

MANNA FOOD BANK, INC.

Asheville, North Carolina

Financial Statements

Year Ended June 30, 2010

MANNA FOOD BANK, INC.

OFFICERS

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Marcia Bromberg
Brad Searson
Beth Fluharty
Carla Sutherland

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President-Elect
Past President
Treasurer
Secretary

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EXECUTIVE DIRECTOR

Kitty Schaller

MANNA FOOD BANK, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
MANNA Food Bank, Inc.
Asheville, North Carolina

We have audited the accompanying statement of financial position of MANNA Food Bank, Inc. (a nonprofit organization) as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated September 30, 2009 we expressed an unqualified opinion on those financial statements.

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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MANNA Food Bank, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2011, on our consideration of MANNA Food Bank, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of 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* and should be considered in assessing the results of our audit.

To the Board of Directors
MANNA Food Bank, Inc.
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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 and state awards is presented for purposes of additional analysis as required by 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 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.

Painter, Russell & Associates, PLLC

Asheville, North Carolina
January 5, 2011

MANNA FOOD BANK, INC.

Statement of Financial Position
June 30, 2010
(With Comparative Totals for 2009)

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and equivalents | \$ 1,217,254 | \$ 1,002,913 |
| Accounts and grants receivable | 82,855 | 61,333 |
| Capital campaign promises to give, current portion | 14,210 | 10,735 |
| Other receivables | 46,285 | 152,653 |
| Prepaid expenses | 2,214 | |
| Food inventories | <u>905,843</u> | <u>1,215,543</u> |
| Total current assets | 2,268,661 | 2,443,177 |
| Capital campaign promises to give, net of current portion | | 5,200 |
| Beneficial interest in an endowment fund | 637,405 | 512,648 |
| Property and equipment | <u>1,802,243</u> | <u>1,718,016</u> |
| Total assets | <u>\$ 4,708,309</u> | <u>\$ 4,679,041</u> |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 41,923 | \$ 18,522 |
| Accrued liabilities | 74,406 | 56,255 |
| Accrued compensated absences | 99,111 | 78,445 |
| Unearned revenue | <u>9,887</u> | <u>7,814</u> |
| Total current liabilities | <u>225,327</u> | <u>161,036</u> |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | 1,930,099 | 1,761,357 |
| Board designated | 218,081 | 136,260 |
| Investment in property and equipment | <u>1,802,243</u> | <u>1,718,016</u> |
| Total unrestricted | 3,950,423 | 3,615,633 |
| Temporarily restricted | 220,173 | 593,931 |
| Permanently restricted | <u>312,386</u> | <u>308,441</u> |
| Total net assets | <u>4,482,982</u> | <u>4,518,005</u> |
| Total liabilities and net assets | <u>\$ 4,708,309</u> | <u>\$ 4,679,041</u> |

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

MANNA FOOD BANK, INC.

Statement of Activities
Year Ended June 30, 2010
(With Comparative Totals for 2009)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total 2010</u> | <u>Total 2009</u> |
|---|---------------------|-----------------------------------|-----------------------------------|-----------------------|-----------------------|
| Revenues and other support: | | | | | |
| Contributions and private grants | \$ 1,685,643 | \$ 493,623 | \$ 3,945 | \$ 2,183,211 | \$ 1,655,161 |
| United Way | 134,196 | | | 134,196 | 138,584 |
| Government grants | 475,239 | | | 475,239 | 480,091 |
| In-kind contributions | 88,742 | | | 88,742 | 189,890 |
| USDA food receipts | 1,263,102 | | | 1,263,102 | 1,013,845 |
| Privately donated food | 7,001,116 | | | 7,001,116 | 7,158,130 |
| Administrative reimbursement | 247,120 | | | 247,120 | 186,553 |
| Shared maintenance fees | 1,143,124 | | | 1,143,124 | 884,782 |
| Reclaim scanning fees | 143,286 | | | 143,286 | 169,653 |
| Other | 14,101 | | | 14,101 | 31,543 |
| Net assets released from restrictions | <u>867,381</u> | <u>(867,381)</u> | | | |
| Total revenues and other support | <u>13,063,050</u> | <u>(373,758)</u> | <u>3,945</u> | <u>12,693,237</u> | <u>11,908,232</u> |
| Expenses: | | | | | |
| Program services | 11,836,433 | | | 11,836,433 | 10,200,639 |
| Supporting services | <u>962,844</u> | | | <u>962,844</u> | <u>625,985</u> |
| Total expenses | <u>12,799,277</u> | | | <u>12,799,277</u> | <u>10,826,624</u> |
| Increase (decrease) in net assets before investment activity | <u>263,773</u> | <u>(373,758)</u> | <u>3,945</u> | <u>(106,040)</u> | <u>1,081,608</u> |
| Investment activity: | | | | | |
| Investment income | 11,337 | | | 11,337 | 16,155 |
| Realized losses on investments | (278) | | | (278) | (34,487) |
| Unrealized gains (losses) on beneficial interest in an endowment fund | <u>59,958</u> | | | <u>59,958</u> | <u>(124,412)</u> |
| Total investment activity | <u>71,017</u> | | | <u>71,017</u> | <u>(142,744)</u> |
| Increase (decrease) in net assets | 334,790 | (373,758) | 3,945 | (35,023) | 938,864 |
| Net assets at beginning of year | <u>3,615,633</u> | <u>593,931</u> | <u>308,441</u> | <u>4,518,005</u> | <u>3,579,141</u> |
| Net assets at end of year | <u>\$ 3,950,423</u> | <u>\$ 220,173</u> | <u>\$ 312,386</u> | <u>\$ 4,482,982</u> | <u>\$ 4,518,005</u> |

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

MANNA FOOD BANK, INC.

Statement of Functional Expenses
Year Ended June 30, 2010
(With Comparative Totals for 2009)

| | Program Services | | | Supporting Services | | | Total 2010 | Total 2009 | |
|-------------------------------------|----------------------|-------------------|-----------------|------------------------------|------------------------------|------------------|---------------|---------------|---------------------------------|
| | Food Distribution | Reclaim Center | Co-op Buying | Total Program Services | Manage- ment & General | Fund- Raising | | | Total Supporting Services |
| Salaries | \$ 818,742 | \$ | \$ | \$ 818,742 | \$ 228,793 | \$ 179,436 | \$ 408,229 | \$ 1,226,971 | \$ 991,897 |
| Payroll taxes | 65,037 | | | 65,037 | 19,749 | 12,642 | 32,391 | 97,428 | 74,834 |
| Employee benefits | 178,489 | | | 178,489 | 57,824 | 30,366 | 88,190 | 266,679 | 221,860 |
| Total salaries and related expenses | 1,062,268 | | | 1,062,268 | 306,366 | 222,444 | 528,810 | 1,591,078 | 1,288,591 |
| USDA food cost | 1,458,793 | | | 1,458,793 | | | 1,458,793 | 807,147 | |
| Distributed food | 7,113,634 | | | 7,113,634 | | | 7,113,634 | 6,875,584 | |
| Food purchases | 444,403 | | 608,543 | 1,052,946 | | | 1,052,946 | 908,376 | |
| Warehousing | 21,000 | | | 21,000 | | | 21,000 | 21,000 | |
| Telephone | 16,729 | | | 16,729 | 2,215 | 374 | 2,589 | 19,318 | 12,796 |
| Occupancy | 116,833 | | | 116,833 | 2,846 | | 2,846 | 119,679 | 103,529 |
| Repairs and maintenance | 45,596 | | | 45,596 | 2,781 | | 2,781 | 48,377 | 41,862 |
| Supplies | 415,669 | | | 415,669 | 7,279 | 798 | 8,077 | 423,746 | 7,485 |
| Travel | 15,748 | | | 15,748 | 157 | 952 | 1,109 | 16,857 | 2,127 |
| Franklin warehouse | 25,586 | | | 25,586 | | | 25,586 | 24,180 | |
| Product handling fees | 28,791 | | | 28,791 | | | 28,791 | 10,187 | |
| Dues/permits | | | | | 2,090 | 275 | 2,365 | 2,365 | 3,205 |
| Insurance | 15,056 | | | 15,056 | 16,309 | 1,188 | 17,497 | 32,553 | 36,835 |
| Postage | 5,225 | 100 | | 5,325 | 4,147 | 4,533 | 8,680 | 14,005 | 9,052 |
| Totals this page | \$10,785,331 | \$ 100 | \$ 608,543 | \$11,393,974 | \$ 344,190 | \$ 230,564 | \$ 574,754 | \$11,968,728 | \$10,151,956 |

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

MANNA FOOD BANK, INC.

Statement of Functional Expenses (continued)
 Year Ended June 30, 2010
 (With Comparative Totals for 2009)

| | Program Services | | | Supporting Services | | | Total 2010 | Total 2009 | |
|------------------------------------|----------------------|-------------------|-------------------|------------------------------|------------------------------|-------------------|-------------------|---------------------|---------------------------------|
| | Food Distribution | Reclaim Center | Co-op Buying | Total Program Services | Manage- ment & General | Fund- Raising | | | Total Supporting Services |
| Totals from previous page | \$10,785,331 | \$ 100 | \$ 608,543 | \$11,393,974 | \$ 344,190 | \$ 230,564 | \$ 574,754 | \$11,968,728 | \$10,151,956 |
| Professional fees | 16,462 | 42,670 | | 59,132 | 69,010 | 695 | 69,705 | 128,837 | 85,966 |
| Contract trucking | 26,622 | | | 26,622 | | | | 26,622 | 29,794 |
| Printing | 8,884 | | | 8,884 | 2,370 | 2,117 | 4,487 | 13,371 | 2,554 |
| Contract labor | 68,808 | 1,941 | | 70,749 | | 8,576 | 8,576 | 79,325 | 23,316 |
| Conferences and conventions | 10,318 | | | 10,318 | 6,890 | 3,159 | 10,049 | 20,367 | 8,464 |
| Cost of events | 13,560 | | | 13,560 | 452 | 60,324 | 60,776 | 74,336 | 80,434 |
| Public relations | 4,456 | 388 | | 4,844 | 778 | 249 | 1,027 | 5,871 | 13,096 |
| Vehicle expenses | 35,354 | | | 35,354 | 1,554 | | 1,554 | 36,908 | 41,219 |
| Direct mail | | | | | | 167,862 | 167,862 | 167,862 | 102,184 |
| Manna Packs for Kids expenses | | | | | | | | | 142,085 |
| Software and equipment rental | 14,300 | | | 14,300 | 16,880 | | 16,880 | 31,180 | 18,836 |
| Agency services | 92,344 | | | 92,344 | | | | 92,344 | 8,363 |
| Other | 6,191 | | | 6,191 | 21,602 | 2,077 | 23,679 | 29,870 | 9,209 |
| Total expenses before depreciation | 11,082,630 | 45,099 | 608,543 | 11,736,272 | 463,726 | 475,623 | 939,349 | 12,675,621 | 10,717,476 |
| Depreciation | 85,237 | 14,924 | | 100,161 | 20,770 | 2,725 | 23,495 | 123,656 | 109,148 |
| Total functional expenses | <u>\$11,167,867</u> | <u>\$ 60,023</u> | <u>\$ 608,543</u> | <u>\$11,836,433</u> | <u>\$ 484,496</u> | <u>\$ 478,348</u> | <u>\$ 962,844</u> | <u>\$12,799,277</u> | <u>\$10,826,624</u> |

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

MANNA FOOD BANK, INC.

Statement of Cash Flows
Year Ended June 30, 2010
(With Comparative Totals for 2009)

| | 2010 | 2009 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | \$ (35,023) | \$ 938,864 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 123,656 | 109,148 |
| Non-cash receipts of inventory | (8,264,218) | (8,171,975) |
| Disbursements of donated inventory | 8,729,347 | 7,682,731 |
| Receipt of donated securities | (30,313) | |
| Receipt of donated property and equipment | (11,718) | (113,777) |
| Unrealized (gains) losses on assets held by a community foundation | (59,958) | 124,412 |
| Realized losses on sale of investments | 278 | 34,487 |
| Changes in working capital - sources (uses): | | |
| Accounts and grants receivable | (21,522) | 11,585 |
| Capital campaign promises to give | 1,725 | 11,692 |
| Other receivables | 106,368 | (21,935) |
| Prepaid expenses | (2,214) | |
| Food inventories | (155,429) | (38,888) |
| Accounts payable | 23,401 | (55,136) |
| Accrued liabilities | 18,151 | 15,148 |
| Accrued compensated absences | 20,666 | 12,416 |
| Unearned revenue | 2,073 | 7,814 |
| Net cash provided by operating activities | 445,270 | 546,586 |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 30,035 | 172,791 |
| Purchases of investments | | (44,823) |
| Purchase of property and equipment | (196,165) | (137,783) |
| Change in beneficial interest in an endowment fund | (64,799) | (82,355) |
| Net cash used by investing activities | (230,929) | (92,170) |
| Increase in cash and equivalents | 214,341 | 454,416 |
| Cash and equivalents at beginning of year | 1,002,913 | 548,497 |
| Cash and equivalents at end of year | \$ 1,217,254 | \$ 1,002,913 |

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

MANNA FOOD BANK, INC.

Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Policies

Organization

MANNA Food Bank, Inc. (Organization) is a nonprofit entity established for the purpose of collecting and salvaging edible but commercially unmarketable food and groceries from food suppliers and distributing the food to eligible recipients. During the years ended June 30, 2010 and June 30, 2009, the Organization served over 300 agency sites in seventeen Western North Carolina counties.

Tax-Exempt Status

The Organization was incorporated as a nonprofit organization under the laws of the State of North Carolina on August 16, 1982. It has qualified for exemption from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

Donated Services and Materials

A substantial number of volunteers have donated a significant amount of time to the Organization's operations and program services. Contributed services that create or enhance non-financial assets or require specialized skills and are provided by individuals possessing those skills are recognized as support. No amounts have been reflected in the accompanying financial statements for contributed services since the requirements for recognition were not met. Donated materials are reflected as in-kind contributions in the accompanying financial statements at their estimated fair market value at date of receipt.

Recognition of Donor Restrictions

Support restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Financial Statement Presentation

The Organization reports in compliance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities: Presentation of Financial Statements* 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 three classes of net assets are defined as follows:

Note 1 - Summary of Significant Accounting Policies (continued)

Financial Statement Presentation (continued)

- ñ Unrestricted Net Assets: Unrestricted net assets represent resources whose use is not limited or restricted by donors. They generally arise as a result of exchange transactions, unrestricted contributions, or restricted contributions whose restrictions have expired.
- ñ Temporarily Restricted Net Assets: Temporarily restricted net assets represent resources whose use is limited by donors for the purpose and/or time in which they may be expended. Eventually, temporarily restricted net assets are reclassified to unrestricted as their time and purpose requirements are met.
- ñ Permanently Restricted Net Assets: Permanently restricted net assets represent resources that must be maintained permanently. Like temporarily restricted net assets, permanent restrictions may be imposed only by the donor. However, permanently restricted net assets generally do not get reclassified, since, by definition, their restrictions never expire.

Cash and Equivalents

The Organization considers all unrestricted highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consist of amounts due from other agencies for the purchase of food. No allowance for doubtful accounts has been established against those receivables since, in management's opinion, all amounts are collectible.

Investments

The Organization has adopted FASB ASC 958-320 *Not-For-Profit Entities: Investments - Debt and Equity Securities*. Under FASB ASC 958-320, investments in marketable securities with readily determinable fair values and all debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Fair Value of Financial Instruments

The fair value of substantially all reported assets and liabilities which represent financial instruments, none of which are held for trading purposes, approximate the carrying values of such amounts.

Note 1 - Summary of Significant Accounting Policies (continued)

Inventories

The values used for privately donated food inventory and the related food revenue and amounts distributed are based on a study commissioned by Feeding America, a national food bank network. This study, which was prepared by KPMG, LLP, produced guidelines for determining the approximate average wholesale value of one pound of privately donated product at the national level. Those guidelines have been applied to privately donated inventory of the Organization. Although the value of items for different organizations may vary, average wholesale values of \$1.60 and \$1.58 per pound have been used by the Organization for the years ended June 30, 2010 and 2009, respectively. Inventory items received from the USDA have been recorded at the value assigned by the USDA. Inventory items purchased have been recorded at cost.

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair market value at the date of gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over a period of three to forty years.

Fair Value Measurements and Disclosures

FASB ASC 820 *Fair Value Measurements and Disclosures* defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expanded disclosures about fair value measurements. This accounting standard is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. It does not expand or require any new fair value measures. In February 2008, the FASB deferred the effective date of FASB ASC 820 for one year, relative to non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

Accordingly, the Organization's adoption of this standard in 2008 was limited to financial assets and liabilities, and did not significantly impact the Organization's financial position, change in net assets, or cash flows. In 2009, the Organization adopted the remaining aspects of the accounting standard, which apply to non-financial long-lived assets (land, equipment, buildings, and leasehold improvements). This adoption did not impact the financial position, change in net assets, or cash flows, as the Organization elected not to report non-financial assets at fair value.

Note 1 - Summary of Significant Accounting Policies (continued)

Fair Value Measurements and Disclosures (continued)

In April 2009, the FASB provided additional guidance for estimating fair value in accordance with FASB ASC 820 when there is no active market or where the price inputs being used represent distressed sales. This guidance reaffirms the objective of fair value measurement, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is not a forced liquidation or distressed sale). It also reaffirms the need to use judgment to determine if a formerly active market has become inactive, as well as to determine fair values when markets have become inactive. This update to FASB ASC 820-10 was effective prospectively for reporting periods ending after June 15, 2009. The adoption of this update did not impact the Organization's financial position, change in net assets, or cash flows.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable for the asset or liability.

Scanning Fees

Scanning fees represent per piece fees paid by a third party for scanning damaged grocery items at the Organization's Reclaim Center.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their nature and expenditure classification. Other expenses that are common to several functions are allocated by statistical means.

Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 1 - Summary of Significant Accounting Policies (continued)

Prior Year Information

The financial statements include certain prior year 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 Organization's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Reclassification

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

Note 2 - Restrictions on Assets

The Organization received grants for various purposes. Restrictions on those grants expire when disbursements of the specified funds are made, or when promises to give are collected.

Temporarily restricted net assets are available for the following purposes:

| <u>At June 30</u> | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| Agency Grants | \$ 7,667 | \$ |
| Apple Project | 5,000 | |
| FEMA Grant | 3,343 | |
| Empty Bowls Fundraiser | 3,000 | |
| Advance payments | 64,000 | |
| 2011 Blue Jean Ball sponsorship | 5,000 | |
| Kids Against Hunger | 15,000 | |
| Capital Expenses | 10,003 | 78,807 |
| FNS Outreach (food stamps) | 44,844 | 98,000 |
| Capital campaign promises to give | 22,903 | 24,343 |
| Recession Response | 13,488 | 22,703 |
| State Nutritional Assistance Program | 10,530 | 55,002 |
| USDA Emergency Food Assistance Program | 15,395 | 211,713 |
| Kids Against Hunger | | 15,000 |
| Produce Distribution | | 17,500 |
| Truck Expenses | | 5,117 |
| MSG Court Settlement | | 57,512 |
| Student Food Drive | | 51 |
| Agency Sustainability | | 1,000 |
| MANNA Packs for Kids | | 7,183 |
| | | <hr/> |
| <u>Temporarily restricted net assets</u> | <u>\$ 220,173</u> | <u>\$ 593,931</u> |

Note 2 - Restrictions on Assets (continued)

Permanently restricted net assets consist of contributions toward endowment fund investments, the income from which is expendable to support the Organization's operations.

Note 3 - Capital Campaign Promises to Give

The Organization conducted a capital campaign to raise funds for the purchase of a building and to increase its endowment. In accordance with FASB ASC 958-605 *Not-For-Profit Entities: Revenue Recognition*, promises to give related to the campaign, less an appropriate reserve, are recorded at their estimated fair value. At June 30, 2010, all unconditional promises to give are current.

Capital campaign promises to give at June 30, 2010 are described as follows:

| | |
|---|------------------|
| Unconditional capital campaign promises to give | \$ 22,903 |
| Less, provision for uncollectible | <u>(8,693)</u> |
| Capital campaign promises to give | <u>\$ 14,210</u> |

Note 4 - Food Inventories

The following presents a summary of all food acquired and distributed for the years ended June 30, 2010 and 2009:

| At June 30, 2010 | Weight (in Pounds) | Estimated Wholesale Value |
|---|-----------------------|------------------------------|
| Food inventories - beginning of year | 1,095,726 | \$ 1,423,249 |
| Food received | <u>8,465,889</u> | <u>10,178,086</u> |
| | 9,561,615 | 11,601,335 |
| Less, food distributed or deemed unusable | <u>8,876,998</u> | <u>10,626,362</u> |
| Food inventories - end of year | 684,617 | \$ 974,973 |
| At June 30, 2009 | Weight (in Pounds) | Estimated Wholesale Value |
| Food inventories - beginning of year | 622,624 | \$ 776,855 |
| Food received | <u>8,686,861</u> | <u>10,771,880</u> |
| | 9,309,485 | 11,548,735 |
| Less, food distributed or deemed unusable | <u>8,213,759</u> | <u>10,125,486</u> |
| Food inventories - end of year | 1,095,726 | \$ 1,423,249 |

Note 4 - Food Inventories (continued)

Food inventories have been recorded at net present value less a provision for expected damaged or unusable products.

| <u>At June 30</u> | <u>2010</u> | <u>2009</u> |
|--|-------------------|---------------------|
| Ending inventory | \$ 974,973 | \$ 1,423,249 |
| Less, provision for damaged or unusable products | <u>69,130</u> | <u>207,706</u> |
| <u>Food inventories</u> | <u>\$ 905,843</u> | <u>\$ 1,215,543</u> |

Note 5 - Beneficial Interest in an Endowment Fund

The beneficial interest in an endowment fund is managed by the Community Foundation of Western North Carolina, Inc. The Organization requires that investment in equities cannot exceed 75% of the fund's assets. Also included in investments is a special account held by the Community Foundation. These funds are invested in an allocated investment pool. Withdrawals from this account must be approved by the full board.

The unrealized gain on these funds is as follows:

| <u>At June 30</u> | <u>2010</u> | <u>2009</u> |
|------------------------|------------------|-----------------|
| Fair market value | \$ 637,405 | \$ 512,648 |
| Cost | <u>571,603</u> | <u>507,153</u> |
| <u>Unrealized gain</u> | <u>\$ 65,802</u> | <u>\$ 5,495</u> |

Note 6 - Property and Equipment

A description of property and equipment follows:

| <u>At June 30</u> | <u>2010</u> | <u>2009</u> |
|--------------------------------|---------------------|---------------------|
| At cost: | | |
| Land | \$ 290,842 | \$ 290,842 |
| Building and improvements | 1,754,545 | 1,639,888 |
| Office equipment | 123,939 | 106,280 |
| Autos and trucks | 477,018 | 429,911 |
| Equipment | <u>348,990</u> | <u>320,530</u> |
| | 2,995,334 | 2,787,451 |
| Less, accumulated depreciation | <u>1,193,091</u> | <u>1,069,435</u> |
| <u>Property and equipment</u> | <u>\$ 1,802,243</u> | <u>\$ 1,718,016</u> |

Depreciation expense for the years ended June 30, 2010 and 2009 was \$123,656 and \$109,148, respectively.

Note 7 - In-kind Contributions

In-kind contributions are summarized as follows:

| <u>Years Ended June 30</u> | <u>2010</u> | <u>2009</u> |
|------------------------------|------------------|-------------------|
| Warehousing | \$ 21,000 | \$ 21,000 |
| Equipment | 11,718 | 113,777 |
| Fundraisers | 34,331 | 50,463 |
| Other | <u>21,693</u> | <u>4,650</u> |
| <u>In-kind contributions</u> | <u>\$ 88,742</u> | <u>\$ 189,890</u> |

Note 8 - Privately Donated Food

Privately donated food is shown on the statement of activities net of related damaged or unusable products and is described as follows:

| <u>Years Ended June 30</u> | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| Privately donated food | \$ 7,892,835 | \$ 8,961,787 |
| Less, damaged or unusable privately donated products | <u>891,719</u> | <u>1,803,657</u> |
| <u>Privately donated food</u> | <u>\$ 7,001,116</u> | <u>\$ 7,158,130</u> |

Note 9 - Operating Lease

The Organization leases warehouse space for the Franklin branch. The lease is on a month-by-month basis payable at \$1,725 per quarter.

Note 10 - Retirement Plan

The Organization maintains a 401(k) retirement plan (the Plan). Employees are eligible for participation in the Plan after attaining the age of eighteen and completing six months of service. The Organization may choose to match up to fifty percent of employees' eligible contributions up to six percent. The Organization contributed \$49,591 and \$46,131 during the years ended June 30, 2010 and 2009, respectively.

Note 11 - Uninsured Balances

The Organization maintains its cash and equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation on balances up to \$250,000. The uninsured balance is approximately \$899,389 at June 30, 2010.

Note 12 - Fair Value Measurements

In some cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The fair value of each financial instrument was measured using FASB ASC 820 input guidance and valuation techniques.

Due to the nature of a beneficial interest in an endowment fund, the asset is considered a Level 3 instrument.

A reconciliation of changes in Level 3 inputs is as follows:

Year Ended June 30, 2010

| | |
|---|-------------------|
| Level 3 inputs, beginning of the period | \$ 512,648 |
| Contributions | 3,945 |
| Transfers | 81,821 |
| Distributions | (26,490) |
| Investment income (expenses) | 5,523 |
| Unrealized gains | <u>59,958</u> |
| Level 3 inputs, end of year | <u>\$ 637,405</u> |

Note 13 - Related Party Transactions

During the year ended June 30, 2010, the Organization received contributions totaling \$148,520 from members of the Board of Directors. These contributions represent 1% of the total revenue and support received for the year.

Note 14 - Summary Disclosure of Significant Contingencies

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Organization carries commercial insurance coverage for risks of loss.

Note 14 - Summary Disclosure of Significant Contingencies (continued)

Federal and State Assisted Programs

The Organization has received proceeds from several federal and state grants. Periodic audits of these grants and third party reimbursements are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in a refund or reimbursement to the grantor or third party agencies. Management believes that refunds or reimbursements, should any be determined, would be immaterial. No provisions have been made in the accompanying financial statements for the repayment of any grant monies.

Source of Grants

For the year ended June 30, 2010, the Organization was the recipient of funds from the 2009 Recovery and Reinvestment Act (ARRA). These funds have a contract period generally from October 1, 2009 through September 30, 2010 and must be fully expended by September 30, 2010. ARRA funds are not guaranteed to be renewed by the federal awarding agency and there have been no renewals as of the date of these financial statements. For the year ended June 30, 2010, ARRA funds totaled \$123,552 from federal agencies, all of which was for administrative reimbursement of costs related to food distribution to qualified recipient agencies.

Note 15 - Subsequent Events

Management has evaluated subsequent events through January 5, 2011, which is the date the financial statements were available to be issued. No events or circumstances occurred that would require recognition or disclosure in these financial statements.

Note 16 - Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions material to the financial statements.

The Organization's Return of Organization Exempt from Income Tax (Form 990) for 2006, 2007, and 2008 are subject to examination by the IRS, generally for three years after they were filed.

Note 17 - Reclassification of Net Assets

During the current year, it was discovered that restrictions on the beneficial interest in an endowment fund for the year ended June 30, 2009 were reported as temporarily restricted rather than permanently restricted. As a result, \$93,555 was reclassified from the amounts previously reported.

Additionally, it was discovered that temporarily restricted inventory was recorded as unrestricted for the year ended June 30, 2009. In these financial statements, restrictions in the amount of \$266,715 were reclassified from the amount previously reported.

Note 18 - Functional Expense Classifications

In the prior year, MANNA Packs for Kids expenses were reported as a separate line item on the statement of functional expenses. For the year ended June 30, 2010, these expenses have been recorded by their functional classification within the food distribution program. Additionally, included in agency fees for the year ended June 30, 2010, are expenses related to food stamp outreach.

COMPLIANCE SECTION



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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
MANNA Food Bank, Inc.
Asheville, North Carolina

We have audited the financial statements of MANNA Food Bank, Inc. (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated January 5, 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 MANNA Food Bank, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MANNA Food Bank, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A 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 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 the 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Finding 2010-1. 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.

To the Board of Directors
MANNA Food Bank, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MANNA Food Bank, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2010-2.

MANNA Food Bank, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit MANNA Food Bank, Inc.'s response and, accordingly, we express no opinion on it.

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

Painter, Russell & Associates, PLLC

Asheville, North Carolina
January 5, 2011



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INDEPENDENT AUDITORS' 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
MANNA Food Bank, Inc.
Asheville, North Carolina

Compliance

We have audited MANNA Food Bank, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MANNA Food Bank, Inc.'s major federal programs for the year ended June 30, 2010. MANNA Food Bank, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of MANNA Food Bank, Inc.'s management. Our responsibility is to express an opinion on MANNA Food Bank, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MANNA Food Bank, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of MANNA Food Bank, Inc.'s compliance with those requirements.

In our opinion, MANNA Food Bank, Inc. complied, in all material respects, with the 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, 2010. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-2.

To the Board of Directors
MANNA Food Bank, Inc.

Internal Control Over Compliance

Management of MANNA Food Bank, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MANNA Food Bank, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 MANNA Food Bank, Inc.'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.

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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-1. *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.

MANNA Food Bank, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit MANNA Food Bank, Inc.'s responses and, accordingly, we express no opinion on the responses.

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

Painter, Russell & Associates, PLLC

Asheville, North Carolina
January 5, 2011

MANNA FOOD BANK, INC.

Schedule of Expenditures of Federal and State Awards
June 30, 2010

| Federal-State Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Federal Expenditures | State Expenditures |
|---|---------------------------|-------------------------|-----------------------|
| Federal Awards: | | | |
| US Department of Agriculture: | | | |
| Pass-through from North Carolina Department of Agriculture Food Distribution Division: | | | |
| Emergency Food Assistance Program - TEFAP commodities | 10.569 | \$ 1,440,160 | \$ |
| Emergency Food Assistance Program - TEFAP reimbursement | 10.568 | 37,173 | |
| TEFAP reimbursement - ARRA | 10.568 | 123,552 | |
| Total Emergency Food Assistance Program | | 1,600,885 | |
| Federal Emergency Management Agency: | | | |
| Emergency Food and Shelter Program: | | | |
| Pass-through Macon County Department of Social Services and Buncombe County Department of Social Services | 97.024 | 20,257 | |
| Total federal awards | | 1,621,142 | |
| State Awards: | | | |
| NC Department of Health and Human Services - Division of Social Services: | | | |
| State Nutrition Assistance Program | | | 413,606 |
| State Nutrition Assistance Program Administrative reimbursement | | | 86,395 |
| State Nutrition Assistance Program Food Nutrition Services Outreach | | | 38,570 |
| Total state awards | | | 538,571 |
| Total expenditures of federal and state awards | | \$ 1,621,142 | \$ 538,571 |

MANNA FOOD BANK, INC.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section I Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified yes no

Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal awards:

Internal control over major programs:

Material weakness(es) identified yes no

Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes no

Programs tested as major were:

| | | |
|--|-------|--------|
| Emergency Food Assistance Program | CFDA# | 10.568 |
| Emergency Food Assistance Program - ARRA | CFDA# | 10.568 |
| Emergency Food Assistance Program | CFDA# | 10.569 |

The threshold for distinguishing Type A and Type B programs were \$300,000.

MANNA Food Bank, Inc. was determined to be a low-risk auditee.

MANNA FOOD BANK, INC.

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2010

Section II Financial Statement Findings

Finding 2010-1

Condition - During the closing process, the accounting software mistakenly reversed journal entries posted in the general ledger. This error resulted in a misstatement of financial information.

Recommendation - We recommend that management investigate the source of the software error and take appropriate steps to ensure that it does not reoccur.

Response - The source of the software error has been identified and corrected. In the future, following the fiscal year-end closing, the Director of Finance and Human Resources will review the general ledger account balances for accuracy and address any outstanding problems immediately.

Section III Federal Award Findings and Questioned Costs

Finding 2010-2

Condition - We noted one instance where a report sent to the N.C. Department of Agriculture and Consumer Services reported TEFAP product distributions in excess of the amounts the Organization actually distributed.

Recommendation - We recommend that management review reports to awarding agencies to ensure they are accurate and agree to inventory records.

Response - Effective immediately, the Director of Operations will review and approve all reimbursement request reports, prior to submission.

MANNA FOOD BANK, INC.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010

No audit findings were reported.