)
Realized and unrealized gain on interest rate swap agreement	(41,413)	(80,145)
Change in current assets and liabilities:		
Receivables	121,927	(103,372)
Inventory	257,396	204,456
Accounts payable and accrued expenses	(77,326)	23,426
Net cash provided by (used in) operating activities	9,143	(48,658)
INVESTING ACTIVITIES		
Purchase of property and equipment	(436,111)	(240,273)
Change in funds restricted for acquisition of property and equipment	13,000	(340,000)
Net cash used in investing activities	(423,111)	(580,273)
FINANCING ACTIVITIES		
Permanently restricted contributions	300	250
Cash released from sinking fund requirements	150,000	-
Contributions restricted for acquisition of property and equipment	327,000	447,989
Incurrence of loan costs per refinancing	(23,458)	-
Proceeds from long-term debt	2,130,000	-
Payments on interest rate swap	(24,082)	-
Payments on long-term debt	(1,779,937)	(195,307)
Deposits to sinking fund	(12,088)	(12,088)
Net (payments) borrowings on lines of credit	(420,298)	162,413
Net cash provided by financing activities	347,437	403,257
Decrease in cash and cash equivalents	(66,531)	(225,674)
CASH AND CASH EQUIVALENTS		
Beginning	210,879	436,553
Ending	\$ 144,348	\$ 210,879
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 180,718	\$ 185,825
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment financed with debt/capital leases	\$ 58,400	\$ -

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

Feeding America Southwest Virginia and Subsidiary

Consolidated Statements of Functional Expenses

June 30, 2014 and 2013

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**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2014**

	2014			
	Program Services	Management and General	Fund Raising	Total
PERSONNEL				
Salaries	\$ 1,116,036	\$ 255,399	\$ 357,417	\$ 1,728,852
Payroll taxes	92,194	21,099	29,526	142,819
Fringe benefits	134,024	23,468	34,773	192,265
Total personnel	1,342,254	299,966	421,716	2,063,936
OTHER				
Cost of purchased food	578,222	-	-	578,222
Consultants and contract services	83,161	130,441	20,228	233,830
Travel	8,068	5,999	2,096	16,163
Occupancy	251,444	9,558	4,778	265,780
Materials and supplies	23,175	1,548	2,885	27,608
Postage and printing	3,566	2,115	168,769	174,450
Equipment expense	81,511	-	-	81,511
Depreciation	410,844	17,483	8,741	437,068
Telephone	47,007	2,000	1,000	50,007
General insurance	85,787	3,651	1,825	91,263
Dues and registrations	23,871	1,016	508	25,395
Trucking expenses	285,834	-	-	285,834
Promotion	15,806	673	336	16,815
Interest expense	169,875	7,229	3,614	180,718
Other costs	32,786	14,782	10,212	57,780
Total other	2,100,957	196,495	224,992	2,522,444
Total expenses	\$ 3,443,211	\$ 496,461	\$ 646,708	\$ 4,586,380

2013

Program Services	Management and General	Fund Raising	Total
\$ 1,283,150	\$ 237,244	\$ 337,764	\$ 1,858,158
105,684	19,540	27,819	153,043
157,792	29,175	41,536	228,503
<u>1,546,626</u>	<u>285,959</u>	<u>407,119</u>	<u>2,239,704</u>
589,179	-	-	589,179
112,936	74,192	6,033	193,161
12,534	2,149	1,000	15,683
306,032	11,687	5,846	323,565
44,896	366	183	45,445
5,655	221	194,750	200,626
121,820	-	-	121,820
382,597	2,500	2,500	387,597
48,819	2,077	1,039	51,935
76,759	3,266	1,633	81,658
25,328	2,064	559	27,951
288,222	-	-	288,222
12,594	6,297	6,297	25,188
173,050	7,364	3,682	184,096
51,410	14,019	11,679	77,108
<u>2,251,831</u>	<u>126,202</u>	<u>235,201</u>	<u>2,613,234</u>
<u>\$ 3,798,457</u>	<u>\$ 412,161</u>	<u>\$ 642,320</u>	<u>\$ 4,852,938</u>

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

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**

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 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 consolidated financial statements include the accounts of the Food Bank and its wholly-owned subsidiary, SWVAFB Property Corporation, which leased certain facilities and provided warehouse services to the Food Bank. The subsidiary was dissolved during 2014 and its assets transferred to the Food Bank. All material intercompany transactions have been eliminated in consolidation.

Basis of financial statement presentation and accounting:

The consolidated 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 consolidated 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. On June 30, 2014 the Food Bank had on deposit \$413,529 in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC).

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**

Note 1. Operations and Significant Accounting Policies (Continued)

Handling fees:

Although food is distributed to agencies at no cost, the Food Bank charges a handling fee to help offset storage and distribution costs. This revenue is recognized when food is distributed to the agency. The Food Bank does not charge 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 \$1.72 and \$1.69 as of June 30, 2014 and 2013, 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 is capitalized. Acquisitions are recorded at cost if purchased and at fair 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
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**

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 consolidated financial statements since the recognition criteria are not met. The Food Bank received over 34,000 volunteer hours from approximately 4,000 volunteers during 2014.

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.

Advertising 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 consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**

Note 1. Operations and Significant Accounting Policies (Continued)

Subsequent events:

Management has evaluated subsequent events through October 17, 2014, the date on which the financial statements were available for issue.

Note 2. Receivables

Receivables consist of the following:

	2014	2013
Due from member organizations	\$ 32,705	\$ 39,956
Unconditional promises to give	53,783	168,659
Payroll advance	200	-
	86,688	208,615
Less allowance for doubtful accounts	(1,713)	(1,713)
	\$ 84,975	\$ 206,902

Note 3. Inventory

Inventory consists of the following:

	2014	2013
Purchased	\$ 65,586	\$ 86,757
Donated	584,905	606,487
USDA commodities	120,404	335,047
	\$ 770,895	\$ 1,028,291

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**

Note 4. Property and Equipment

Property and equipment consist of the following:

	2014	2013
Buildings and other equipment	\$ 4,840,703	\$ 4,381,747
Vehicles	1,315,779	925,624
Equipment under capital lease	58,400	36,342
	6,214,882	5,343,713
Less accumulated depreciation	(2,278,397)	(1,869,688)
	3,936,485	3,474,025
Land	1,277,000	1,120,000
	\$ 5,213,485	\$ 4,594,025

Note 5. Lines of Credit

The Food Bank had two lines of credit with SunTrust Bank in 2013. Both lines were refinanced with Valley Bank during 2014. 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 was \$500,000 for 2014 and \$650,000 for 2013. Interest was at prime plus 1% (4.25%) for 2014 and 2013.

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**

Note 6. Long-Term Debt

Long-term debt consists of the following:

	2014	2013
Rural Housing Service (RHS) Abingdon Facility:		
Note payable, \$8,627 with interest at 4.5% monthly through 2049. Secured by real property and equipment.	\$ 1,815,045	\$ 1,836,370
Note payable, \$1,447 monthly with interest at 4.5% through 2017. Secured by equipment.	39,539	54,744
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. This was paid off in 2014.	-	1,584,000
Note payable, \$3,333 monthly with interest at the bank's prime rate plus 1% (4.25% at June 30, 2013). Secured by receivables, inventory and equipment. This was paid off in 2014.	-	130,000
Valley Bank Salem Facility:		
Note payable, interest at 4.5%, monthly payments of \$11,923 through 2020. Secured by real property.	2,107,512	-
Capital lease obligation for equipment, through 2015.	52,427	12,457
	4,014,523	3,617,571
Less current portion	(101,385)	(110,014)
	\$ 3,913,138	\$ 3,507,557

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**

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>
2015	\$ 101,385	\$ 12,088
2016	106,608	12,088
2017	103,269	12,088
2018	101,074	12,088
2019	99,532	12,088
2020 and thereafter	3,502,655	20,459
	<u>\$ 4,014,523</u>	<u>\$ 80,899</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 sinking fund deposits \$300,000. In connection with the refinancing in 2014, the SunTrust Bank sinking fund was applied to the related debt. The new debt requires a reserve fund in the amount of \$150,000.

Sinking funds consist of the following:

	<u>2014</u>	<u>2013</u>
RHS	\$ 39,989	\$ 27,901
Valley Bank	150,000	-
SunTrust Bank	-	300,000
	<u>\$ 189,989</u>	<u>\$ 327,901</u>

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 had a floating rate position. The swap effectively fixed the rate at 4.43%.

The estimated fair value of the swap agreement (see Note 10) is included in liabilities for 2013. The change in the fair value of the swap agreement is included in the change in net assets. The interest rate swap was terminated in 2014 with the refinance of the Salem facility loan.

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**

Note 7. Net Assets

Temporarily restricted net assets consist of the following:

	2014	2013
Property and equipment	\$ 327,000	\$ 340,000
Other specific purpose	-	42,000
Unconditional promises to give	53,783	168,659
	\$ 380,783	\$ 550,659

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, 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
Contributions/grants	300	-	300
Reinvested sales proceeds	-	6,948	6,948
June 30, 2014	\$ 27,700	\$ 72,550	\$ 100,250

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
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**

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 2014 and 2013, the Food Bank contributed \$13,687 and \$65,622 respectively, to the plan.

Note 9. Leases

Until 2014, the Food Bank leased 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. The lessor considered the rent a donation to the Food Bank which is recognized as an in-kind contribution. In 2014, the Food Bank received this 20% interest in the property as an in-kind contribution. The contribution was valued at \$570,000.

The Food Bank subleases unused warehouse and parking space to third parties on a short-term basis. Occupancy expense for 2014 and 2013 not including contributed rent, was \$86,484 and \$164,782 net of sublease rental income of \$19,384 and \$14,183, 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.

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014**

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 – Food Distribution Cluster:		
Food Commodities	10.569	\$ 1,632,178
Administrative Costs	10.568	351,070
Cluster Total		<u>1,983,248</u>
Virginia Child and Adult Care Food Program (operating costs)	10.558	185,759
Summer Food Service Program for Children	10.559	25,663
USDA – Community Facilities Loans and Grants	10.766	36,530
		<u>\$ 2,231,200</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, 2014 and 2013, the Food Bank had food commodities totaling \$120,404 and \$335,047, respectively, in inventory.



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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

To the Board of Directors
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, which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 17, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Feeding America Southwest Virginia and Subsidiary's internal control over financial reporting (internal control) 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 Feeding America Southwest Virginia and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Feeding America Southwest Virginia and Subsidiary'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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Feeding America Southwest Virginia and Subsidiary's consolidated financial statements are free from 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.

Dixon Hughes Goodman LLP

Roanoke, Virginia
October 17, 2014



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

***INDEPENDENT AUDITORS' 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 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 program for the year ended June 30, 2014. Feeding America Southwest Virginia and Subsidiary's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Feeding America Southwest Virginia and Subsidiary's major federal program 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 Feeding America Southwest Virginia and Subsidiary'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 the major federal program. However, our audit does not provide a legal determination of Feeding America Southwest Virginia and Subsidiary's compliance.

Opinion on Each Major Federal Program

In our opinion, the Food Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Feeding America Southwest Virginia and Subsidiary 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 Feeding America Southwest Virginia and Subsidiary'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 Feeding America Southwest Virginia and Subsidiary'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.

Dixon Hughes Goodman LLP

Roanoke, Virginia
October 17, 2014

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

1. The independent auditors' report expresses an unmodified opinion on the consolidated financial statements.
2. No significant deficiencies relating to the audit of the consolidated 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 consolidated financial statements were disclosed during the audit.

Federal Awards

1. No significant deficiencies relating to the audit of the major federal award program was reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance required by OMB Circular A-133.
2. The auditors' report on compliance for the major federal award program expresses an unmodified opinion on the major federal program.
3. The audit disclosed no audit findings relative to the major program.
4. The program tested as major is the Food Distribution Cluster:

10.569	USDA - Emergency Food Assistance Program (food commodities)
10.568	USDA - Emergency Food Assistance Program (administrative costs)
5. The threshold for distinguishing Types A and B programs was \$300,000.
6. 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

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

There were no findings reported in the previous year.

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

SCHEDULES OF FOOD RECEIVED AND DISTRIBUTED

For the Years Ended June 30, 2014 and 2013

Year Ended June 30, 2014	<u>Pounds</u>	<u>Dollars</u>
Beginning inventory	933,712	\$ 1,028,291
Donated food received	17,510,438	30,117,953
USDA commodities received	2,671,270	1,632,178
Purchased food	<u>842,321</u>	<u>570,851</u>
Total food available	<u>21,957,741</u>	<u>33,349,273</u>
Less food distributed and adjustments	<u>21,347,791</u>	<u>32,578,378</u>
Ending Inventory	<u><u>609,950</u></u>	<u><u>\$ 770,895</u></u>
Year Ended June 30, 2013		
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>