

Food Bank of Central & Eastern North Carolina, Inc.

Report on Financial Statements

For the years ended June 30, 2017 and 2016

Food Bank of Central & Eastern North Carolina, Inc.

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Independent Auditor's Report

Board of Directors
Food Bank of Central & Eastern North Carolina, Inc.
Raleigh, NC

Report on the Financial Statements

We have audited the accompanying financial statements of the Food Bank of Central & Eastern North Carolina, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 the Food Bank of Central & Eastern North Carolina, Inc. as of June 30, 2017 and 2016, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017 on our consideration of Food Bank of Central & Eastern North Carolina, 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 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 the Food Bank of Central & Eastern North Carolina, Inc.'s internal control over financial reporting and compliance.

Elliott Davis Decosimo, PLLC

Raleigh, North Carolina
October 12, 2017

Food Bank of Central & Eastern North Carolina, Inc.

Statements of Financial Position

As of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,472,827	\$ 2,189,335
Accounts receivable, net	164,003	129,245
Campaign pledge receivable, net	790,938	1,676,114
Accrued interest receivable	17,273	13,175
Grants receivable	605,238	762,128
Food inventories	1,740,612	1,244,952
Prepaid expenses	263,705	71,209
Total current assets	<u>6,054,596</u>	<u>6,086,158</u>
Property and equipment		
Buildings	11,182,217	5,888,411
Land	1,225,429	1,225,429
Construction in progress	-	2,726,452
Fleet	1,505,397	1,478,301
Furniture and equipment	1,811,509	1,783,358
Leasehold improvements	154,772	124,151
	<u>15,879,324</u>	<u>13,226,102</u>
Less: Accumulated Depreciation	<u>2,032,632</u>	<u>3,484,460</u>
Total property and equipment	<u>13,846,692</u>	<u>9,741,642</u>
Other assets		
Noncurrent campaign pledge receivable, net	3,365,337	3,411,728
Beneficial interest in assets held by others	1,028,324	944,436
Other investments	13,000	13,000
Donated property held for sale	-	160,000
Deposits	5,182	5,182
Total other assets	<u>4,411,843</u>	<u>4,534,346</u>
Total assets	<u>\$ 24,313,131</u>	<u>\$ 20,362,146</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 240,875	\$ 1,019,995
Accrued expenses:		
Accrued retirement payable	104,767	99,282
Accrued vacation payable	108,071	87,687
Accrued salaries and payroll taxes	159,327	19,119
Total current liabilities	<u>613,040</u>	<u>1,226,083</u>
Long-term liabilities		
Accrued interest expense	7,020	-
Note payable	2,817,215	468,687
Total long-term liabilities	<u>2,824,235</u>	<u>468,687</u>
Net Assets		
Unrestricted		
Undesignated	18,897,456	16,396,590
Board Designated	249,576	-
Temporarily restricted	1,728,824	2,270,786
Total net assets	<u>20,875,856</u>	<u>18,667,376</u>
Total liabilities and net assets	<u>\$ 24,313,131</u>	<u>\$ 20,362,146</u>

See Notes to Financial Statements

Food Bank of Central & Eastern North Carolina, Inc.**Statements of Activities and Changes in Net Assets****For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets		
Support and revenues		
Food donated	\$ 116,024,127	\$ 102,028,952
Shared maintenance - agencies	1,056,319	1,112,217
Food purchase programs	886,322	532,720
Contributions	9,232,739	5,869,701
Campaign pledge	1,596,214	7,840,735
United Way	104,250	105,283
Governmental grant awards	1,776,233	1,593,116
Goods, services and facilities contributed	509,309	255,259
Interest	31,940	30,644
Other	98,632	70,963
Gain on disposal of fixed assets	256,816	2,000
Gain on disposal of donated property	2,998	-
	<hr/>	<hr/>
Total unrestricted support and revenues before restrictions released	131,575,899	119,441,590
	<hr/>	<hr/>
Net assets released from restrictions	2,093,595	2,415,071
	<hr/>	<hr/>
Total unrestricted support and revenues after restrictions released	133,669,494	121,856,661
	<hr/>	<hr/>
Expenses		
Program services	127,560,711	112,402,105
Supporting services		
Management and general	1,059,010	1,046,487
Fundraising	2,299,331	2,259,354
	<hr/>	<hr/>
Total expenses	130,919,052	115,707,946
	<hr/>	<hr/>
Increase in unrestricted net assets	\$ 2,750,442	\$ 6,148,715
	<hr/>	<hr/>
Changes in Temporarily Restricted Net Assets:		
Contributions	\$ 1,421,667	\$ 3,280,337
Interest	8,393	7,222
Gain/(loss) on investment	121,573	(70,845)
Net assets released from restrictions	(2,093,595)	(2,415,071)
	<hr/>	<hr/>
Increase/(decrease) in temporarily restricted net assets	\$ (541,962)	\$ 801,643
	<hr/>	<hr/>

See Notes to Financial Statements

Food Bank of Central & Eastern North Carolina, Inc.***Statements of Activities and Changes in Net Assets******For the Years Ended June 30, 2017 and 2016***

	<u>2017</u>	<u>2016</u>
Increase in unrestricted net assets	\$ 2,750,442	\$ 6,148,715
Increase/(decrease) in temporarily restricted net assets	<u>(541,962)</u>	<u>801,643</u>
Increase in net assets	2,208,480	6,950,358
Net assets at beginning of year	<u>18,667,376</u>	<u>11,717,018</u>
Net assets at end of year	<u><u>\$ 20,875,856</u></u>	<u><u>\$ 18,667,376</u></u>

See Notes to Financial Statements

Food Bank of Central & Eastern North Carolina, Inc.**Statement of Functional Expenses****For the Year Ended June 30, 2017**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Officer's salary	\$ 330,156	\$ 38,842	\$ 19,421	\$ 388,419
Salaries	3,157,906	503,434	915,335	4,576,675
Retirement	244,203	38,931	70,783	353,917
Employee benefits	552,826	88,132	160,239	801,197
Payroll taxes	233,171	37,172	67,586	337,929
Advertising	-	-	77,839	77,839
Conferences, meetings, and conventions	44,774	31,068	15,534	91,376
Consultants	114,731	22,946	15,297	152,974
Depreciation	391,527	24,991	-	416,518
Food distributed	115,473,107	-	-	115,473,107
Food purchases	662,968	-	-	662,968
Fundraising expenses	33,658	16,829	117,801	168,288
Interest Expense	68,984	-	-	68,984
Legal	-	28,798	-	28,798
Membership dues	40,746	38,302	2,445	81,493
Miscellaneous	90,685	11,336	11,336	113,357
Occupancy	1,028,874	-	-	1,028,874
Packaging	595,918	-	-	595,918
Payments to affiliated organizations	46,078	-	-	46,078
Postage and shipping	4,429	12,654	46,189	63,272
Printing and publications	2,271	568	53,930	56,769
Professional fees	-	47,750	-	47,750
Professional fundraising fees	-	-	674,560	674,560
Child and adult programs	1,930,343	-	-	1,930,343
Rental and maintenance of equipment	422,969	17,809	4,452	445,230
State funded food purchases	493,447	-	-	493,447
State employees credit union purchases	98,133	-	-	98,133
Supplies	210,738	26,017	23,415	260,170
Telephone	147,133	6,397	6,397	159,927
Temporary help	338,815	41,876	-	380,691
Travel and transportation	796,660	25,158	16,772	838,590
Bad debt	5,461	-	-	5,461
	<u>\$ 127,560,711</u>	<u>\$ 1,059,010</u>	<u>\$ 2,299,331</u>	<u>\$ 130,919,052</u>

Food Bank of Central & Eastern North Carolina, Inc.**Statement of Functional Expenses****For the Year Ended June 30, 2016**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Officer's salary	\$ 175,348	\$ 20,629	\$ 10,315	\$ 206,292
Salaries	2,923,028	465,990	847,255	4,236,273
Retirement	225,099	35,885	65,246	326,230
Employee benefits	470,697	75,039	136,434	682,170
Payroll taxes	216,202	34,467	62,667	313,336
Advertising	-	-	102,815	102,815
Conferences, meetings, and conventions	40,823	28,326	14,163	83,312
Consultants	450,463	90,093	60,062	600,618
Depreciation	331,097	21,134	-	352,231
Food distributed	102,182,970	-	-	102,182,970
Food purchases	291,585	-	-	291,585
Fundraising expenses	16,363	8,182	57,272	81,817
Interest Expense	13,599	-	-	13,599
Legal	-	6,131	-	6,131
Membership dues	40,064	37,660	2,404	80,128
Miscellaneous	63,555	7,945	7,945	79,445
Occupancy	899,548	-	-	899,548
Packaging	460,185	-	-	460,185
Payments to affiliated organizations	35,307	-	-	35,307
Postage and shipping	4,960	14,171	51,723	70,854
Printing and publications	2,687	672	63,820	67,179
Professional fees	-	43,500	-	43,500
Professional fundraising fees	-	-	717,654	717,654
Child and adult programs	1,646,095	-	-	1,646,095
Rental and maintenance of equipment	366,937	15,450	3,863	386,250
State funded food purchases	494,936	-	-	494,936
State employees credit union purchases	-	-	-	-
Supplies	94,530	-	22,174	116,704
Telephone	110,950	4,824	4,824	120,598
Temporary help	157,910	114,844	14,355	287,109
Travel and transportation	682,260	21,545	14,363	718,168
Bad debt	4,907	-	-	4,907
	<u>\$ 112,402,105</u>	<u>\$ 1,046,487</u>	<u>\$ 2,259,354</u>	<u>\$ 115,707,946</u>

Food Bank of Central & Eastern North Carolina, Inc.**Statements of Cash Flows****For the years ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating activities		
Change in net assets	\$ 2,208,480	\$ 6,950,358
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Depreciation	416,518	352,231
Disposal of donated property held for sale	(2,998)	243,833
Gain on disposal of property and equipment	(256,816)	-
Change in beneficial interest in assets held by others	(83,888)	12,042
Contributions restricted for long-term purposes	(1,625,110)	(5,087,842)
Noncash contributions of property and equipment	(441,830)	(115,000)
In-kind contributions of food and non-food (including USDA)	(116,029,940)	(102,028,952)
Distribution of food and non-food received in-kind	115,473,106	102,182,970
Changes in operating assets and liabilities:		
Accounts receivable	(34,758)	1,546,398
Accrued interest receivable	(4,098)	(1,979)
Campaign pledge receivable	931,567	(5,087,842)
Grants receivable	156,890	(256,997)
Purchased food inventories	61,174	(81,448)
Prepaid expenses	(192,496)	41,977
Deposits	-	100,000
Accounts payable	(779,120)	376,082
Accrued expenses	173,097	(749)
Net cash provided by operating activities	<u>(30,222)</u>	<u>(854,918)</u>
Investing activities		
Purchases of property and equipment	(5,529,597)	(7,673,806)
Proceeds from the sale of donated property	162,998	-
Proceeds from sale of property and equipment	1,706,675	-
Net cash used in investing activities	<u>(3,659,924)</u>	<u>(7,673,806)</u>
Financing activities		
Capital campaign contributions	1,625,110	5,087,842
Proceeds from note payable	4,082,338	468,687
Payments on note payable	(1,733,810)	-
Net cash provided by/(used in) financing activities	<u>3,973,638</u>	<u>5,556,529</u>
Net increase (decrease) in cash	283,492	(2,972,195)
Cash and cash equivalents, beginning of year	<u>2,189,335</u>	<u>5,161,530</u>
Cash and cash equivalents, end of year	<u>\$ 2,472,827</u>	<u>\$ 2,189,335</u>

See Notes to Financial Statements

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note 1. Summary of Significant Accounting Policies

Food Bank activities:

The mission of Food Bank of Central & Eastern North Carolina, Inc. (the "Organization") is to contribute to the alleviation of hunger and need in thirty-four counties in central and eastern North Carolina by accumulating high quality and nutritious surplus food and non-food essentials and providing them to non-profit agencies who distribute directly to the needy, the ill, or infants; assisting building capacity of agencies responsible for directly distributing food and nonfood items; extending Organization programs to unserved communities within the service area; and advocating means that will eliminate hunger and the poverty that is its cause.

The Organization has warehouses at the following addresses in North Carolina: 1924 Capital Blvd, Raleigh; 1712 Union Street, Greenville; 195 Sandy Avenue, Southern Pines; 2700 Angier Ave, Durham; 1314 Marstellar Street, Wilmington; and 205 S. Glenburnie Road, New Bern.

Reclassifications:

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

Support and revenues:

Financial statement presentation follows the recommendations of the Not-for-Profit Entities Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification. Under this topic, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets are subject to donor-imposed restrictions on their use. Permanently restricted net assets include those net assets that must be maintained in perpetuity.

Under the Not-for-Profit Entities Topic, contributions received, including unconditional promises to give, are recognized as revenues in the period received at their estimated fair market value less an appropriate allowance for uncollectible amounts. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions are substantially met.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by the donor-imposed restrictions. Donor-restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on the net assets, when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Cash and cash equivalents:

The Organization considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents. For purposes of the statement of cash flows, contributions of permanently restricted cash and cash equivalents are classified as cash flows from financing activities.

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note 1. Summary of Significant Accounting Policies, continued

Accounts receivable:

The Organization extends credit to various agencies. When an agency picks up food, shared maintenance revenue and a corresponding account receivable are recorded. Once the receivable is older than thirty days, it is considered past due.

The Organization periodically evaluates the balances in the various aging categories as well as the status of any significant past due accounts to determine if any balances are uncollectible.

When management determines that a receivable is uncollectible, the balance is removed from the receivables balance and is charged directly to earnings. Subsequent recoveries of amounts previously written off are credited directly to earnings.

At June 30, 2017 and 2016, management believed that a portion of agency receivables were uncollectible and, therefore, an allowance for doubtful accounts of \$1,589 was recorded in both periods.

Pledges receivable:

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows if deemed material to the financial statements. The discount on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in campaign pledge revenue.

Income taxes:

The Organization formed in June 1980 for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note 1. Summary of Significant Accounting Policies, continued

Inventory and food valuation:

The Organization values purchased inventory at lower of cost (first-in, first-out) or market. If donated, inventory is valued at a stated value determined by Feeding America, Inc. The value of food donated is recorded as a contribution. Obsolete inventory is accounted for using the direct method. Total obsolete inventory for the years ending June 30, 2017 and June 30, 2016 was \$5,275,118 and \$4,144,408, respectively. Food donated and food distributed appear on the statements of activities and changes in net assets.

Food commodities were received and disbursed as follows, including food not fit for human consumption (in pounds):

	<u>2017</u>	<u>2016</u>
Beginning inventory	1,160,208	828,842
Food received	72,002,130	66,303,890
Food distributed	<u>(71,990,769)</u>	<u>(65,972,543)</u>
Ending inventory	<u>1,171,569</u>	<u>1,160,208</u>

Property and equipment:

Property and equipment is stated at cost or, if acquired by gift, the fair market value at the date of the gift. The cost of equipment, retired or disposed of, and the related depreciation are eliminated from the accounts, with the resulting gains and losses included in operations. The Organization capitalizes all property and equipment with a cost greater than \$1,000. Depreciation is provided on the accelerated and straight line methods, using estimated useful lives as follows:

Buildings	5-39 years
Fleet	5-15 years
Furniture and equipment	5-10 years
Leasehold improvements	3-10 years

Assets held for sale:

Generally accepted accounting principles require that long-lived assets to be sold be classified as "held for sale" in the period in which criteria are met, such as the estimated timeframe in which the assets are expected to be sold. As a result, depreciation is not recorded on an asset once deemed to be held for sale, and it is recorded in the financial statements at the lower of its carrying value or fair value less cost to sell. At June 30, 2017 the Organization had no assets held for sale, and as of June 30, 2016 assets held for sale totaled \$160,000.

Contributed services:

Numerous volunteers have contributed significant amounts of time to the Organization which have not been reflected in the accompanying statements of financial position as they did not meet the criteria for recognition as described in the Revenue Recognition for Contributions Received Topic of the FASB Accounting Standards Codification. The Organization estimates total volunteer hours to be 253,000 and 236,225 for the years ended June 30, 2017 and 2016, respectively.

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note 1. Summary of Significant Accounting Policies, continued

Advertising costs:

The Organization expenses advertising costs as incurred; advertising costs totaled \$77,839 and \$102,815 for the years ended June 30, 2017 and 2016, respectively.

Use of estimates:

The preparation of financial statements in conformity with 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 2. Concentrations of Credit Risk

The Organization maintains cash balances at several financial institutions located in Raleigh, North Carolina. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times during the fiscal year, the Organization's cash balances may have exceeded the federally insured limit. Uninsured cash balances at June 30, 2017 and 2016 totaled \$1,558,207 and \$1,790,694, respectively.

The Organization has been a member of the Feeding America, Inc. national network of food banks since the 1980's, and it is currently a member in good standing. It has contracted to serve thirty-four counties in central and eastern North Carolina by Feeding America, Inc. The Organization received 55% and 57%, respectively, of its donated food for the years ended June 30, 2017 and 2016 through its relationship with Feeding America, Inc. Feeding America, Inc. also provides technical assistance and makes periodic audits of the food distribution operations of the Organization.

Note 3. Accounts and Grants Receivable

Accounts receivable is summarized as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Agency receivable	\$ 64,268	\$ 93,664
Allowance for uncollectible	(1,589)	(1,589)
Sales tax refund receivable	68,845	29,690
Other receivable	<u>32,479</u>	<u>7,480</u>
Total	<u>\$ 164,003</u>	<u>\$ 129,245</u>

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note 3. Accounts and Grants Receivable, continued

Grants receivable is summarized as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Emergency Food Assistance receivable	\$ 44,890	\$ 84,142
Food Nutrition Services receivable	20,391	7,658
Kids Summer Meals receivable	179,357	181,953
State appropriation receivable	52,194	113,375
Other grants receivable	308,406	375,000
Total	<u>\$ 605,238</u>	<u>\$ 762,128</u>

Note 4. Campaign Pledge Receivable

Campaign pledge contributions due in more than one year are schedule to be received as follows:

2018	\$ 808,606
2019	876,486
2020	856,686
2021	699,575
2022	473,913
2023 and after	528,258
Less discount of 1.72% - 2.31%	<u>(87,250)</u>
	<u>\$ 4,156,275</u>

Note 5. Note Payable

On July 31, 2015 the Organization purchased a warehouse and office building property in Raleigh, North Carolina for \$4,635,000. In connection with the purchase, the Organization executed two term promissory notes with a financial institution in the amount of \$5,000,000 each for the acquisition and renovation of the property; one of the \$5,000,000 notes bears interest at a fixed rate of 2.99 percent and matures August 2020, and the other \$5,000,000 note contains a variable interest rate and was fully paid in February 2017. To compensate for the various funding and debt streams to purchase the building, the Organization has received approximately \$10,000,000 in pledges to offset these costs. The Organization draws on the promissory notes when pledge revenue on hand is insufficient to cover obligations. As of June 30, 2017 and June 30, 2016 the total note payable was \$2,817,215 and \$468,687, respectively, of which none will be due until September 2018 when annual principal payments on a minimum of 10% of the maximum funded balance will be due annually until August 2020 when the remaining outstanding principal and accrued interest become payable.

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note 6. Fair Value of Assets and Liabilities

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification establishes a framework for measuring fair value, and sets out a fair value hierarchy that places the highest priority on quote prices in active markets. Under this standard, fair value measurements are disclosed by level within that hierarchy. The Food Bank utilizes the three-tier fair value hierarchy that clarifies fair value as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes the following three levels of inputs that may be used to measure fair value:

- Level 1: Inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasury Securities.
- Level 2: Inputs consist of observable inputs other than quoted prices for identical assets, such as quoted prices for similar assets or liabilities; quote prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Other investments for the Food Bank, consisting of Silver Peak REIT, Inc. and donated timeshare interests, are presented at the fair market value of similar assets.
- Level 3: Inputs consist of unobservable inputs, have the lowest priority, and would only be used when Level 1 or Level 2 inputs were not available to the Organization.

The Organization believes fair value of the future cash flows to be received from its beneficial interest in assets held by the Triangle Community Foundation approximates the fair value of the underlying assets held by Triangle Community Foundation. The assets held at Triangle Community Foundation are entirely comprised of pooled investment funds held and managed by Triangle Community Foundation. Value is based on the net asset value per share as determined by Triangle Community Foundation and provided to the Organization. The Food Bank believes fair value at June 30, 2017 and June 30, 2016 approximates cost.

Fair values of assets measured on a recurring basis at June 30, 2017 are as follows:

	<u>Fair value measurements at Reporting Date</u>			
		<u>Quoted prices In active Markets for identical assets (Level 1)</u>	<u>Quoted prices in active markets for identical assets (Level 2)</u>	<u>Significant other observable inputs (Level 3)</u>
	<u>Total</u>			
Beneficial interest in Triangle Community Foundation	\$ 1,028,324	\$ -	\$ -	\$ 1,028,324
Other investments	<u>13,000</u>	<u>-</u>	<u>13,000</u>	<u>-</u>
	<u>\$ 1,041,324</u>	<u>\$ -</u>	<u>\$ 13,000</u>	<u>\$ 1,028,324</u>

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note 6. Fair Value of Assets and Liabilities, continued

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows:

	<u>Fair value measurements at Reporting Date</u>			
	<u>Total</u>	<u>Quoted prices In active Markets for identical assets (Level 1)</u>	<u>Quoted prices in active markets for identical assets (Level 2)</u>	<u>Significant other observable inputs (Level 3)</u>
Beneficial interest in Triangle Community Foundation	\$ 944,436	\$ -	\$ -	\$ 944,436
Other investments	<u>13,000</u>	<u>-</u>	<u>13,000</u>	<u>-</u>
	<u>\$ 957,436</u>	<u>\$ -</u>	<u>\$ 13,000</u>	<u>\$ 944,436</u>

Changes in fair value measurements using significant unobservable inputs (level 3) for the Beneficial Interest in Triangle Community Foundation are described in Note 7 below.

Note 7. Triangle Community Foundation

The Organization established an endowed agency fund at the Triangle Community Foundation in October 2014 and specified itself as the beneficiary of the funds. Annually, distributions from the funds are paid to the Organization according to the Triangle Community Foundation's distribution policy. Triangle Community Foundation maintains variance power over these assets. Variance power assures donors that if the charitable purpose of their contribution becomes impractical, impossible, or inconsistent with the charitable needs of the community served the distributions will be directed to similar purposes in the community. Despite the variance power, the Organization believes that Triangle Community Foundation will continue to make annual distributions to the Organization.

Changes in the fair value of the Organization's beneficial interest in assets held by others are as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 944,436	956,478
Net investment performance	129,966	51,581
Grants paid to Organization	<u>(46,078)</u>	<u>(35,307)</u>
Balance, end of year	<u>\$1,028,324</u>	<u>\$944,436</u>

The fund consists primarily of various equity and fixed income securities, mutual and index funds, alternative investments, and cash equivalent funds. The investment is directed by Triangle Community Foundation and the portfolio is designed to achieve returns consistent with Triangle Community Foundation's adopted investment policies. Investments cannot be redeemed at the current net asset value per share; the Organization is only the beneficiary of the investment earnings, which are distributed in accordance with Triangle Community Foundation's spending policy. Based on the valuation method and nonredeemable nature of the assets, the measures of the fair value of the beneficial interest are categorized as Level 3 (see Note 6 above).

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note 8. Nature and Amount of Temporarily Restricted Net Assets:

Temporarily restricted net assets as of June 30, 2017 and 2016, are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Food and Nutrition Service	\$ 86,906	\$ 49,437
Kids Meals and More	449,577	1,114,062
Food Purchase	10,150	-
Property and equipment	153,867	143,243
Strategic Plan	-	19,608
Beneficial Interest in Community Fund	<u>1,028,324</u>	<u>944,436</u>
	<u>\$ 1,728,824</u>	<u>\$ 2,270,786</u>

Note 9. Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain payroll costs have been allocated among the programs and supporting services benefited based on the applicable time spent on each function. Certain other expenses such as depreciation, occupancy, and other office expenses have been determined by management to be fully programmatic.

Note 10. Retirement Plan

The Organization has a defined contribution retirement plan covering all employees who meet minimum age and service requirements. Retirement plan expense is included in retirement expenses on the statements of functional expenses.

Note 11. Leases

The Organization leases warehouse space in Southern Pines, Durham, Greenville, Raleigh, New Bern, and Wilmington, North Carolina. This space is used for office facilities as well as storage facilities for the food inventory. The operating leases expire at various dates through May 2020. The Organization also has multiple office equipment and vehicle leases which expire at various dates through November 2022. Annual commitments under the leases are:

<u>Year ending June 30:</u>	<u>Amount</u>
2018	\$ 233,227
2019	184,226
2020	105,529
2021	<u>28,728</u>
	<u>\$ 836,575</u>

Rent expense for the years ended June 30, 2017 and 2016, was \$298,578 and \$345,422, respectively.

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note 12. Subsequent Events

The Organization has evaluated subsequent events through October 12, 2017, which is the date on which the financial statements were available to be issued. No subsequent events have been identified by management.

Note 13. New Accounting Standards

In July 2015, the FASB issued amendments to the Inventory topic of the Accounting Standards Codification to require inventory to be measured at the lower of cost and net realizable value. Other than the change in the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory, there are no other substantive changes to the guidance on measurement of inventory. The amendments will be effective for fiscal years beginning after December 15, 2016, and interim periods beginning after December 15, 2017, with early adoption permitted. The Organization does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In August 2016, the FASB issued guidance to make targeted improvements to the not-for-profit financial reporting model, including changes in how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The amendments will be effective for the Organization for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In August 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments will be effective for the Organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Organization does not expect these amendments to have a material effect on its financial statements.

Food Bank of Central & Eastern North Carolina, Inc.**Schedule of Expenditures of Federal Awards****For the year ended June 30, 2017**

	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Pass-through to Subrecipients</u>	<u>Expenditures</u>
Federal Awards:				
<u>U.S. Department of Agriculture</u>				
Pass-through from North Carolina				
Department of Agriculture:				
Food Distribution Division:				
<u>Food Distribution Cluster</u>				
Emergency Food Assistance Program:				
Administrative Costs	10.568	0-092-01-000-EFO	N/A	\$ 368,292
Emergency Food Assistance Program:				
Food Commodities	10.569	0-092-01-000-EFO	5,724,877	<u>5,724,877</u>
Total Food Distribution Cluster				<u>6,093,169</u>
Total U.S. Department of Agriculture				<u>6,093,169</u>
<u>U.S. Department of Agriculture</u>				
Pass-through from North Carolina				
Department of Health and Human Services:				
Division of Social Services:				
SNAP Cluster:				
Food & Nutrition Services Outreach	10.561	N/A	N/A	<u>128,537</u>
Total SNAP Cluster				<u>128,537</u>
Total Federal Awards				<u>6,221,706</u>

Notes to the Schedule of Expenditures of Federal Awards

Basis of Presentation: This accompanying schedule of expenditures of governmental awards includes the grant activity of the Food Bank of Central & Eastern North Carolina, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the U.S. Code of Federal Regulations Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. At June 30, 2017 the Organization is not using the de minimus indirect cost rate.

Food Commodities: The Food Bank of Central & Eastern North Carolina, Inc. received USDA food commodities valued at \$5,713,648 during the year ended June 30, 2017.

At June 30, 2017, inventory included USDA food commodities valued at \$10,778.



**Independent Auditor's Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an Audit
of Financial Statements Performed In Accordance
with *Government Auditing Standards***

To the Board of Directors
Food Bank of Central & Eastern North Carolina, Inc.
Raleigh, North Carolina

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 accompanying financial statements of the Food Bank of Central & Eastern North Carolina, Inc. (the Organization), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated October 12, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raleigh, North Carolina
October 12, 2017



Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance

To the Board of Directors
Food Bank of Central & Eastern North Carolina, Inc.
Raleigh, North Carolina

Report on Compliance for Each Major Program

We have audited Food Bank of Central & Eastern North Carolina, Inc.'s (the Organization's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization major federal programs 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 Organization'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 each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the 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 Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Raleigh, North Carolina
October 12, 2017

Food Bank of Central & Eastern North Carolina, Inc.

Schedule of Findings and Questioned Costs

For the year ended June 30, 2017

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified Yes No

Significant deficiency(ies) 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 deficiency (s) identified that are not considered to be material weaknesses Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)? Yes No

Identification of major federal programs:

<u>Name of Federal Program</u>	<u>CFDA No.</u>
Food Distribution Cluster	10.568/10.569

Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Section II. Financial Statement Audit Findings

None reported

Section III. Federal Award Findings

None reported

Food Bank of Central & Eastern North Carolina, Inc.***Summary Schedule of Prior Year Findings and Questioned Costs******For the year ended June 30, 2017***

Section I. Financial Statement Audit Findings**2016-01: Review of Reconciliations**

Condition: During audit testing it was noted that certain account reconciliations did not agree to the general ledger. Upon further investigation it was determined that these reconciliations were not subject to a review and approval process.

Status: Management has fully corrected the above prior year finding.

2016-02: Pledges and Grants Receivable

Condition: During audit testing it was noted that the Organization received a pledge that contained unconditional promise to give to both the capital campaign and to programs. While the Organization properly recorded the capital campaign pledge, the programmatic pledge receivable was not recorded.

Status: Management has fully corrected the above prior year finding.

Section II. Federal Award Findings

None reported