

Second Harvest Northern Lakes Food Bank

Financial and Compliance Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

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, 2019 and 2018, the related statements of activities, 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, 2019 and 2018, 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 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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 August 10, 2020, 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, 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
August 10, 2020

Second Harvest Northern Lakes Food Bank

**Statements of Financial Position
December 31, 2019 and 2018**

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 601,736	\$ 1,077,509
Investments (Note 3)	3,215,981	2,123,942
Accounts receivable	73,966	79,696
Contributions receivable	55,169	21,585
Inventory:		
Purchased	102,499	115,893
Donated food	596,390	693,744
Prepaid expenses	1,838	2,901
Total current assets	4,647,579	4,115,270
Property and equipment (Note 4)	3,604,618	3,566,940
Less accumulated depreciation	1,702,522	1,572,701
	1,902,096	1,994,239
Other assets, beneficial interest in assets held by others (Note 7)	361,431	301,317
Total assets	\$ 6,911,106	\$ 6,410,826
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 23,158	\$ 38,064
Accrued expenses	73,540	65,719
Total current liabilities	96,698	103,783
Net assets:		
Without donor restrictions	6,558,396	6,051,531
With donor restrictions (Note 8)	256,012	255,512
Total net assets	6,814,408	6,307,043
Total liabilities and net assets	\$ 6,911,106	\$ 6,410,826

See notes to financial statements.

Second Harvest Northern Lakes Food Bank

Statements of Activities

Years Ended December 31, 2019 and 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
Contributions in-kind (Note 6)	\$ 8,972,156	\$ -	\$ 8,972,156
Contributions	1,649,253	-	1,649,253
Total public support	10,621,409	-	10,621,409
Revenues:			
Memberships	3,950	-	3,950
Special events (net of fundraising costs of \$45 in 2019 and \$12,047 in 2018)	31,707	-	31,707
Food/shared maintenance	1,085,332	-	1,085,332
Investment income	83,358	-	83,358
Change in beneficial interest in assets held by others (Note 7)	59,614	500	60,114
Net (loss) gain on investments	318,072	-	318,072
Total revenues	1,582,033	500	1,582,533
Total public support and revenue	12,203,442	500	12,203,942
Expenses:			
Program expenses	11,264,995	-	11,264,995
Fundraising	261,863	-	261,863
Management and general	169,719	-	169,719
Total expenses	11,696,577	-	11,696,577
Increase in net assets	506,865	500	507,365
Net assets, beginning of year	6,051,531	255,512	6,307,043
Net assets, end of year	\$ 6,558,396	\$ 256,012	\$ 6,814,408

See notes to financial statements.

2018

Without Donor Restrictions	With Donor Restrictions	Total
\$ 8,825,048	\$ -	\$ 8,825,048
1,621,175	-	1,621,175
10,446,223	-	10,446,223
3,800	-	3,800
86,715	-	86,715
968,112	-	968,112
91,205	-	91,205
(26,832)	300	(26,532)
(160,508)	-	(160,508)
962,492	300	962,792
11,408,715	300	11,409,015
10,794,381	-	10,794,381
235,475	-	235,475
157,163	-	157,163
11,187,019	-	11,187,019
221,696	300	221,996
5,829,835	255,212	6,085,047
\$ 6,051,531	\$ 255,512	\$ 6,307,043

Second Harvest Northern Lakes Food Bank

**Statements of Functional Expenses
Years Ended December 31, 2019 and 2018**

	2019			
	Program Services	Fundraising	Management and General	Total
Salaries	\$ 611,252	\$ 64,961	\$ 106,210	\$ 782,423
Payroll taxes	46,110	4,900	8,012	59,022
Employee benefits	68,548	5,486	8,970	83,004
Total compensation	725,910	75,347	123,192	924,449
Accounting/professional	15,754	-	3,938	19,692
Advertising	3,544	13,334	-	16,878
Bank charges	17,130	-	4,282	21,412
Conference and meetings	5,087	-	710	5,797
Depreciation	129,821	-	-	129,821
Dues and consulting	20,449	6,592	13,695	40,736
Food distribution:				
Purchased	849,643	-	-	849,643
Donated	9,069,942	-	-	9,069,942
Food transportation and storage	269,160	-	-	269,160
Insurance	37,883	-	8,581	46,464
Miscellaneous	5,508	-	577	6,085
Postage and copying	1,700	166,590	1,700	169,990
Repairs and maintenance	3,701	-	1,025	4,726
Supplies and small equipment	32,173	-	918	33,091
Telephone	9,120	-	2,360	11,480
Travel	8,426	-	2,070	10,496
Utilities/occupancy	60,044	-	6,671	66,715
Total functional expenses	\$ 11,264,995	\$ 261,863	\$ 169,719	\$ 11,696,577

See notes to financial statements.

2018

Program Services	Fundraising	Management and General	Total
\$ 542,019	\$ 56,409	\$ 98,458	\$ 696,886
40,514	4,216	7,359	52,089
59,235	6,165	10,760	76,160
641,768	66,790	116,577	825,135
15,371	-	3,843	19,214
2,257	3,783	597	6,637
17,903	-	4,475	22,378
1,996	-	486	2,482
119,810	-	-	119,810
21,737	9,209	11,386	42,332
839,748	-	-	839,748
8,757,635	-	-	8,757,635
207,286	-	-	207,286
37,853	-	6,944	44,797
3,341	-	190	3,531
1,588	155,693	1,588	158,869
25,255	-	328	25,583
28,697	-	619	29,316
8,931	-	2,450	11,381
4,655	-	1,175	5,830
58,550	-	6,505	65,055
<u>\$ 10,794,381</u>	<u>\$ 235,475</u>	<u>\$ 157,163</u>	<u>\$ 11,187,019</u>

Second Harvest Northern Lakes Food Bank

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 507,365	\$ 221,996
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	129,821	119,810
Loss on disposal of equipment	-	-
In-kind contributions of food	(8,972,156)	(8,825,048)
Distribution of donated food	9,069,942	8,757,635
Change in beneficial interest in assets held by others	(60,114)	26,532
Net loss (gain) on investments	(318,072)	160,508
Changes in assets and liabilities:		
Accounts receivable	5,730	(331)
Contributions receivable	(33,584)	54,217
Inventory	12,962	(20,394)
Prepaid expenses	1,063	3,260
Accounts payable	(14,906)	(30,828)
Accrued expenses	7,821	9,873
Net cash provided by operating activities	335,872	477,230
Cash flows from investing activities:		
Purchase of investments	(1,381,140)	(365,819)
Proceeds from sale of investments	607,173	78,989
Purchase of property and equipment	(37,678)	(87,825)
Net cash used in investing activities	(811,645)	(374,655)
Net increase (decrease) in cash and cash equivalents	(475,773)	102,575
Cash and cash equivalents:		
Beginning	1,077,509	974,934
Ending	\$ 601,736	\$ 1,077,509

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, SHNLFB raises awareness of and engages the region in its fight against hunger.

A summary of significant accounting policies follows:

Basis of presentation: The financial statements of SHNLFB have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require SHNLFB to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of SHNLFB's management and the Board of Directors.

Net assets with donor restrictions: Net assets are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of SHNLFB or by the passage of time. SHNLFB does not have any net assets with temporary restrictions at December 31, 2019 and 2018. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. See Note 8 for further information.

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

Cash and cash equivalents: For the purpose of the statements 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, 2019 and 2018.

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

Second Harvest Northern Lakes Food Bank

Notes to Financial Statements

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

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.

Fair value measurement: The Fair Value Measurements and Disclosures topic of the *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:

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 that, 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.

Nonprofit 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. Nonprofit 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 2016.

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 without donor restrictions or with donor restrictions, depending in the existence and nature of any donor restrictions. When donor restrictions expire, that is, when a stipulated time restriction ends or the purpose of a restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities 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 food 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 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 6.

Functional expenses: The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. Expenses that are allocated based on time and effort include salaries, payroll taxes, employee benefits, accounting/professional, advertising, bank charges, conferences and meetings, dues and consulting, insurance, miscellaneous, postage and copying, repairs and maintenance, supplies and small equipment, telephone and travel. The expenses that are allocated based on square footage are utilities/occupancy.

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.

Note 2. Availability and Liquidity

The following reflects SHNLFB's financial assets as of December 31, 2019, available to meet cash needs for general expenditures within one year of December 31, 2019:

	<u>Amount</u>
Cash and cash equivalents	\$ 601,736
Investments	3,215,981
Accounts receivable	73,966
Contributions receivable	<u>55,169</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 3,946,852</u></u>

SHNLFB's goal is generally to maintain financial assets to meet six months of total expenses, excluding donated food distribution, (approximately \$1.3 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market funds and mutual funds.

Note 3. Investments

All investments are recorded at fair value. The following table presents SHNLFB's assets measured at fair value as of December 31, 2019 and 2018, by level within the fair value hierarchy. As required by the Fair Value Measurements and Disclosure topic of the ASC, the assets are classified in their entirety based on the lowest level of input that is significant to the fair market value measurement.

Second Harvest Northern Lakes Food Bank

Notes to Financial Statements

Note 3. Investments (Continued)

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

	2019	2018
Mutual funds:		
Bond	\$ 1,099,455	\$ 961,392
Real estate	88,712	60,105
International	307,900	202,795
Equity	987,132	769,968
Money market funds	732,782	129,682
	<u>\$ 3,215,981</u>	<u>\$ 2,123,942</u>

Note 4. Property and Equipment

Property and equipment consists of the following at December 31, 2019 and 2018:

	2019	2018
Land	\$ 44,313	\$ 44,313
Land improvements	105,890	105,890
Buildings and building improvements	2,510,233	2,503,794
Fixtures	11,410	8,323
Vehicles and equipment	932,772	904,620
	<u>3,604,618</u>	<u>3,566,940</u>
Accumulated depreciation	1,702,522	1,572,701
	<u>\$ 1,902,096</u>	<u>\$ 1,994,239</u>

Note 5. 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% of the first 3% and 50% of the next 2%. Total pension expense was \$24,525 and \$19,583 for the years ended December 31, 2019 and 2018, respectively.

Note 6. 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 \$1.62 and \$1.68 per pound for the years ended December 31, 2019 and 2018, respectively.

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

	2019	2018
Contributions in-kind:		
Food—nongovernment	\$ 6,937,039	\$ 7,311,823
Food—government	2,035,117	1,513,225
Total contributions in-kind	<u>\$ 8,972,156</u>	<u>\$ 8,825,048</u>

Second Harvest Northern Lakes Food Bank

Notes to Financial Statements

Note 6. Contributions In-Kind (Continued)

SHNLFB also receives donated services that do not require specific expertise but 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 2019 and 2018 amounted to \$230,633 and \$207,981, respectively. The value of these services was based on an internally estimated rate of \$14.35 and \$13.50 per hour for 2019 and 2018, respectively. In accordance with U.S. GAAP, the value of these services is not reflected in the financial statements.

Note 7. 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 \$361,431 and \$301,317 at December 31, 2019 and 2018, respectively, are included in the statements 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 statements of activities.

	2019	2018
Beneficial interest, beginning of year	\$ 301,317	\$ 327,849
Contributions	500	300
Investment gains, net of fees	59,614	(26,832)
Beneficial interest, end of year	<u>\$ 361,431</u>	<u>\$ 301,317</u>

Note 8. Net Assets With Donor Restrictions

Net assets with donor restrictions as of December 31, 2019 and 2018, include the beneficial interest in assets held by others and is restricted in perpetuity. The income is expendable to support the activities of SHNLFB and is reported as net assets without donor restrictions.

Second Harvest Northern Lakes Food Bank

Notes to Financial Statements

Note 9. Pending Accounting Standards

The Financial Accounting Standards Board (FASB) has issued several Accounting Standards Updates (ASUs) not yet implemented by SHNLFB. Listed below are the ASUs that may impact future financial statements of SHNLFB.

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606): The amendments in this ASU, issued May 2014, will be effective for SHNLFB beginning with its year ending December 31, 2020. This update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, 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. 2016-02, Leases (Topic 842): This ASU, issued February 2016, will be effective for SHNLFB beginning with its year ending December 31, 2022. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

Note 10. Subsequent Events

Management has evaluated subsequent events through August 10, 2020, the date the financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 10, 2020, declared COVID-19 a pandemic. Although SHNLB's services and programs have not been reduced or suspended due to the pandemic as of the date of this report, the operations of SHNLFB could be impacted by the regional and global outbreak of COVID-19. Any quarantines, labor shortages or other disruptions to the SHNLFB's operations may impact SHNLFB's revenues, ability to provide its services, and operating results. The extent to which the COVID-19 pandemic impacts SHNLFB's future financial statements will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 and actions taken to contain COVID-19 or its impact, among others.

Subsequent to year-end, SHNLFB was approved for a \$164,000 loan under the Small Business Administration (SBA) Payroll Protection Program (PPP). The PPP loan has an interest rate of 1%, defers principal and interest payments during the first six months, and has a forgiveness feature in which a portion or the entire principal and interest amounts will be forgiven based on actual payroll costs incurred plus certain eligible expenses, as defined in the agreement, during the eight-week or 24-week period following the date of the loan. Any amounts not forgiven, including interest, are due on the two-year anniversary following the date of the loan.

Supplementary Information

Second Harvest Northern Lakes Food Bank

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019**

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:				
Food distribution cluster:				
Passed through Minnesota Department of Health:				
Commodity Supplemental Food Program (Administrative Costs)	10.565	18182MN083Y8005	\$ -	\$ 70,665
Commodity Supplemental Food Program (Food Commodities)	10.565	18182MN083Y8005	-	513,877
Passed through Minnesota Department of Human Services:				
Emergency Food Assistance Program (TEFAP):				
Emergency Food Assistance Program (Administrative Costs)	10.568	144576	-	127,457
Emergency Food Assistance Program (Food Commodities)	10.569	144576	1,062,302	1,484,247
Total food distribution cluster			<u>1,062,302</u>	<u>2,196,246</u>
Total expenditures of federal awards			<u>\$ 1,062,302</u>	<u>\$ 2,196,246</u>

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, 2019. 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% 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 \$513,877 and \$1,484,247 related to CFDA Number 10.565 and 10.569, respectively, were consumed or distributed during the year ended December 31, 2019. These commodities consumed were included in the determination of federal awards expended for the year ended December 31, 2019.

**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***

Independent Auditor's Report

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, 2019, 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 August 10, 2020.

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
August 10, 2020

**Report on Compliance for Each Major Federal Program and on Internal
Control Over Compliance Required by The Uniform Guidance**

Independent Auditor's Report

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, 2019. 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, 2019.

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
August 10, 2020

Second Harvest Northern Lakes Food Bank

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2019**

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 U.S. 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

(Continued)

Second Harvest Northern Lakes Food Bank

**Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2019**

Section II. Financial Statement Findings

No matters were reported

Section III. Federal Awards Findings and Questioned Costs

No matters were reported



**Second Harvest Northern Lakes Food Bank
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2019**

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*.

A handwritten signature in black ink that reads "Shaye Moris".

Shaye Moris, Executive Director

