

# **Second Harvest Northern Lakes Food Bank**

Financial and Compliance Report  
December 31, 2020

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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, 2020 and 2019, 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, 2020 and 2019, 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 June 4, 2021, 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  
June 4, 2021

**Second Harvest Northern Lakes Food Bank**

**Statements of Financial Position  
December 31, 2020 and 2019**

	2020	2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 760,754	\$ 601,736
Investments (Note 3)	5,599,736	3,215,981
Accounts receivable	76,496	73,966
Contributions receivable	484,417	55,169
Inventory:		
Purchased	91,722	102,499
Donated food	745,729	596,390
Prepaid expenses	539	1,838
<b>Total current assets</b>	<b>7,759,393</b>	<b>4,647,579</b>
Property and equipment (Note 4)	3,952,444	3,604,618
Less accumulated depreciation	1,833,010	1,702,522
	<b>2,119,434</b>	<b>1,902,096</b>
Other assets, beneficial interest in assets held by others (Note 7)	532,764	361,431
<b>Total assets</b>	<b>\$ 10,411,591</b>	<b>\$ 6,911,106</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 20,168	\$ 23,158
Accrued expenses	89,330	73,540
<b>Total current liabilities</b>	<b>109,498</b>	<b>96,698</b>
Long-term debt (Note 8)	164,000	-
<b>Total liabilities</b>	<b>273,498</b>	<b>96,698</b>
Net assets:		
Without donor restrictions	9,758,276	6,558,396
With donor restrictions (Note 9)	379,817	256,012
<b>Total net assets</b>	<b>10,138,093</b>	<b>6,814,408</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,411,591</b>	<b>\$ 6,911,106</b>

See notes to financial statements.

**Second Harvest Northern Lakes Food Bank**

**Statements of Activities**

**Years Ended December 31, 2020 and 2019**

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
Contributions in-kind (Note 6)	\$ 10,957,777	\$ -	\$ 10,957,777
Contributions	4,810,275	-	4,810,275
<b>Total public support</b>	<b>15,768,052</b>	<b>-</b>	<b>15,768,052</b>
Revenues:			
Memberships	3,550	-	3,550
Special events (net of fundraising costs of \$0 in 2020 and \$45 in 2019)	3,022	-	3,022
Food/shared maintenance	1,018,207	-	1,018,207
Investment income	101,010	-	101,010
Change in beneficial interest in assets held by others (Note 7)	47,528	123,805	171,333
Gain on investments	224,243	-	224,243
<b>Total revenues</b>	<b>1,397,560</b>	<b>123,805</b>	<b>1,521,365</b>
<b>Total public support and revenue</b>	<b>17,165,612</b>	<b>123,805</b>	<b>17,289,417</b>
Expenses:			
Program expenses	13,457,617	-	13,457,617
Fundraising	317,983	-	317,983
Management and general	190,132	-	190,132
<b>Total expenses</b>	<b>13,965,732</b>	<b>-</b>	<b>13,965,732</b>
<b>Increase in net assets</b>	<b>3,199,880</b>	<b>123,805</b>	<b>3,323,685</b>
<b>Net assets, beginning of year</b>	<b>6,558,396</b>	<b>256,012</b>	<b>6,814,408</b>
<b>Net assets, end of year</b>	<b>\$ 9,758,276</b>	<b>\$ 379,817</b>	<b>\$ 10,138,093</b>

See notes to financial statements.

2019

Without Donor Restrictions	With Donor Restrictions	Total
\$ 8,972,156	\$ -	\$ 8,972,156
1,649,253	-	1,649,253
<u>10,621,409</u>	<u>-</u>	<u>10,621,409</u>
3,950	-	3,950
31,707	-	31,707
1,085,332	-	1,085,332
83,358	-	83,358
59,614	500	60,114
318,072	-	318,072
<u>1,582,033</u>	<u>500</u>	<u>1,582,533</u>
12,203,442	500	12,203,942
11,264,995	-	11,264,995
261,863	-	261,863
169,719	-	169,719
<u>11,696,577</u>	<u>-</u>	<u>11,696,577</u>
506,865	500	507,365
6,051,531	255,512	6,307,043
<u>\$ 6,558,396</u>	<u>\$ 256,012</u>	<u>\$ 6,814,408</u>

**Second Harvest Northern Lakes Food Bank**

**Statements of Functional Expenses  
Years Ended December 31, 2020 and 2019**

	2020			
	Program Services	Fundraising	Management and General	Total
Salaries	\$ 680,000	\$ 53,954	\$ 127,462	\$ 861,416
Payroll taxes	47,792	3,792	8,958	60,542
Employee benefits	74,424	5,905	13,950	94,279
<b>Total compensation</b>	<b>802,216</b>	<b>63,651</b>	<b>150,370</b>	<b>1,016,237</b>
Accounting/professional	17,158	-	4,290	21,448
Advertising	8,913	35,651	-	44,564
Bank charges	31,826	-	7,956	39,782
Conference and meetings	1,168	-	369	1,537
Depreciation	154,706	-	-	154,706
Dues and consulting	18,572	9,064	3,762	31,398
Food distribution:				
Purchased	1,190,883	-	-	1,190,883
Donated	10,808,855	-	-	10,808,855
Food transportation and storage	239,967	-	-	239,967
Insurance	46,026	-	7,850	53,876
Miscellaneous	5,565	-	555	6,120
Postage and copying	2,139	209,617	2,139	213,895
Repairs and maintenance	4,574	-	2,273	6,847
Supplies and small equipment	54,343	-	1,274	55,617
Telephone	8,663	-	2,240	10,903
Travel	3,171	-	513	3,684
Utilities/occupancy	58,872	-	6,541	65,413
<b>Total functional expenses</b>	<b>\$ 13,457,617</b>	<b>\$ 317,983</b>	<b>\$ 190,132</b>	<b>\$ 13,965,732</b>

See notes to financial statements.



2019

Program Services	Fundraising	Management and General	Total
\$ 611,252	\$ 64,961	\$ 106,210	\$ 782,423
46,110	4,900	8,012	59,022
68,548	5,486	8,970	83,004
725,910	75,347	123,192	924,449
15,754	-	3,938	19,692
3,544	13,334	-	16,878
17,130	-	4,282	21,412
5,087	-	710	5,797
129,821	-	-	129,821
20,449	6,592	13,695	40,736
849,643	-	-	849,643
9,069,942	-	-	9,069,942
269,160	-	-	269,160
37,883	-	8,581	46,464
5,508	-	577	6,085
1,700	166,590	1,700	169,990
3,701	-	1,025	4,726
32,173	-	918	33,091
9,120	-	2,360	11,480
8,426	-	2,070	10,496
60,044	-	6,671	66,715
\$ 11,264,995	\$ 261,863	\$ 169,719	\$ 11,696,577

**Second Harvest Northern Lakes Food Bank**

**Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Increase in net assets	\$ 3,323,685	\$ 507,365
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	154,706	129,821
In-kind contributions of food	(10,957,777)	(8,972,156)
Distribution of donated food	10,808,855	9,069,942
Change in beneficial interest in assets held by others	(171,333)	(60,114)
Gain on investments	(224,243)	(318,072)
Changes in assets and liabilities:		
Accounts receivable	(2,530)	5,730
Contributions receivable	(429,248)	(33,584)
Inventory	10,360	12,962
Prepaid expenses	1,299	1,063
Accounts payable	(2,990)	(14,906)
Accrued expenses	15,790	7,821
<b>Net cash provided by operating activities</b>	<b>2,526,574</b>	<b>335,872</b>
Cash flows from investing activities:		
Purchase of investments	(4,137,020)	(1,381,140)
Proceeds from sale of investments	1,977,508	607,173
Purchase of property and equipment	(372,044)	(37,678)
Deposit to beneficial interest in assets held by others	(123,805)	(500)
<b>Net cash used in investing activities</b>	<b>(2,655,361)</b>	<b>(812,145)</b>
Cash flows from financing activities:		
Proceeds from long-term debt	164,000	-
Contributions received for deposit to beneficial interest in assets held by others	123,805	500
<b>Net cash provided by financing activities</b>	<b>287,805</b>	<b>500</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>159,018</b>	<b>(475,773)</b>
Cash and cash equivalents:		
Beginning	601,736	1,077,509
Ending	\$ 760,754	\$ 601,736

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, 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, 2020 and 2019. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. See Note 9 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, 2020 and 2019.

**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

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#### 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 2017.

**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

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#### 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, 2020, available to meet cash needs for general expenditures within one year of December 31, 2020:

	<u>Amount</u>
Cash and cash equivalents	\$ 760,754
Investments	5,599,736
Accounts receivable	76,496
Contributions receivable	<u>484,417</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 6,921,403</u></u>

SHNLFB's goal is generally to maintain financial assets to meet six months of total expenses, excluding donated food distribution, (approximately \$1.6 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, 2020 and 2019, 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

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#### Note 3. Investments (Continued)

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

	2020	2019
Mutual funds:		
Bond	\$ 2,875,883	\$ 1,099,455
Real estate	41,790	88,712
International	322,102	307,900
Equity	1,338,351	987,132
Money market funds	1,021,610	732,782
	<u>\$ 5,599,736</u>	<u>\$ 3,215,981</u>

#### Note 4. Property and Equipment

Property and equipment consists of the following at December 31, 2020 and 2019:

	2020	2019
Land	\$ 44,313	\$ 44,313
Land improvements	105,890	105,890
Buildings and building improvements	2,510,233	2,510,233
Fixtures	11,410	11,410
Vehicles and equipment	1,280,598	932,772
	<u>3,952,444</u>	<u>3,604,618</u>
Accumulated depreciation	1,833,010	1,702,522
	<u>\$ 2,119,434</u>	<u>\$ 1,902,096</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 \$28,195 and \$24,525 for the years ended December 31, 2020 and 2019, 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 \$1.74 and \$1.62 per pound for the years ended December 31, 2020 and 2019, respectively.

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

	2020	2019
Contributions in-kind:		
Food—nongovernment	\$ 6,337,779	\$ 6,937,039
Food—government	4,619,998	2,035,117
Total contributions in-kind	<u>\$ 10,957,777</u>	<u>\$ 8,972,156</u>

## Second Harvest Northern Lakes Food Bank

### Notes to Financial Statements

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#### 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 2020 and 2019 amounted to \$192,261 and \$230,633, respectively. The value of these services was based on an internally estimated rate of \$14.35 per hour for 2020 and 2019. 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 \$532,764 and \$361,431 at December 31, 2020 and 2019, 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.

	2020	2019
Beneficial interest, beginning of year	\$ 361,431	\$ 301,317
Contributions	123,805	500
Investment gains, net of fees	47,528	59,614
Beneficial interest, end of year	<u>\$ 532,764</u>	<u>\$ 361,431</u>

#### Note 8. Long-Term Debt

During 2020, SHNLFB obtained a \$164,000 Small Business Administration Paycheck Protection Program loan with an interest rate of 1%. The loan 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. Subsequent to year-end, SHNLFB received formal forgiveness of the entire principal and interest amounts.

## Second Harvest Northern Lakes Food Bank

### Notes to Financial Statements

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#### **Note 9. Net Assets With Donor Restrictions**

Net assets with donor restrictions as of December 31, 2020 and 2019, 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.

#### **Note 10. Pending Accounting Standards**

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

**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.

**ASU No. 2020-07, Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets:** This ASU, issued September 2020, will be effective for SHNLFB beginning with its year ending December 31, 2022. The guidance is increasing the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The amendments in this ASU address certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by not-for-profit entities, as well as the amount of those contributions used in a not-for-profit entity's programs and other activities.

#### **Note 11. Subsequent Events**

Management has evaluated subsequent events through June 4, 2021, the date the financial statements were available to be issued.

#### **Note 12. COVID-19 Implications**

On January 20, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 20, 2020 declared COVID-19 a pandemic. As a result, the operations of SHNLFB were significantly impacted by economic and social conditions including a disruption in the nation's food supply chain, required program and service accommodations, a decrease in volunteer support, and a high rate of unemployment leading to an increase in demand. Although the region's support exceeded expectation since the pandemic began, as of the date of this independent auditor's report, there still exists certain economic uncertainty. This continued uncertainty has the potential to result in significant impact to SHNLFB's future financial condition and operational results. However, any such future financial impact and duration of such impact cannot be reasonably estimated at this time. It should be noted that SHNLFB's Board of Directors and staff are undergoing a comprehensive Strategic Planning process to address both short and long term pandemic impact as well as determining needed related financial investments.



## **Supplementary Information**

## Second Harvest Northern Lakes Food Bank

### Schedule of Expenditures of Federal Awards Year Ended December 31, 2020

Federal Grantor Pass-Through Agency/Grant Program Title	Assistance Listing 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	\$ -	\$ 82,582
Commodity Supplemental Food Program (Food Commodities)	10.565	18182MN083Y8005	-	580,636
<b>Total assistance listing number 10.565</b>			-	663,218
Passed through Minnesota Department of Human Services:				
Emergency Food Assistance Program (TEFAP) (Administrative Costs)	10.568	144576	-	116,933
Emergency Food Assistance Program (TEFAP-FFCRA) (Administrative Costs)	10.568	178497	-	5,575
COVID-19 - CARES Act Transportation Grant	10.568	N/A	-	100,000
<b>Total assistance listing number 10.568</b>			-	222,508
Emergency Food Assistance Program (TEFAP) (Food Commodities)	10.569	144576	643,692	935,306
Emergency Food Assistance Program (TEFAP-FFCRA) (Food Commodities)	10.569	178497	59,172	77,891
<b>Total assistance listing number 10.569</b>			702,864	1,013,197
<b>Total food distribution cluster</b>			702,864	1,898,923
Passed through Minnesota Department of Human Services:				
Emergency Food Assistance Program (TEFAP-Trade Mitigation):				
Trade Mitigation Program (Administrative Costs)	10.178	158525	-	14,562
Trade Mitigation Program (Food Commodities)	10.178	158525	673,436	1,017,453
<b>Total assistance listing number 10.178</b>			673,436	1,032,015
<b>Total U.S. Department of Agriculture</b>			1,376,300	2,930,938
U.S. Department of Treasury:				
Passed through Second Harvest Heartland Food Bank:				
COVID-19 - Coronavirus Relief Fund (Administrative)	21.019	181218	-	31,806
COVID-19 - Coronavirus Relief Fund (Food Commodities)	21.019	181218	137,979	166,191
<b>Total assistance listing number 21.019</b>			137,979	197,997
<b>Total U.S. Department of Treasury</b>			137,979	197,997
<b>Total expenditures of federal awards</b>			\$ 1,514,279	\$ 3,128,935

## Second Harvest Northern Lakes Food Bank

### Notes to Schedule of Expenditures of Federal Awards

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#### **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, 2020. 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 the 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 \$1,017,453, \$580,636, \$1,013,197, and \$166,191 related to Assistance Listing Number 10.178, 10.565, 10.569, and 21.019, respectively, were consumed or distributed during the year ended December 31, 2020. These commodities consumed were included in the determination of federal awards expended for the year ended December 31, 2020.

**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, 2020, the related statements of activities, 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 June 4, 2021.

**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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001, 2020-002, and 2020-003 that we consider to be significant deficiencies.

**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*.

**Second Harvest Northern Lakes Food Bank's Response to Findings**

Second Harvest Northern Lakes Food Bank's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Second Harvest Northern Lakes Food Bank's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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  
June 4, 2021

**Report on Compliance for the 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 the 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 Second Harvest Northern Lakes Food Bank's major federal program for the year ended December 31, 2020. Second Harvest Northern Lakes Food Bank's major federal program is 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 Second Harvest Northern Lakes Food Bank's major federal program 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 the major federal program. However, our audit does not provide a legal determination of Second Harvest Northern Lakes Food Bank's compliance.

**Opinion on the 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, 2020.

### **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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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  
June 4, 2021

**Second Harvest Northern Lakes Food Bank**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2020**

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**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?   X   Yes        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>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.178	Trade Mitigation Program Eligible Recipient Agency Operational Funds

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, 2020**

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**Section II. Financial Statement Findings**

A. Internal Control Findings

See items 2020-001, 2020-002, and 2020-003.

B. Compliance Findings

No matters to report.

**Section III. Federal Awards Findings and Questioned Costs**

A. Internal Control Findings

No matters to report.

B. Compliance Findings

No matters to report.

(Continued)

**Second Harvest Northern Lakes Food Bank**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended December 31, 2020**

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**Item 2020-001: Financial Reporting and Schedule of Expenditures of Federal Awards (SEFA)**

**Criteria:** The Uniform Guidance requires the auditee to prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. Timely reconciliation and review of the SEFA should be completed to ensure complete and accurate reporting.

**Condition:** There was a breakdown in SHNLFB's procedures related to preparation and review of the SEFA.

**Context:** SHNLFB's expenditures of federal awards reported on the SEFA were understated \$288,041.

**Cause:** Donated food that is distributed is recorded at fair market value based on a cost study conducted by Feeding America. Donated food was valued at \$1.74 per pound for 2020 based on this cost study. SHNLFB used the rate from 2019, which was \$1.68 per pound to calculate the value of the distributed food that was reported on their SEFA. This resulted in a SHNLFB's SEFA being understated by \$90,044.

SHNLFB also did not report expenditures related to the Coronavirus Relief Fund program on its original SEFA. This resulted in SHNLFB's SEFA being understated by \$197,997.

**Effect:** SHNLFB's SEFA was misstated for the items noted above.

**Recommendation:** SHNLFB should continue improving their procedures related to preparation and review of the SEFA.

**Views of responsible officials of the auditee:** We agree with the above finding and our response is included in the corrective action plan.

(Continued)

## Second Harvest Northern Lakes Food Bank

### Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2020

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#### Item 2020-002: Vendor Verification

**Criteria:** SHNLFB has established procedures designed to ensure vendors are properly verified and approved prior to the awarding of a contract or purchase order.

**Condition:** Our audit procedures revealed that there was a breakdown in SHNLFB's vendor verification process. The SHNLFB's established procedures were not consistently performed prior to the awarding of a contract.

**Context:** We noted one contract for the purchase of a vehicle where SHNLFB did not verify that the vendor was not suspended or debarred.

**Cause:** One contract was awarded to a vendor who had not been properly verified through the SHNLFB's established procedures.

**Effect:** During 2020, SHNLFB had not consistently followed procedures designed to ensure all vendors were properly verified prior to the awarding the contract. However, during the audit, we were able to verify that the contract tested met the purchasing guidelines for the SHNLFB.

**Recommendation:** SHNLFB should continue to improve its procedures to ensure that all vendors are properly verified prior to the awarding of contracts or purchase orders. It is also recommended that evidence related to the procedures performed to verify vendors are not suspended or debarred is maintained with the individual contracts and purchase orders.

**Views of responsible officials:** We agree with the above finding and our response is included in the corrective action plan.

(Continued)

**Second Harvest Northern Lakes Food Bank**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended December 31, 2020**

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**Item 2020-003: Donated Food Inventory Valuation**

**Criteria:** Donated food is recorded at its estimated fair value as of the date of the donation. The valuation is based on a cost study conducted by Feeding America, which resulted in donated food being valued at \$1.74 per pound for the year ended December 31, 2020.

**Condition:** Our audit procedures revealed a clerical error in SHNLFB's calculation of the valuation of the year-end donated food inventory.

**Context:** Donated food inventory was overstated \$264,872.

**Cause:** SHNLFB mistakenly used the number of units of inventory when they should have used the number of pounds when calculating the value of the donated food inventory at year-end.

**Effect:** Donated food inventory was overstated \$264,872.

**Recommendation:** SHNLFB should consider establishing a review process to ensure that the calculation of donated food inventory is accurate.

**Views of responsible officials:** We agree with the above finding and our response is included in the corrective action plan.



**Second Harvest Northern Lakes Food Bank  
Summary Schedule of Prior Audit Findings  
For the Year Ended December 31, 2020**

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*.

  
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Shaye Moris, Executive Director

NORTHERNLAKESFOODBANK.ORG

4503 Airpark Boulevard, Duluth, MN 55811 | 218-727-5653 | Fax: 218-727-0105 | info@northernlakesfoodbank.org