

Second Harvest Northern Lakes Food Bank

Financial and Compliance Report
December 31, 2017

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Second Harvest Northern Lakes Food Bank

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, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. 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 22, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 22, 2018

Second Harvest Northern Lakes Food Bank

**Statements of Financial Position
December 31, 2017 and 2016**

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 974,934	\$ 416,817
Investments (Note 2)	1,997,620	1,608,295
Accounts receivable	79,365	56,247
Contributions receivable	75,802	37,750
Inventory:		
Purchased	95,712	113,310
Donated food	626,118	697,136
Prepaid expenses	6,161	8,952
Total current assets	3,855,712	2,938,507
Property and equipment (Note 3)	3,479,115	3,444,556
Less accumulated depreciation	1,452,891	1,335,505
	2,026,224	2,109,051
Other assets, beneficial interest in assets held by others (Note 6)	327,849	234,232
Total assets	\$ 6,209,785	\$ 5,281,790
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 68,892	\$ 32,172
Accrued expenses	55,846	53,403
Total current liabilities	124,738	85,575
Net assets:		
Unrestricted	5,829,835	4,994,953
Permanently restricted	255,212	201,262
Total net assets	6,085,047	5,196,215
Total liabilities and net assets	\$ 6,209,785	\$ 5,281,790

See notes to financial statements.

Second Harvest Northern Lakes Food Bank

Statements of Activities

Years Ended December 31, 2017 and 2016

	2017		
	Unrestricted	Permanently Restricted	Total
Public support and revenue:			
Public support:			
Contributions in-kind (Note 5)	\$ 8,522,634	\$ -	\$ 8,522,634
Contributions	1,999,713	-	1,999,713
Total public support	10,522,347	-	10,522,347
Revenues:			
Memberships	3,750	-	3,750
Special events (net of fundraising costs of \$10,256 in 2017 and \$12,568 in 2016)	96,651	-	96,651
Food/shared maintenance	891,281	-	891,281
Investment income	70,194	-	70,194
Change in beneficial interest in assets held by others (Note 6)	39,667	53,950	93,617
Net gain on investments	124,551	-	124,551
Total revenues	1,226,094	53,950	1,280,044
Total public support and revenue	11,748,441	53,950	11,802,391
Expenses:			
Program expenses	10,489,725	-	10,489,725
Fundraising	269,523	-	269,523
Management and general	154,311	-	154,311
Total expenses	10,913,559	-	10,913,559
Increase in net assets	\$ 834,882	\$ 53,950	\$ 888,832

See notes to financial statements.

2016		
Unrestricted	Permanently Restricted	Total
\$ 7,876,505	\$ -	\$ 7,876,505
1,416,595	-	1,416,595
9,293,100	-	9,293,100
4,300	-	4,300
90,002	-	90,002
958,136	-	958,136
30,562	-	30,562
6,777	101,050	107,827
53,786	-	53,786
1,143,563	101,050	1,244,613
10,436,663	101,050	10,537,713
9,691,797	-	9,691,797
241,247	-	241,247
147,010	-	147,010
10,080,054	-	10,080,054
\$ 356,609	\$ 101,050	\$ 457,659

Second Harvest Northern Lakes Food Bank

**Statements of Changes in Net Assets
Years Ended December 31, 2017 and 2016**

	Unrestricted	Permanently Restricted	Total
Net assets, December 31, 2015	\$ 4,638,344	\$ 100,212	\$ 4,738,556
Increase in net assets for the year ended December 31, 2016	356,609	101,050	457,659
Net assets, December 31, 2016	4,994,953	201,262	5,196,215
Increase in net assets for the year ended December 31, 2017	834,882	53,950	888,832
Net assets, December 31, 2017	\$ 5,829,835	\$ 255,212	\$ 6,085,047

See notes to financial statements.

Second Harvest Northern Lakes Food Bank

**Statements of Functional Expenses
Years Ended December 31, 2017 and 2016**

	2017			
	Program Services	Fundraising	Management and General	Total
Salaries	\$ 545,265	\$ 56,875	\$ 94,939	\$ 697,079
Payroll taxes	39,993	4,171	6,963	51,127
Employee benefits	61,467	6,412	10,703	78,582
Total compensation	646,725	67,458	112,605	826,788
Accounting/professional	14,256	-	3,809	18,065
Advertising	2,584	4,332	684	7,600
Bank charges	14,984	-	4,163	19,147
Conference and meetings	7,053	-	1,005	8,058
Depreciation	117,386	-	-	117,386
Dues and consulting	19,656	9,557	11,341	40,554
Food distribution:				
Purchased	721,045	-	-	721,045
Donated	8,593,838	-	-	8,593,838
Food transportation and storage	178,680	-	-	178,680
Insurance	38,557	-	5,602	44,159
Miscellaneous	4,458	-	418	4,876
Postage and copying	1,920	188,176	1,920	192,016
Repairs and maintenance	27,968	-	302	28,270
Supplies and small equipment	25,933	-	1,033	26,966
Telephone	9,335	-	2,177	11,512
Travel	7,044	-	2,774	9,818
Utilities/occupancy	58,303	-	6,478	64,781
Total functional expenses	\$ 10,489,725	\$ 269,523	\$ 154,311	\$ 10,913,559

See notes to financial statements.

2016

Program Services	Fundraising	Management and General	Total
\$ 512,555	\$ 51,480	\$ 92,950	\$ 656,985
39,788	3,561	6,429	49,778
46,809	4,701	8,489	59,999
599,152	59,742	107,868	766,762
14,776	-	3,694	18,470
3,699	6,202	979	10,880
14,124	-	3,531	17,655
4,903	-	-	4,903
131,348	-	-	131,348
26,197	10,273	12,860	49,330
701,398	-	-	701,398
7,910,010	-	-	7,910,010
130,573	-	-	130,573
36,530	-	5,355	41,885
4,437	-	-	4,437
1,684	165,030	1,684	168,398
19,825	-	698	20,523
22,184	-	1,140	23,324
8,324	-	1,867	10,191
7,245	-	1,180	8,425
55,388	-	6,154	61,542
<u>\$ 9,691,797</u>	<u>\$ 241,247</u>	<u>\$ 147,010</u>	<u>\$ 10,080,054</u>

Second Harvest Northern Lakes Food Bank

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 888,832	\$ 457,659
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	117,386	131,348
In-kind contributions of food	(8,522,634)	(7,876,505)
Distribution of donated food	8,593,838	7,910,010
Change in beneficial interest in assets held by others	(93,617)	(107,827)
Net gain on investments	(124,551)	(53,786)
Changes in assets and liabilities:		
Accounts receivable	(23,118)	24,797
Grants receivable	-	9,205
Contributions receivable	(38,052)	(37,750)
Inventory	17,412	8,507
Prepaid expenses	2,791	(3,155)
Accounts payable	36,720	32,172
Accrued expenses	2,443	6,319
Net cash provided by operating activities	857,450	500,994
Cash flows from investing activities:		
Purchase of investments	(1,570,946)	(527,246)
Proceeds from sale of investments	1,306,172	242,985
Purchase of property and equipment	(34,559)	(63,224)
Net cash used in investing activities	(299,333)	(347,485)
Net increase in cash and cash equivalents	558,117	153,509
Cash and cash equivalents:		
Beginning	416,817	263,308
Ending	\$ 974,934	\$ 416,817

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, 2017 and 2016.

Inventory: Inventory consists of donated non-government food, purchased food and United States Department of Agriculture (USDA) food commodities received from the government. Donated food is valued at fair value at the time of donation. 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 2014.

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. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Second Harvest Northern Lakes Food Bank

Notes to Financial Statements

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

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.

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 22, 2018, 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, 2017 and 2016, 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.

	2017	2016
Mutual funds:		
Bond	\$ 811,127	\$ 590,737
Real Estate	55,834	23,108
International	279,748	140,993
Equity	783,036	153,045
Money Market Funds	66,802	292,464
Common Stock	1,073	407,948
	<u>\$ 1,997,620</u>	<u>\$ 1,608,295</u>

Note 3. Property and Equipment

Property and equipment consists of the following at December 31, 2017 and 2016:

	2017	2016
Land	\$ 44,313	\$ 44,313
Land improvements	105,890	105,890
Buildings and building improvements	2,472,764	2,472,764
Fixtures	6,937	6,937
Vehicles and equipment	849,211	814,652
	<u>3,479,115</u>	<u>3,444,556</u>
Accumulated depreciation	1,452,891	1,335,505
	<u>\$ 2,026,224</u>	<u>\$ 2,109,051</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 \$18,779 and \$13,632 for the years ended December 31, 2017 and 2016, respectively.

Note 5. Contributions In-Kind

The fair market value of donated food is recorded as contributions. This valuation is based on a cost study conducted by Feeding America. Donated food was valued at \$1.73 and \$1.67 per pound for the years ended December 31, 2017 and 2016, respectively.

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

	2017	2016
Contributions in-kind:		
Food - nongovernment	\$ 7,049,992	\$ 6,365,100
Food - government	1,472,642	1,511,405
Total contributions in-kind	<u>\$ 8,522,634</u>	<u>\$ 7,876,505</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 2017 and 2016 amounted to \$192,290 and \$172,530, respectively. The value of these services was based on an internally estimated rate of \$13.50 per hour for 2017 and 2016. 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 \$327,849 and \$234,232 at December 31, 2017 and 2016, 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.

Second Harvest Northern Lakes Food Bank

Notes to Financial Statements

Note 6. Beneficial Interest in Assets Held by Others (Continued)

The change in the fair value of the beneficial interest in the assets held by the Foundation is recognized in the statement of activities. The current year contributions to the Fund include \$50,200 which was a restricted contribution received by SHNLFB in December 2017 to be transferred into the Fund. The contribution was transferred to the Fund in January 2018.

	2017	2016
Beneficial interest, beginning of year	\$ 234,232	\$ 126,405
Contributions	53,950	101,050
Investment gains, net of fees	39,667	6,777
Beneficial interest, end of year	<u>\$ 327,849</u>	<u>\$ 234,232</u>

Note 7. Pending Accounting Standards

The FASB has issued several accounting standards updates not yet implemented by SHNLFB. Listed below are the accounting standards updates which may impact future financial statements of SHNLFB.

Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities* The amendments in this ASU, issued August 2016, will be effective for SHNLFB beginning with its year ending December 31, 2018. This Update will make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows.

ASU No. 2014-09, *Revenue from Contracts with Customers* The amendments in this ASU, issued May 2014, will be effective for SHNLFB beginning with its year ending December 31, 2019. This update supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)*, and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*, issued November 2016, will be effective for SHNLFB beginning with its year ending December 31, 2019. This update requires the statement of cash flows to explain the change during the period in total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

Supplementary Information

Second Harvest Northern Lakes Food Bank

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017**

Federal Grantor Pass-Through Agency / Grant Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Awards Passed Through to Subrecipients	Expenditures
U.S. Department of Agriculture:				
Passed through Minnesota Department of Health:				
Commodity Supplemental Food Program (Administrative Costs)	10.565*	18182MN083Y8005	\$ -	\$ 60,842
Commodity Supplemental Food Program (Food Commodities)	10.565*	18182MN083Y8005	-	561,797
Passed through Hunger Solutions Minnesota:				
Emergency Food Assistance Program (TEFAP):				
Emergency Food Assistance Program (Administrative Costs)	10.568*	115909	-	44,055
Emergency Food Assistance Program (Food Commodities)	10.569*	115909	780,806	926,735
Total expenditures of Federal awards			<u>\$ 780,806</u>	<u>\$ 1,593,429</u>

* Total expenditures under the Food Distribution Cluster were \$1,593,429

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, 2017. 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. Second Harvest Northern Lakes Food Bank has elected not to use the 10 percent de minimis indirect cost rate as allowed under Uniform Guidance.

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 \$561,797 and \$926,735, related to CFDA Number 10.565 and 10.569, respectively, were consumed or distributed during the year ended December 31, 2017. These commodities consumed were included in the determination of federal awards expended for the year ended December 31, 2017.

**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

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, 2017, 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 22, 2018.

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 22, 2018

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

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 *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, 2017. 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, 2017.

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 22, 2018

Second Harvest Northern Lakes Food Bank

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2017**

Section I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: 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 federal programs: Unmodified

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

Identification of major programs:

<u>CFDA 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, 2017**

Section II. FINANCIAL STATEMENT FINDINGS

No matters were reported

Section III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported



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Second Harvest Northern Lakes Food Bank

Second Harvest Northern Lakes Food Bank **Summary Schedule of Prior Audit Findings** **For the Year Ended December 31, 2017**

The prior year single audit disclosed no findings in the *Schedule of Findings and Questioned Costs* and no uncorrected or unresolved findings exist from the prior audit's *Summary of Prior Audit Findings*.


Shaye Moris, Executive Director

