

Second Harvest Northern Lakes Food Bank

Financial and Compliance Report
December 31, 2015

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Second Harvest Northern Lakes Food Bank
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Northern Lakes Food Bank, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 Second Harvest Northern Lakes Food Bank as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audits were conducted for the purpose of forming an opinion on Second Harvest Northern Lakes Food Bank's financial statements. The schedule of expenditures of federal awards, as required by 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), 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. Such information has been subjected to the auditing procedures applied in the audits 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 May 13, 2016, on our consideration of Second Harvest Northern Lakes Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Second Harvest Northern Lakes Food Bank's internal control over financial reporting and compliance.

RSM US LLP

Duluth, Minnesota
May 13, 2016

Second Harvest Northern Lakes Food Bank

**Statements of Financial Position
December 31, 2015 and 2014**

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 263,308	\$ 301,686
Investments (Note 2)	1,270,248	1,192,513
Accounts receivable	81,044	40,773
Grants receivable	9,205	-
Inventory:		
Purchased	122,292	88,401
Donated food	730,166	622,181
Prepaid expenses	5,797	-
Total current assets	2,482,060	2,245,554
Property and equipment (Note 3)	3,381,332	3,393,146
Less accumulated depreciation	1,204,157	1,090,432
	2,177,175	2,302,714
Other assets, beneficial interest in assets held by others (Note 6)	126,405	128,171
Total assets	\$ 4,785,640	\$ 4,676,439
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ -	\$ 165
Accrued expenses	47,084	42,927
Total current liabilities	47,084	43,092
Net assets:		
Unrestricted	4,638,344	4,536,310
Permanently restricted	100,212	97,037
Total net assets	4,738,556	4,633,347
Total liabilities and net assets	\$ 4,785,640	\$ 4,676,439

See notes to financial statements.

Second Harvest Northern Lakes Food Bank

Statements of Activities

Years Ended December 31, 2015 and 2014

	2015		
	Unrestricted	Permanently Restricted	Total
Public support and revenue:			
Public support:			
Contributions in-kind (Note 5)	\$ 7,606,368	\$ -	\$ 7,606,368
Contributions	1,169,597	-	1,169,597
Total public support	8,775,965	-	8,775,965
Revenues:			
Memberships	5,362	-	5,362
Special events (net of fundraising costs of \$11,478 in 2015 and \$11,412 in 2014)	89,669	-	89,669
Food/shared maintenance	1,023,524	-	1,023,524
Investment income	24,536	-	24,536
Change in beneficial interest in assets held by others (Note 6)	(4,941)	3,175	(1,766)
Net loss on disposal of equipment	(310)	-	(310)
Net (loss) gain on investments	(41,870)	-	(41,870)
Total revenues	1,095,970	3,175	1,099,145
Total public support and revenue	9,871,935	3,175	9,875,110
Expenses:			
Program expenses	9,393,701	-	9,393,701
Fundraising	254,498	-	254,498
Management and general	121,702	-	121,702
Total expenses	9,769,901	-	9,769,901
Increase (decrease) in net assets	\$ 102,034	\$ 3,175	\$ 105,209

See notes to financial statements.

2014		
Unrestricted	Permanently Restricted	Total
\$ 7,641,685	\$ -	\$ 7,641,685
1,155,536	-	1,155,536
8,797,221	-	8,797,221
5,271	-	5,271
97,972	-	97,972
973,523	-	973,523
25,103	-	25,103
4,525	3,650	8,175
-	-	-
41,769	-	41,769
1,148,163	3,650	1,151,813
9,945,384	3,650	9,949,034
9,804,870	-	9,804,870
200,754	-	200,754
138,005	-	138,005
10,143,629	-	10,143,629
\$ (198,245)	\$ 3,650	\$ (194,595)

Second Harvest Northern Lakes Food Bank

**Statements of Changes in Net Assets
Years Ended December 31, 2015 and 2014**

	Unrestricted	Permanently Restricted	Total
Net assets, December 31, 2013	\$ 4,734,555	\$ 93,387	\$ 4,827,942
(Decrease) increase in net assets for the year ended December 31, 2014	<u>(198,245)</u>	<u>3,650</u>	<u>(194,595)</u>
Net assets, December 31, 2014	4,536,310	97,037	4,633,347
Increase in net assets for the year ended December 31, 2015	<u>102,034</u>	<u>3,175</u>	<u>105,209</u>
Net assets, December 31, 2015	<u>\$ 4,638,344</u>	<u>\$ 100,212</u>	<u>\$ 4,738,556</u>

See notes to financial statements.

Second Harvest Northern Lakes Food Bank

**Statements of Functional Expenses
Years Ended December 31, 2015 and 2014**

	2015			
	Program Services	Fundraising	Management and General	Total
Salaries	\$ 485,005	\$ 49,527	\$ 76,018	\$ 610,550
Payroll taxes	35,623	3,638	5,583	44,844
Employee benefits	52,182	5,329	8,179	65,690
Total compensation	572,810	58,494	89,780	721,084
Accounting/professional	14,465	-	3,616	18,081
Advertising	3,761	8,969	1,736	14,466
Bank charges	12,003	-	3,001	15,004
Conference and meetings	8,520	-	-	8,520
Depreciation	139,123	-	-	139,123
Dues and consulting	14,125	8,717	5,569	28,411
Food distribution:				
Purchased	844,640	-	-	844,640
Donated	7,498,539	-	-	7,498,539
Food transportation and storage	129,925	-	-	129,925
Insurance	35,620	-	4,613	40,233
Miscellaneous	2,459	-	-	2,459
Postage and copying	1,820	178,318	1,820	181,958
Repairs and maintenance	23,686	-	332	24,018
Supplies and small equipment	23,153	-	980	24,133
Telephone	8,927	-	2,232	11,159
Travel	8,188	-	2,252	10,440
Utilities/occupancy	51,937	-	5,771	57,708
Total functional expenses	\$ 9,393,701	\$ 254,498	\$ 121,702	\$ 9,769,901

See notes to financial statements.

2014

Program Services	Fundraising	Management and General	Total
\$ 461,657	\$ 49,428	\$ 73,994	\$ 585,079
34,491	3,693	5,528	43,712
43,725	4,682	7,008	55,415
539,873	57,803	86,530	684,206
14,886	-	3,785	18,671
14,509	-	1,397	15,906
11,828	-	2,957	14,785
3,991	-	-	3,991
164,854	-	-	164,854
26,990	-	21,860	48,850
811,144	-	-	811,144
7,901,826	-	-	7,901,826
145,314	-	-	145,314
26,287	-	4,751	31,038
7,115	-	-	7,115
21,530	142,951	4,847	169,328
16,473	-	343	16,816
26,186	-	1,220	27,406
8,937	-	2,220	11,157
7,144	-	1,875	9,019
55,983	-	6,220	62,203
<u>\$ 9,804,870</u>	<u>\$ 200,754</u>	<u>\$ 138,005</u>	<u>\$ 10,143,629</u>

Second Harvest Northern Lakes Food Bank

Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 105,209	\$ (194,595)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	139,123	164,854
Loss on disposal of equipment	310	-
In-kind contributions of food	(7,606,368)	(7,641,685)
Distribution of donated food	7,498,539	7,901,826
Change in beneficial interest in assets held by others	1,766	(8,175)
Net gain on investments	41,870	(41,769)
Changes in assets and liabilities:		
Accounts receivable	(40,271)	33,152
Grants receivable	(9,205)	-
Inventory	(34,047)	31,652
Prepaid expenses	(5,797)	7,087
Accounts payable	(165)	7
Accrued expenses	4,157	1,812
Net cash provided by operating activities	95,121	254,166
Cash flows from investing activities:		
Purchase of investments	(284,007)	(891,030)
Proceeds from sale of investments	164,402	876,847
Purchase of property and equipment	(13,894)	(240,240)
Net cash used in investing activities	(133,499)	(254,423)
Net decrease in cash and cash equivalents	(38,378)	(257)
Cash and cash equivalents		
Beginning	301,686	301,943
Ending	\$ 263,308	\$ 301,686

See notes to financial statements.

Second Harvest Northern Lakes Food Bank

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Second Harvest Northern Lakes Food Bank (SHNLFB) is the region's only food bank and rescuer of nationally and regionally donated food for distribution to nonprofit agencies and people in need directly throughout northeastern Minnesota (St. Louis, Carlton, Lake and Cook Counties) and northwestern Wisconsin (Douglas, Bayfield, Ashland, and Iron counties). In addition, the food bank raises awareness of and engages the region in its fight against hunger.

A summary of significant accounting policies follows:

Net assets: Unrestricted net assets are those funds presently available for use by or on behalf of SHNLFB, including amounts available for general and administrative expenses. These unrestricted net assets may also include board-designated funds. Temporarily restricted net assets are contributions that have donor-imposed stipulations that can be fulfilled by certain actions of SHNLFB. Permanently restricted net assets are contributions that have donor-imposed restrictions whereby the amount of the gift is to be held in perpetuity and only the income generated can be used as stipulated by the donor.

Cash and cash equivalents: For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash in checking and money market accounts.

Accounts receivable: SHNLFB extends credit to its agencies, primarily on an unsecured basis, on terms that it establishes for individual clients. Uncollectible receivables are written off in the year that amounts are determined to be uncollectible. Accounts are considered past due if payment is not received according to agreed-upon terms. It is the opinion of management that based on prior bad debt experience and the status of current receivables, an allowance for doubtful accounts is not necessary at December 31, 2015 and 2014.

Inventory: Inventory consists of donated non-government food, purchased food and United States Department of Agriculture (USDA) food commodities received from the government. Donated non-government food and donated government food for the years ended December 31, 2015 and 2014, was valued at \$1.70 and \$1.72 per pound respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food is valued at the latest purchase price.

Property and equipment: Property and equipment is stated at cost. Depreciation is determined on the straight-line basis over the estimated useful lives:

	<u>Years</u>
Land improvements	10 - 20
Buildings and building improvements	39
Fixtures	5
Vehicles and equipment	3 - 7

Investments: Investments consist primarily of assets invested in marketable equity and debt securities. Investments are measured at fair value in the statements of financial position. Fair value of marketable equity and debt securities is based on quoted market prices. The realized and unrealized gain or loss on investments is reflected in the statements of activities.

Second Harvest Northern Lakes Food Bank

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Fair value measurement: Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. This topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this topic are described below:

Basis of fair value measurement:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets or quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full-term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Concentration of credit risk: SHNLFB maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. SHNLFB has not experienced any losses in such accounts.

Income taxes: SHNLFB is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and a similar section of the state code.

Not-for-profit organizations may become subject to income taxes if qualification as a tax-exempt entity changes, if unrelated business income is generated, and in certain other instances. Not-for-profit organizations are required to assess the certainty of their tax positions related to these matters and, in some cases, record liabilities for potential taxes, interest and penalties accompanied by footnote disclosures. SHNLFB has not identified any uncertain tax positions that would require the accrual of an income tax provision.

Generally, SHNLFB is no longer subject to income tax examinations by the U.S. federal or state tax authorities for years before 2012.

Advertising costs: Advertising costs are expensed as incurred.

Contributions: Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. SHNLFB reports gifts of cash and other donated assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When donor restrictions expire, that is, when a stipulated time restriction ends or the purpose of a restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions.

Contributions in-kind: Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the SHNLFB would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. SHNLFB also receives donated services that do not require specific expertise but which are nonetheless central to SHNLFB's operations. While these contributed services are not reflected in the financial statements the estimated value of these services is disclosed in Note 5.

Second Harvest Northern Lakes Food Bank

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates in the preparation of financial statements: The preparation of financial statements 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: Management has evaluated subsequent events through May 13, 2016, the date the financial statements were available to be issued.

Note 2. Investments

All investments are recorded at fair value. The following table presents SHNLFB's assets measured at fair value as of December 31, 2015 and 2014, by level within the fair value hierarchy. As required by Fair Value Measurements and Disclosure Topic of the FASB ASC, the assets are classified in their entirety based on the lowest level of input that is significant to the fair market value measurement.

SHNLFB's investments are valued using level 1 measurements as described in Note 1.

	2015	2014
Mutual funds:		
Bond	\$ 544,980	\$ 539,617
Real Estate	22,324	22,680
International	138,602	137,500
Large Cap	20,927	22,587
Mid Cap	71,750	67,332
Small Cap	30,971	26,915
Money Market	43,913	36,382
Common Stock	396,781	339,500
	<u>\$ 1,270,248</u>	<u>\$ 1,192,513</u>

Note 3. Property and Equipment

Property and equipment consists of the following at December 31, 2015 and 2014:

	2015	2014
Land	\$ 44,313	\$ 44,313
Land improvements	105,890	105,890
Buildings and building improvements	2,452,233	2,452,233
Fixtures	4,954	-
Vehicles and equipment	773,942	790,710
	<u>3,381,332</u>	<u>3,393,146</u>
Accumulated depreciation	1,204,157	1,090,432
	<u>\$ 2,177,175</u>	<u>\$ 2,302,714</u>

Second Harvest Northern Lakes Food Bank

Notes to Financial Statements

Note 4. Retirement Plan

SHNLFB maintains a profit sharing plan, including a 401(k) plan, for all employees who have worked at least 1,000 hours in one year and attained 18 years of age. SHNLFB matches employee deferrals at 100 percent of the first 3 percent and 50 percent of the next 2 percent. Total pension expense was \$15,279 and \$18,789 for the years ended December 31, 2015 and 2014, respectively.

Note 5. Contributions In-Kind

The estimated fair value of donated food is recorded as contributions. Donated non-government and government (USDA) food for the years ended December 31, 2015 and 2014, was valued at \$1.70 and \$1.72 respectively. This valuation is based on a cost study conducted by Feeding America.

During the years ended December 31, the following in-kind contributions were received by SHNLFB:

	2015	2014
Contributions in-kind:		
Food - nongovernment	\$ 6,074,673	\$ 5,977,406
Food - government	1,531,695	1,664,279
Total contributions in-kind	<u>\$ 7,606,368</u>	<u>\$ 7,641,685</u>

SHNLFB also receives donated services that do not require specific expertise but which are nonetheless central to SHNLFB's operations. SHNLFB relies on volunteers from the community to sort and repack donated food and perform administrative and fundraising related tasks. The estimated value of these services for 2015 and 2014 amounted to \$182,800 and \$188,200, respectively. The value of these services was based on an internally estimated rate of \$13.50 per hour for 2015 and 2014. In accordance with accounting principles generally accepted in the United States of America, the value of these services is not reflected in the financial statements.

Note 6. Beneficial Interest in Assets Held by Others

The Second Harvest Michael E. Miner Hunger Endowment Fund (the Fund) was established with the Duluth-Superior Area Community Foundation (the Foundation) by both SHNLFB and third party donors. SHNLFB is the sole beneficiary of the Fund.

The portion of the Fund contributed by SHNLFB is reported as an asset of SHNLFB. The irrevocable agreement with the Foundation gives the Foundation variance power as well as legal title to the funds. The net income of the Fund is available to be distributed. Earnings from the Fund investments have been held by the Foundation temporarily as mutually agreed upon.

The balances of \$126,405 and \$128,171 at December 31, 2015 and 2014, respectively, are included in the statement of financial position under the caption "Beneficial Interest in Assets Held by Others." This portion is recorded at fair value, which is estimated as the fair value of the underlying assets. As discussed in Note 1, because there are no observable market transactions for assets similar to the beneficial interest in the assets held by the Foundation and because the assets cannot be redeemed, the valuation technique used by SHNLFB is a Level 3 measure.

The change in the fair value of the beneficial interest in the assets held by the Foundation is recognized in the statement of activities.

Supplementary Information

Second Harvest Northern Lakes Food Bank

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015**

Federal Grantor Pass-Through Agency / Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture:		
Passed through Minnesota Department of Health:		
Commodity Supplemental Food Program (Administrative Costs)	10.565*	\$ 62,006
Commodity Supplemental Food Program (Food Commodities)	10.565*	548,282
Passed through Hunger Solutions Minnesota:		
Emergency Food Assistance Program (TEFAP):		
Emergency Food Assistance Program (Administrative Costs)	10.568*	41,976
Emergency Food Assistance Program (Food Commodities)	10.569*	860,559
Total expenditures of Federal awards		<u>\$ 1,512,823</u>

* Total expenditures under the Food Distribution Cluster were \$1,512,823

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Second Harvest Northern Lakes Food Bank under programs of the federal government for the year ended December 31, 2015. The information in this Schedule 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Second Harvest Northern Lakes Food Bank, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Second Harvest Northern Lakes Food Bank.

Note 2. Summary of Significant Accounting Policies

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

Note 3. Noncash Transactions

Second Harvest Northern Lakes Food Bank consumed noncash assistance in the form of food commodities. Commodities with a fair value at the time received of \$548,282 and \$860,559, related to CFDA Number 10.565 and 10.569, respectively, were consumed or distributed during the year ended December 31, 2015. These commodities consumed were included in the determination of federal awards expended for the year ended December 31, 2015.

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
Second Harvest Northern Lakes Food Bank
Duluth, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest Northern Lakes Food Bank, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon date May 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest Northern Lakes Food Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Northern Lakes Food Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of Second Harvest Northern Lakes Food Bank's internal control.

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

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

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

RSM US LLP

Duluth, Minnesota
May 13, 2016

**Independent Auditor's Report on Compliance for Each Major
Federal Program and on Internal Control Over Compliance
Required by the Uniform Guidance**

To the Board of Directors
Second Harvest Northern Lakes Food Bank
Duluth, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Northern Lakes Food Bank's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Second Harvest Northern Lakes Food Bank's major federal programs for the year ended December 31, 2015. Second Harvest Northern Lakes Food Bank'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 programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Second Harvest Northern Lakes Food Bank'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 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 Second Harvest Northern Lakes Food Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Major Federal Program

In our opinion, Second Harvest Northern Lakes Food Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control over Compliance

Management of Second Harvest Northern Lakes Food Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Second Harvest Northern Lakes Food Bank'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 Second Harvest Northern Lakes Food Bank's internal control over compliance.

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

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

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.

RSM US LLP

Duluth, Minnesota
May 13, 2016

Second Harvest Northern Lakes Food Bank

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2015**

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 X No

Significant deficiency(ies) identified? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ 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 2CFR 200.516(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.565, 10.568 & 10.569	Food Distribution Cluster

Dollar threshold used to distinguish between Type A and Type B programs _____ \$750,000 _____

Auditee qualified as low-risk auditee? X Yes _____ No

Second Harvest Northern Lakes Food Bank

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2015**

II. FINANCIAL STATEMENT FINDINGS

A. Internal Control Findings

None reported.

B. Compliance Findings

None reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Internal Control Findings

None reported.

B. Compliance Findings

None reported.

Second Harvest Northern Lakes Food Bank

**Schedule of Prior Audit Findings
Year Ended December 31, 2015**

None reported.