

**NORTH COUNTRY FOOD BANK, INC.
CROOKSTON, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

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NORTH COUNTRY FOOD BANK, INC.
BOARD OF DIRECTORS
SEPTEMBER 30, 2019

John Thorson, Chairman

East Grand Forks, MN

Orlando Alamano, Vice-Chairman

Blackduck, MN

Jill Fritel, Secretary-Treasurer

Grand Forks, MN

Rick Janes

Aurora, CO

Derek Martin

Crookston, MN

Warren Larson

Bagley, MN

Kristina Kaml

Roseau, MN

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Country Food Bank, Inc.
Crookston, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of North Country Food Bank, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2019 and 2018 and the related statements of activities, cash flows, and functional expenses 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 audits 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 positions of North Country Food Bank, Inc. as of September 30, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization adopted the provisions of FASB Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2019. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by 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. The information has been subjected to the auditing procedures applied in the audit 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 January 31, 2020, on our consideration of North Country Food Bank, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of North Country Food Bank, Inc.'s 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 North Country Food Bank, Inc.'s internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.
CROOKSTON, MINNESOTA

January 31, 2020

NORTH COUNTRY FOOD BANK, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND 2018

	2019	2018
Assets		
Current assets		
Cash	\$ 974,412	\$ 410,207
Receivables - trade	165,747	196,719
Inventories		
USDA commodities	130,076	128,446
Other	366,564	321,344
Prepaid expenses	33,098	28,904
Land held for sale	102,200	-
Total current assets	1,772,097	1,085,620
Property and equipment	2,106,722	554,137
Less accumulated depreciation	(328,163)	(274,808)
Net property and equipment	1,778,559	279,329
Total assets	\$ 3,550,656	\$ 1,364,949
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 173,277	\$ 21,415
Accrued salaries	11,876	12,449
Current portion of loan payable	8,303	-
Total current liabilities	193,456	33,864
Noncurrent liabilities		
Compensated absences	30,935	32,386
Loan payable (net of current)	991,697	-
Total noncurrent liabilities	1,022,632	32,386
Total liabilities	1,216,088	66,250
Net assets		
With donor restrictions	433,463	198,459
Without donor restrictions	1,901,105	1,100,240
Total net assets	2,334,568	1,298,699
Total liabilities and net assets	\$ 3,550,656	\$ 1,364,949

See Notes to the Financial Statements

NORTH COUNTRY FOOD BANK, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support						
Donations						
Cash	\$ 1,639,058	\$ 254,865	\$ 1,893,923	\$ 558,235	\$ -	\$ 558,235
Food or product	6,454,690	-	6,454,690	13,064,562	-	13,064,562
Other	-	-	-	60,091	-	60,091
Grants						
Federal	233,568	9,709	243,277	161,562	11,584	173,146
Commodities	1,157,419	15,555	1,172,974	731,229	22,990	754,219
Other	67,984	10,000	77,984	176,425	-	176,425
Revenue						
Shared maintenance	161,514	-	161,514	141,364	-	141,364
Freight charges	258,594	-	258,594	236,154	-	236,154
Product sales	1,127,581	-	1,127,581	1,288,002	-	1,288,002
Membership fees	5,900	-	5,900	5,921	-	5,921
Interest	1,825	-	1,825	2,814	-	2,814
Other	1,509	-	1,509	1,489	-	1,489
Gain from sale of property	-	-	-	16,500	-	16,500
Other						
Net assets released from restriction due to fulfillment of purpose	55,125	(55,125)	-	74,337	(74,337)	-
Total support and revenues	<u>11,164,767</u>	<u>235,004</u>	<u>11,399,771</u>	<u>16,518,685</u>	<u>(39,763)</u>	<u>16,478,922</u>
Expenses						
Program services	9,481,218	-	9,481,218	15,847,461	-	15,847,461
Fund-raising	705,968	-	705,968	284,044	-	284,044
Management and general	176,716	-	176,716	234,835	-	234,835
Total expenses	<u>10,363,902</u>	<u>-</u>	<u>10,363,902</u>	<u>16,366,340</u>	<u>-</u>	<u>16,366,340</u>
Change in net assets	800,865	235,004	1,035,869	152,345	(39,763)	112,582
Net assets, beginning of year	<u>1,100,240</u>	<u>198,459</u>	<u>1,298,699</u>	<u>947,895</u>	<u>238,222</u>	<u>1,186,117</u>
Net assets, end of year	<u>\$ 1,901,105</u>	<u>\$ 433,463</u>	<u>\$ 2,334,568</u>	<u>\$ 1,100,240</u>	<u>\$ 198,459</u>	<u>\$ 1,298,699</u>

See Notes to the Financial Statements

NORTH COUNTRY FOOD BANK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 1,035,869	\$ 112,582
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	53,355	58,831
(Gain) loss from disposition of equipment	-	(16,500)
Noncash contribution for acquisition of capital assets	-	(56,000)
Changes in operating assets and liabilities		
Receivables	30,972	12,866
Inventory	(46,850)	27,231
Prepaid expenses	(4,194)	(4,964)
Accounts payable	(1,930)	(56,485)
Accrued salaries	(573)	1,129
Compensated absences	(1,451)	918
Net cash provided (used) by operating activities	1,065,198	79,608
Cash flows from investing activities		
Purchase of property and equipment	(500,993)	(176,086)
Net cash provided (used) by investing activities	(500,993)	(176,086)
Increase (decrease) in cash	564,205	(96,478)
Cash - beginning of year	410,207	506,685
Cash - end of year	\$ 974,412	\$ 410,207
Supplemental Disclosure of Noncash Investing Activities		
Increase in property and equipment	\$ (1,051,592)	\$ -
Increase in land held for sale	(102,200)	-
Increase in accounts payable	153,792	-
Increase in loan payable	1,000,000	-

See Notes to the Financial Statements

NORTH COUNTRY FOOD BANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Program Services			Fund-raising			Management and General	Total	
	Food Distribution	CSFP	Food Shelf	Total	Capital Campaign	Other	Total		
Product and freight	\$ 7,444,320	\$ -	\$ -	\$ 7,444,320	\$ -	\$ -	\$ -	\$ -	\$ 7,444,320
Other assistance programs	27,917	-	-	27,917	-	-	-	-	27,917
Commodities	864,274	307,862	-	1,172,136	-	-	-	-	1,172,136
Salaries and benefits	292,200	64,783	42,032	399,015	51,332	80,773	132,105	114,611	645,731
Depreciation	50,839	-	49	50,888	-	-	-	2,467	53,355
Insurance	7,305	-	-	7,305	-	-	-	980	8,285
Truck, warehouse and forklift	117,441	-	252	117,693	-	-	-	-	117,693
Utilities and taxes	10,081	8,867	1,278	20,226	186	-	186	2,830	23,242
Dues	83,493	-	-	83,493	-	-	-	-	83,493
Office, printing and postage	19,047	12,807	675	32,529	317	4,490	4,807	11,709	49,045
Repairs	293	1,209	11	1,513	246	-	246	64	1,823
Contracted services	778	235	75	1,088	424,051	118,055	542,106	22,808	566,002
Audit	-	-	-	-	-	-	-	11,450	11,450
Legal services	-	-	-	-	817	-	817	-	817
Snow removal	3,106	-	18	3,124	-	-	-	-	3,124
Education, travel and meals	12,869	3,096	76	16,041	5,984	10,317	16,301	2,770	35,112
Real estate taxes	-	-	-	-	5,011	-	5,011	-	5,011
Rent	46,203	10,189	1,793	58,185	-	-	-	3,912	62,097
Operating expense	-	-	38,015	38,015	-	-	-	-	38,015
Advertising	-	-	-	-	370	692	1,062	287	1,349
Miscellaneous	7,685	45	-	7,730	1,646	1,681	3,327	2,828	13,885
Total expenses	\$ 8,987,851	\$ 409,093	\$ 84,274	\$ 9,481,218	\$ 489,960	\$ 216,008	\$ 705,968	\$ 176,716	\$ 10,363,902

See Notes to the Financial Statements

NORTH COUNTRY FOOD BANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Program Services				Fund-raising			Management	Total
	Food Distribution	CSFP	Food Shelf	Total	Capital Campaign	Other	Total	and General	
Product and freight	\$ 14,227,179	\$ -	\$ -	\$ 14,227,179	\$ -	\$ -	\$ -	\$ -	\$ 14,227,179
Other assistance programs	27,575	-	-	27,575	-	-	-	-	27,575
Commodities	411,413	336,145	-	747,558	-	-	-	-	747,558
Salaries and benefits	290,191	67,224	41,984	399,399	30,755	72,450	103,205	158,641	661,245
Depreciation	56,096	-	-	56,096	-	-	-	2,735	58,831
Insurance	5,698	-	-	5,698	-	-	-	2,087	7,785
Truck, warehouse and forklift	110,277	69	663	111,009	-	-	-	-	111,009
Utilities and taxes	9,369	8,750	1,300	19,419	-	-	-	2,877	22,296
Grant writer	-	-	-	-	-	5,400	5,400	-	5,400
Dues	94,771	-	-	94,771	-	-	-	-	94,771
Office, printing and postage	19,496	13,658	820	33,974	31	4,554	4,585	13,570	52,129
Repairs	369	837	11	1,217	-	-	-	126	1,343
Contracted services	567	264	-	831	43,256	108,051	151,307	21,324	173,462
Audit	-	-	-	-	-	-	-	10,850	10,850
Snow removal	3,506	-	-	3,506	-	-	-	-	3,506
Education, travel and meals	12,389	3,840	80	16,309	3,139	12,042	15,181	10,192	41,682
Rent	39,725	9,525	1,676	50,926	-	-	-	3,658	54,584
Operating expense	-	-	43,441	43,441	-	-	-	-	43,441
Advertising	789	-	-	789	322	2,174	2,496	262	3,547
Miscellaneous	7,703	61	-	7,764	1,473	397	1,870	8,513	18,147
Total expenses	\$ 15,317,113	\$ 440,373	\$ 89,975	\$ 15,847,461	\$ 78,976	\$ 205,068	\$ 284,044	\$ 234,835	\$ 16,366,340

See Notes to the Financial Statements

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Type of Business

North Country Food Bank, Inc. is a private non-profit corporation organized April 13, 1983, under the Minnesota Non-Profit Corporation Act, Minn. Statutes, and Chapter 317. North Country Food Bank, Inc. was formed to reduce food waste by distributing unmarketable products to agencies that serve and feed the disadvantaged. North Country Food Bank, Inc. serves agencies in 21 counties located in Northwest Minnesota and part of Grand Forks, North Dakota.

Basis of Presentation

The Organization's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions, and are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restriction include unrestricted resources and are subject to self-imposed limits by action of the governing board. Board designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses. The governing board may delegate designation decisions to internal management. Such designations are considered to be included in board-designated net assets.

Net Assets with Donor Restrictions - Net assets with donor restrictions represent net assets resulting from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, stipulating that resources used after a specified date, for particular programs or services, or to acquire building or equipment. Other donors impose restrictions that are perpetual in nature, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment return from those resources and to other enhancements of those resources. Thus, those laws extend donor-imposed restrictions.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents. Currently, there are no cash equivalents.

Accounts Receivable

Accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable balances and write off those considered uncollectible before year end. Any estimate of uncollectible amounts due from agencies has been determined by the Organization to be insignificant. Accounting principles generally accepted in the United States of America requires an allowance method be used to recognize bad debts, however the effect of using the direct write-off method is not materially different from the results if determined under the allowance method.

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2019 AND 2018

Inventory

Inventory is made up of both donated and purchased products available for distribution to its member non-profit agencies. Donated inventory is reported at its estimated fair wholesale value, and purchased products reported at cost, which includes freight charges.

USDA Commodities on Hand

Commodities on hand are reported at U.S. Department of Agriculture stated values. The entire amount on hand is included in donor imposed restriction, which are temporarily in nature as terms of the grant agreement are met.

Property and Equipment

Property and equipment are recorded at cost. Donated property is recorded as support at its estimated fair value. Such donations are reported as net assets without donor restrictions support unless the donor has restricted the donated asset to a specific purpose. Items with a cost over \$1,000 with an estimated useful life of at least 2 years are capitalized.

Depreciation

Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Equipment	2 - 7 years
Building	40 years

Donated Product

The Organization valued non-USDA donated product it received at \$1.68 per pound for each of the years ended September 30, 2019 and 2018. This valuation is provided by Feeding America. Management has determined this to be the most appropriate valuation method, due to the lack of marketability of the products and unavailable market values. USDA commodities received are valued based on the federal agency's assigned values.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 209.05 of the Minnesota Income Tax Act on exempt purpose income. It is the opinion of management that the Organization has no significant uncertain tax positions that would be subject to change upon examination. The federal income tax returns of the Organization are subject to examination by the IRS, generally for three years after they are filed. Tax returns for the years ended 2016 and forward remain open for examination.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2019 AND 2018

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by the Organization has been limited by donors or grantors to a specific time period or purpose. Net assets with donor restrictions are as follows:

	<u>2019</u>	<u>2018</u>
TEFAP Commodities	\$ 56,979	\$ 41,424
CSFP Commodities	73,098	87,023
TEFAP Reimbursement	38,521	28,812
Red Nose Day	10,000	-
Capital Campaign	<u>254,865</u>	<u>41,200</u>
Total Net Assets with Donor Restrictions	<u>\$ 433,463</u>	<u>\$ 198,459</u>

Restricted Revenues

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net assets with donor restrictions support if they are received with donor or grantor stipulations that limit the use of the donated asset. When donor stipulated time restrictions or purpose restrictions are met or accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor or grantor restricted assets whose restrictions are met within the same year as received are reflected as net assets without donor restriction contributions in the statement of activities.

Functional Expenses

Some functional expenses have been allocated between program services and supporting services based on an analysis of personnel time and space utilized for the related activities.

Contributed Services

Members of the Organization and volunteers have donated a significant amount of their time to enhance North Country Food Bank, Inc.'s food distribution activities. Under accounting principles generally accepted in the United States of America, these services do not meet the criteria for recognition in the financial statements. However, the value of these services is estimated for the years ended September 30, 2019 and 2018 to be \$112,961 and \$113,509, respectively.

Advertising Costs

The Organization expenses advertising costs as incurred.

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2019 AND 2018

Implementation of New Accounting Standard

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added. The ASU has been applied retrospectively to all periods presented.

NOTE 2 PROPERTY AND EQUIPMENT

Following is a summary of property and equipment owned by the Organization at September 30:

Description	2019		
	Cost	Accumulated Depreciation	Cost-Less Accumulated Depreciation
Office & rental equipment	\$ 43,856	\$ 43,856	\$ -
Warehouse equipment	142,246	113,063	29,183
Food shelf equipment	8,387	8,387	-
Vehicles	254,998	162,857	92,141
Building	1,400,000	-	1,400,000
Construction in process	257,235	-	257,235
	<u>\$ 2,106,722</u>	<u>\$ 328,163</u>	<u>\$ 1,778,559</u>

Description	2018		
	Cost	Accumulated Depreciation	Cost-Less Accumulated Depreciation
Land	\$ 41,200	\$ -	\$ 41,200
Office & rental equipment	43,856	41,389	2,467
Warehouse equipment	142,246	98,238	44,008
Food shelf equipment	8,387	8,338	49
Vehicles	262,448	126,843	135,605
Construction in process	56,000	-	56,000
	<u>\$ 554,137</u>	<u>\$ 274,808</u>	<u>\$ 279,329</u>

Construction in Progress

During the year the Organization began substantial renovations to the acquired facility space located in East Grand Forks, Minnesota. The total estimated cost of the relocated facility, including the purchase of the site building and facility renovation, is expected to be \$2,700,000. As of September 30, 2019, the project is approximately 61.38% complete and the Organization has purchased a building for \$1,400,000 and incurred approximately \$257,235 in renovation costs.

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2019 AND 2018

NOTE 3 LAND HELD FOR SALE

The Organization has approved a plan to sell land originally held in operations, with a cost value of \$102,200 as of September 30, 2019. The land site is located in Crookston, Minnesota, and was acquired as part of the Organization’s plan to upgrade its food storage and distribution facility. During the year, the Organization was presented with a more feasible option and acquired an existing building located in East Grand Forks, Minnesota.

NOTE 4 LONG-TERM DEBT

On August 27, 2019, the Organization borrowed \$1,000,000 to finance the acquisition of a building in East Grand Forks, Minnesota. Details pertaining to the loan payable and assets assigned as collateral are as follows:

	Secured By	Interest Rate	Maturity	Balance 2019
Bremer Bank NA Loan Payable	Building	3.76%	9/1/2029	\$ 1,000,000
Less current portion				(8,303)
Net long-term debt				\$ 991,697

The aggregate amount of future principal payments on the above long-term debt as of September 30, 2019 , is as follows:

September 30,	
2020	\$ 8,303
2021	34,331
2022	35,663
2023	37,047
2024	38,484
Thereafter	846,172
Total	\$ 1,000,000

NOTE 5 LIQUIDITY AND AVAILABILITY

The Organization is supported through donations, grants and program revenues. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following reflects the Organization's financial assets as of September 30, 2019, reduced by amounts not available for general use because of restrictions within one year of the statement of financial position date.

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2019 AND 2018

Cash	\$	974,412
Receivables - trade		<u>165,747</u>
Total financial assets, end of period		1,140,159
Less those unavailable for general expenditures within one year due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions		<u>433,463</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>706,696</u>

NOTE 6 COMPENSATED ABSENCES

Employees earn varying days of vacation and sick leave each year depending on their length of service and whether full or part time. Vacation may accumulate to a maximum of 192 hours and is payable upon termination. Accrued benefits at September 30, 2019 and 2018 are \$30,935 and \$32,386, respectively.

The Organization allows employees the option to convert sick leave accumulated in excess of 200 hours to vacation at a rate of 4 hours to 1 and hours in excess of 280 may be converted at a rate of 3 to 1, which has been reflected in the above accrued benefit. Employees are allowed to accrue a maximum of 800 hours of sick leave.

NOTE 7 RETIREMENT PLAN

The Organization provides a retirement savings program, which complies with IRS Code Section 408 to all full-time employees upon employment. The Organization's contributions to the plan are based on wages of eligible employees. The employer's contribution to the plan for the years ended September 30, 2019 and 2018, was \$25,672 and \$26,840, respectively.

NOTE 8 BUILDING LEASE

In 2018, the Organization exercised their option to renew their lease for warehouse and office space at 424 North Broadway in Crookston, Minnesota for an additional 2 years. The terms of the lease require annual rent of \$21,240. However, the Lessor has agreed to donate \$12,000 annually to the Organization during the lease term in the form of a rent reduction. Under this agreement, the Organization will pay monthly rent of \$2,310 through the end of the lease term on January 31, 2020. Below is a summary of future minimum rental payments:

Years ending September 30,	<u>Gross Rents</u>	<u>In-Kind Donation</u>	<u>Net Rent</u>
2020	<u>\$ 21,240</u>	<u>\$ 12,000</u>	<u>\$ 9,240</u>

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2019 AND 2018

In February 2017, the Organization renewed their lease for warehouse space at 315 3rd Avenue SW in Crookston, Minnesota for an additional 3 years ending in January 31, 2020. The lease requires monthly payments of \$2,500. Below is a summary of future minimum rental payments:

Years ending September 30,	Gross Rents
2020	<u>\$ 10,000</u>

NOTE 9 PAYMENTS TO AFFILIATE

The Organization receives a significant amount of its donations (both cash and product) through Hunger Solutions, a state-wide partnership of organizations, which serves as a coordinator of resources. During the years ended September 30, 2019 and 2018, North Country Food Bank's payments to this affiliated organization were \$74,943 and \$87,712, respectively.

NOTE 10 CONCENTRATIONS OF CREDIT RISK

The Organization has concentrated its credit risk for cash by maintaining deposits in two local banks. The amount of deposits uninsured by federal depository insurance at September 30, 2019 and 2018 was \$643,217 and \$102,109, respectively.

NOTE 11 CONTINGENCY

The Organization participates in various state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivables at September 30, 2019 and 2018 may be impaired. In the opinion of the Organization, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 12 NEW ACCOUNTING PRONOUNCEMENTS

ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

During 2014, the FASB issued a new standard related to revenue recognition. ASU 2014-09, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance will be effective for the Organization for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019.

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2019 AND 2018

ASU 2016-02, Leases (Topic 842)

During 2016, the FASB issued guidance to change the accounting for leases. The main provision of ASU 2016-02 is that lessees will be required to recognize lease assets and lease liabilities for most long-term leases, including those classified as operating leases under GAAP. The ASU is effective for the Organization for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

During 2018, the FASB issued an accounting standard update intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made, primarily by not-for-profit organizations. The amendments in this ASU provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The ASU is effective for the Organization for fiscal years beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019.

With the exception of the new standards discussed above, management has not identified any other new accounting pronouncements that have potential significance to the Organization's financial statements.

Management has not determined what effect these pronouncements will have on the Organization's financial statements.

NOTE 13 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Organization's year end. Subsequent events have been evaluated through January 31, 2020, the date which the financial statements were available to be issued.

NORTH COUNTRY FOOD BANK, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Federal Grantor/ Pass through Agency/ Program Title	Federal CFDA Number	Pass-through Identifying Number	Passed-through to Subrecipients	Amount Expended
US Department of Agriculture:				
<i>Food Distribution Cluster</i>				
<i>Passed-Through the Minnesota Department of Human Services, Community Partnership Divisions-Office of Economic Opportunity Emergency Food Assistance Program</i>				
Administration	10.568	144567	\$ -	\$ 98,938
Food Commodities	10.569	144567	817,060	863,173
Total			<u>817,060</u>	<u>962,111</u>
<i>Passed-Through the Minnesota Department of Health</i>				
<i>Commodity Supplemental Food Program</i>				
Administration	10.565	33408	-	110,772
Food Commodities	10.565	33408	-	307,320
Total			<u>-</u>	<u>418,092</u>
<i>Total Food Distribution Cluster</i>			<u>817,060</u>	<u>1,380,203</u>
<i>Other Programs</i>				
<i>Passed-Through the Minnesota Department of Human Services</i>				
<i>Trade Mitigation Program Eligible Recipient Agency</i>				
Operational Funds	10.178	158519	-	33,567
<i>Passed-Through the Minnesota Department of Agriculture</i>				
<i>Senior Farmers Market Nutrition Program</i>				
	10.576	142314SFMNP2018	-	327
<i>Total Other Programs</i>			<u>-</u>	<u>33,894</u>
Total Expenditures of Federal Awards			<u>\$ 817,060</u>	<u>\$ 1,414,097</u>

See Notes to the Schedule of Expenditures of Federal Awards

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the applicable cost principles contained in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or limited as to reimbursement.

NOTE 2 INDIRECT COST RATE

North Country Food Bank, Inc. has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of North Country Food Bank, Inc. under programs of the federal government for the year ended September 30, 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 North Country Food Bank, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of North Country Food Bank, Inc. The amounts reported on the Schedule have been reconciled to and are in agreement with amounts recorded in the accounting records from which the financial statements have been reported.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
North Country Food Bank, Inc.
Crookston, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Country Food Bank, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Country Food Bank, Inc.'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 North Country Food Bank, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of North Country Food Bank, Inc.'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 the 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 a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Country Food Bank, Inc.'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*.

North Country Food Bank, Inc.'s Response to Finding

North Country Food Bank, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. North Country Food Bank, Inc.'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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.
CROOKSTON, MINNESOTA**

January 31, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
North Country Food Bank, Inc.
Crookston, Minnesota

Report on Compliance for Each Major Federal Program

We have audited North Country Food Bank, Inc.'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 North Country Food Bank, Inc.'s major federal programs for the year ended September 30, 2019. North Country Food Bank, Inc.'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 North Country Food Bank, Inc.'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; 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 North Country Food Bank, Inc.'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 North Country Food Bank, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, North Country Food Bank, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

North Country Food Bank, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. North Country Food Bank, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of North Country Food Bank, Inc. 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 North Country Food Bank, Inc.'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 North Country Food Bank, Inc.'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-002, that we consider to be a significant deficiency.

North Country Food Bank, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. North Country Food Bank, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



BRADY, MARTZ & ASSOCIATES, P.C.
CROOKSTON, MINNESOTA

January 31, 2020

NORTH COUNTRY FOOD BANK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? Yes No
Significant deficiency(ies) identified that are
not considered to be material weaknesses? Yes None Reported
Non-compliance material to financial
statements noted? Yes No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? Yes No
Significant deficiency(ies) identified that are
not considered to be material weaknesses? Yes None Reported
Type of auditor's report issued on compliance
for major programs: Unmodified
Any audit findings disclosed that are
required to be reported in accordance with
2 CFR 200.516(a)? Yes No

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? Yes No

NORTH COUNTRY FOOD BANK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Section II-Financial Statement Findings

2019-001 (Significant Deficiency)

Criteria: The Organization's does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition: The Organization's personnel prepare periodic financial information for internal use that meets the needs of management and the board. For the year ended December 31, 2019, the Organization's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the Organization does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by GAAP for external reporting. The Organization is aware of this significant deficiency, and obtains our assistance in the preparation of their annual financial statements.

Cause: The Organization does not have the internal resources needed to cover all the aspects of financial reporting in accordance with GAAP.

Effect: The Organization is aware of the situation and is involved in the review and final approval of the completed financial statements prior to distribution to the end users.

Repeat Finding: Yes. Prior audit finding 2018-001.

Recommendation: We recommend the Organization review its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. As a compensating control, the Organization should establish an internal control policy to document the annual review of the financial statements.

View of Responsible Officials: Management is aware of the deficiency and believes its oversight of the final financial statements to be effective in mitigating possible risks.

NORTH COUNTRY FOOD BANK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Section III—Federal Award Findings

2019-002 (Significant Deficiency)

Program: Food Distribution Cluster (Commodity Supplemental Food Program, CFDA No. 10.565; Emergency Food Assistance Program (Administrative Costs), CFDA No. 10.568; Emergency Food Assistance Program (Food Commodities), CFDA No. 10.569)

Criteria: The Non-Federal entities other than States, including those operating Federal programs as subrecipients of States, must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR part 200.

Condition: The Organization did not update their procurement policies to be in conformance with the Uniform Guidance procurement standards.

Questioned Costs: Undeterminable

Context: It was noted that the Food Bank did not update their Procurement Policy for the Uniform Guidance procurement standards.

Cause: Oversight by management.

Effect: The Organization might have a conflict of interest and might not have followed competitive bidding procedures when entering into contracts over the various procurement thresholds.

Repeat Finding: First year for finding.

Recommendation: The Organization should review and update their policies and procedures for procurement.

Responsible Officials: The Organization agrees with the recommendation and will correct immediately.

NORTH COUNTRY FOOD BANK, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

2018-001 (Significant Deficiency)

Criteria: As auditors we were requested to draft the financial statements and accompanying notes to the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition: An internal control deficiency over financial reporting may be determined present in the absence of the Organization's preparation of its financial statements and accompanying notes to the financial statements in accordance with GAAP. This control deficiency could result in a material misstatement to the financial statements that would not be detected or prevented.

Cause: The Organization does not have the internal resources needed to cover all the aspects of financial reporting in accordance with GAAP.

Effect: The Organization is aware of the situation and is involved in the review and final approval of the completed financial statements prior to distribution.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other consideration.

Corrective Action Taken: No action taken. See current year finding 2019-001 and Corrective Action Plan.



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Telephone 218.281.7356 – Fax 218.281.7354

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

2019-001 Finding

Contact Person: Susie Novak, Executive Director

Corrective Action Plan: The Food Bank will obtain internal expertise to handle all aspects of external financial reporting when it becomes economically feasible. The Food Bank will also establish an internal control policy to document the annual review of the financial statements.

Completion Date: Ongoing

2019-002 Finding

Contact Person: Susie Novak, Executive Director

Corrective Action Plan: The Food Bank will establish written procedures for procurement. These procedures will be in conformity with Federal Laws and the Uniform Guidance Standards.

Completion Date: Immediately