

Food Bank of Central & Eastern North Carolina, Inc.

Report on Financial Statements

For the years ended June 30, 2018 and 2017

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, 2018 and 2017, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditors' 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 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 November 6, 2018 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.



Raleigh, North Carolina
November 6, 2018

Food Bank of Central & Eastern North Carolina, Inc.

Statements of Financial Position

As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 4,790,031	\$ 2,472,827
Accounts receivable, net	230,390	164,003
Campaign pledge receivable, net	941,748	790,938
Accrued interest receivable	-	17,273
Grants receivable	630,200	605,238
Food inventories	875,208	1,740,612
Prepaid expenses	66,667	263,705
Total current assets	<u>7,534,244</u>	<u>6,054,596</u>
Property and equipment		
Buildings	11,193,077	11,182,217
Land	1,225,429	1,225,429
Fleet	1,587,234	1,505,397
Furniture and equipment	1,887,400	1,811,509
Leasehold improvements	168,727	154,772
	<u>16,061,867</u>	<u>15,879,324</u>
Less: Accumulated Depreciation	2,593,789	2,032,632
Total property and equipment	<u>13,468,078</u>	<u>13,846,692</u>
Other assets		
Noncurrent campaign pledge receivable, net	2,420,733	3,365,337
Beneficial interest in assets held by others	132,134	1,028,324
Other investments	13,000	13,000
Deposits	5,182	5,182
Total other assets	<u>2,571,049</u>	<u>4,411,843</u>
Total assets	<u>\$ 23,573,371</u>	<u>\$ 24,313,131</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 309,344	\$ 240,875
Accrued expenses:		
Accrued retirement payable	89,983	104,767
Accrued vacation payable	111,045	108,071
Accrued salaries and payroll taxes	186,086	159,327
Accrued interest expense	7,020	7,020
Note payable-current portion	281,271	-
Total current liabilities	<u>984,749</u>	<u>620,060</u>
Long-term liabilities		
Note payable	2,535,944	2,817,215
Total long-term liabilities	<u>2,535,944</u>	<u>2,817,215</u>
Net Assets		
Unrestricted		
Undesignated	19,128,087	18,897,456
Board Designated	287,685	249,576
Temporarily restricted	636,906	1,728,824
Total net assets	<u>20,052,678</u>	<u>20,875,856</u>
Total liabilities and net assets	<u>\$ 23,573,371</u>	<u>\$ 24,313,131</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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Changes in Unrestricted Net Assets		
Support and revenues		
Food donated	\$ 109,186,879	\$ 116,024,127
Shared maintenance - agencies	1,202,484	1,056,319
Food purchase programs	716,793	886,322
Contributions	8,739,798	9,231,739
Campaign pledge	726,472	1,596,214
Endowment	-	1,000
United Way	-	104,250
Governmental grant awards	2,543,823	1,776,233
Goods, services and facilities contributed	216,045	509,309
Interest	2,526	31,940
Other	116,300	98,632
Gain on disposal of fixed assets	-	259,814
	<hr/>	<hr/>
Total unrestricted support and revenues before restrictions released	123,451,120	131,575,899
Net assets released from restrictions	<hr/> 2,478,940	<hr/> 2,093,595
	<hr/>	<hr/>
Total unrestricted support and revenues after restrictions released	125,930,060	133,669,494
Expenses		
Program services	121,531,099	126,889,613
Management and general	1,458,474	1,519,425
Fundraising	2,671,747	2,510,014
Total expenses	<hr/> 125,661,320	<hr/> 130,919,052
Increase in unrestricted net assets	<hr/> <u>\$ 268,740</u>	<hr/> <u>\$ 2,750,442</u>
Changes in Temporarily Restricted Net Assets:		
Contributions	\$ 1,387,022	\$ 1,421,667
Interest	-	8,393
Gain on investment	-	121,573
Net assets released from restrictions	<hr/> (2,478,940)	<hr/> (2,093,595)
	<hr/>	<hr/>
Decrease in temporarily restricted net assets	<u>\$ (1,091,918)</u>	<u>\$ (541,962)</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, 2018 and 2017***

	<u>2018</u>	<u>2017</u>
Increase in unrestricted net assets	\$ 268,740	\$ 2,750,442
Decrease in temporarily restricted net assets	<u>(1,091,918)</u>	<u>(541,962)</u>
Increase/(decrease) in net assets	(823,178)	2,208,480
Net assets at beginning of year	<u>20,875,856</u>	<u>18,667,376</u>
Net assets at end of year	<u><u>\$ 20,052,678</u></u>	<u><u>\$ 20,875,856</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, 2018**

	<u>Supporting Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising & marketing	\$ -	\$ -	\$ 107,365	\$ 107,365
Bad debt expense	-	-	9,143	9,143
Bank & credit card fees	7,499	28,735	38,758	74,992
Commercial freight	427,041	-	-	427,041
Conferences & meetings	23,218	44,516	18,260	85,994
Contract services	56,609	108,535	44,519	209,663
Depreciation	575,700	2,754	4,135	582,589
Donated food & supplies distributed	110,060,673	-	-	110,060,673
Employee benefits	738,952	143,157	183,505	1,065,614
Fundraising services	-	-	905,815	905,815
Grants to agencies	202,694	-	-	202,694
In-kind expense	216,045	-	-	216,045
Insurance	179,867	9,993	9,993	199,853
Interest expense	-	78,151	-	78,151
Miscellaneous	24,205	1,345	1,345	26,895
Occupancy	284,015	-	-	284,015
Other	-	-	87,266	87,266
Payroll taxes	245,318	57,548	76,343	379,209
Postage	8,182	2,045	30,681	40,908
Printing & publications	-	-	63,178	63,178
Professional fees	39,268	58,903	-	98,171
Program expenses	1,630,599	-	-	1,630,599
Purchased food & supplies distributed	1,166,332	-	-	1,166,332
Rental & equipment maintenance	218,023	11,475	-	229,498
Salaries	3,317,172	841,999	1,023,910	5,183,081
Supplies	33,387	8,347	10,433	52,167
Telephone & data	125,487	31,372	39,215	196,074
Temporary help	316,703	23,838	-	340,541
Travel	52,625	5,761	17,883	76,269
Trucking expense	538,244	-	-	538,244
Value added processing & packaging	389,023	-	-	389,023
Warehouse expense	654,218	-	-	654,218
	<u>\$ 121,531,099</u>	<u>\$ 1,458,474</u>	<u>\$ 2,671,747</u>	<u>\$ 125,661,320</u>

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

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Advertising & marketing	\$ -	\$ -	\$ 94,652	\$ 94,652
Bad debt expense	-	-	5,461	5,461
Bank & credit card fees	8,588	32,874	44,420	85,882
Commercial freight	514,474	-	-	514,474
Conferences & meetings	17,190	33,107	13,370	63,667
Contract services	52,188	148,536	-	200,724
Depreciation	299,893	45,817	70,808	416,518
Donated food & supplies distributed	115,473,106	-	-	115,473,106
Employee benefits	706,025	176,506	220,633	1,103,164
Fundraising services	-	-	743,407	743,407
Grants to agencies	248,230	-	-	248,230
In-kind expense	61,667	-	-	61,667
Insurance	194,388	10,799	10,799	215,986
Interest expense	-	68,984	-	68,984
Miscellaneous	24,233	1,346	1,346	26,925
Occupancy	298,578	-	-	298,578
Other	-	-	82,628	82,628
Payroll taxes	228,771	57,193	71,491	357,455
Postage	12,654	3,164	47,454	63,272
Printing & publications	-	-	56,769	56,769
Professional fees	44,116	66,175	-	110,291
Program expenses	1,345,316	-	-	1,345,316
Purchased food & supplies distributed	1,575,757	-	-	1,575,757
Rental & equipment maintenance	206,254	10,856	-	217,110
Salaries	3,134,791	783,698	979,622	4,898,111
Supplies	112,538	28,134	35,168	175,840
Telephone & data	102,354	25,588	31,986	159,928
Temporary help	354,043	26,648	-	380,691
Travel	50,647	-	-	50,647
Trucking expense	529,844	-	-	529,844
Value added processing & packaging	595,919	-	-	595,919
Warehouse expense	698,049	-	-	698,049
	<u>\$ 126,889,613</u>	<u>\$ 1,519,425</u>	<u>\$ 2,510,014</u>	<u>\$ 130,919,052</u>

Food Bank of Central & Eastern North Carolina, Inc.**Statements of Cash Flows****For the years ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Operating activities		
Change in net assets	\$ (823,178)	\$ 2,208,480
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Depreciation	582,589	416,518
Disposal of donated property held for sale	-	(2,998)
Gain on disposal of property and equipment	-	(256,816)
Change in beneficial interest in assets held for others	896,190	(83,888)
Contributions restricted for long-term purposes	(1,520,784)	(1,625,110)
Noncash contributions of property and equipment	-	(441,830)
In-kind contributions of food and non-food (including USDA)	(109,186,879)	(116,029,940)
Distribution of food and non-food received in-kind	110,060,673	115,473,106
Changes in operating assets and liabilities:		
Accounts receivable	(66,387)	(34,758)
Accrued interest receivable	17,273	(4,098)
Campaign pledge receivable	793,794	931,567
Grants receivable	(24,962)	156,890
Purchased food inventories	(8,390)	61,174
Prepaid expenses	197,038	(192,496)
Accounts payable	68,469	(779,120)
Accrued expenses	14,949	173,097
Net cash provided by/(used in) operating activities	<u>1,000,395</u>	<u>(30,222)</u>
Investing activities		
Purchases of property and equipment	(203,975)	(5,529,597)
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>(203,975)</u>	<u>(3,659,924)</u>
Financing activities		
Capital campaign contributions	1,520,784	1,625,110
Proceeds from note payable	-	4,082,338
Payments on note payable	-	(1,733,810)
Net cash provided by financing activities	<u>1,520,784</u>	<u>3,973,638</u>
Net increase in cash	2,317,204	283,492
Cash, beginning of year	<u>2,472,827</u>	<u>2,189,335</u>
Cash, end of year	<u>\$ 4,790,031</u>	<u>\$ 2,472,827</u>

See Notes to Financial Statements

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

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.

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, 2018 and 2017

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.

At June 30, 2018 and 2017, 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. In addition to the discount, the Organization recorded an estimated 1% allowance for uncollectible pledges totaling \$34,925 and \$42,864 for June 30, 2018 and 2017.

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, 2016, 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 2013.

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Inventory and food valuation:

Inventory consists of donated food and non-food items, purchased food, and United State Department of Agriculture (USDA) commodities received from the government. Donated non-government products were valued at \$1.68 and \$1.73 per pound for the years ended June 30, 2018 and 2017, respectively. Donated government food was valued at \$1.57 and \$1.73 per pound for the years ended June 30, 2018 and 2017, 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 valued utilizing a first in, first out (FIFO) method.

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

	<u>2018</u>	<u>2017</u>
Beginning inventory	1,171,569	1,160,208
Food received	70,034,722	72,002,130
Food distributed	<u>(69,928,576)</u>	<u>(71,990,769)</u>
Ending inventory	<u>1,277,715</u>	<u>1,171,569</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 three to forty 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.

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 230,694 and 253,000 for the years ended June 30, 2018 and 2017, respectively.

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Advertising costs:

The Organization expenses advertising costs as incurred; advertising costs totaled \$107,365 and \$77,839 for the years ended June 30, 2018 and 2017, 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.

Recently Issued Accounting Pronouncements:

In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, (the “Standard”) which will supersede the current guidance in Topic 958. This Standard will make several adjustments to current reporting requirements that address complexities about the use of the currently required three classes of net assets, transparency and utility of information useful in assessing an entity’s liquidity, and expense presentation adjustments. The Standard will require the presentation on the face of the Statement of Financial Position amounts for net assets with donor restrictions and net assets without donor restrictions.

The Standard will require presentation on the face of the Statements of Activities of the amount of the change in each of the two classes of net assets. The Standard will no longer require the presentation or disclosure of the indirect method of presenting cash flows if the direct method is used. The Standard will require enhanced disclosures about the amounts and purposes of self-imposed limits on the use of resources without donor restrictions, the composition of net assets with donor restrictions, qualitative information about management of liquid resources, qualitative information on the availability of financial assets to meet cash needs for general expenditures, amounts of expenses by natural and functional classification, methods used to allocate costs, and information about underwater endowment funds. The Standard will require reporting investment return net of external and direct internal investment expenses and will generally require use of the placed-in-service approach for reporting expirations of restrictions on gifts used to acquire or construct long-lived assets. The amendments in the Standard are effective for annual reporting periods beginning after December 15, 2017, with early application permitted. The Organization is currently evaluating the potential effects of the Standard on the financial statements.

In June 2018, FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which will update the current guidance in Topic 958. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made and should assist entities in evaluating whether transactions should be accounted for as nonreciprocal transactions or exchange transactions and in determining whether a contributions is conditional. The amendments in ASU 2018-08 should be applied on a modified prospective basis and retroactive application is permitted.

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Recently Issued Accounting Pronouncements, continued:

The amendments in ASU 2018-08 will be effective for the Organization for annual periods beginning after December 15, 2018 for transactions in which the Organization serves as a resource recipient and for annual periods beginning after December 15, 2019 for transactions in which the Organization serves as a resource provider. Early adoption is permitted. The Organization has not yet determined the potential effects of ASU 2018-08 on the financial statements.

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 amendments in ASU 2018-13 will be effective for the Organization for annual periods beginning after December 15, 2019. Early adoption is permitted. The Organization has not yet determined the potential effects of ASU 2018-08 on the 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 December 2016, the FASB issued technical corrections and improvements to the Revenue from Contracts with Customers Topic. These corrections make a limited number of revisions to several pieces of the revenue recognition standard issued in 2014. The effective date and transition requirements for the technical corrections will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standard-setting bodies are not expected to have a material impact on the Organization's financial position, results of operations or cash flows.

Reclassifications:

Certain amounts for 2017 have been reclassified to conform with the 2018 financial statement presentation. Such reclassifications have no effect on changes in net assets or cash flows as previously reported.

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, 2018 and 2017 totaled \$4,750,544 and \$1,558,207, respectively.

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 2. Concentrations of Credit Risk, Continued

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, 2018 and 2017 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Agency receivable	\$ 122,771	\$ 64,268
Allowance for uncollectible	(1,589)	(1,589)
Sales tax refund receivable	48,006	68,845
Other receivable	<u>61,203</u>	<u>32,479</u>
Total	<u>\$ 230,390</u>	<u>\$ 164,003</u>

Grants receivable is summarized as follows as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Emergency Food Assistance receivable	\$ 41,933	\$ 44,890
Food Nutrition Services receivable	9,046	20,391
Kids Summer Meals receivable	152,706	179,357
State appropriation receivable	-	52,194
Other grants receivable	317,028	308,406
Child and Adult Commodity receivable	69,107	-
Commodity Supplemental Food receivable	<u>40,380</u>	<u>-</u>
Total	<u>\$ 630,200</u>	<u>\$ 605,238</u>

Note 4. Campaign Pledge Receivable

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

2019	\$	968,428
2020		915,445
2021		817,493
2022		310,559
2023		237,798
2024 and after		<u>207,894</u>
Less discount 2.68-2.81%		<u>(95,136)</u>
	\$	<u>3,362,481</u>

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

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 the property; one of the \$5,000,000 notes bears interest at a fixed rate of 2.99 percent 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, 2018 and June 30, 2017 the total note payable was \$2,817,215. 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.

Note 6. Fair Value of Assets and Liabilities

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification 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 consist 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 generally provide the most reliable evidence of 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.

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 6. Fair Value of Assets and Liabilities, Continued

Fair values of assets measured on a recurring basis at June 30, 2018 are as follows:

	Fair value measurements at Reporting Date			
	Total	Quoted prices In active Markets for identical assets (Level 1)	Quoted prices in active markets for identical assets (Level 2)	Significant other observable inputs (Level 3)
Other investments	\$ 13,000	-	13,000	-
Total assets in fair value hierarchy	13,000	\$ -	\$ 13,000	\$ -
Investments measured at NAV (a)	132,134			
	<u>\$ 145,134</u>			

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

	Fair value measurements at Reporting Date			
	Total	Quoted prices In active Markets for identical assets (Level 1)	Quoted prices in active markets for identical assets (Level 2)	Significant other observable inputs (Level 3)
Other investments	\$ 13,000	-	13,000	-
Total assets in fair value hierarchy	13,000	\$ -	\$ 13,000	\$ -
Investments measured at NAV (a)	\$ 1,028,324			
	<u>\$ 1,041,324</u>			

- (a) In accordance with FASB ASU 2015-07, certain investments that are measured at fair value using the net asset value 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 Financial Statements

June 30, 2018 and 2017

Note 6. Fair Value of Assets and Liabilities, Continued

The following tables for set forth a summary of the Association's investments reported at NAV as a practical expedient to estimate fair value at June 30:

<u>Investment</u>	<u>2018</u>			
	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Pooled investment funds	\$ <u>132,134</u>	\$ <u>-</u>	Quarterly	None

<u>Investment</u>	<u>2017</u>			
	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Pooled investment funds	\$ <u>1,028,324</u>	\$ <u>-</u>	Quarterly	None

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 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 that Triangle Community Foundation will continue to make annual distributions to the Organization. In September 2017, the Triangle Community Foundation Board of Directors approved the Organizations request to release the restrictions on all but two gifts from a single donor.

Upon release of the assets, the Organization elected to transfer funds to their operating account for general operating uses.

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

Balance, June 30, 2017	\$ 1,028,324
Transferred to unrestricted and expended	<u>(896,190)</u>
Balance, June 30, 2018	<u>\$ 132,134</u>

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 7. Triangle Community Foundation, Continued

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).

Note 8. Nature and Amount of Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2018 and 2017, are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Food and Nutrition Service	\$ -	\$ 86,906
Kids Meals and More	498,536	449,577
Food Purchase	-	10,150
Property and equipment	3,989	153,867
Advocacy	2,247	-
Beneficial Interest in Community Fund	132,134	1,028,324
	<u>\$ 636,906</u>	<u>\$ 1,728,824</u>

Note 9. Noncash Contributions

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

The total value of contributed food for the years ended June 30, 2018 and 2017, is as follows:

	<u>2018</u>			<u>2017</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	58,197,708	\$ 1.68	\$ 97,772,150	58,855,291	\$ 1.73	\$ 101,819,653
USDA	7,270,528	\$ 1.57	11,414,729	8,210,679	\$ 1.73	14,204,474
Total	<u>65,468,236</u>		<u>\$ 109,186,879</u>	<u>67,065,970</u>		<u>\$ 116,024,127</u>

Note 10. 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.

Food Bank of Central & Eastern North Carolina, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

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.

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 May 2020. The Organization also has multiple office equipment and vehicle leases which expire at various dates through April 2023. Annual commitments under the leases are:

<u>Year ending June 30:</u>	<u>Amount</u>
2019	\$ 200,354
2020	126,949
2021	78,409
2022	32,964
2023	<u>504</u>
	<u>\$ 439,180</u>

Rent expense for the years ended June 30, 2018 and 2017, was \$284,015 and \$298,578, respectively.

Note 13. Subsequent Events

The Organization has evaluated subsequent events through November 6, 2018, which is the date on which the financial statements were available to be issued. No subsequent events have been identified by management.

Food Bank of Central & Eastern North Carolina, Inc.*Schedule of Expenditures of Federal and State Awards**For the year ended June 30, 2018*

	Federal CFDA Number	Pass-through Entity Identifying Number	Pass-through to Subrecipients	Expenditures
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	\$ - *	\$ 726,479
Emergency Food Assistance Program:				
Food Commodities	10.569	0-092-01-000-EFO	8,916,272 *	8,916,272
Commodity Supplemental Food Program (CSFP)				
Administrative Costs	10.565	N/A	- *	375,354
Food Commodities	10.565	N/A	- *	2,174,123
Total Food Distribution Cluster			8,916,272	12,192,228
Child and Adult Care Food Program (CACFP)	10.558	N/A	-	239,677
Total U.S. Department of Agriculture			\$ 8,916,272	\$ 12,431,905
<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	10.561	N/A	-	118,851
Total Federal Awards			8,916,272	12,550,756
State Awards:				
<u>N.C. Department of Health and Human Services:</u>				
State Funded Food Purchases	N/A	N/A	-	492,791
Summer Food Service Program	N/A	N/A	-	590,671
Total State Awards			-	1,083,462
Total Awards			\$ 8,916,272	\$ 13,634,218

* Major Program per Uniform Guidance

Notes to the Schedule of Expenditures of Federal and State Awards**Note 1: Basis of Presentation**

This accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the Food Bank of Central & Eastern North Carolina, Inc. (the Organization) under the programs of the federal government for the year ended June 30, 2018. The information is presented in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA 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

Expenditure reported in the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles in 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 SEFA 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 (\$1.57 in 2018).

At June 30, 2018, inventory included USDA food commodities valued at \$499,566



**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, 2018, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated November 6, 2018.

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.

A handwritten signature in black ink that reads "Elliott Davis P.L.L.C." The signature is written in a cursive style.

Raleigh, North Carolina
November 6, 2018



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, 2018. 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, 2018.

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.

Handwritten signature of Elliott Davis in cursive script.

Raleigh, North Carolina
November 6, 2018

Food Bank of Central & Eastern North Carolina, Inc.

Schedule of Findings and Questioned Costs

For the year ended June 30, 2018

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 the OMB Compliance Supplement? Yes No

Identification of major federal programs:

<u>Name of Federal Program</u>	<u>CFDA No.</u>
Food Distribution Cluster	10.568/10.569/10.565

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

Auditee qualified as low-risk auditee? Yes No

Food Bank of Central & Eastern North Carolina, Inc.

Schedule of Findings and Questioned Costs

For the year ended June 30, 2018

Section II. Financial Statement Audit Findings

None reported

Section III. Federal Award Findings

None reported

Food Bank of Central & Eastern North Carolina, Inc.

Schedule of Prior Year Findings and Questioned Costs

For the year ended June 30, 2018

Section I. Financial Statement Audit Findings

None reported

Section II. Federal Award Findings

None reported