

# Feeding America Southwest Virginia

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**Financial Statements**

**Years Ended June 30, 2018 and 2017**

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## **Independent Auditors' Report**

Board of Directors  
Feeding America Southwest Virginia  
Salem, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Feeding America Southwest Virginia, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Feeding America Southwest Virginia as of June 30, 2018 and June 30, 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Food Received and Distributed (the Schedule) and the accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by Title 2 *U.S. Code of Federal Regulations* (CFR) *Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule and the SEFA are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the 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 1, 2018 on our consideration of Feeding America Southwest 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Feeding America Southwest Virginia's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
October 1, 2018**

**Feeding America Southwest Virginia**  
**Statements of Financial Position**  
**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 486,732	\$ 368,547
Receivables (Note 2)	513,299	548,384
Prepaid expenses	10,000	-
Inventory (Note 3)	<u>892,332</u>	<u>637,702</u>
Total current assets	1,902,363	1,554,633
Cash restricted for acquisition of property and equipment	119,432	8,531
Reserve funds (Note 4)	116,747	104,329
Contributions receivable (Note 2)	125,575	217,338
Property and equipment, net (Note 5)	<u>5,727,515</u>	<u>5,077,815</u>
Total assets	<u>\$ 7,991,632</u>	<u>\$ 6,962,646</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 143,062	\$ 223,461
Accrued expenses	176,014	171,533
Deferred revenue	62,159	36,718
Current portion of long-term debt (Note 7)	<u>142,833</u>	<u>89,576</u>
Total current liabilities	524,068	521,288
Long-term line of credit (Note 6)	297,801	454,216
Long-term deferred revenue	291,232	311,504
Long-term debt, less \$10,510 and \$12,312 of unamortized debt issuance cost (Note 7)	<u>4,079,305</u>	<u>3,839,570</u>
Total liabilities	<u>5,192,406</u>	<u>5,126,578</u>
Net assets:		
Unrestricted	1,936,930	1,281,019
Temporarily restricted (Note 8)	834,596	527,349
Permanently restricted (Note 8)	<u>27,700</u>	<u>27,700</u>
Total net assets	<u>2,799,226</u>	<u>1,836,068</u>
Total liabilities and net assets	<u>\$ 7,991,632</u>	<u>\$ 6,962,646</u>

See accompanying notes.

**Feeding America Southwest Virginia  
Statements of Activities  
Years Ended June 30, 2018 and 2017**

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues and support				
Contributions - monetary	\$ 2,491,042	\$ 606,412	\$ -	\$ 3,097,454
Contributions - in-kind	15,547	-	-	15,547
Grants	484,724	-	-	484,724
USDA reimbursements	632,823	-	-	632,823
Other handling fees	567,390	-	-	567,390
Sale of purchased food	1,699,102	-	-	1,699,102
Other	43,069	-	-	43,069
Net assets released from restrictions	299,165	(299,165)	-	-
<b>Total revenues and support</b>	<b>6,232,862</b>	<b>307,247</b>	<b>-</b>	<b>6,540,109</b>
Expenses				
Program services	4,442,960	-	-	4,442,960
Management and general	735,495	-	-	735,495
Fund-raising	678,287	-	-	678,287
<b>Total expenses</b>	<b>5,856,742</b>	<b>-</b>	<b>-</b>	<b>5,856,742</b>
Change in net assets before donated food activity	376,120	307,247	-	683,367
Donated food activity				
Donated food received	27,440,292	-	-	27,440,292
Donated food distributed and disposed	(27,160,501)	-	-	(27,160,501)
<b>Net donated food activity</b>	<b>279,791</b>	<b>-</b>	<b>-</b>	<b>279,791</b>
<b>Change in net assets</b>	<b>655,911</b>	<b>307,247</b>	<b>-</b>	<b>963,158</b>
Net assets				
Beginning	1,281,019	527,349	27,700	1,836,068
<b>Ending</b>	<b>\$ 1,936,930</b>	<b>\$ 834,596</b>	<b>\$ 27,700</b>	<b>\$ 2,799,226</b>

See accompanying notes.

<b>2017</b>			
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
\$ 2,388,706	\$ 370,781	\$ -	\$ 2,759,487
42,307	-	-	42,307
172,777	-	-	172,777
239,984	-	-	239,984
563,073	-	-	563,073
1,606,470	-	-	1,606,470
154,388	-	-	154,388
201,156	(201,156)	-	-
5,368,861	169,625	-	5,538,486
4,350,011	-	-	4,350,011
693,919	-	-	693,919
706,594	-	-	706,594
5,750,524	-	-	5,750,524
(381,663)	169,625	-	(212,038)
28,845,349	-	-	28,845,349
(29,346,297)	-	-	(29,346,297)
(500,948)	-	-	(500,948)
(882,611)	169,625	-	(712,986)
2,163,630	357,724	27,700	2,549,054
\$ 1,281,019	\$ 527,349	\$ 27,700	\$ 1,836,068

**Feeding America Southwest Virginia  
Statements of Cash Flows  
Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Operating activities:		
Change in net assets	\$ 963,158	\$ (712,986)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated food received, distributed and disposed, net	(281,509)	500,198
Depreciation	338,854	327,724
Amortization of debt issuance costs	1,802	3,093
Write-off of debt issuance costs	-	12,288
Contributions restricted for acquisition of property and equipment	(684,194)	(422,338)
Change in:		
Receivables	116,848	(304,230)
Purchased inventory	26,879	(77,891)
Accounts payable and accrued expenses	(75,918)	117,766
Deferred revenue	5,169	318,394
	<u>411,089</u>	<u>(237,982)</u>
Net cash provided by (used in) operating activities		
Investing activities:		
Purchase of property and equipment	(988,554)	(382,568)
Cash restricted for purchase of property and equipment	(110,901)	34,469
	<u>(1,099,455)</u>	<u>(348,099)</u>
Net cash used in investing activities		
Financing activities:		
Payments for debt issuance costs	-	(12,612)
Proceeds from long-term debt	444,450	2,182,394
Payments on long-term debt	(153,260)	(2,084,507)
Contributions restricted for purchase of property and equipment	684,194	110,000
Deposit to reserve funds, net	(12,418)	(12,133)
Net (payments) borrowings on line of credit	(156,415)	454,216
	<u>806,551</u>	<u>637,358</u>
Net cash provided by financing activities		
Increase in cash and cash equivalents	118,185	51,277
Cash and cash equivalents:		
Beginning	<u>368,547</u>	<u>317,270</u>
Ending	<u>\$ 486,732</u>	<u>\$ 368,547</u>
Supplementary cash flow information:		
Interest paid	<u>\$ 177,297</u>	<u>\$ 189,736</u>
Noncash investing and financial activities:		
Investment in leased equipment	\$ 97,700	\$ -
Donated property	\$ -	\$ 40,000

See accompanying notes.

**Feeding America Southwest Virginia  
Statements of Functional Expenses  
Years Ended June 30, 2018 and 2017**

	2018			
	Program Services	Management and General	Fund Raising	Total
Personnel				
Salaries	\$ 1,216,806	\$ 484,711	\$ 309,733	\$ 2,011,250
Payroll taxes	91,122	36,298	23,195	150,615
Fringe benefits	188,627	37,596	16,560	242,783
Total personnel	<u>1,496,555</u>	<u>558,605</u>	<u>349,488</u>	<u>2,404,648</u>
Other				
Cost of purchased food	1,534,671	-	-	1,534,671
Consultants and contract services	107,484	68,925	65,672	242,081
Travel	1,261	2,249	859	4,369
Occupancy	257,203	6,784	6,310	270,297
Materials and supplies	26,104	808	15,216	42,128
Postage and printing	-	5,360	217,956	223,316
Equipment expense	95,082	-	-	95,082
Depreciation	319,878	12,199	6,777	338,854
Telephone	29,267	11,680	4,855	45,802
General insurance	78,789	14,291	940	94,020
Dues and registrations	28,137	4,298	1,259	33,694
Trucking expenses	298,101	3,185	-	301,286
Promotion	-	-	2,540	2,540
Interest expense	160,314	13,572	3,411	177,297
In-kind expense	4,797	-	-	4,797
Other costs	5,317	33,539	3,004	41,860
Total other	<u>2,946,405</u>	<u>176,890</u>	<u>328,799</u>	<u>3,452,094</u>
Total expenses	<u>\$ 4,442,960</u>	<u>\$ 735,495</u>	<u>\$ 678,287</u>	<u>\$ 5,856,742</u>

See accompanying notes.

**2017**

<b>Program Services</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total</b>
\$ 1,217,425	\$ 447,882	\$ 370,521	\$ 2,035,828
94,646	34,820	28,805	158,271
162,534	43,251	21,853	227,638
<u>1,474,605</u>	<u>525,953</u>	<u>421,179</u>	<u>2,421,737</u>
1,511,129	-	-	1,511,129
144,366	46,962	34,172	225,500
1,482	3,286	682	5,450
209,325	10,213	3,003	222,541
18,337	1,353	2,636	22,326
7,446	4,421	220,833	232,700
93,478	-	-	93,478
304,455	17,042	6,227	327,724
32,657	10,903	7,627	51,187
64,319	12,321	852	77,492
22,399	5,918	1,659	29,976
286,588	1,524	352	288,464
-	-	1,279	1,279
-	12,288	-	12,288
169,708	7,222	3,611	180,541
4,500	-	-	4,500
2,307	-	-	2,307
2,910	34,513	2,482	39,905
<u>2,875,406</u>	<u>167,966</u>	<u>285,415</u>	<u>3,328,787</u>
<u>\$ 4,350,011</u>	<u>\$ 693,919</u>	<u>\$ 706,594</u>	<u>\$ 5,750,524</u>

## **Notes to Financial Statements**

### **1. Nature of Operations and Significant Accounting Policies**

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

#### ***Basis of financial statement presentation and accounting***

The financial statements of the Food Bank are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

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

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

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

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

#### ***Cash and cash equivalents***

Cash equivalents consist of highly liquid investments with an initial maturity of three months or less. All cash accounts are held at one bank. The balance in these accounts may, at times, exceed federally insured limits; however, the Food Bank does not believe it is subject to any significant credit risk as a result of these deposits. As of June 30, 2018 and 2017, the Food Bank had on deposit \$472,911 and \$231,407, respectively, in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC).

#### ***Handling fees***

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

#### ***Inventory***

Donated food inventories are stated at the nationally calculated average price per pound of \$1.68 and \$1.73 as of June 30, 2018 and 2017, respectively. This average per pound is based on an independent study by Feeding America. Purchased food is valued at cost. U.S. Department of Agriculture (USDA) commodities are stated at the value assigned by USDA. Thus, inventories are stated at the lower of cost or net realizable value.

## **Feeding America Southwest Virginia Notes to Financial Statements**

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### ***Property and equipment***

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

Buildings	39 years
Improvements	15 years
Refrigerated trucks	5 years
Cooler, freezers, forklifts	7 years
Other equipment, including computers	5 years
Software	3 years
Furniture	7 years

### ***Deferred revenue***

Deferred revenue represents amounts paid by agencies to the Food Bank in advance of the Food Bank distributing food to the agency. The amounts paid do not meet the criteria for revenue recognition, and are therefore deferred until the criteria is met. Additionally, on March 9, 2017, the Food Bank entered into a restrictive gift agreement with Food Lion in the amount of \$350,000 payable in installments over five years with the final installment due on or before December 31, 2021. It has been determined the restricted gift agreement is an exchange transaction. For the fiscal year ended June 30, 2018, \$35,000 is shown as short-term deferred revenue for the twelve months that the asset related to the Food Lion gift will be in service in the next fiscal year and \$291,232 as long-term deferred revenue. For the fiscal year ended June 30, 2017, \$5,834 is shown as short-term deferred revenue for the two months that the asset related to the Food Lion gift will be placed in service in the next fiscal year and \$311,504 as long-term deferred revenue.

### ***Contributions***

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

Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year have been discounted at 4% commensurate with the estimated risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

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

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Food Bank. Volunteers provided various services to the Food Bank throughout the year that are not recognized as contributions in the financial statements since the recognition criteria are not met. The Food Bank received over 31,000 volunteer hours from approximately 10,865 volunteers during 2018, and over 36,000 volunteer hours from approximately 7,420 volunteers during 2017 (unaudited).

## **Feeding America Southwest Virginia Notes to Financial Statements**

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### ***Grants***

The Food Banks' grants received, which are considered exchange transactions, are reported as support and revenues in the period in which related expenditures are incurred. Grants received for which expenditures have not been incurred are reported as deferred revenues in the accompanying statements of financial position. The majority of the Organization's grants are from the U.S. Department of Agriculture, the Virginia Department of Agriculture, the Virginia Department of Education, U. S. Department of Housing and Urban Development, and the City of Roanoke, VA. Entitlement to those resources is generally conditioned upon compliance with the terms, commitments and conditions of the grants and applicable federal regulations, including the expenditure of the resources for allowable purposes. Federal and state awards are subject to financial and compliance audits either under the federal Single Audit Act or by contracting agencies of the federal or state government or their designees. Laws and regulations governing the federal and state awards are complex and subject to interpretation. As a result, the ultimate obligations that may arise from cost disallowance or sanctions as a result of those audits, and the related impact on the financial statements, if any, cannot be estimated. The ultimate resolution of the regulatory review process could impact future operations or cash flows in a particular period.

### ***Debt issuance cost***

The company capitalized certain costs associated with the issuance of its loans which are presented in the statements of financial position as a direct reduction from the related long-term debt. These costs are being amortized to interest expense using the effective interest method over the life of the debt issue.

### ***Concentrations***

A significant portion of the Food Bank's support is from the Virginia Department of Agriculture and Consumer Services (VDACS), which is passed through from USDA. During the years ended June 30, 2018 and 2017, approximately 10% and 9%, respectively, of the donated food received was from VDACS for both years, and approximately 10% and 4%, respectively, of the total revenue and support was from VDACS.

### ***Income taxes***

The Food Bank is exempt from federal income taxes under Section 501(c)(3) of the *Internal Revenue Code* and did not conduct unrelated business activities. In addition, the Food Bank has been determined by the Internal Revenue Service (IRS) not to be a "private foundation" within the meaning of Section 509(a) of the *Internal Revenue Code*. The Food Bank has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2018 and 2017.

### ***Advertising costs***

The Food Bank utilizes many forms of self-promotion and advertising as part of its fundraising activities. All costs are expensed as incurred and are included in promotion expense on the statements of functional expenses.

### ***Functional allocation of expenses***

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

### ***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 disclosures 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 and assumptions.

**Feeding America Southwest Virginia  
Notes to Financial Statements**

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***Subsequent events***

Management has evaluated subsequent events through October 1, 2018, the date on which the financial statements were available for issue.

**2. Receivables**

Receivables consist of the following:

	<u>2018</u>	<u>2017</u>
Due from member organizations	\$ 37,210	\$ 24,491
Contributions receivable	335,473	577,019
Insurance proceeds receivable	161,484	127,880
Other accounts receivable	104,992	37,867
Payroll advance	<u>2,300</u>	<u>1,050</u>
	641,459	768,307
Less allowance for doubtful accounts	<u>(2,585)</u>	<u>(2,585)</u>
	638,874	765,722
Less non-current contribution receivable	<u>(125,575)</u>	<u>(217,338)</u>
	<u>\$ 513,299</u>	<u>\$ 548,384</u>

Included in contributions receivable is a long term receivable with a face value of \$140,000 due as of June 30, 2018. This amount has been discounted at 4% to \$125,575, which is due from one donor representing 37% of the outstanding receivable balance. The contributions receivable are due as follows:

Less than one year	\$209,898
One to five years	\$125,575

An insurance proceeds receivable in the amount of \$161,484 was shown on the books as of June 30, 2018 and \$127,880 was shown on June 30, 2017. The balance was subsequently collected on September 17, 2018.

**3. Inventory**

Inventory consists of the following:

	<u>2018</u>	<u>2017</u>
Purchased	\$ 148,350	\$ 175,229
Donated	642,173	344,318
USDA commodities	<u>101,809</u>	<u>118,155</u>
	<u>\$ 892,332</u>	<u>\$ 637,702</u>

**4. Reserve Funds**

Both Rural Housing Service (RHS) note require a sinking fund deposit equal to 10% of the monthly debt payment until an amount equal to 12 monthly payments is accumulated. The reserve funds also consist of principal and interest on the Pamela Irvine Endowment.

**Feeding America Southwest Virginia  
Notes to Financial Statements**

Reserve funds, which are held in cash and cash equivalents, consist of the following:

	<u>2018</u>	<u>2017</u>
RHS sinking funds	\$ 88,357	\$ 76,261
Pamela Irvine Endowment, including interest (Note 8)	<u>28,390</u>	<u>28,068</u>
	<u>\$ 116,747</u>	<u>\$ 104,329</u>

**5. Property and Equipment**

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Buildings and other equipment	\$ 6,356,444	\$ 5,587,492
Vehicles	1,399,484	1,269,639
Equipment under capital lease	<u>97,700</u>	<u>58,400</u>
	7,853,628	6,915,531
Less accumulated depreciation and amortization	<u>(3,453,713)</u>	<u>(3,165,316)</u>
	4,399,915	3,750,215
Land	<u>1,327,600</u>	<u>1,327,600</u>
	<u>\$ 5,727,515</u>	<u>\$ 5,077,815</u>

On May 11, 2017, the Food Bank purchased the property located at 2328 Melrose Ave. NW Roanoke, Virginia. The property has been converted into a Community Solutions Center (CSC) that promotes childhood health and wellness by increasing the nutritional quality of food distributed; stimulates economic development by providing job training skills to unemployed and underemployed adults to grow job-readiness and self-sufficiency; and rehabilitated a previously high-crime property with collaborative community support. The Food Bank is required to meet certain performance obligations and use the CSC for the purposes outlined in the grant agreements. As of and for the years ended June 30, 2018 and 2017, management believes the terms of the grant agreements were met.

**6. Line of Credit**

The Food Bank has a line of credit with HomeTown Bank. The line is due on March 1, 2020 and secured by a first credit line deed of trust and a blanket lien on all assets. The maximum credit amount available was \$750,000 for 2018 and 2017. Interest during the year ended June 30, 2018 was at the bank prime rate until April 18, 2018, at which time the rate was changed to prime less 0.5%. At June 30, 2018, the bank prime rate was 5.00%. Interest during the year ended June 30, 2017 was the bank prime rate. At June 30, 2018 and 2017, the outstanding principal balance was \$297,801 and \$454,216, respectively. There are additional terms under the line of credit agreement. As of and for the year ended June 30, 2018, management believes the additional terms of the agreement were met.

**Feeding America Southwest Virginia  
Notes to Financial Statements**

**7. Long-Term Debt**

Long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
Rural Housing Service (RHS) Abingdon Facility: Note payable, \$8,627 payable monthly with interest at 4.5% through 2049. Secured by real property, equipment, and reserve funds.	\$ 1,719,515	\$ 1,745,031
HomeTown Bank Salem Facility: Note payable, \$10,601 payable monthly with interest at 4.0% through 2027. Secured by real property and assignment of rents.	1,941,033	1,988,471
HomeTown Bank Vehicle Loan: Note payable, \$3,250 payable annually with interest at 3.5% through 2022. All remaining principal due on the loan is payable at maturity. Secured by vehicle.	14,750	18,000
HomeTown Bank CSC Capital Campaign Loan: Line of credit, The Food Bank has a line of credit with HomeTown Bank to fund the capital campaign at the CSC. The line is due on December 31, 2020 and is cross-collateralized with the line of credit listed in Note 6 above. The maximum credit amount available was \$300,000 for 2018. Interest during the year ended June 30, 2018 was the bank prime rate less 0.35%. At June 30, 2018, the bank prime rate was 5.00%. All remaining principal due on the loan is payable at maturity. Secured by existing inventory, accounts, equipment, and general intangibles.	160,000	-
HomeTown Bank CSC Loan: Note payable, \$56,000 payable each June 16 with interest at 4.0% through June 16, 2022. The Food Bank has a note payable with HomeTown Bank to fund amounts to be received from the restrictive gift agreement with Food Lion at the CSC. The note payable is cross-collateralized with the line of credit listed in Note 6 above. The maximum credit amount available was \$280,000 for 2018. All remaining principal due on the loan is payable at maturity. Secured by existing inventory, accounts, equipment, and general intangibles.	124,000	-
City of Roanoke, Roanoke Facility: Note payable, This non-interest bearing Community Development Block Grant is secured by a deed of trust on real property of the facility. Total amount of principal is \$250,000 with a balloon payment of such amount due on May 11, 2027. The note has been recorded at net present value over 10 years at 4.0%, resulting in unamortized discount of \$81,100 at June 30, 2018. However, if the Food Bank remains in good standing for the 120 month compliance period the note is to be forgiven in its entirety.	175,650	168,900
Capital Lease Obligation: Capital lease for equipment obtained June 2018, \$1,880 payable monthly with interest at 7.61% through September 2023, followed by a final payment of \$849 in October 2023. Secured by equipment	97,700	-

**Feeding America Southwest Virginia  
Notes to Financial Statements**

<i>(continued)</i>	<u>2018</u>	<u>2017</u>
Capital lease for equipment, \$1,268 payable monthly with interest at 12.46% scheduled through December 2018, followed by a final payment of \$418 in January 2019. Secured by equipment.	\$ -	\$ 21,056
	<b>4,232,648</b>	3,941,458
Less current portion	<u>(142,833)</u>	<u>(89,576)</u>
	<b>4,089,815</b>	3,851,882
Less debt issuance costs	<u>(10,510)</u>	<u>(12,312)</u>
Total long term debt	<u><b>\$ 4,079,305</b></u>	<u><b>\$ 3,839,570</b></u>

Amortization of loan issuance costs included in interest expense were \$1,802 and \$3,093 for the years ending June 30, 2018 and 2017, respectively. The remaining loan issuance costs will be amortized over six years at approximately \$1,800 per year.

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

<u>Fiscal Year Ended</u>	<u>Long-Term Debt</u>	<u>Sinking Fund</u>
2019	\$ 142,833	\$ 12,088
2020	308,082	12,088
2021	108,729	8,371
2022	101,428	-
2023	104,868	-
2024 and thereafter	<u>3,466,708</u>	<u>-</u>
	<u><b>\$ 4,232,648</b></u>	<u><b>\$ 32,547</b></u>

**8. Net Assets**

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Revolving food fund	\$ 132,706	\$ 132,706
Other food programs	<b>582,458</b>	305,012
Property and equipment	<u>119,432</u>	<u>89,631</u>
	<u><b>\$ 834,596</b></u>	<u><b>\$ 527,349</b></u>

**Feeding America Southwest Virginia  
Notes to Financial Statements**

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Permanently restricted net assets consist of the following at June 30, 2018 and 2017:

**Pamela  
Irvine  
Endowment**  
\$ 27,700

**9. Pension Plan**

The Food Bank has a 401(k) plan (the "Plan") for the benefit of its employees. Employees become eligible to make elective deferrals after 30 days of employment, and are eligible to have employer contributions credited to their account after two years of service. The Food Bank may make matching, non-elective, and discretionary contributions to the Plan. During 2018 and 2017, the Food Bank contributed \$32,756 and \$27,192, respectively, to the Plan.

**10. Leases**

During the year ended June 30, 2018, the Food Bank completed its requirements in long-term lease agreement for a truck rental.

**11. Related Parties**

The Food Bank is a member of the Feeding America national network of food banks. During the normal course of business, the Food Bank purchased food, paid hosting fees, and membership dues to Feeding America. At year-end June 30, 2018 and 2017, the accounts payable balance with Feeding America was \$27,072 and \$0, respectively. The food purchased, hosting fees, and membership dues paid to Feeding America total \$64,936 and \$56,392, respectively, during the years ended June 30, 2018 and 2017.

***Compliance Section***

**Feeding America Southwest Virginia  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018**

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**Schedule of Expenditures of Federal Awards**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>	<u>Pass Through to Subrecipients</u>
Pass-through Virginia Department of Agriculture and Consumer Services (VDACS Agency Number 67-500):			
USDA – Food Distribution Cluster:			
Emergency Food Assistance Program (Food Commodities)	10.569	\$ 2,685,038	\$ 2,685,038
Emergency Food Assistance Program (Administrative Costs)	10.568	594,803	-
Commodity Supplemental Food Program (Food Commodities and Administrative Costs)	10.565	<u>62,201</u>	<u>24,181</u>
Cluster Total		3,342,042	2,709,219
Pass-through from the Virginia Department of Education:			
USDA – Child Nutrition Hunger Demonstration Project	10.579	631,766	-
Pass-through from the City of Roanoke:			
Community Development Block Grant	14.218	250,033	-
USDA Child and Adult Care Food Program	10.558	318,904	-
USDA – Child Nutrition Cluster – Summer Food Service Program for Children	10.559	<u>127,067</u>	<u>-</u>
Total Federal Expenditures		<u>\$ 4,669,812</u>	<u>\$ 2,709,219</u>

## **Notes to Schedule of Expenditures of Federal Awards**

### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of Feeding America Southwest Virginia under the programs of the federal government for the year ended June 30, 2018. The information in this SEFA is presented in accordance with the requirements of Title 2 US *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of Feeding America Southwest Virginia, it is not intended to and does not present the financial position, changes in net assets or cash flows of Feeding America Southwest Virginia.

### **2. Summary of Significant Accounting Policies**

Expenditures reported in the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Food commodities expenditures are recognized when distributed or consumed.

Feeding America Southwest Virginia has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

## **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  
Feeding America Southwest Virginia  
Salem, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Feeding America Southwest Virginia (the "Food Bank"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 1, 2018.

### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Food Bank'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 the Food Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control.

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

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2018-01 that we consider to be a significant deficiency.

### ***Compliance and Other Matters***

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

***The Food Bank's Response to Finding***

The Food Bank's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Food Bank's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***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 Food Bank'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 Food Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
October 1, 2018**

## **Independent Auditors' Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance**

Board of Directors  
Feeding America Southwest Virginia  
Salem, Virginia

### **Report on Compliance for Each Major Federal Program**

We have audited Feeding America Southwest Virginia's (the "Food Bank") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2018. The Food Bank's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, contracts, and the terms and conditions applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the Food Bank'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Food Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Food Bank's compliance.

### ***Opinion on Each Major Federal Program***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2018-01. Our opinion on each major federal program is not modified with respect to this matter.

The Foodbank's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Foodbank's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

In our opinion, the Food Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

***Other Matters***

**Report on Internal Control over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding 2018-01 that we consider to be a significant deficiency.

The Food Bank's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Food Bank's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
October 1, 2018**

## Schedule of Findings, Questioned Costs and Response

### 1. Summary of Auditors' Results

#### **Financial Statements**

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States:

	Unmodified	
	Yes	No
Internal control over financial reporting:		
• Material weakness(es) identified?	_____	X
• Significant deficiency(ies) that are not considered to be material weaknesses?	X	_____
Noncompliance material to financial statements noted?	_____	X

#### **Federal Awards**

Internal control over major programs:

• Material weakness(es) identified?	_____	X
• Significant deficiency(ies) that are not considered to be material weaknesses?	X	_____

Type of auditors' report issued:

	Unmodified	
Any audit findings disclosed that are required to be reported?	X	_____

Identification of major programs:

<u>CFDA/Contract Numbers</u>	<u>Name of Federal Program or Cluster</u>	<u>Amount Expended</u>
	Food Distribution Cluster:	
10.569	USDA – Emergency Food Assistance Program (Food Commodities)	\$ 2,685,038
10.568	USDA – Emergency Food Assistance Program (Administrative Costs)	594,803
10.565	USDA – Commodity Supplemental Food Program	62,201
		<u>\$ 3,342,042</u>

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000	
Auditee qualified as low-risk auditee	X	_____

### 2. Financial Statement Findings

See finding 2018-01

### 3. Federal Award Findings, Questioned Costs and Response

See finding 2018-01

**Feeding America Southwest Virginia  
Schedule of Findings, Questioned Costs and Response  
Year Ended June 30, 2018**

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**Finding 2018-01:**

***U.S. Department of Agriculture***

Food Distribution Cluster:

Emergency Food Assistance Program (Food Commodities)	10.569
Emergency Food Assistance Program (Administrative Costs)	10.568
Commodity Supplemental Food Program	10.565

***Inventory***

*Criteria:* 2 CFR 200.303 requires that Institutions must “(a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Additionally the special tests and provisions applicable to the food distribution cluster indicate that control should provide reasonable assurance that accurate and complete records are maintained with respect to the receipt, distribution/use, and inventory for foods.

*Condition:* The Food Bank’s year-end physical count procedures produced inaccurate quantity results for 3 of the 40 inventory items tested. 1 of the 3 errors related to the food distribution cluster. Additionally, a breakdown in the perpetual inventory process occurred, resulting in inaccurate inventory quantities reported in the Food Bank’s perpetual inventory system maintained throughout the year; thus, enhancing the opportunity for errors or irregularities to occur and not be detected.

*Cause:* Although first and second count were performed under the Food Bank’s physical count procedures, we still noted 3 inaccurate test counts in our sample of recounts. The reason for the inaccurate inventory counts is unknown. Management noted that there are variances in how certain inventory items are initially categorized going into inventory in comparison to breakdown and valuation upon dispersing of the inventory and issues discovered related to reclaimed donated food inventory, which primarily resulted in inaccurate reporting of the perpetual inventory balance during the year, until an adjustment was recorded to reflect the results from the annual physical count.

*Effect:* Potential for inaccurate food commodity expenditure reported on the Food Bank’s Schedule of Expenditures of Federal Awards (SEFA) and inventory values in the financial statements. The year-end perpetual book to physical inventory adjustments resulted in write downs of the year-end inventory balances of \$298,000, \$2,600 and \$16,000 for donated, purchased and USDA inventory respectively.

*Questioned costs:* \$611 projected overstatement of inventory related to the food distribution cluster and \$10,160 projected understatement of non-food distribution cluster inventory

*Context:* At June 30, 2018, food inventory consisted of \$642,173 donated, \$148,350 purchased and \$101,809 of USDA commodities.

*Prior year finding:* None noted.

*Recommendation:* The Food Bank should train those involved in the year-end inventory counts and emphasize the importance of producing accurate count results. Also, management should evaluate the current perpetual inventory process and make necessary enhancements to properly relieve food as distributed to avoid large book to physical adjustments at year-end.

*Views of responsible official:* See management’s corrective action plan.



## Finding 2018-01: Management response and Corrective Action Plan

Fiscal 2018 was punctuated by unprecedented growth in both Senior and Children's Programs at Feeding America Southwest Virginia, as well as the construction and opening of our new Community Solutions Center. New support staff, construction management, preparation for our third party physical Salem audit by AIB International, and rapidly accelerated inventory transactions tested the limits of the organization. We experienced some errors in our year-end physical inventory counts. As a result, the auditors have projected a 1.58% understatement related to year-end donated food inventory. Additionally, we have identified some opportunities for improving our perpetual inventory process and corrective action plan.

### **Corrective Action / Process and Internal Control Improvement:**

- Physical counts by weight will be subject to verification at certified scales at the actual time of the weight recording. A random 10% recount by a third associate will occur from the pallet storage location and be re-confirmed on both the pallet and inventory hard copy location tag.
- A midyear count of specific weight items known to have the highest number of transactions and potential errors will become standard practice.
- Empty pallet weights will be confirmed quarterly to ensure the correct net pallet/product weight is captured at receipt of goods.
- A full review and analysis of the reclamation program to identify possible recording deficiencies will be completed prior to the end of fiscal second quarter. Item weights will be matched to scanned item counts.
- Additional training of employees will begin immediately on the importance of maintaining the accuracy of perpetual inventory throughout the year and physical inventory counts at year-end.

Management plans to begin implementing the steps above in the near term and monitor them to ensure that they are functioning properly prior to next year-end June 30, 2019.

***Supplementary Information***

**Feeding America Southwest Virginia  
Schedules of Food Received and Distributed  
Years Ended June 30, 2018 and 2017**

	<u>Pounds</u>	<u>Dollars</u>
Year Ended June 30, 2018:		
Beginning inventory	560,726	\$ 637,702
Donated food received	14,688,015	24,675,857
USDA commodities received	4,157,008	2,692,874
Purchased food	<u>1,764,347</u>	<u>891,699</u>
 Total food available	 <u>21,170,096</u>	 <u>28,898,132</u>
 Less food distributed and adjustments	 <u>20,260,150</u>	 <u>28,005,800</u>
 Ending Inventory	 <u><u>909,946</u></u>	 <u><u>\$ 892,332</u></u>
Year Ended June 30, 2017:		
Beginning inventory	827,353	\$ 1,060,009
Donated food received	15,155,221	26,218,532
USDA commodities received	4,154,814	2,626,817
Purchased food	<u>1,529,517</u>	<u>1,321,823</u>
 Total food available	 <u>21,666,905</u>	 <u>31,227,181</u>
 Less food distributed and adjustments	 <u>21,106,179</u>	 <u>30,589,479</u>
 Ending Inventory	 <u><u>560,726</u></u>	 <u><u>\$ 637,702</u></u>

**DHG**