

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

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

TABLE OF CONTENTS

	Page
BOARD OF DIRECTORS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows	6
Statements of Functional Expenses	7
Notes to the Financial Statements	9
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	14
Notes to the Schedule of Expenditures of Federal Awards	15
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 <i>GOVERNMENT AUDITING STANDARDS</i>	16
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	18
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	21
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	25
CORRECTIVE ACTION PLAN	28

NORTH COUNTRY FOOD BANK, INC.
BOARD OF DIRECTORS
SEPTEMBER 30, 2017

John Thorson, Chairman	East Grand Forks, MN
Andy Peeters, Vice-Chairman	Perham, MN
Rick Janes, Secretary-Treasurer	Crookston, MN
Jill Fritel	Grand Forks, ND
Orlando Alamano	Blackduck, 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 non-profit organization), which comprise the statements of financial position as of September 30, 2017 and 2016 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our 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 29, 2018, 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 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 North Country Food Bank, Inc.'s internal control over financial reporting and compliance.

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

January 29, 2018

NORTH COUNTRY FOOD BANK, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash	\$ 506,685	\$ 522,391
Receivables - trade	209,585	153,617
Inventories		
USDA commodities	119,793	132,327
Other	357,228	271,429
Prepaid expenses	<u>23,940</u>	<u>28,264</u>
Total current assets	<u>1,217,231</u>	<u>1,108,028</u>
Property and equipment	412,466	429,459
Less accumulated depreciation	<u>(322,892)</u>	<u>(287,421)</u>
Net property and equipment	<u>89,574</u>	<u>142,038</u>
Total assets	<u>\$ 1,306,805</u>	<u>\$ 1,250,066</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 77,900	\$ 33,492
Accrued salaries	11,320	10,443
Other accrued liabilities	-	11
Total current liabilities	<u>89,220</u>	<u>43,946</u>
Noncurrent liabilities		
Compensated absences	<u>31,468</u>	<u>27,361</u>
Total noncurrent liabilities	<u>31,468</u>	<u>27,361</u>
Total liabilities	<u>120,688</u>	<u>71,307</u>
Net assets		
Temporarily restricted	238,222	191,938
Unrestricted	<u>947,895</u>	<u>986,821</u>
Total net assets	<u>1,186,117</u>	<u>1,178,759</u>
Total liabilities and net assets	<u>\$ 1,306,805</u>	<u>\$ 1,250,066</u>

See Notes to the Financial Statements

NORTH COUNTRY FOOD BANK, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support						
Donations						
Cash	\$ 515,946	\$ -	\$ 515,946	\$ 477,250	\$ -	\$ 477,250
Food or product	9,117,484	-	9,117,484	7,900,097	-	7,900,097
Grants						
Federal	198,188	5,202	203,390	161,610	12,550	174,160
Commodities	957,266	-	957,266	967,603	-	967,603
Other	57,088	60,000	117,088	61,349	2,463	63,812
Revenue						
Shared maintenance	165,016	-	165,016	170,367	-	170,367
Freight charges	201,047	-	201,047	206,151	-	206,151
Product sales	1,034,110	-	1,034,110	1,007,095	-	1,007,095
Membership fees	5,496	-	5,496	6,300	-	6,300
Interest	1,012	-	1,012	406	-	406
Other	361	-	361	4,722	-	4,722
Other						
Net assets released from restriction due to fulfillment of purpose	<u>18,918</u>	<u>(18,918)</u>	<u>-</u>	<u>18,233</u>	<u>(18,233)</u>	<u>-</u>
Total support and revenues	<u>12,271,932</u>	<u>46,284</u>	<u>12,318,216</u>	<u>10,981,183</u>	<u>(3,220)</u>	<u>10,977,963</u>
Expenses						
Program services	11,843,589	-	11,843,589	10,651,415	-	10,651,415
Fund-raising	253,233	-	253,233	241,431	-	241,431
Management and general	<u>214,036</u>	<u>-</u>	<u>214,036</u>	<u>212,758</u>	<u>-</u>	<u>212,758</u>
Total expenses	<u>12,310,858</u>	<u>-</u>	<u>12,310,858</u>	<u>11,105,604</u>	<u>-</u>	<u>11,105,604</u>
Change in net assets	(38,926)	46,284	7,358	(124,421)	(3,220)	(127,641)
Net assets, beginning of year	<u>986,821</u>	<u>191,938</u>	<u>1,178,759</u>	<u>1,111,242</u>	<u>195,158</u>	<u>1,306,400</u>
Net assets, end of year	<u>\$ 947,895</u>	<u>\$ 238,222</u>	<u>\$ 1,186,117</u>	<u>\$ 986,821</u>	<u>\$ 191,938</u>	<u>\$ 1,178,759</u>

See Notes to the Financial Statements

NORTH COUNTRY FOOD BANK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 7,358	\$ (127,641)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	42,351	41,964
Loss from disposition of equipment	16,050	-
Changes in operating assets and liabilities		
Receivables	(55,968)	(949)
Inventory	(73,265)	110,445
Prepaid expenses	4,324	6,610
Accounts payable	44,408	23,398
Accrued salaries	876	5,038
Other accrued liabilities	(11)	(1,636)
Compensated absences	<u>4,107</u>	<u>(5,056)</u>
Net cash provided (used) by operating activities	<u>(9,770)</u>	<u>52,173</u>
Cash flows from investing activities		
Purchase of property and equipment	<u>(5,936)</u>	<u>(30,442)</u>
Net cash provided (used) by investing activities	<u>(5,936)</u>	<u>(30,442)</u>
Increase (decrease) in cash	(15,706)	21,731
Cash - beginning of year	<u>522,391</u>	<u>500,660</u>
Cash - end of year	<u>\$ 506,685</u>	<u>\$ 522,391</u>

See Notes to the Financial Statements

NORTH COUNTRY FOOD BANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Services			Fund-raising			Management	Total	
	Food Distribution	CSFP	Food Shelf	Capital Campaign	Other	Total	and General		
Product and freight	\$ 10,065,960	\$ 64	\$ -	\$ 10,066,024	\$ -	\$ -	\$ -	\$ 10,066,024	
Other assistance programs	19,611	-	-	19,611	-	-	-	19,611	
Commodities	609,521	360,281	-	969,802	-	-	-	969,802	
Salaries and benefits	282,528	74,983	39,871	397,382	13,768	76,922	90,690	620,833	
Depreciation	32,411	-	-	32,411	-	-	9,940	42,351	
Insurance	5,542	-	-	5,542	-	-	2,077	7,619	
Truck, warehouse and forklift	120,231	35	3,195	123,461	-	-	-	123,461	
Utilities and taxes	8,585	8,419	1,217	18,221	-	-	3,604	21,825	
Dues	64,759	-	-	64,759	-	-	-	64,759	
Office, printing and postage	27,527	10,995	1,083	39,605	-	9,934	9,934	69,358	
Repairs	919	-	-	919	-	-	22	941	
Contracted services	-	-	-	-	39,019	100,856	139,875	158,513	
Audit	-	-	-	-	-	-	9,935	9,935	
Snow removal	4,217	-	-	4,217	-	-	-	4,217	
Education, travel and meals	10,187	4,400	10	14,597	556	11,800	12,356	37,853	
Rent	34,289	9,000	1,584	44,873	-	-	3,456	48,329	
Operating expense	-	-	33,021	33,021	-	-	-	33,021	
Miscellaneous	8,777	367	-	9,144	208	170	378	12,406	
Total expenses	\$ 11,295,064	\$ 468,544	\$ 79,981	\$ 11,843,589	\$ 53,551	\$ 199,682	\$ 253,233	\$ 214,036	\$ 12,310,858

See Notes to the Financial Statements

NORTH COUNTRY FOOD BANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Program Services				Fund-raising			Management and General	Total
	Food Distribution	CSFP	Food Shelf	Total	Capital Campaign	Other	Total		
Product and freight	\$ 8,935,752	\$ -	\$ -	\$ 8,935,752	\$ -	\$ -	\$ -	\$ -	\$ 8,935,752
Other assistance programs	5,641	-	-	5,641	-	-	-	-	5,641
Commodities	567,036	406,252	-	973,288	-	-	-	-	973,288
Salaries and benefits	277,463	50,529	40,360	368,352	-	76,402	76,402	132,898	577,652
Depreciation	36,343	-	798	37,141	-	-	-	4,823	41,964
Insurance	6,260	-	-	6,260	-	-	-	900	7,160
Truck, warehouse and forklift	98,055	-	2,646	100,701	-	-	-	-	100,701
Utilities and taxes	8,544	7,418	1,431	17,393	-	-	-	2,837	20,230
Dues	55,157	-	-	55,157	-	-	-	-	55,157
Office, printing and postage	20,224	20,717	996	41,937	252	9,456	9,708	19,002	70,647
Repairs	4,202	160	102	4,464	-	303	303	210	4,977
Contracted services	-	-	-	-	37,769	109,244	147,013	18,948	165,961
Audit	-	-	-	-	-	-	-	9,130	9,130
Snow removal	3,777	-	-	3,777	-	-	-	-	3,777
Education, travel and meals	13,767	3,596	-	17,363	866	5,411	6,277	13,614	37,254
Rent	34,965	8,770	1,320	45,055	-	-	-	6,880	51,935
Operating expense	-	-	29,541	29,541	-	-	-	-	29,541
Miscellaneous	8,932	661	-	9,593	1,549	179	1,728	3,516	14,837
Total expenses	\$ 10,076,118	\$ 498,103	\$ 77,194	\$ 10,651,415	\$ 40,436	\$ 200,995	\$ 241,431	\$ 212,758	\$ 11,105,604

See Notes to the Financial Statements

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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:

Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of the North Country Food Bank, Inc.

Temporarily restricted net assets represent those amounts, which are restricted in use by donor or grantor.

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.

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 temporarily restricted net assets.

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2017 AND 2016

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 unrestricted support unless the donor has restricted the donated asset to a specific purpose. Items with a cost over \$500 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
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Donated Product

The Organization valued non-USDA donated product it received at \$1.67 and \$1.70 per pound for the years ended September 30, 2017 and 2016, respectively. 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 2014 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, 2017 AND 2016

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors or grantors to a specific time period or purpose. Temporarily restricted net assets are as follows:

	<u>2017</u>	<u>2016</u>
TEFAP Commodities	\$ 18,434	\$ 36,170
CSFP Commodities	101,360	96,158
TEFAP Reimbursement	17,228	18,410
Walmart Grant	60,000	-
Capital Campaign	<u>41,200</u>	<u>41,200</u>
Total Temporarily Restricted	<u>\$ 238,222</u>	<u>\$ 191,938</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 temporarily restricted 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, temporarily restricted net assets are reclassified as unrestricted net assets 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 unrestricted 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, 2017 and 2016 to be \$113,073 and \$123,762, respectively.

Advertising Costs

The Organization expenses advertising costs as incurred.

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2017 AND 2016

NOTE 2 PROPERTY AND EQUIPMENT

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

Description	2017		
	Cost	Accumulated Depreciation	Cost-Less Accumulated Depreciation
Land	\$ 41,200	\$ -	\$ 41,200
Office & rental equipment	44,740	39,537	5,203
Warehouse equipment	100,593	82,765	17,828
Food shelf equipment	8,387	8,338	49
Vehicles	217,546	192,252	25,294
	\$ 412,466	\$ 322,892	\$ 89,574

Description	2016		
	Cost	Accumulated Depreciation	Cost-Less Accumulated Depreciation
Land	\$ 41,200	\$ -	\$ 41,200
Office & rental equipment	43,402	35,189	8,213
Warehouse equipment	95,995	73,713	22,282
Food shelf equipment	8,387	8,338	49
Vehicles	240,475	170,181	70,294
	\$ 429,459	\$ 287,421	\$ 142,038

NOTE 3 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, 2017 and 2016 are \$31,468 and \$27,361, 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 4 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, 2017 and 2016, was \$25,153 and \$23,317, respectively.

NORTH COUNTRY FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2017 AND 2016

NOTE 5 BUILDING LEASE

In February 2017, the Organization entered into a three year building lease for warehouse and office space at 424 North Broadway in Crookston, Minnesota. The terms of the lease require annual rent of \$48,000. However, the Lessor has agreed to donate \$24,000 annually to the Organization during the three year lease term in the form of a rent reduction. Under this agreement, the Organization will pay monthly rent of \$2,000 through the lease term on March 31, 2020. At the end of the three year term, the Organization has the option to renew the lease annually thereafter. Below is a summary of future minimum rental payments:

Years ending September 30,	Gross Rents	In-Kind Donation	Net Rent
2018	\$ 48,000	\$ 24,000	\$ 24,000
2019	48,000	24,000	24,000
2020	24,000	12,000	12,000
Total	<u>\$ 120,000</u>	<u>\$ 60,000</u>	<u>\$ 60,000</u>

NOTE 6 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, 2017 and 2016, North Country Food Bank's payments to this affiliated organization were \$55,492 and \$47,933, respectively.

NOTE 7 CONCENTRATIONS OF CREDIT RISK

The Organization has concentrated its credit risk for cash by maintaining deposits in a local bank. The amount of deposits uninsured by federal depository insurance at September 30, 2017 and 2016 was \$218,956 and \$256,013, respectively.

NOTE 8 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, 2017 and 2016 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 9 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Organization's year end. Subsequent events have been evaluated through January 29, 2018, 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, 2017

<u>Federal Grantor/ Pass through Agency/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Identifying Number</u>	<u>Passed-through to Subrecipients</u>	<u>Amount Expended</u>
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	16162MN067Y8105	\$ -	\$ 55,910
Food Commodities	10.569	16162MN067Y8105	<u>587,933</u>	<u>609,521</u>
Total			<u>587,933</u>	<u>665,431</u>
 <i>Passed-Through the Minnesota Department of Health</i>				
<i>Commodity Supplemental Food Program</i>				
Administration	10.565	33408	-	147,480
Food Commodities	10.565	33408	<u>-</u>	<u>359,947</u>
Total			<u>-</u>	<u>507,427</u>
<i>Total Food Distribution Cluster</i>			<u>587,933</u>	<u>1,172,858</u>
Total Expenditures of Federal Awards			<u>\$ 587,933</u>	<u>\$ 1,172,858</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, 2017

NOTE 1 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, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. However, 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. Therefore, some amounts presented in the Schedule may differ from amounts presented in the preparation of the basic financial statements due to the different accounting methods used. North Country Food Bank, Inc. has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**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, 2017, 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 29, 2018.

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 the 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 were not 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 that we consider to be a significant deficiency, as item 2017-001.

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's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The North Country 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 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 29, 2018

**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, 2017. 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; 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 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003. Our opinion on each major federal program is not modified with respect to these matters.

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

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 identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003, that we consider to be significant deficiencies.

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

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 29, 2018

NORTH COUNTRY FOOD BANK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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 X No
Significant deficiency(ies) identified that are
not considered to be material weaknesses? X Yes ___ None Reported
Non-compliance material to financial
statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? ___ Yes X No
Significant deficiency(ies) identified that are
not considered to be material weaknesses? X 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)? X 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? X Yes ___ No

NORTH COUNTRY FOOD BANK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Section II-Financial Statement Findings

2017-001 (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.

Repeat Finding: Yes. Prior audit finding 2016-001

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.

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, 2017

Section III—Federal Award Findings

2017-002 (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: To ensure all federal expenditures charged to a grant are for allowable activities and allowable costs.

Condition: Unallowable expenditures were included as allowable costs for this program, a couple expenditures were missing approval signatures and an employee's payroll charged to a grant did not match the actual hours reported on the timecard.

Cause: Oversight by staff.

Effect: The Food Bank reported unallowable costs and expenditures that were not properly approved as expenditures for this program.

Questioned Costs: Undeterminable

Context: A sample of 40 expenditure transactions were selected for testing. This was a statistically valid sample. Two unallowable expenditures were identified out of the 40 transactions tested. The unallowable expenditures were fundraising costs miscoded to the wrong program and purchases of gift cards. In addition, two transactions tested were missing approval signatures. Out of the 20 payroll transactions tested, one payroll transaction had hours reported on the timecard that did not match hours charged to the grant. There was no adverse consequence due to the Food Bank expending excess allowable costs, which were sufficient to replace the unallowable costs noted.

Repeat Finding: Yes. Prior audit finding 2016-002

Recommendation: Coding for expenditures and payroll allocations should be reviewed to ensure they are coded to the correct departments. All expenditures should be properly approved and this approval should be documented. Expenditures in each department should be reviewed periodically.

Views of Responsible Officials and Planned Corrective Actions: Management is aware of the deficiency and is taking corrective action to ensure expenditures are coded to the correct departments and properly approved.

NORTH COUNTRY FOOD BANK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

2017-003 (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: To ensure all federal expenditures are correctly reported.

Condition: Expenditures were not reported correctly on the Claim for Reimbursement reports.

Cause: Oversight by staff.

Effect: The Food Bank understated expenditures on the Claim for Reimbursement reports.

Questioned Costs: Undeterminable

Context: A sample of 3 months of Claim for Reimbursement reports were tested. This was a statistically valid sample. Expenditures were incorrectly reported on all 3 reports. There was no adverse consequence as the expenditures reported were understated.

Repeat Finding: Yes. Prior audit finding 2016-003

Recommendation: Personnel reviewing reports should ensure report information ties back to the payroll reports and financial statement information.

Views of Responsible Officials and Planned Corrective Actions: Management is aware of the deficiency and is taking corrective action to ensure expenditures are reported correctly on the monthly reports.

NORTH COUNTRY FOOD BANK, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

2016-001 (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 2017-001 and Corrective Action Plan.

NORTH COUNTRY FOOD BANK, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

2016-002 (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: To ensure all federal expenditures charged to a grant are for allowable activities and allowable costs.

Condition: Unallowable expenditures were included as allowable costs for this program.

Cause: Internal control deficiency over reporting due to oversight by staff.

Effect: The Food Bank reported unallowable costs as expenditures for this program.

Questioned Costs: None

Context: A sample of 40 expenditure transactions were selected for testing. This was a statistically valid sample. One unallowable expenditure was identified out of the 40 transactions tested. The unallowable expenditure was fundraising cost miscoded to the wrong program. There was no adverse consequence due to the Food Bank expending excess allowable costs, which were sufficient to replace unallowable costs noted.

Recommendation: Coding for expenditures should be reviewed to ensure they are coded to the correct departments. Expenditures in each department should be reviewed periodically.

Corrective Action Taken: No action taken. See current year finding 2017-002 and Corrective Action Plan.

NORTH COUNTRY FOOD BANK, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

2016-003 (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: To ensure all federal expenditures are properly reported.

Condition: Payroll expenditures were overstated on the Claim for Reimbursement reports.

Cause: Internal control deficiency over reporting due to oversight by staff.

Effect: Overstated expenditures on the monthly Claim for Reimbursement reports.

Questioned Costs: None

Context: A sample of 3 months of Claim for Reimbursement reports were tested. This was a statistically valid sample. Payroll expenditures were overstated on all 3 reports. There was no adverse consequence due to the Food Bank expending excess allowable costs, which were sufficient to replace unallowable costs noted.

Recommendation: Personnel reviewing reports should ensure report information ties back to the payroll reports and financial statement information.

Corrective Action Taken: No action taken. See current year finding 2017-003 and Corrective Action Plan.



424 North Broadway – Crookston, MN 56716
Telephone 218.281.7356 – Fax 218.281.7354

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

2017-001 Finding

Contact Person: Susie Novak, Executive Director

Corrective Action Plan: Will obtain internal expertise to handle all aspects of external financial reporting when it becomes economically feasible.

Completion Date: Ongoing

2017-002 Finding

Contact Person: Susie Novak, Executive Director

Corrective Action Plan: Management will review coding to ensure expenditures are coded to the correct departments and will ensure all expenditures are properly approved. Expenditures in each department will be reviewed periodically.

Completion Date: Immediately

2017-003 Finding

Contact Person: Susie Novak, Executive Director

Corrective Action Plan: Personnel reviewing reports will ensure report information ties back to the payroll reports and financial statement information.

Completion Date: Immediately