



Financial Statements and Supplementary Information
Year Ended June 30, 2015 with Comparative Totals for 2014, and
Independent Auditors' Report

Foodbank of Southeastern Virginia

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Foodbank of Southeastern Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Foodbank of Southeastern Virginia (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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.

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 financial statements are free from 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 financial statements referred to above present fairly, in all material respects, the financial position of Foodbank of Southeastern Virginia as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2015, on our consideration of Foodbank of Southeastern Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Foodbank of Southeastern Virginia's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Foodbank of Southeastern Virginia's 2014 financial statements, and our report dated September 26, 2014, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dixon Hughes Goodman LLP

*Norfolk, Virginia
October 2, 2015*

Foodbank of Southeastern Virginia

Statement of Financial Position

June 30, 2015 with Comparative Totals for 2014	2015	2014
Assets		
Cash and cash equivalents	\$ 4,342,482	\$ 4,497,443
Accounts receivable - net of allowance for uncollectible accounts	27,585	39,754
United Way and other receivables	660,755	634,558
Investments	1,951,743	1,703,741
Beneficial interest in assets held by others	58,942	59,401
Inventory		
USDA food	176,887	255,502
Donated food	387,069	565,127
Purchased food	299,752	309,439
Thrift store merchandise	97,590	94,642
Prepaid expenses	110,985	145,218
Property and equipment	4,437,027	4,745,218
Total assets	\$ 12,550,817	\$ 13,050,043
Liabilities and Net Assets		
Accounts payable	\$ 138,440	\$ 275,338
Accrued payroll and payroll taxes	301,689	212,123
Capital lease obligation	112,126	138,406
Security deposit	3,991	3,991
Total liabilities	556,246	629,858
Net assets		
Unrestricted	11,083,703	11,504,127
Temporarily restricted	661,126	666,316
Permanently restricted	249,742	249,742
Total net assets	11,994,571	12,420,185
Total liabilities and net assets	\$ 12,550,817	\$ 13,050,043

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

Foodbank of Southeastern Virginia

Statement of Activities

Year Ended June 30, 2015 with Comparative Totals for 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
Revenue, support and other changes					
Sales to Agencies	\$ 399,370	\$ -	\$ -	\$ 399,370	\$ 353,174
Less - food purchases	(502,161)	-	-	(502,161)	(529,308)
Gross loss	(102,791)	-	-	(102,791)	(176,134)
Contributions	2,144,842	756,429	-	2,901,271	3,038,694
Grants	636,706	868,130	-	1,504,836	1,725,359
Special events revenue - net of expenses	866,409	11,489	-	877,898	828,802
Program fees	283,961	-	-	283,961	323,894
USDA handling fees	126,769	-	-	126,769	137,250
United Way support	32,692	316,378	-	349,070	338,272
Donated goods and services	8,760	-	-	8,760	18,124
Thrift store sales - net of purchases	155,313	-	-	155,313	138,793
Realized and unrealized gains/(losses) - net	(15,365)	(8,276)	-	(23,641)	206,971
Rental income	96,566	-	-	96,566	95,814
Dividends and interest	50,329	13,664	-	63,993	48,799
Other revenue	23,200	-	-	23,200	19,163
Gain on disposal of property and equipment	-	-	-	-	2,447
Net assets released from restrictions	4,307,391	1,957,814	-	6,265,205	6,746,248
	1,963,004	(1,963,004)	-	-	-
Total revenues, gains, and other support	6,270,395	(5,190)	-	6,265,205	6,746,248
Expenses					
Program services	4,167,158	-	-	4,167,158	4,058,231
Fundraising	1,274,351	-	-	1,274,351	1,359,843
Depreciation expense	480,505	-	-	480,505	482,233
Management and general	432,508	-	-	432,508	340,007
	6,354,522	-	-	6,354,522	6,240,314
Increase in net assets before donated food transactions	(84,127)	(5,190)	-	(89,317)	505,934
Donated food received	27,392,021	-	-	27,392,021	25,163,453
Donated food distributed	(27,659,183)	-	-	(27,659,183)	(25,226,290)
Inventory adjustments	(69,135)	-	-	(69,135)	(140,017)
Net donated food transactions	(336,297)	-	-	(336,297)	(202,854)
Change in net assets	(420,424)	(5,190)	-	(425,614)	303,080
Net assets - beginning of year	11,504,127	666,316	249,742	12,420,185	12,117,105
Net assets - end of year	\$ 11,083,703	\$ 661,126	\$ 249,742	\$ 11,994,571	\$ 12,420,185

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

Foodbank of Southeastern Virginia

Statement of Functional Expenses

Year Ended June 30, 2015 with Comparative Totals for 2014

	Program Services	Management and General	Fundraising	Total 2015	Total 2014
Personnel expense					
Salaries and wages	\$ 1,592,516	\$ 236,503	\$ 433,538	\$ 2,262,557	\$ 2,237,880
Employee benefits	392,225	37,134	85,935	515,294	447,253
Payroll taxes	122,756	13,833	33,025	169,614	167,130
Total personnel expense	2,107,497	287,470	552,498	2,947,465	2,852,263
Program supplies	1,205,092	-	414	1,205,506	1,299,645
Fundraising	-	-	405,746	405,746	411,946
Occupancy	249,364	5,286	21,316	275,966	291,919
Professional fees	117,307	71,055	56,517	244,879	102,201
Transportation and freight	244,085	-	-	244,085	217,652
Office and computer supplies	54,652	15,902	41,766	112,320	106,728
Printing and advertising	2,026	371	102,482	104,879	129,383
Insurance	68,134	4,945	13,333	86,412	81,087
Bank charges	752	16,878	50,950	68,580	50,246
Equipment maintenance	35,364	1,977	-	37,341	43,176
Staff development	15,298	14,641	5,071	35,010	56,911
Telephone	26,086	2,146	4,534	32,766	34,797
Membership dues	16,609	3,181	6,460	26,250	30,736
Travel	15,065	711	2,758	18,534	18,581
Postage	3,770	673	10,406	14,849	15,204
Interest	62	7,023	-	7,085	4,405
Uniforms	5,803	205	86	6,094	8,099
Miscellaneous	192	44	14	250	3,102
Total expenses before depreciation	4,167,158	432,508	1,274,351	5,874,017	5,758,081
Depreciation	480,505	-	-	480,505	482,233
Total expenses, excluding donated food	4,647,663	432,508	1,274,351	6,354,522	6,240,314
Donated food transactions					
Donated food received	27,392,021	-	-	27,392,021	25,163,453
Donated food distributed	(27,659,183)	-	-	(27,659,183)	(25,226,290)
Inventory adjustments	(69,135)	-	-	(69,135)	(140,017)
Net donated food transactions	(336,297)	-	-	(336,297)	(202,854)
Total expenses	\$ 4,983,960	\$ 432,508	\$ 1,274,351	\$ 6,690,819	\$ 6,443,168

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

Foodbank of Southeastern Virginia

Statement of Cash Flows

Year Ended June 30, 2015 with Comparative Totals for 2014	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (425,614)	\$ 303,080
Adjustments to reconcile to net cash from operating activities:		
Donated food received, distributed and undistributable - net	256,673	(18,928)
Depreciation	480,505	482,233
Reinvestment of earnings on investments	(49,322)	(38,501)
Net realized and unrealized gains/(losses) on investments	23,641	(206,971)
Gain on disposal of property and equipment		(2,447)
Change in:		
Accounts and grants receivable	(14,028)	59,703
Purchased food inventory	9,687	56,513
Thrift store inventory - net	(2,948)	(18,581)
Prepaid expenses	34,233	(58,429)
Accounts payable	(136,898)	13,180
Accrued payroll and payroll taxes	89,566	(43,222)
Net cash from operating activities	<u>265,495</u>	<u>527,630</u>
Cash flows from investing activities		
Purchase of property and equipment	(172,314)	(260,066)
Proceeds from sale of property and equipment	-	2,447
Proceeds from sale of investments and transfers to operating cash	234,558	204,920
Purchase of investments	(456,420)	(178,283)
Net cash used in investing activities	<u>(394,176)</u>	<u>(230,982)</u>
Cash flows from financing activities		
Capital lease payments	(26,280)	(20,445)
Net change in cash and cash equivalents	(154,961)	276,203
Cash and cash equivalents - beginning of year	<u>4,497,443</u>	<u>4,221,240</u>
Cash and cash equivalents - end of year	<u>\$ 4,342,482</u>	<u>\$ 4,497,443</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 6,094	\$ 4,405
Supplemental disclosure of noncash activities		
Equipment financed through a lease - net	\$ -	\$ 101,012
Noncash food donations	\$ 27,392,021	\$ 25,163,453

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

Foodbank of Southeastern Virginia

Notes to Financial Statements

June 30, 2015 with Comparative Totals for 2014

1. Organization and Nature of Activities

Foodbank of Southeastern Virginia (Foodbank) was organized and incorporated in March 1981 for the purpose of collecting and distributing food to nonprofit organizations, which provide for the ill, the needy, and infants at no cost, in the South Hampton Roads area of Virginia. Its activities also include the Foodbank and Thrift Store on Virginia's Eastern Shore, Justine's Clothes Bank, the Mobile Pantry program, the BackPack Program, and Kids Cafe®, a program of Feeding America. The Foodbank promotes food recovery; acquires and distributes food, clothing and related products; and provides community leadership and education on issues of hunger and poverty. The Foodbank's mission is "Leading the effort to eliminate hunger in our community."

The Foodbank was granted tax-exempt status on March 17, 1981 under Internal Revenue Code Section 501(c)(3) and, accordingly, does not pay federal or state income taxes on its increase in net assets. For income tax purposes, in-kind as well as monetary donations to the Foodbank are eligible for the charitable contribution deduction by the donor, subject to relevant provisions of the Code.

The Foodbank's operations include the following programs:

Food Distribution Programs - South Hampton Roads and Eastern Shore - The Food Distribution Programs solicit donated food from food producers, retailers, and individuals. The food is sorted and stored until distributed to member agencies of the Foodbank, who then distribute the food, at no charge, to needy individuals and families. A shared maintenance fee may be charged to the member agencies to help offset expenses incurred in the collection, storage, and distribution of the food. The Food Rescue Program is an effort to collect prepared and perishable food from area grocery stores, restaurants, hotels, caterers, country clubs, and hospitals to distribute immediately to the hungry at on-site feeding agencies.

The Emergency Food Assistance Program (TEFAP) - The Foodbank has contracted with the Virginia Department of Agriculture and Consumer Services (VDACS) to participate in The Emergency Food Assistance Program administered by the U.S. Department of Agriculture (USDA). The objective of the TEFAP program is to provide USDA commodities to low-income households for consumption and to provide hot meals prepared from USDA commodities to needy persons in congregated settings. The Foodbank receives USDA commodities from VDACS and has subcontracted with numerous emergency feeding organizations, usually religious organizations and other not-for-profit organizations, to distribute the food. In addition, Foodbank staff conducts mass distributions in some locales based upon need. All recipients of these federal commodities are required to sign self-declaration of income forms to verify eligibility. This program is included in donated food transactions in the accompanying statement of activities.

Mobile Pantry Program - This new system of distribution serves food to our neediest communities, while coordinating with our partner agencies and other social service organizations to determine delivery locations. This program provides food to individuals who either could not travel to an agency, or their local agency was at-capacity.

BackPack Program - BackPack Program is a nationally-recognized program that distributes nutritious food to children at the end of the school day, before weekends and/or school breaks. Students are identified by school personnel as being food insecure by a variety of criteria.

Kids Cafe - Kids Cafe is a national program founded by Feeding America, a national domestic hunger relief organization and food bank network, to solve a nationwide problem of child hunger. The Foodbank and various agencies of South Hampton Roads have joined together to provide children with a free nutritious evening meal in a safe and supportive environment.

Justine's Clothes Bank - The Clothes Bank provides vouchers to needy individuals to be used for the purchase of new clothing and shoes. It is partially supported by the earnings from a permanently restricted endowment fund established for this purpose.

Eastern Shore Thrift Store - The Foodbank on Virginia's Eastern Shore operates a thrift store in which donated merchandise is sold. This program also provides free goods for families in emergencies. The Thrift Store helps to support the Eastern Shore Food Distribution Program.

2. **Summary of Significant Accounting Policies**

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foodbank's financial statements for 2014, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

The Foodbank is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The classes of net assets are described as follows:

Unrestricted amounts are those currently available at the discretion of the Foodbank's Board of Directors for use in the Foodbank's operations.

Temporarily restricted amounts are limited by donor imposed time restrictions or purpose restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions are reported as unrestricted support if the restrictions are met in the same reporting period.

Permanently restricted amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

Public Support and Revenue

Contributions are generally available for unrestricted use unless specifically restricted by the donor. Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

The Foodbank recognizes revenue from various governmental localities when the award notice has been received.

Cash Equivalents

The Foodbank considers all highly liquid debt securities purchased with an original maturity of twelve months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Accounts receivable represent amounts due from various agencies under the Foodbank's shared maintenance fee program. Based on management's assessment of the credit history with clients having outstanding balances and current relationships with them, management provides for probable uncollectible accounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivables previously written off are recorded when received. For the years ended June 30, 2015 and 2014, management has established an allowance for uncollectible accounts of \$3,065 and \$4,417, respectively.

United Way and Other Receivables

United Way and other receivables are stated at the amount management expects to collect from balances outstanding at year-end. These receivables represent amounts due from United Way and other agencies, corporations and foundations. Management believes that all of these receivables are fully collectible; therefore, no provision for doubtful accounts has been made. Receivables are recorded at their net realizable value, using risk adjusted interest rates applicable to the years in which the amounts are expected to be received to discount the amounts to present value.

Property and Equipment

Acquisitions of property and equipment are recorded at cost. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of activities. The Foodbank's policy is to capitalize property and equipment purchased with a cost of \$1,000 or greater. Depreciation is provided by the straight-line method over estimated useful lives of each class of depreciable assets as follows:

Buildings and improvements	5 - 40 years
Office equipment and computer software	3 - 5 years
Warehouse equipment	5 - 10 years
Vehicles	5 years

Investments and Beneficial Interest in Assets Held by Others

Investments in certificates of deposits with maturities greater than twelve months and marketable securities with readily determinable fair values are recorded at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

Beneficial interest in assets held by others are investments that are recorded at their fair value in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

Inventory

USDA food inventory and food received, distributed and undistributable are stated at the value determined by the USDA for each commodity item on an annual basis. The commodity values are obtained from the USDA website which is considered to be a reasonable basis upon which to estimate these amounts. Inventory purchased by the Foodbank is recorded at cost and is charged to operations using the first-in, first-out method.

Non-USDA donated food inventory and donated food received, distributed and undistributable are stated at estimated fair value determined by reference to a study commissioned by Feeding America. That study presents the average wholesale value of products donated to the network and is considered to be a reasonable basis upon which to estimate these amounts. For the years ended June 30, 2015 and 2014, the average wholesale value of products per this study was \$1.70 and \$1.72 per pound, respectively. Undistributable food for the years ended June 30, 2015 and 2014 was \$441,267 and \$781,025, respectively, and is netted against donated food received.

Merchandise inventory at the Eastern Shore Thrift Store is recorded at its estimated fair value. The increase or decrease in this inventory is presented as contributions in the accompanying statement of activities.

Functional Expenses

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

Advertising Costs

The Foodbank expenses advertising costs as they are incurred. Advertising expense was \$90,958 and \$115,951 for 2015 and 2014, respectively.

Estimates

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

Donated Services

The Foodbank utilizes a substantial amount of volunteer and subsidized labor in its daily operations. The availability of such cost-free and reduced-cost labor has allowed the Foodbank to expand its programs and services beyond what might otherwise have been possible. The Foodbank does not recognize contributed labor as revenue because these services do not meet the accounting standards for recognition.

Concentrations and Credit Risk

Financial instruments which potentially subject the Foodbank to concentration of credit risk consist principally of cash and cash equivalents, investments, and accounts receivable. The Foodbank places its cash and cash equivalents and investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. Cash and cash equivalents exceeding the federally insured limits were approximately \$1,515,000 and \$1,569,000 at June 30, 2015 and 2014. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of grantors comprising the Foodbank's grant base.

The Foodbank received approximately 68% and 57% of its donated food products directly or indirectly from Feeding America for the years ended June 30, 2015 and 2014, respectively.

Income Taxes

The Foodbank is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and the statutes of the Commonwealth of Virginia; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Foodbank has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2015. Fiscal years ending on or after June 30, 2012 remain subject to examination by federal and state tax authorities.

Subsequent Events

In preparing these financial statements, the Foodbank has evaluated events and transactions for potential recognition or disclosure through October 2, 2015, the date the financial statements were available to be issued.

3. Investments and Beneficial Interest in Assets Held by Others

The Foodbank has an agency fund held by the United Way of South Hampton Roads Foundation (UWSHRF). The Foodbank retains variance power for these funds and can withdraw them at any time.

Investments, including beneficial interest in assets held by others, are summarized as follows:

	2015		
	Cost	Fair Value	Unrealized Gain
Certificates of deposit (long-term)	\$ 206,708	\$ 206,708	\$ -
Mutual funds	596,325	666,840	70,515
Common stock	820,510	1,078,195	257,685
Beneficial interest in assets held by others	35,078	58,942	23,864
Total investments	<u>\$ 1,658,621</u>	<u>\$ 2,010,685</u>	<u>\$ 352,064</u>

The following schedule summarizes the investment return in the statement of activities for 2015:

Interest and dividends	\$ 63,993
Net unrealized/realized losses	<u>(23,641)</u>
Total investment return	<u>\$ 40,352</u>

	2014		
	Cost	Fair Value	Unrealized Gain
Mutual funds	\$ 539,764	\$ 656,434	\$ 116,670
Common stock	769,421	1,047,307	277,886
Beneficial interest in assets held by others	35,078	59,401	24,323
Total investments	<u>\$ 1,344,263</u>	<u>\$ 1,763,142</u>	<u>\$ 418,879</u>

The following schedule summarized the investment return in the statement of activities for 2014:

Interest and dividends	\$ 48,799
Net unrealized/realized gains	<u>206,971</u>
Total investment return	<u>\$ 255,770</u>

4. United Way and Other Receivables

United Way and other receivables are as follows:

	<u>2015</u>	<u>2014</u>
Due in less than one year	\$ 633,492	\$ 625,470
Due in one to five years	30,000	10,000
Total United Way and other receivables	<u>663,492</u>	<u>635,470</u>
Less - discounts to net present value	<u>(2,737)</u>	<u>(912)</u>
Net United Way and promises to give receivable	<u>\$ 660,755</u>	<u>\$ 634,558</u>

For 2015 and 2014, discount rate used on long-term promises to give was between 3.17% and 3.24%.

5. Property and Equipment

Major classes of property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Land and construction in progress	\$ 240,640	\$ 314,476
Buildings and improvements	5,846,175	5,739,122
Office equipment and computer software	628,377	628,377
Warehouse equipment	760,501	709,829
Vehicles	<u>1,311,503</u>	<u>1,223,079</u>
	8,787,196	8,614,883
Less - accumulated depreciation	<u>(4,350,169)</u>	<u>(3,869,665)</u>
	<u>\$ 4,437,027</u>	<u>\$ 4,745,218</u>

Included in land and construction in progress at June 30, 2014 was \$73,836 in construction in progress, which consisted of facility and building costs not fully completed at year-end. Facility and building costs were transferred to buildings and improvements during 2015, when the work was completed.

6. Capital Leases

Capital lease obligations are summarized as follows:

	<u>2015</u>	<u>2014</u>
Monthly payments of \$2,769 including interest at 4.75% through fiscal year 2019, secured by copy machines	<u>\$ 112,126</u>	<u>\$ 138,406</u>

Interest expense charged to operations related to these capital leases for 2015 and 2014 was \$6,111 and \$3,192, respectively.

Future minimum lease payments are as follows:

2016	\$	33,223
2017		33,223
2018		33,223
2019		22,779
		<u>122,448</u>
Less - imputed interest		<u>(10,322)</u>
Present value of net minimum lease payments		112,126
Less - current portion		<u>(28,513)</u>
Long-term portion	\$	<u>83,613</u>

7. Lease Obligations

The Foodbank's rental income is received under three operating leases for a portion of its facility, which expire in fiscal year 2016. Total future rental income on the operating lease is \$3,000.

Various items of equipment are leased on an as-needed basis, primarily for use in transporting food. There are no long-term commitments associated with such leases.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Foodbank programs	\$ 611,362	\$ 620,556
Justine's Clothes Bank	49,764	45,760
	<u>\$ 661,126</u>	<u>\$ 666,316</u>

Temporarily restricted net assets included contributions to the Sukoff Memorial Fund. These temporarily restricted net assets were \$28,277 for 2015 and 2014.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2015</u>	<u>2014</u>
Foodbank programs	\$ 1,189,835	\$ 1,570,739
BackPack and Kids Café Programs	759,505	817,602
Justine's Clothes Bank	13,664	7,940
	<u>\$ 1,963,004</u>	<u>\$ 2,396,281</u>

9. Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions to Justine's Clothes Bank fund. Contributions are permanently invested and the earnings are temporarily restricted to be used to support the operations of Justine's Clothes Bank. At June 30, 2015 and 2014, these permanently restricted net assets were \$249,742.

10. Retirement Plan

The Foodbank sponsors 401(a) and 403(b) plans covering substantially all employees who had attained age 21, been employed for at least one year, and who worked a minimum of 1,000 hours annually. Employee contributions are matched up to the first 5% of their compensation. In addition, a discretionary contribution may be made by the Foodbank at the end of the fiscal year upon approval by the Board of Directors. These plans were restated July 1, 2009 to comply with the new 403(b) ERISA requirements. The employer match is now being deposited into the 403(b) plan due to this restatement. Total costs under these plans for 2015 and 2014 was \$91,389 and \$93,853, respectively.

11. Fundraising Events

The Foodbank conducts or is the recipient of several annual fundraising events as follows:

"Taste of Hampton Roads" and "Taste of Eastern Shore" raises funds through sponsorships, auction sales and ticket sales. Local chefs and restaurants donate their talent, time and specialties to this event. Expenses include banquet charges, licenses and advertising.

"Legal Food Frenzy" is an event that is sponsored by the Norfolk and Portsmouth Bar Association. Law professionals donate their time to collect cash and nonperishable food donations. The event is held for two weeks in March or April.

"Mayflower Marathon" is an event promoted by local radio stations requesting listeners to donate cash and canned food to the Foodbank. The Foodbank incurs minimal costs associated with this event.

The results of these and other fundraising events conducted during 2015 and 2014 are summarized as follows:

	2015		
	Gross Revenues	Gross Expenses	Net Profit
Food and Fund Drives	\$ 195,148	\$ 223	\$ 194,925
Taste of Hampton Roads	380,360	213,833	166,527
Cause Marketing	276,027	125	275,902
Mayflower Marathon	106,839	6,725	100,114
Legal Food Frenzy	100,119	12,193	87,926
All Other Events	68,608	16,104	52,504
Total special events	\$ 1,127,101	\$ 249,203	\$ 877,898

	2014		
	Gross Revenues	Gross Expenses	Net Profit
Food and Fund Drives	\$ 212,441	\$ 669	\$ 211,772
Taste of Hampton Roads	365,463	143,694	221,769
Cause Marketing	181,957	-	181,957
Mayflower Marathon	114,976	13,332	101,644
Legal Food Frenzy	86,233	10,938	75,295
All Other Events	41,630	13,728	27,902
Taste of Eastern Shore	8,463	-	8,463
Total special events	\$ 1,011,163	\$ 182,361	\$ 828,802

12. United Way Fundraising Costs

The Foodbank's proportionate share of the United Way of South Hampton Roads' fundraising costs in 2015 and 2014 was \$27,514 and \$30,324, respectively.

13. Fair Value Measurements

The Foodbank defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. Accounting standards establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Current accounting standards expands disclosures about instruments measured at fair value and applies to the other accounting pronouncements that require or permit fair value measurements.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that the Foodbank has the ability to access.
Level 2	Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, 2015, by caption on the statement of financial position by the valuation hierarchy defined previously:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 206,708	\$ -	\$ -	\$ 206,708
Mutual funds				
Fixed income	214,431	-	-	214,431
Equity	452,409	-	-	452,409
Exchange Traded Funds				
Domestic sector funds	413,870	-	-	413,870
Bond funds	217,201	-	-	217,201
Blended funds	320,136	-	-	320,136
Foreign markets	126,988	-	-	126,988
Beneficial interest in assets held by others	-	-	58,942	58,942
	\$ 1,951,743	\$ -	\$ 58,942	\$ 2,010,685

The following table presents the financial instruments carried at fair value as of June 30, 2014, by caption on the statement of financial position by the valuation hierarchy defined previously:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Fixed income	\$ 145,899	\$ -	\$ -	\$ 145,899
Equity	510,535	-	-	510,535
Exchange Traded Funds				
Domestic sector funds	372,625	-	-	372,625
Bond funds	265,885	-	-	265,885
Blended funds	299,228	-	-	299,228
Foreign markets	109,569	-	-	109,569
Beneficial interest in assets held by others	-	-	59,401	59,401
	<u>\$ 1,703,741</u>	<u>\$ -</u>	<u>\$ 59,401</u>	<u>\$ 1,763,142</u>

Fair value for Level 3 primarily consists of the funds invested in an agency fund managed by the United Way of South Hampton Roads Foundation. These pooled funds consist of equities and other securities that have active markets as well as alternative investments that do not have readily determinable fair values. Collectively however, the Organization's investments in the United Way of South Hampton Roads Foundation cannot be traded on active markets. The fair values of the alternative investments that do not have readily determinable fair values are determined by the investment managers and are based on audited financial statements provided to the investment managers or are based on historical cost, appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the investment manager taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Organization recognizes transfers between the levels as of the beginning of the reporting period.

The following table summarizes the changes to Level 3 instruments, which include the beneficial interest in assets held by others, for the years ending June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fair value, beginning of year	\$ 59,401	\$ 53,050
Net additions and purchases	198	766
Net withdrawals	(148)	(571)
Unrealized gains and losses	(509)	6,156
Fair value, end of year	<u>\$ 58,942</u>	<u>\$ 59,401</u>

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foodbank believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

14. Endowment

In August 2008, accounting standards provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. In 2008, the State of Virginia adopted UPMIFA. The adoption of UPMIFA had no effect on accounting for the Foodbank's endowment.

The Foodbank's permanently restricted endowment consists of one individual fund established for the purpose of providing vouchers to needy individuals to be used for the purchase of new clothing and shoes, which is donor-restricted. The unrestricted endowment consists of a board restricted endowment fund. Net assets associated with these funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foodbank have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foodbank classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foodbank considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Foodbank and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and appreciation of investments.
- (6) Other resources of the Foodbank.
- (7) The investment policies of the Foodbank.

At June 30, 2015, the endowment net asset consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds - investment	\$ -	\$ 49,764	\$ 249,742	\$ 299,506
Donor-restricted funds - cash	-	1,383	-	1,383
Board-restricted funds - investment	1,101,197	-	-	1,101,197
	<u>\$ 1,101,197</u>	<u>\$ 51,147</u>	<u>\$ 249,742</u>	<u>\$ 1,402,086</u>

Changes in endowment net assets for the fiscal year ended June 30, 2015, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ 1,093,639	\$ 45,760	\$ 249,742	\$ 1,389,141
Investment return:				
Investment income	12,251	16,630	-	28,881
Net depreciation (realized and unrealized)	(4,693)	(8,276)	-	(12,969)
Total investment income	7,558	8,354	-	15,912
Appropriation of endowment assets for expenditure	-	(2,967)	-	(2,967)
Endowment net assets - end of year	<u>\$ 1,101,197</u>	<u>\$ 51,147</u>	<u>\$ 249,742</u>	<u>\$ 1,402,086</u>

At June 30, 2014, the endowment net asset consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds - investment	\$ -	\$ 45,104	\$ 249,742	\$ 294,846
Donor-restricted funds - cash	-	656	-	656
Board-restricted funds - investment	1,093,639	-	-	1,093,639
	<u>\$ 1,093,639</u>	<u>\$ 45,760</u>	<u>\$ 249,742</u>	<u>\$ 1,389,141</u>

Changes in endowment net assets for the fiscal year ended June 30, 2014, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ 941,398	\$ 8,457	\$ 249,742	\$ 1,199,597
Investment return:				
Investment income	12,096	9,907	-	22,003
Net appreciation (realized and unrealized)	140,145	30,137	-	170,282
Total investment gain	152,241	40,044	-	192,285
Appropriation of endowment assets for expenditure	-	(2,741)	-	(2,741)
Endowment net assets - end of year	<u>\$ 1,093,639</u>	<u>\$ 45,760</u>	<u>\$ 249,742</u>	<u>\$ 1,389,141</u>

The Foodbank has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foodbank must hold in perpetuity as well as board-designated funds. Under the investment policy, the endowment assets are invested in a manner that will build the assets sufficient to support the mission of the Foodbank. The Foodbank's spending policy with respect to the fund is to spend the interest earned on the investment of the funds on expenses related to the fund.

From time-to-time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor and UPMIFA requires the Foodbank to retain as a fund of perpetual duration. As of June 30, 2015 and 2014 there are no deficiencies of this nature.

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Foodbank of Southeastern Virginia

Supplementary Information

June 30, 2015

Foodbank of Southeastern Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Pass-Through from State		
Virginia Department of Agriculture and Consumer Services Pass Through Entity ID Number - 67-400		
<u>Food Distribution Cluster</u>		
Food commodities value (non-cash)	10.569	\$ 1,121,946
Administrative costs (reimbursement claims)	10.568	<u>126,769</u>
Total Emergency Food Assistance Program		<u>1,248,715</u>
Virginia Department of Health Pass Through Entity ID Number - 59351		
<u>Summer Food Service Program For Children</u>		
Summer Feeding Program	10.559	<u>123,564</u>
Virginia Department of Health Pass Through Agreement Number - 59326		
Child and Adult Care Food Program (Kids' Cafe)	10.558	<u>491,448</u>

Foodbank of Southeastern Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

**U.S. Department of Homeland Security
Pass-Through from Various Cities**

Emergency Food and Shelter National Board Program

Norfolk (882400-007)		2,726
Portsmouth (883200-004)		7,894
Accomack (858400-002)		4,727
Suffolk (884600-004)		2,000
Northampton (870800-002)		<u>3,842</u>
Total Emergency Food and Shelter National Board Program	97.024	<u>21,189</u>

**U.S. Department of Housing and Urban Development
Pass-Through from City**

City of Norfolk Pass Through Entity ID Number 32-000011456		
<u>Community Development Block Grant</u>	14.218	<u>24,092</u>
		<u>\$ 1,909,008</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the organization under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Nonprofit Organizations*. Because the schedule presents only a selected portion of the operations of the Foodbank of Southeastern Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Foodbank of Southeastern Virginia.

Foodbank of Southeastern Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Note 2 - Subrecipients

The Foodbank provided federal awards (in the form of food commodities) to various subrecipient agencies as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
The Emergency Food Assistance Program		
Food commodities value	10.569	\$ 1,209,788

Note 3 - Food Distribution

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. At June 30, 2015, the Foodbank had food commodities of \$176,887 in inventory.

Foodbank of Southeastern Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

1. Summary of Auditors' Results

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting:

There were no material weaknesses identified.

There were no significant deficiencies identified.

The audit did not disclose any material noncompliance.

Federal Awards

Internal control over major programs:

There were no material weaknesses identified.

There were no significant deficiencies identified.

An unmodified opinion was issued on compliance for major programs.

The audit did not disclose audit findings required to be reported.

The major program is Child and Adult Care Food Program (Kids' Café) – CFDA # 10.558.

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The auditee qualified as a low risk auditee.

2. Findings related to the financial statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards (GAGAS).

None

3. Findings and Questioned Costs for Federal Awards

None

4. Resolution of Prior Year Findings

There were no prior year findings.

Foodbank of Southeastern Virginia

Compliance Reports

June 30, 2015

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

Board of Directors
Foodbank of Southeastern 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 financial statements of Foodbank of Southeastern Virginia, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Foodbank of Southeastern Virginia'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Foodbank of Southeastern Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Foodbank of Southeastern Virginia'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 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 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 Foodbank of Southeastern Virginia's 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

*Norfolk, Virginia
October 2, 2015*

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

Board of Directors
Foodbank of Southeastern Virginia

Report on Compliance for Each Major Federal Program

We have audited Foodbank of Southeastern Virginia'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 Foodbank of Southeastern Virginia's major federal program and the related direct and material compliance requirements for the year ended June 30, 2015. Foodbank of Southeastern Virginia's major federal program is identified in 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 Foodbank of Southeastern Virginia'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 Foodbank of Southeastern Virginia'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 Foodbank of Southeastern Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, Foodbank of Southeastern Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Foodbank of Southeastern Virginia 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 of compliance, we considered Foodbank of Southeastern Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 Foodbank of Southeastern Virginia'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

*Norfolk, Virginia
October 2, 2015*