

# Second Harvest Northern Lakes Food Bank

Financial and Compliance Report  
December 31, 2014

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## 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, 2014 and 2013, 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, 2014 and 2013, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 15, 2015, 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.



Duluth, Minnesota  
May 15, 2015

**Second Harvest Northern Lakes Food Bank**

**Statements of Financial Position  
December 31, 2014 and 2013**

|  | 2014                | 2013                |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| Current Assets   |                     |                     |
| Cash and cash equivalents  | \$ 301,686          | \$ 301,943          |
| Investments (Note 2)   | 1,192,513           | 1,136,561           |
| Accounts receivable  | 40,773              | 73,925              |
| Inventory:   |                     |                     |
| Purchased  | 88,401              | 120,219             |
| Donated food   | 622,181             | 882,156             |
| Prepaid expenses   | -                   | 7,087               |
| <b>Total current assets</b>  | <b>2,245,554</b>    | <b>2,521,891</b>    |
| Property and Equipment (Note 3)  | 3,393,146           | 3,153,891           |
| Less accumulated depreciation  | 1,090,432           | 926,563             |
|  | <b>2,302,714</b>    | <b>2,227,328</b>    |
| Other Assets, beneficial interest in assets held<br>by others (Note 6) | 128,171             | 119,996             |
| <b>Total assets</b>  | <b>\$ 4,676,439</b> | <b>\$ 4,869,215</b> |
| <b>Liabilities and Net Assets</b>                                      |                     |                     |
| Current Liabilities  |                     |                     |
| Accounts payable   | \$ 165              | \$ 158              |
| Accrued expenses   | 42,927              | 41,115              |
| <b>Total current liabilities</b>                                       | <b>43,092</b>       | <b>41,273</b>       |
| Net Assets   |                     |                     |
| Unrestricted   | 4,536,310           | 4,734,555           |
| Permanently restricted   | 97,037              | 93,387              |
| <b>Total net assets</b>  | <b>4,633,347</b>    | <b>4,827,942</b>    |
| <b>Total liabilities and net assets</b>                                | <b>\$ 4,676,439</b> | <b>\$ 4,869,215</b> |

See Notes to Financial Statements.

**Second Harvest Northern Lakes Food Bank**

**Statements of Activities**

**Years Ended December 31, 2014 and 2013**

|   | 2014                |                           |                           | Total               |
|---|---------------------|---------------------------|---------------------------|---------------------|
|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted |                     |
| Public Support and Revenue  |                     |                           |                           |                     |
| Public support:   |                     |                           |                           |                     |
| Contributions in-kind (Note 5)  | \$ 7,641,685        | \$ -                      | \$ -                      | \$ 7,641,685        |
| Contributions   | 1,155,536           | -                         | -                         | 1,155,536           |
| <b>Total public support</b>   | <b>8,797,221</b>    | <b>-</b>                  | <b>-</b>                  | <b>8,797,221</b>    |
| Revenues:   |                     |                           |                           |                     |
| Memberships   | 5,271               | -                         | -                         | 5,271               |
| Special events (net of fundraising costs<br>of \$11,412 in 2014 and \$13,310 in 2013) | 97,972              | -                         | -                         | 97,972              |
| Food/shared maintenance   | 973,523             | -                         | -                         | 973,523             |
| Investment income   | 25,103              | -                         | -                         | 25,103              |
| Change in beneficial interest in<br>assets held by others (Note 6)                    | 4,525               | -                         | 3,650                     | 8,175               |
| Net loss on disposal of equipment   | -                   | -                         | -                         | -                   |
| Net gain on investments   | 41,769              | -                         | -                         | 41,769              |
| <b>Total revenues</b>   | <b>1,148,163</b>    | <b>-</b>                  | <b>3,650</b>              | <b>1,151,813</b>    |
| Net assets released from restrictions   | -                   | -                         | -                         | -                   |
| <b>Total public support and<br/>        revenue</b>                                   | <b>9,945,384</b>    | <b>-</b>                  | <b>3,650</b>              | <b>9,949,034</b>    |
| Expenses  |                     |                           |                           |                     |
| Program expenses  | 9,804,870           | -                         | -                         | 9,804,870           |
| Fundraising   | 200,754             | -                         | -                         | 200,754             |
| Management and general  | 138,005             | -                         | -                         | 138,005             |
| <b>Total expenses</b>   | <b>10,143,629</b>   | <b>-</b>                  | <b>-</b>                  | <b>10,143,629</b>   |
| <b>Increase (decrease) in net assets</b>  | <b>\$ (198,245)</b> | <b>\$ -</b>               | <b>\$ 3,650</b>           | <b>\$ (194,595)</b> |

See Notes to Financial Statements.

2013

| Unrestricted | Temporarily Restricted | Permanently Restricted | Total        |
|--------------|------------------------|------------------------|--------------|
| \$ 7,066,522 | \$ -                   | \$ -                   | \$ 7,066,522 |
| 1,064,029    | -                      | -                      | 1,064,029    |
| 8,130,551    | -                      | -                      | 8,130,551    |
| 5,125        | -                      | -                      | 5,125        |
| 95,618       | -                      | -                      | 95,618       |
| 943,858      | -                      | -                      | 943,858      |
| 18,643       | -                      | -                      | 18,643       |
| 10,049       | -                      | 9,164                  | 19,213       |
| (877)        | -                      | -                      | (877)        |
| 73,556       | -                      | -                      | 73,556       |
| 1,145,972    | -                      | 9,164                  | 1,155,136    |
| 3,411        | (3,411)                | -                      | -            |
| 9,279,934    | (3,411)                | 9,164                  | 9,285,687    |
| 8,586,113    | -                      | -                      | 8,586,113    |
| 88,784       | -                      | -                      | 88,784       |
| 152,162      | -                      | -                      | 152,162      |
| 8,827,059    | -                      | -                      | 8,827,059    |
| \$ 452,875   | \$ (3,411)             | \$ 9,164               | \$ 458,628   |

**Second Harvest Northern Lakes Food Bank**

**Statements of Changes in Net Assets  
Years Ended December 31, 2014 and 2013**

|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
|---|---------------------|---------------------------|---------------------------|---------------------|
| Net Assets, December 31, 2012   | \$ 4,281,680        | \$ 3,411                  | \$ 84,223                 | \$ 4,369,314        |
| Increase (decrease) in net assets for<br>the year ended December 31, 2013 | 452,875             | (3,411)                   | 9,164                     | 458,628             |
| Net Assets, December 31, 2013   | 4,734,555           | -                         | 93,387                    | 4,827,942           |
| Increase (decrease) in net assets for<br>the year ended December 31, 2014 | (198,245)           | -                         | 3,650                     | (194,595)           |
| Net Assets, December 31, 2014   | <u>\$ 4,536,310</u> | <u>\$ -</u>               | <u>\$ 97,037</u>          | <u>\$ 4,633,347</u> |

See Notes to Financial Statements.



**Second Harvest Northern Lakes Food Bank**

**Statements of Functional Expenses  
Years Ended December 31, 2014 and 2013**

|                                  | 2014                |                   |                           |                      |
|----------------------------------|---------------------|-------------------|---------------------------|----------------------|
|                                  | Program<br>Services | Fundraising       | Management<br>and General | Total                |
| Salaries                         | \$ 461,657          | \$ 49,428         | \$ 73,994                 | \$ 585,079           |
| Payroll taxes                    | 34,491              | 3,693             | 5,528                     | 43,712               |
| Employee benefits                | 43,725              | 4,682             | 7,008                     | 55,415               |
| <b>Total compensation</b>        | <b>539,873</b>      | <b>57,803</b>     | <b>86,530</b>             | <b>684,206</b>       |
| Accounting/professional          | 14,886              | -                 | 3,785                     | 18,671               |
| Advertising                      | 14,509              | -                 | 1,397                     | 15,906               |
| Bank charges                     | 11,828              | -                 | 2,957                     | 14,785               |
| Conference and meetings          | 3,991               | -                 | -                         | 3,991                |
| Depreciation                     | 164,854             | -                 | -                         | 164,854              |
| Dues and consulting              | 26,990              | -                 | 21,860                    | 48,850               |
| Food distribution:               |                     |                   |                           |                      |
| Purchased                        | 811,144             | -                 | -                         | 811,144              |
| Donated                          | 7,901,826           | -                 | -                         | 7,901,826            |
| Food transportation and storage  | 145,314             | -                 | -                         | 145,314              |
| Insurance                        | 26,287              | -                 | 4,751                     | 31,038               |
| Miscellaneous                    | 7,115               | -                 | -                         | 7,115                |
| Postage and copying              | 21,530              | 142,951           | 4,847                     | 169,328              |
| Repairs and maintenance          | 16,473              | -                 | 343                       | 16,816               |
| Supplies and small equipment     | 26,186              | -                 | 1,220                     | 27,406               |
| Telephone                        | 8,937               | -                 | 2,220                     | 11,157               |
| Travel                           | 7,144               | -                 | 1,875                     | 9,019                |
| Utilities/occupancy              | 55,983              | -                 | 6,220                     | 62,203               |
| <b>Total functional expenses</b> | <b>\$ 9,804,870</b> | <b>\$ 200,754</b> | <b>\$ 138,005</b>         | <b>\$ 10,143,629</b> |

See Notes to Financial Statements.

2013

|    | Program<br>Services | Fundraising | Management<br>and General | Total        |
|----|---------------------|-------------|---------------------------|--------------|
| \$ | 408,422             | \$ 18,200   | \$ 85,505                 | \$ 512,127   |
|    | 32,094              | 1,430       | 6,719                     | 40,243       |
|    | 35,684              | 1,590       | 7,470                     | 44,744       |
|    | 476,200             | 21,220      | 99,694                    | 597,114      |
|    | 14,387              | -           | 3,597                     | 17,984       |
|    | 3,518               | -           | 700                       | 4,218        |
|    | 6,914               | -           | 1,148                     | 8,062        |
|    | 2,843               | -           | -                         | 2,843        |
|    | 160,902             | -           | -                         | 160,902      |
|    | 24,459              | -           | 12,002                    | 36,461       |
|    | 660,987             | -           | -                         | 660,987      |
|    | 6,958,581           | -           | -                         | 6,958,581    |
|    | 120,414             | -           | -                         | 120,414      |
|    | 24,204              | -           | 4,635                     | 28,839       |
|    | 2,895               | -           | -                         | 2,895        |
|    | 16,891              | 67,564      | 21,008                    | 105,463      |
|    | 20,217              | -           | 475                       | 20,692       |
|    | 29,147              | -           | 1,170                     | 30,317       |
|    | 7,637               | -           | 1,911                     | 9,548        |
|    | 9,525               | -           | 667                       | 10,192       |
|    | 46,392              | -           | 5,155                     | 51,547       |
| \$ | 8,586,113           | \$ 88,784   | \$ 152,162                | \$ 8,827,059 |

**Second Harvest Northern Lakes Food Bank**

**Statements of Cash Flows  
Years Ended December 31, 2014 and 2013**

|  | 2014              | 2013              |
|--|-------------------|-------------------|
| <b>Cash Flows from Operating Activities</b>  |                   |                   |
| Increase (decrease) in net assets  | \$ (194,595)      | \$ 458,628        |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: |                   |                   |
| Depreciation   | 164,854           | 160,902           |
| Loss on disposal of equipment  | -                 | 877               |
| In-kind contributions of food  | (7,641,685)       | (7,066,522)       |
| Distribution of donated food   | 7,901,826         | 6,958,581         |
| Change in beneficial interest in assets held by others   | (8,175)           | (19,213)          |
| Net gain on investments  | (41,769)          | (73,556)          |
| Changes in assets and liabilities:   |                   |                   |
| Accounts receivable  | 33,152            | (20,106)          |
| Inventory  | 31,652            | (34,275)          |
| Prepaid expenses   | 7,087             | (952)             |
| Accounts payable   | 7                 | (14,352)          |
| Accrued expenses   | 1,812             | 7,132             |
| <b>Net cash provided by operating activities</b>   | <b>254,166</b>    | <b>357,144</b>    |
| <b>Cash Flows from Investing Activities</b>  |                   |                   |
| Purchase of investments  | (891,030)         | (1,220,436)       |
| Proceeds from sale of investments  | 876,847           | 825,647           |
| Purchase of property and equipment   | (240,240)         | (39,445)          |
| <b>Net cash used in investing activities</b>   | <b>(254,423)</b>  | <b>(434,234)</b>  |
| <b>Net decrease in cash and cash equivalents</b>   | <b>(257)</b>      | <b>(77,090)</b>   |
| <b>Cash and Cash Equivalents</b>   |                   |                   |
| Beginning  | 301,943           | 379,033           |
| Ending   | <b>\$ 301,686</b> | <b>\$ 301,943</b> |

See Notes to Financial Statements.

## Second Harvest Northern Lakes Food Bank

### Notes to Financial Statements

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#### 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, 2014 and 2013.

**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, 2014 and 2013, was valued at \$1.72 and \$1.69 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:

|                                     | Years   |
|-------------------------------------|---------|
| Land improvements                   | 10 - 20 |
| Buildings and building improvements | 39      |
| 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

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**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 2011.

**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

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**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 15, 2015, 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, 2014 and 2013, 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.

|               | 2014                | 2013                |
|---------------|---------------------|---------------------|
| Mutual funds: |                     |                     |
| Bond          | \$ 539,617          | \$ 336,818          |
| Real Estate   | 22,680              | 16,463              |
| International | 137,500             | 147,437             |
| Large Cap     | 22,587              | 16,345              |
| Mid Cap       | 67,332              | 52,186              |
| Small Cap     | 26,915              | 20,188              |
| Money Market  | 36,382              | 257,400             |
| Common Stock  | 339,500             | 289,724             |
|               | <u>\$ 1,192,513</u> | <u>\$ 1,136,561</u> |

#### Note 3. Property and Equipment

Property and equipment consists of the following at December 31, 2014 and 2013:

|                                     | 2014                | 2013                |
|-------------------------------------|---------------------|---------------------|
| Land                                | \$ 44,313           | \$ 44,313           |
| Land improvements                   | 105,890             | 25,800              |
| Buildings and building improvements | 2,452,233           | 2,452,233           |
| Vehicles and equipment              | 790,710             | 631,545             |
|                                     | <u>3,393,146</u>    | <u>3,153,891</u>    |
| Accumulated depreciation            | 1,090,432           | 926,563             |
|                                     | <u>\$ 2,302,714</u> | <u>\$ 2,227,328</u> |

#### 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 \$18,789 and \$13,858 for the years ended December 31, 2014 and 2013, respectively.

## Second Harvest Northern Lakes Food Bank

### Notes to Financial Statements

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#### Note 5. Contributions In-Kind

The estimated fair value of donated food is recorded as contributions. Donated nongovernment and government (USDA) food for the years ended December 31, 2014 and 2013, was valued at \$1.72 and \$1.69 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:

|                             | 2014                | 2013                |
|-----------------------------|---------------------|---------------------|
| Contributions in-kind:      |                     |                     |
| Food - nongovernment        | \$ 5,977,406        | \$ 5,497,404        |
| Food - government           | 1,664,279           | 1,569,118           |
| Total contributions in-kind | <u>\$ 7,641,685</u> | <u>\$ 7,066,522</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 2014 and 2013 amounted to \$188,200 and \$125,400, respectively. The value of these services was based on an internally estimated rate of \$13.50 and \$11.00 per hour for 2014 and 2013, respectively. 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 to be distributed at least annually. Earnings from the Fund investments have been held by the Foundation temporarily as mutually agreed upon.

The balances of \$128,171 and \$119,996 at December 31, 2014 and 2013, 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, 2014**

| Federal Grantor Pass-Through Agency / Grant Program Title  | Federal<br>CFDA<br>Number | Expenditures        |
|--|---------------------------|---------------------|
| U.S. Department of Agriculture:                            |                           |                     |
| Passed through Minnesota Department of Health:             |                           |                     |
| Commodity Supplemental Food Program (Administrative Costs) | 10.565*                   | \$ 63,884           |
| Commodity Supplemental Food Program (Food Commodities)     | 10.565*                   | 557,827             |
| Passed through Hunger Solutions Minnesota:                 |                           |                     |
| Emergency Food Assistance Program (TEFAP):                 |                           |                     |
| Emergency Food Assistance Program (Administrative Costs)   | 10.568*                   | 35,609              |
| Emergency Food Assistance Program (Food Commodities)       | 10.569*                   | 1,094,536           |
| Total expenditures of Federal awards                       |                           | <u>\$ 1,751,856</u> |

\* Total expenditures under the Food Distribution Cluster were \$1,751,856

**Note 1. Basis of Presentation**

The schedule of expenditures of federal awards includes the federal grant activity of Second Harvest Northern Lakes Food Bank and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

**Note 2. 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 \$557,827 and \$1,094,536, related to CFDA Number 10.565 and 10.569, respectively, were consumed or distributed during the year ended December 31, 2014. These commodities consumed were included in the determination of federal awards expended for the year ended December 31, 2014.



**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, 2014, 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 15, 2015.

**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.

A handwritten signature in cursive script that reads "McGladrey LLP".

Duluth, Minnesota  
May 15, 2015



**Independent Auditor's Report on Compliance for Each Major  
Federal Program and on Internal Control Over Compliance  
Required by OMB Circular A-133**

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 *OMB Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

### **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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*McGladrey LLP*

Duluth, Minnesota  
May 15, 2015

**Second Harvest Northern Lakes Food Bank**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2014**

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**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 that are not  
considered to be material weaknesses? \_\_\_\_\_ 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 that are not  
considered to be material weakness(es)? \_\_\_\_\_ 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 Section 510(a)  
of Circular A-133? \_\_\_\_\_ 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 \_\_\_\_\_   \$300,000   \_\_\_\_\_

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, 2014**

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**II. FINANCIAL STATEMENT FINDINGS**

**A. Significant Deficiencies in Internal Control**

None reported.

**B. Compliance Findings**

None reported.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**A. Significant Deficiencies in Internal Control over Major Programs**

None reported.

**B. Compliance Findings Relating to Major Programs**

None reported.

**Second Harvest Northern Lakes Food Bank**

**Schedule of Prior Audit Findings  
Year Ended December 31, 2014**

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**2013-001 – Eligibility**

Corrective action has been taken.