

**FOOD BANK OF CENTRAL &
EASTERN NORTH CAROLINA, INC.**

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2020 and 2019

And Report of Independent Auditor

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.

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Report of Independent Auditor

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

We have audited the accompanying financial statements of the Food Bank of Central & Eastern North Carolina, Inc. (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2020 and its activities and changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplemental 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 State 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 September 1, 2020, on our consideration of the Organization's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Prior Year Financial Statements

The financial statements of the Food Bank of Central & Eastern North Carolina, Inc. as of June 30, 2019, were audited by other auditors whose report dated November 13, 2019, expressed an unmodified opinion on those statements.

Cheryl Bekaert LLP

Raleigh, North Carolina
September 1, 2020

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 27,449,819	\$ 8,593,404
Accounts receivable, net	139,425	498,235
Campaign pledges receivable, current	736,289	880,574
Grants receivable	2,356,975	893,229
Food inventories	2,013,393	3,058,133
Prepaid expenses	67,173	49,314
Total Current Assets	<u>32,763,074</u>	<u>13,972,889</u>
Property and Equipment:		
Buildings	11,687,345	11,646,494
Land	1,255,429	1,225,429
Fleet	2,288,196	2,034,594
Furniture and equipment	1,987,774	2,043,937
Leasehold improvements	196,888	187,358
	<u>17,415,632</u>	<u>17,137,812</u>
Less accumulated depreciation	<u>3,492,979</u>	<u>3,228,967</u>
Net Property and Equipment	<u>13,922,653</u>	<u>13,908,845</u>
Campaign pledges receivable, net of current portion and discount	1,353,848	1,439,087
Beneficial interest in assets held by others	132,134	132,134
Other investments	13,000	13,000
Deposits	11,182	11,182
Total Assets	<u>\$ 48,195,891</u>	<u>\$ 29,477,137</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 1,351,275	\$ 463,959
Accrued Expenses:		
Accrued retirement payable	94,662	79,953
Accrued vacation payable	290,566	134,639
Accrued salaries and payroll taxes	170,127	237,518
Accrued interest expense	4,738	6,318
Other accrued expense	32,558	-
Note payable, current	2,281,944	253,549
Unearned income	3,509,180	102,000
Total Current Liabilities	<u>7,735,050</u>	<u>1,277,936</u>
Note payable, net of current portion	<u>-</u>	<u>2,281,944</u>
Total Liabilities	<u>7,735,050</u>	<u>3,559,880</u>
Net Assets:		
Without donor restrictions	38,962,579	24,743,008
With donor restrictions	1,498,262	1,174,249
Total Net Assets	<u>40,460,841</u>	<u>25,917,257</u>
Total Liabilities and Net Assets	<u>\$ 48,195,891</u>	<u>\$ 29,477,137</u>

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

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues:			
Food donated	\$ 132,127,172	\$ -	\$ 132,127,172
Shared maintenance - agencies	729,037	-	729,037
Food purchase programs	1,140,429	-	1,140,429
Contributions	26,511,293	1,968,744	28,480,037
Campaign pledge	1,401,822	-	1,401,822
Governmental grant awards	5,522,161	-	5,522,161
Materials and services donated	8,011	-	8,011
Investment income, net	19,731	-	19,731
Gain on disposal of property and equipment	1,000	-	1,000
Other	7,815	-	7,815
Total Support and Revenues	<u>167,468,471</u>	<u>1,968,744</u>	<u>169,437,215</u>
Net assets released from restrictions	<u>1,644,731</u>	<u>(1,644,731)</u>	<u>-</u>
Total Support, Revenues, and Reclassifications	<u>169,113,202</u>	<u>324,013</u>	<u>169,437,215</u>
Expenses:			
Program Services:			
Community programs	149,528,538	-	149,528,538
Supporting Services:			
Management and general	1,900,705	-	1,900,705
Fundraising	3,464,388	-	3,464,388
Total Expenses	<u>154,893,631</u>	<u>-</u>	<u>154,893,631</u>
Change in net assets	14,219,571	324,013	14,543,584
Net assets, beginning of year	<u>24,743,008</u>	<u>1,174,249</u>	<u>25,917,257</u>
Net assets, end of year	<u>\$ 38,962,579</u>	<u>\$ 1,498,262</u>	<u>\$ 40,460,841</u>

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

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues:			
Food donated	\$ 144,609,932	\$ -	\$ 144,609,932
Shared maintenance - agencies	830,614	-	830,614
Food purchase programs	1,045,686	-	1,045,686
Contributions	14,569,979	3,034,877	17,604,856
Campaign pledge	194,395	-	194,395
Governmental grant awards	2,721,905	-	2,721,905
Materials and services donated	200,498	-	200,498
Investment income, net	9,071	-	9,071
Other	37,751	-	37,751
Total Support and Revenues	164,219,831	3,034,877	167,254,708
Net assets released from restrictions	2,497,534	(2,497,534)	-
Total Support, Revenues, and Reclassifications	166,717,365	537,343	167,254,708
Expenses:			
Program Services:			
Community programs	156,656,228	-	156,656,228
Supporting Services:			
Management and general	1,730,526	-	1,730,526
Fundraising	3,003,375	-	3,003,375
Total Expenses	161,390,129	-	161,390,129
Change in net assets	5,327,236	537,343	5,864,579
Net assets, beginning of year	19,415,772	636,906	20,052,678
Net assets, end of year	\$ 24,743,008	\$ 1,174,249	\$ 25,917,257

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Advertising and marketing	\$ -	\$ -	\$ 137,061	\$ 137,061
Bank and credit card fees	265	5,027	191,952	197,244
Commercial freight	534,928	-	-	534,928
Conferences and meetings	98,984	50,973	13,437	163,394
Contract services	97,072	391,216	-	488,288
Depreciation	647,105	30,642	61,284	739,031
Donated food and supplies distributed	133,342,079	-	-	133,342,079
Employee benefits	920,752	192,371	265,852	1,378,975
Fundraising services	-	-	1,063,798	1,063,798
Grants to agencies	166,733	-	-	166,733
Insurance	225,732	12,541	12,541	250,814
Interest expense	-	69,725	-	69,725
Miscellaneous	220,422	12,245	12,245	244,912
Occupancy	431,454	-	-	431,454
Other	-	-	64,332	64,332
Payroll taxes	296,172	64,962	94,204	455,338
Postage	10,865	2,716	40,743	54,324
Printing and publications	-	-	128,222	128,222
Professional fees	15,356	64,774	7,954	88,084
Program expenses	1,341,028	-	-	1,341,028
Purchased food and supplies distributed	3,661,542	-	-	3,661,542
Rental and equipment maintenance	487,763	25,672	-	513,435
Salaries	4,068,128	892,342	1,294,009	6,254,479
Supplies	44,007	9,655	13,999	67,661
Telephone and data	143,896	31,571	45,775	221,242
Temporary help	523,046	39,369	-	562,415
Travel	55,345	4,904	16,980	77,229
Trucking expense	728,950	-	-	728,950
Value added processing and packaging	606,328	-	-	606,328
Warehouse expense	860,586	-	-	860,586
	<u>\$ 149,528,538</u>	<u>\$ 1,900,705</u>	<u>\$ 3,464,388</u>	<u>\$ 154,893,631</u>

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

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Advertising and marketing	\$ -	\$ -	\$ 135,507	\$ 135,507
Bank and credit card fees	3,540	13,453	77,413	94,406
Commercial freight	582,459	-	-	582,459
Conferences and meetings	58,793	38,043	18,445	115,281
Contract services	65,935	178,269	-	244,204
Depreciation	419,218	101,628	114,332	635,178
Donated food and supplies distributed	142,378,635	-	-	142,378,635
Employee benefits	795,034	166,360	227,315	1,188,709
Fundraising services	-	-	1,029,873	1,029,873
Grants to agencies	229,836	-	-	229,836
In-kind expense	200,498	-	-	200,498
Insurance	175,239	9,736	9,736	194,711
Interest expense	-	79,358	-	79,358
Miscellaneous	44,620	2,479	2,479	49,578
Occupancy	350,984	-	-	350,984
Other	-	-	82,418	82,418
Payroll taxes	270,858	61,559	77,974	410,391
Postage	8,039	2,010	30,148	40,197
Printing and publications	-	-	61,468	61,468
Professional fees	43,989	65,984	-	109,973
Program expenses	1,263,011	-	-	1,263,011
Purchased food and supplies distributed	2,184,552	-	-	2,184,552
Rental and equipment maintenance	362,844	19,097	-	381,941
Salaries	3,645,721	897,408	1,065,672	5,608,801
Supplies	42,908	10,562	12,542	66,012
Telephone and data	140,914	34,687	41,190	216,791
Temporary help	558,314	42,024	-	600,338
Travel	87,687	7,869	16,863	112,419
Trucking expense	855,696	-	-	855,696
Value added processing and packaging	891,972	-	-	891,972
Warehouse expense	994,932	-	-	994,932
	<u>\$ 156,656,228</u>	<u>\$ 1,730,526</u>	<u>\$ 3,003,375</u>	<u>\$ 161,390,129</u>

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 14,543,584	\$ 5,864,579
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	739,031	635,178
Gain on disposal of property and equipment	(1,000)	-
Contributions restricted for long-term purposes	-	(743,742)
In-kind contributions of food and non-food (including USDA)	(132,127,172)	(144,609,932)
Distribution of food and non-food received in-kind	133,342,078	142,378,635
Changes in assets and liabilities:		
Accounts receivable	358,810	(267,845)
Campaign pledges receivable	144,285	1,042,820
Grants receivable	(1,463,746)	(263,029)
Purchased food inventories	(170,166)	48,372
Prepaid expenses	(17,859)	17,353
Long term pledge receivable	85,239	-
Deposits	-	(6,000)
Accounts payable	887,316	154,615
Accrued expenses	134,223	64,294
Unearned income	3,407,180	102,000
Total adjustments	<u>5,318,219</u>	<u>(1,447,281)</u>
Net cash from operating activities	<u>19,861,803</u>	<u>4,417,298</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(751,839)</u>	<u>(1,075,945)</u>
Net cash from investing activities	<u>(751,839)</u>	<u>(1,075,945)</u>
Cash flows from financing activities:		
Capital campaign contributions	-	743,742
Payments on note payable	<u>(253,549)</u>	<u>(281,722)</u>
Net cash from financing activities	<u>(253,549)</u>	<u>462,020</u>
Net change in cash and cash equivalents	18,856,415	3,803,373
Cash and cash equivalents, beginning of year	<u>8,593,404</u>	<u>4,790,031</u>
Cash and cash equivalents, end of year	<u>\$ 27,449,819</u>	<u>\$ 8,593,404</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 71,305</u>	<u>\$ 80,060</u>

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

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 1—Nature of activities and summary of significant accounting policies

The Food Bank of Central & Eastern North Carolina, Inc. (the “Organization”) is a nonprofit corporation organized under the laws of the state of North Carolina. The Organization has warehouses in central and eastern North Carolina in Raleigh, Greenville, Southern Pines, Durham, and Wilmington.

The Organization’s mission is to contribute to the alleviation of hunger and need in 34 counties in central and eastern North Carolina by accumulating high quality and nutritious 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 programs to unserved communities within the service area; and advocating means that will eliminate hunger and the poverty that is its cause.

Basis of Accounting – The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and, accordingly, reflect all significant assets, liabilities, and changes in net assets.

Basis of Presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”) 958, *Financial Statements of Not-for-Profit Organizations*. This statement requires that nonprofit organizations provide a statement of financial position, a statement of functional expense, and a statement of cash flows. Also, the statement requires classification of an organization’s net assets, revenues and expenses based on the existence or absence of donor-imposed restrictions (with or without donor restriction). Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Organization or by the passage of time. Other donors restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increase in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets.

Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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.

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 30 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. At June 30, 2020 and 2019, management believed that a portion of agency receivables are uncollectible and, therefore, an allowance for doubtful accounts of \$1,589 was recorded in both periods.

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 1—Nature of activities and summary of significant accounting policies (continued)

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. In addition to the discounts, an estimated 1% allowance for uncollectible pledges totaling \$13,051 and \$25,278 as of June 30, 2020 and 2019, respectively.

Inventory and Food Valuation – Inventory consists of donated food and non-food items, purchased food, and United States Department of Agriculture (“USDA”) commodities received from the government. Donated non-government products were valued at \$1.74 and \$1.62 per pound for the years ended June 30, 2020 and 2019, respectively. Donated government food value was valued at \$1.49 and \$1.52 per pound for the years ended June 30, 2020 and 2019, respectively. This valuation is based on a cost study conducted by Feeding America, Inc., a national consortium of regional food banks. The value of food donated is recorded as a contribution. Food donated and food distributed appear on the statements of activities and changes in net assets.

Purchased food is typically at a discounted rate that is significantly less than the above valuation rates by Feeding America, Inc. Purchased food is valued at the purchase price utilizing a first in, first out (FIFO) method. The cost of purchased food inventories was \$0.40 and \$0.41 per pound for the years ended June 30, 2020 and 2019, respectively.

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

	<u>2020</u>	<u>2019</u>
Beginning inventory	2,596,004	1,277,715
Food received	101,128,219	94,578,563
Food distributed	<u>(101,474,908)</u>	<u>(93,260,274)</u>
Ending inventory	<u>2,249,315</u>	<u>2,596,004</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. Depreciation is provided on the accelerated and straight-line methods, using estimated useful lives of 3 to 40 years. 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. Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value. Depreciation expense for property and equipment was \$739,031 and \$635,178 for the years ended June 30, 2020 and 2019, respectively.

Support and Revenues – 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.

Contributions received are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 1—Nature of activities and summary of significant accounting policies (continued)

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 required by U.S. GAAP. The Organization estimates total volunteer hours to be 215,500 and 249,355 for the years ended June 30, 2020 and 2019, respectively.

Advertising Costs – The Organization’s expenses advertising costs as incurred. Advertising costs were \$137,061 and \$135,507 for the years ended June 30, 2020 and 2019, respectively.

Functional Expense – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated amount program services, management and general, and fundraising. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

Expense	Method of Allocation
Advertising and marketing	Direct costs to fundraising
Bad debt expense	Direct costs to program
Bank and credit card fees	Based on credit card payments received
Commercial freight	Direct costs to programs
Conferences and meetings	Actual costs allocated
Contract services	Time and effort
Depreciation	Based on asset type and location
Donated food and supplies distributed	Direct costs to programs
Employee benefits	Time and effort
Fundraising services	Direct costs to fundraising
Grants to agencies	Direct costs to programs
In-kind expense	Direct costs to programs
Insurance	Based on estimated liability
Interest expense	Direct costs to management and general
Miscellaneous	Time and effort
Occupancy	Direct costs to programs
Other	Direct costs to fundraising
Payroll taxes	Time and effort
Postage	Actual costs allocated
Printing and publications	Direct costs to fundraising
Professional fees	Direct costs to programs, remainder to management and general
Program expenses	Direct costs to programs
Purchased food and supplies distributed	Direct costs to programs
Rental and equipment maintenance	Use/type of rental
Salaries	Time and effort
Supplies	Time and effort
Telephone and data	Time and effort
Temporary help	Time and effort
Travel	Time and effort
Trucking expense	Direct costs to programs
Value added processing and packaging	Direct costs to programs
Warehouse expense	Direct costs to programs

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 1—Nature of activities and summary of significant accounting policies (continued)

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

U.S. GAAP requires management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken any 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, 2020, 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. Management believes it is no longer subject to income tax examinations for tax years prior to 2017.

Current Pronouncements – In June 2018, FASB issued Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, an update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The Organization adopted this standard during the year ended June 30, 2020, and has adjusted the presentation of the statements accordingly. The update had no impact on prior year net assets.

In August 2018, FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which will update the current guidance in Topic 820. ASU 2018-13 modifies the disclosure requirements on fair value measurements and promotes the exercise of discretion by entities when considering fair value measurement disclosures. The Organization adopted this standard during the year ended June 30, 2020, and has adjusted the presentation of the statements accordingly. The update had no impact on prior year net assets.

Future Pronouncements – In February 2016, FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of the lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the year ended December 15, 2022. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

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 have exceeded the federally insured limit. Uninsured cash balances at June 30, 2020 and 2019 totaled \$27,368,951 and \$8,375,359, 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 34 counties in central and eastern North Carolina by Feeding America, Inc. The Organization received 48% and 49%, respectively, of its donated food for the years ended June 30, 2020 and 2019 through its relationship with Feeding America, Inc. Feeding America, Inc. also provides technical assistance and makes periodic audits of the food distribution operations of food banks.

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 2—Concentrations of credit risk (continued)

Pledges receivable from significant donors for the year ended June 30, 2020 included the following:

	Pledges Receivable	Percentage of Pledges Receivable
Donor A	\$ 800,000	38%
Donor B	626,000	30%
Donor C	350,000	17%
	<u>\$ 1,776,000</u>	<u>85%</u>

No concentrations of pledge receivables existed as of June 30, 2019.

A significant reduction in the level of this support or conditions causing the donor to be unable to fulfill the pledge, may have a material and adverse effect on the Organization.

Note 3—Liquidity and availability

As of June 30, 2020 and 2019, the following table shows the total financial assets held by the Organization and the amounts of those financial assets that could readily be made available within one-year of the balance sheet date to meet general expenditures:

	2020	2019
Total assets at year-end	<u>\$ 48,195,891</u>	<u>\$ 29,477,136</u>
Less amounts not available to be used within one year due to illiquidity:		
Food inventories	(2,013,393)	(3,058,133)
Prepaid expenses	(67,173)	(49,314)
Property and equipment, net	(13,922,653)	(13,908,845)
Other investments	(13,000)	(13,000)
Deposits	(11,182)	(11,182)
	<u>(16,027,401)</u>	<u>(17,040,474)</u>
Less amounts not available to be used within one year:		
Contractual or donor imposed restrictions:		
Noncurrent campaign pledge receivable, net	(1,353,848)	(1,439,086)
Board/donor designations:		
Beneficial interest in assets held by others	(132,134)	(132,134)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 30,682,508</u>	<u>\$ 10,865,442</u>

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 4—Fair value measurements

The *Fair Value Measurements and Disclosures* topic of FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels; Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consists of observable inputs other than quoted prices for identical assets, and 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 uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, The Organization measures fair value using Level 1 inputs because they general provide the most reliable evidence of fair value.

Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in active markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data. Other investments for the Organization, consisting of Silver Peak REIT, Inc. and donated time share interests, are presented at the fair market value of similar assets.

Level 3 – Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The following tables set forth by level, within the fair value hierarchy, the Organization’s assets at fair value as of June 30, 2020 and 2019.

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Other investments	\$ -	\$ 13,000	\$ -	\$ 13,000
Total assets in fair value hierarchy	<u>\$ -</u>	<u>\$ 13,000</u>	<u>\$ -</u>	13,000
Investments measured at NAV ^(a)				<u>132,134</u>
				<u>\$ 145,134</u>

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Other investments	\$ -	\$ 13,000	\$ -	\$ 13,000
Total assets in fair value hierarchy	<u>\$ -</u>	<u>\$ 13,000</u>	<u>\$ -</u>	13,000
Investments measured at NAV ^(a)				<u>132,134</u>
				<u>\$ 145,134</u>

^(a) In accordance with U.S. GAAP, certain investments that are measured at fair value using the net asset value (“NAV”) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 4—Fair value measurements (continued)

The following tables set forth a summary of the Organization’s investments reported at NAV as a practical expedient to estimate fair value at June 30, 2020 and 2019.

	June 30, 2020			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled investment funds	\$ 132,134	\$ -	Quarterly	None

	June 30, 2019			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled investment funds	\$ 132,134	\$ -	Quarterly	None

Note 5—Accounts and grants receivable

Accounts receivable is summarized as follows as of June 30, 2020 and 2019:

	2020	2019
Agency receivable	\$ 65,802	\$ 339,618
Allowance for uncollectible	(1,589)	(1,589)
Sales tax refund receivable	73,165	66,342
Other receivable	2,047	93,864
	<u>\$ 139,425</u>	<u>\$ 498,235</u>

Grants receivable is summarized as follows as of June 30, 2020 and 2019:

	2020	2019
Emergency Food Assistance receivable	\$ 952,059	\$ 322,711
Food Nutrition Services receivable	19,615	8,240
Kids Summer Meals receivable	236,383	42,535
Other grants receivable	1,105,290	405,500
Child and Adult Commodity receivable	-	78,524
Commodity Supplemental Food receivable	43,628	35,719
	<u>\$ 2,356,975</u>	<u>\$ 893,229</u>

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 6—Campaign pledges receivable

Campaign pledge contributions, net of 1% allowance for uncollectible pledges, due in more than one year are scheduled to be received as follows:

2021	\$ 736,289
2022	603,870
2023	330,057
2024	330,009
2025	125,509
Less discount 2.68% to 2.81%	<u>(35,597)</u>
	<u>\$ 2,090,137</u>

The discount rates represent an average of the actual interest rate on the Organization's debt and the one-year treasury rate.

Note 7—Note payable

Only 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 bear interest at a fixed rate of 2.99% whereas the other \$5,000,000 note contains a variable interest rate, both with maturity dates of August 2020. 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, 2020 and 2019, the total note payable was \$2,281,944 and \$2,535,493, respectively. The first principal payment of \$281,271 was made in September 2018. 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. The total note payable is collateralized by all accounts receivable, inventory, equipment, and deposit accounts of the Organization.

Note 8—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 were 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 Triangle Community Foundation will continue to make annual distributions to the Organization. No changes in the fair value of the Organization's beneficial interest in assets held by others were noted.

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 4).

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 9—Net assets

Net assets with donor restrictions as of June 30, 2020 and 2019 are as follows:

	2020	2019
Beneficial interest in Community Fund	\$ 132,134	\$ 132,134
Community Health and Engagement	486,000	-
Food and Nutrition Service	31,500	79,345
Food purchase	16,187	36,211
General operations	100,000	-
Kids Café	-	1,320
Kids Meals and More and Summer Meals	167,758	168,659
Medical pantry	16,056	22,554
NC Department of Agriculture	109,728	-
Programs	40,000	-
Property and equipment	273,173	420,336
Raleigh branch - garden	-	1,267
School Pantry	19,325	24,983
Weekend Power Pack	4,401	122,940
Wilmington branch - capital campaign	102,000	102,000
Wilmington branch - general operations	-	62,500
	<u>\$ 1,498,262</u>	<u>\$ 1,174,249</u>

Net assets without donor restrictions for the years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Net assets without donor restrictions	<u>\$ 38,962,579</u>	<u>\$ 24,743,008</u>

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 9—Net assets (continued)

Net assets released from net assets with donor restrictions as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Community Health and Engagement	\$ 13,572	\$ -
Durham branch	23,350	35,000
Food and Nutrition Service	227,562	220,752
Food purchase	96,393	162,585
General operations	37,000	-
Greenville branch	33,333	100,946
Kid's Café	11,320	84,933
Kid's Meals and More and Summer Meals	402,884	846,976
Medical pantry	31,497	27,446
Multiple branches	53,795	128,808
New Bern branch	17,500	20,000
Property and equipment	219,863	352,127
Raleigh branch	8,000	13,327
Raleigh branch - garden	1,267	233
Sandhills branch	5,518	68,032
School pantry	32,140	19,121
Weekend Power Pack	303,770	324,887
Wilmington branch	125,967	92,361
	<u>\$ 1,644,731</u>	<u>\$ 2,497,534</u>

Note 10—Noncash contributions

The majority of food distributed by the Organization is received by contributions from the general public and USDA. The estimated value of these contributions is recognized in the financial statements as food donated and program expenses if distributed during the year. The pounds collected are recorded by the Organization at the time of receipt based on actual weight.

The total value of contributed food for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>			<u>2019</u>		
	<u>Pounds</u>	<u>Value per Pound</u>	<u>Amount</u>	<u>Pounds</u>	<u>Value per Pound</u>	<u>Amount</u>
General donations	52,484,204	\$ 1.72	\$ 90,260,425	73,828,130	\$ 1.62	\$ 119,601,571
USDA	28,098,488	1.49	41,866,747	16,452,869	1.52	25,008,362
	<u>80,582,692</u>		<u>\$ 132,127,172</u>	<u>90,280,999</u>		<u>\$ 144,609,932</u>

Note 11—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. The expense related to this plan was \$364,602 and \$352,739 for the years ended June 30, 2020 and 2019, respectively.

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 12—Leases

The Organization leases warehouse space in Southern Pines, Durham, Greenville, Raleigh, and New Bern, 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 July 2022. The Organization also has multiple office equipment and vehicle leases which expire at various dates through June 2026. Annual commitments under the leases are:

<u>Years Ending June 30:</u>	<u>Amount</u>
2021	\$ 502,503
2022	292,732
2023	121,341
2024	107,065
2025	83,945
Thereafter	52,296
	<u>\$ 1,159,882</u>

Total rent and lease expense for the years ended June 30, 2020 and 2019 was \$697,519 and \$550,112, respectively.

Note 13—Paychex protection program

In June 2020 the Organization received a Paycheck Protection Program (“PPP”) loan for \$1,408,264 from the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PPP loans are considered conditional contributions, with right of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent, and utilities) incurred following the receipt of the loan funds and an application for forgiveness is subject to approval. As of June 30, 2020, the Organization has not started the process of applying for full loan forgiveness, which is considered to be a barrier to recognizing the contribution, and therefore will recognize revenue from the forgiveness when received subsequent to June 30, 2020.

Note 14—Subsequent events

The Organization has evaluated subsequent events occurring after the statement of financial position date of June 30, 2020 through September 1, 2020, which is the date the financial statements were available to be issued, and has determined that no subsequent events have occurred which require disclosure in the financial statements.

The Organization subsequently paid the remaining outstanding principal and accrued interest of the promissory note mentioned in Note 7. On July 31, 2020 the Organization paid the outstanding balance of \$2,281,944

Toward the end of December 2019, an outbreak of a novel strain of coronavirus (“COVID-19”) emerged globally. The extent to which COVID-19 may impact the Organization’s results will depend on future developments, which are highly uncertain and cannot be predicted.

COMPLIANCE SECTION

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2020

	<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:				
<u>Food Distribution Division:</u>				
Emergency Food Assistance Program (TEFAP):				
Administrative Costs	10.568	0-092-01-000-EFO	\$ -	\$ 3,340,641
Emergency Food Assistance Program:				
Food Commodities	10.569	0-092-01-000-EFO	34,201,126	34,266,908
TEFAP CARES Act	21.019	N/A	-	220,153
Commodity Supplemental Food Program (CSFP):				
Administrative Costs	10.565	N/A	-	471,143
Food Commodities	10.565	N/A	2,730,519	3,307,778
Child and Adult Care Food Program (CACFP)	10.558	N/A	-	89,819
Pass-through North Carolina Department of Public Instruction:				
Summer Food Service Program (KSM)	10.559	N/A	-	806,594
Total U.S. Department of Agriculture			<u>36,931,645</u>	<u>42,503,036</u>
<u>U.S. Department of Health and Human Services:</u>				
Pass-through from North Carolina				
Department of Health and Human Services:				
Division of Social Services:				
Food & Nutrition Services Outreach (FNS)	10.561	N/A	-	136,013
Total Federal Awards			<u>36,931,645</u>	<u>42,639,049</u>
STATE AWARDS				
<u>N. C. Department of Health and Human Services:</u>				
State Funded Food Purchases (SAM)		N/A	-	457,779
Total State Awards			<u>-</u>	<u>457,779</u>
Total Awards			<u>\$ 36,931,645</u>	<u>\$ 43,096,828</u>

At June 30, 2020, inventory included USDA food commodities valued at \$ 1,496,479.

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2020

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal and state awards (“SEFSA” or “Schedule”) includes the Federal grant activity of the Food Bank of Central & Eastern North Carolina, Inc. (the “Organization”), under the programs of the Federal and State government for the year ended June 30, 2020. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to, and does not, present the financial position, changes in net position or cash flows of the Organization.

Note 2—Summary of significant accounting policies

Expenditures reported in the SEFSA are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3—Indirect cost rate

The Organization has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4—Food commodities

Food commodities are expended when distributed to agencies. Distributed food is reported in the SEFSA under the Commodity Supplemental Food Program and the Emergency Food Assistance Program and is valued at the weighted-average wholesale value of one pound of donated product based on the national per pound price as provided by the most recent Feeding America Product Valuation Survey (\$1.49 in 2020).

**Report of Independent Auditor 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"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 1, 2020.

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 opinion 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Chemy Bekaert LLP

Raleigh, North Carolina
September 1, 2020

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the Food Bank of Central & Eastern North Carolina, Inc.'s (the "Organization") 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, 2020. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's 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 (CFR) 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, 2020.

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 each 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.

Chemy Bekaert LLP

Raleigh, North Carolina
September 1, 2020

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

Section I—Summary of Auditor’s Results

Financial Statement

Type of auditor’s report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor’s report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA #</u>	<u>Program Name</u>
10.568/10.569/10.565	Food Distribution Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,279,171

Auditee qualified as low-risk auditee? X yes _____ no

Section II—Financial Statement Findings

None noted.

Section III—Federal Award Findings and Questioned Costs

None noted.

FOOD BANK OF CENTRAL & EASTERN NORTH CAROLINA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

Section IV—Status of Prior Year Findings and Questioned Costs

Finding 2019-1

Internal Controls over TEFAP Commodity Disbursements

Status: Corrected

Finding 2019-2

CSFP Eligibility

Status: Corrected

Finding 2019-3

Internal Controls over CSFP Recipient Filing

Status: Corrected