



FINANCIAL REPORT

JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statements of financial position of Feeding America Southwest Virginia (the "Food Bank") and Subsidiary, as of June 30, 2011 and 2010 and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Food Bank's management. 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Feeding America Southwest Virginia as of June 30, 2011 and 2010, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2011 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* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Food Bank 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 financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic 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 basis financial statements taken as a whole.

Anderson + Reed, LLP

Roanoke, Virginia
October 20, 2011

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010**

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 259,771	\$ 509,264
Receivables (Note 2)	361,337	210,508
Inventory (Note 3)	1,052,874	1,124,499
Total current assets	1,673,982	1,844,271
Sinking funds (Note 6)	203,725	102,865
Property and equipment, net (Note 4)	4,616,080	4,399,467
Other	11,384	15,524
Total assets	\$ 6,505,171	\$ 6,362,127
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 246,977	\$ 174,343
Accrued expenses	65,351	91,239
Line of credit (Note 5)	195,936	18,723
Current portion of long-term debt (Note 6)	80,228	59,800
Total current liabilities	588,492	344,105
Interest rate swap (Note 6)	203,472	243,337
Long-term debt (Note 6)	3,593,959	3,529,564
Total liabilities	4,385,923	4,117,006
Net assets		
Unrestricted	1,896,068	1,740,929
Temporarily restricted (Note 7)	143,607	504,192
Permanently restricted (Note 7)	79,573	-
Total net assets	2,119,248	2,245,121
Total liabilities and net assets	\$ 6,505,171	\$ 6,362,127

FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2011 and 2010

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND SUPPORT				
Contributions – monetary	\$ 1,807,045	\$ -	\$ 27,000	\$ 1,834,045
Contributions – in-kind	249,066	-	-	249,066
Grants	655,986	-	50,000	705,986
USDA reimbursements	435,335	-	-	435,335
Other handling fees	923,992	-	-	923,992
Sale of purchased food	141,755	7,719	2,573	152,047
Other	5,169	-	-	5,169
Net assets released from restrictions	368,304	(368,304)	-	-
Total revenues and support	4,586,652	(360,585)	79,573	4,305,640
EXPENSES				
Program expenses	3,160,616	-	-	3,160,616
Management and general	521,580	-	-	521,580
Fund-raising	669,182	-	-	669,182
Total expenses	4,351,378	-	-	4,351,378
Change in net assets before food activity and interest rate swap	235,274	(360,585)	79,573	(45,738)
DONATED FOOD ACTIVITY				
Donated food received	24,369,912	-	-	24,369,912
Donated food distributed and disposed	(24,489,912)	-	-	(24,489,912)
Net food activity	(120,000)	-	-	(120,000)
Unrealized gain (loss) on interest rate swap (Note 6)	39,865	-	-	39,865
Change in net assets	155,139	(360,585)	79,573	(125,873)
NET ASSETS				
Beginning	1,740,929	504,192	-	2,245,121
Ending	\$ 1,896,068	\$ 143,607	\$ 79,573	\$ 2,119,248

2010

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,386,514	\$ 133,114	\$ -	\$ 1,519,628
322,315	-	-	322,315
522,782	-	-	522,782
575,708	-	-	575,708
872,517	-	-	872,517
59,295	-	-	59,295
6,413	-	-	6,413
48,612	(48,612)	-	-
<u>3,794,156</u>	<u>84,502</u>	<u>-</u>	<u>3,878,658</u>
2,230,605	-	-	2,230,605
599,017	-	-	599,017
667,120	-	-	667,120
<u>3,496,742</u>	<u>-</u>	<u>-</u>	<u>3,496,742</u>
297,414	84,502	-	381,916
18,413,043	-	-	18,413,043
(18,557,989)	-	-	(18,557,989)
(144,946)	-	-	(144,946)
(35,155)	-	-	(35,155)
117,313	84,502	-	201,815
1,623,616	419,690	-	2,043,306
<u>\$ 1,740,929</u>	<u>\$ 504,192</u>	<u>\$ -</u>	<u>\$ 2,245,121</u>

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2011 and 2010**

	2011	2010
OPERATING ACTIVITIES		
Change in net assets	\$ (125,873)	\$ 201,815
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	303,092	235,556
Permanently restricted contributions and grants	(77,000)	-
In-kind contributions (other than food)	(9,395)	(85,635)
Unrealized (gain)loss on interest rate swap agreement	(39,865)	35,155
Loss on sale of property and equipment	2,894	1,375
Change in current assets and liabilities:		
Decrease (increase):		
Receivables	(150,829)	(40,503)
Inventory	71,625	109,757
(Decrease) increase:		
Accounts payable and accrued expenses	46,746	50,053
Net cash provided by operating activities	21,395	507,573
INVESTING ACTIVITIES		
Purchase of property and equipment	(360,800)	(75,050)
Proceeds from sale of property and equipment	1,378	900
Net cash used in investing activities	(359,422)	(74,150)
FINANCING ACTIVITIES		
Permanently restricted contributions and grants	77,000	-
Payments on long-term debt	(64,819)	(41,627)
Deposits to sinking fund	(100,860)	(102,865)
Net borrowings (payments) on line of credit	177,213	(114,532)
Net cash provided by (used in) financing activities	88,534	(259,024)
Increase (decrease) in cash and cash equivalents	(249,493)	174,399
CASH AND CASH EQUIVALENTS		
Beginning	509,264	334,865
Ending	\$ 259,771	\$ 509,264
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 181,891	\$ 151,543
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment financed with debt/capital leases	\$ 149,642	\$ 778,177

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2011 and 2010**

	2011			Total
	Program Services	Management and General	Fund Raising	
PERSONNEL				
Salaries	\$ 990,854	\$ 289,683	\$ 341,235	\$ 1,621,772
Payroll taxes	77,273	22,591	26,612	126,476
Fringe benefits	121,616	35,555	41,883	199,054
Total personnel	<u>1,189,743</u>	<u>347,829</u>	<u>409,730</u>	<u>1,947,302</u>
OTHER				
Cost of purchased food	421,637	-	-	421,637
Consultants and contract services	159,099	66,407	23,628	249,134
Travel	19,702	4,837	3,287	27,826
Occupancy	276,695	10,765	5,382	292,842
Materials and supplies	73,634	2,519	12,249	88,402
Postage and printing	30,427	15,524	172,975	218,926
Equipment expense	104,655	4,040	-	108,695
Depreciation	284,906	12,124	6,062	303,092
Telephone	43,843	1,866	933	46,642
General insurance	69,638	2,963	1,482	74,083
Dues and registrations	26,536	1,129	565	28,230
Trucking expenses	236,600	-	-	236,600
Promotion	30,014	15,007	15,007	60,028
Interest expense	155,540	6,619	3,309	165,468
Other costs	37,947	29,951	14,573	82,471
Total other	<u>1,970,873</u>	<u>173,751</u>	<u>259,452</u>	<u>2,404,076</u>
Total expenses	<u>\$ 3,160,616</u>	<u>\$ 521,580</u>	<u>\$ 669,182</u>	<u>\$ 4,351,378</u>

2010

Program Services	Management and General	Fund Raising	Total
\$ 726,862	\$ 252,093	\$ 353,799	\$ 1,332,754
61,300	20,626	28,391	110,317
98,913	34,483	48,095	181,491
<u>887,075</u>	<u>307,202</u>	<u>430,285</u>	<u>1,624,562</u>
245,908	-	-	245,908
99,846	106,316	56,680	262,842
6,690	3,088	12,352	22,130
316,845	12,748	6,373	335,966
17,685	14,543	80	32,308
779	6,426	117,028	124,233
76,477	14,619	4,699	95,795
221,423	9,422	4,711	235,556
13,935	15,926	9,954	39,815
41,353	31,579	2,256	75,188
-	23,980	6,511	30,491
157,011	-	-	157,011
-	-	-	-
140,230	18,720	2,984	161,934
5,348	34,448	13,207	53,003
<u>1,343,530</u>	<u>291,815</u>	<u>236,835</u>	<u>1,872,180</u>
<u>\$ 2,230,605</u>	<u>\$ 599,017</u>	<u>\$ 667,120</u>	<u>\$ 3,496,742</u>

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010**

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
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010**

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 federal commodities are received.

Subsequent to year end, the Food Bank typically receives funds from the USDA for handling costs in addition to those reflected at year end. Amounts received are based on funds available at the Federal level and cannot be reasonably estimated. Consequently, the Food Bank records these amounts as revenue when received.

Inventory:

Donated food inventories are stated at the nationally calculated average price per pound of \$1.66 and \$1.60 as of June 30, 2011 and 2010, 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 \$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, forklift	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, 2011 and 2010

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 19,000 volunteer hours from over 2,900 volunteers during 2011.

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 the subsidiary 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
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010**

Note 1. Operations and Significant Accounting Policies (Continued)

Reclassifications:

Certain prior period amounts have been reclassified to conform with current period presentation. These reclassifications had no effect on total net assets.

Subsequent events:

Management has evaluated subsequent events through October 20, 2011, the date which the financial statements were available for issue.

Note 2. Receivables

Receivables consist of the following:

	2011	2010
Due from member organizations	\$ 94,468	\$ 45,866
Contributions	26,909	24,959
USDA reimbursements	243,722	144,270
	365,099	215,095
Less allowance for doubtful accounts	3,762	4,587
	\$ 361,337	\$ 210,508

Note 3. Inventory

Inventory consists of the following:

	2011	2010
Purchased	\$ 86,141	\$ 58,090
Donated	680,900	1,013,184
USDA commodities	285,833	53,225
	\$ 1,052,874	\$ 1,124,499

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010**

Note 4. Property and Equipment

Property and equipment consist of the following:

	2011	2010
Buildings and other equipment	\$ 3,878,507	\$ 3,589,037
Vehicles	715,323	492,200
Equipment under capital lease	36,342	36,342
	4,630,172	4,117,579
Less accumulated depreciation	(1,134,092)	(838,112)
	3,496,080	3,279,467
Land	1,120,000	1,120,000
	\$ 4,616,080	\$ 4,399,467

Note 5. Line of Credit

The Food Bank has a line of credit payable on demand in the amount of \$325,000 with SunTrust Bank. Interest is payable at the bank's prime rate which was 3.25% at June 30, 2011 and 2010. The line is secured by a first credit line deed of trust and a blanket lien on all assets of the Food Bank.

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010**

Note 6. Long-Term Debt

Long-term debt consists of the following:

	2011	2010
Rural Housing Service (RHS) Abingdon Facility:		
Note payable, interest only through April, 2011 at 4.5%. Thereafter payable \$8,627 monthly through 2049. Secured by real property and equipment.	\$ 1,876,241	\$ 1,679,491
Note payable, \$1,447 monthly with interest at 4.5% through 2017. Secured by equipment.	36,245	101,882
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 March 2014. An interest rate swap fixes the rate. Secured by real property.	1,656,000	1,692,000
Note payable, interest at 4.13%, paid annually, principal due December 2012. Secured by a vehicle.	75,000	75,000
Capital lease obligation for equipment, through 2015.	30,701	40,991
	3,674,187	3,589,364
Less current portion	80,228	59,800
	\$ 3,593,959	\$ 3,529,564

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

Fiscal Year Ended	Long-term Debt	Sinking Funds	
		SunTrust	RHS
2012	\$ 80,228	\$ 100,000	\$ 12,088
2013	157,775	100,000	12,088
2014	1,619,275	100,000	10,641
2015	24,175	-	10,352
2016	23,328	-	10,352
2017 and thereafter	1,769,406	-	50,039
	\$ 3,674,187	\$ 300,000	\$ 105,560

(Continued)

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010**

Note 6. Long-Term Debt (Continued)

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 requires annual sinking fund deposits of \$100,000 until total deposits reach \$500,000.

Sinking funds consist of the following:

	2011	2010
RHS	\$ 3,725	\$ 289
SunTrust Bank	200,000	102,576
	\$ 203,725	\$ 102,865

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 agreements (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.

Note 7. Net Assets

Temporarily restricted net assets consist of the following:

	2011	2010
Kids Café	\$ -	\$ 33,929
USDA fund for freezer repair	-	144,966
Roanoke/Abingdon campaign gifts	119,848	277,838
Other specific purpose	-	22,500
Unconditional promises to give	23,759	24,959
	\$ 143,607	504,192

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010**

Note 7. Net Assets (Continued)

A reclassification of \$102,865 from temporarily restricted contributions to unrestricted contributions was reflected in the 2010 statement of activities to more appropriately comply with the Food Bank's policy regarding restricted contributions received and expended within the same period. This reclassification does not impact total net assets.

Permanently restricted net assets consist of the following:

	Pamela Irvine Endowment	Revolving Food Fund	Total Permanently Restricted Net Assets
Permanently restricted net assets, July 1, 2010	\$ -	\$ -	\$ -
Contributions/grants	27,000	50,000	77,000
Reinvested sales proceeds	-	2,573	2,573
	\$ 27,000	\$ 52,573	\$ 79,573
Permanently restricted net assets, June 30, 2011			

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 sales amount is required to be permanently added to the fund.

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 2011 and 2010, the Food Bank contributed \$80,410 and \$93,257, 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 the years ended June 30, 2011 and 2010, not including contributed rent, was \$182,544 and \$170,279 net of sublease rental income of \$62,668 and \$53,137, respectively.

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010**

Note 10. Fair Value of Financial Investments

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, 2011**

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	\$ 2,683,018
Administrative Costs	10.568	332,633
Food Commodities – ARRA	10.569	342,586
Administrative Costs – ARRA	10.568	173,402
Virginia Child and Adult Care Food Program (operating costs)	10.558	250,806
Summer Feeding Program Foods	10.559	502
USDA – Community Facilities Loans and Grants	10.766	149,642
		<u>\$ 3,932,589</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 market value of the commodities received and distributed. At June 30, 2011 and 2010, the Food Bank had food commodities totaling \$285,833 and \$53,225, respectively, in inventory.

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J. DAVID WRIGHT
MICHAEL R. BELL

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 the consolidated financial statements of Feeding America Southwest Virginia and Subsidiary (the "Food Bank") as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated October 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Food Bank's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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 that are required to be reported under *Government Auditing Standards*.**

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

Anden + Reed, LLP

Roanoke, Virginia
October 20, 2011

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

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

Compliance

We have audited the compliance of Feeding America Southwest Virginia and Subsidiary's (Food Bank) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (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, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants that could have a direct and material effect on its major federal programs is the responsibility of the Food Bank's management. Our responsibility is to express an opinion on the Food Bank'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 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. Our audit does not provide a legal determination on the Food Bank's compliance with those requirements.

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, 2011.

Internal Control over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Food Bank'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 Food Bank's internal control over compliance.

Internal Control over Compliance (Continued)

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

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

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

Anders + Reed, LLP

Roanoke, Virginia
October 20, 2011

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

SCHEDULES OF FOOD RECEIVED AND DISTRIBUTED

For the Years Ended June 30, 2011 and 2010

Year Ended June 30, 2011	<u>Pounds</u>	<u>Dollars</u>
Beginning inventory	821,887	\$ 1,124,499
Donated food received	12,851,206	21,333,002
USDA commodities received	4,870,799	3,036,910
Purchased food	<u>651,416</u>	<u>470,012</u>
Total food available	<u>19,195,308</u>	<u>25,964,423</u>
Less food distributed and adjustments	<u>18,088,830</u>	<u>24,911,549</u>
Ending Inventory June 30, 2011	<u><u>1,106,478</u></u>	<u><u>\$ 1,052,874</u></u>
Year Ended June 30, 2010		
Beginning inventory	915,064	\$ 1,234,257
Donated food received	9,525,020	15,240,032
USDA commodities received	4,449,216	3,173,011
Purchased food	<u>366,326</u>	<u>281,096</u>
Total food available	<u>15,255,626</u>	<u>19,928,396</u>
Less food distributed and adjustments	<u>14,433,739</u>	<u>18,803,897</u>
Ending inventory	<u><u>821,887</u></u>	<u><u>\$ 1,124,499</u></u>

**FEEDING AMERICA SOUTHWEST VIRGINIA
AND SUBSIDIARY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified 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 with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
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 (administrative 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.