

*Consolidated financial statements of:*

**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

Years ended  
September 30, 2015 and 2014

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	Page
Independent auditor's report	1
Consolidated financial statements:	
Statements of financial position	2
Statements of activities and changes in net assets	3
Statements of cash flows	4-5
Statements of functional expenses	6-7
Notes to consolidated financial statements	8-14
Supplementary information to consolidated financial statements:	
Consolidating schedules	15

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Second Harvest Heartland and Subsidiary  
1140 Gervais Ave.  
Maplewood, MN 55109

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Second Harvest Heartland and Subsidiary (the Organization) which comprise the consolidated statements of financial position as of September 30, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2015 and 2014, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, and results of activities, of the individual organizations and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

, 2015

**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

	<u>2015</u>	<u>2014</u>
<i>Assets:</i>		
Current assets:		
Cash and cash equivalents	\$ 4,154,880	\$ 3,029,812
Certificates of deposits	2,855	765,181
Receivables:		
Trade, net	975,162	1,084,897
Grants	422,188	575,176
Pledges, current portion	140,750	431,533
Other	18,275	52,622
Inventory	5,256,059	5,284,534
Prepaid expenses	260,975	398,755
	<u>11,231,144</u>	<u>11,622,510</u>
Property and equipment, net	<u>5,264,731</u>	<u>4,809,917</u>
Pledges receivable, net of current portion	100,000	
Other assets	<u>18,649</u>	18,649
	<u>118,649</u>	<u>18,649</u>
Total assets	<u>\$ 16,614,524</u>	<u>\$ 16,451,076</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30

	2015	2014
<b><i>Liabilities and net assets:</i></b>		
Current liabilities:		
Accounts payable	\$ 772,825	\$ 1,315,624
Fiscal agent payable	66,333	16,361
Accrued expenses	1,096,395	900,741
Deferred revenue	222,922	394,000
Current portion of:		
Note payable	312,311	301,543
Capital leases	164,114	18,891
Deferred rent	17,592	13,055
Total current liabilities	2,652,492	2,960,215
Long-term liabilities, net of current portion:		
Note payable	545,195	857,470
Capital leases	1,176,585	16,855
Deferred rent	36,774	54,366
Total liabilities	4,411,046	3,888,906
Net assets:		
Unrestricted:		
Operations	6,481,645	5,882,718
Other	5,048,603	4,731,481
	11,530,248	10,614,199
Temporarily restricted	673,230	1,947,971
Total net assets	12,203,478	12,562,170
Total liabilities and net assets	\$ 16,614,524	\$ 16,451,076

**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

	2015		
	Unrestricted	Temporarily restricted	Total
Support and revenues:			
Program services	\$ 2,015,041		\$ 2,015,041
Purchase program	8,058,602		8,058,602
Government contracts	2,495,597		2,495,597
Contributions	14,075,234	\$ 1,022,750	15,097,984
Special events, net of expenses of \$269,134 and \$298,512 in 2015 and 2014, respectively	773,101		773,101
In-kind donations	119,824,938		119,824,938
Investment and miscellaneous income	87,644		87,644
	<u>147,330,157</u>	<u>1,022,750</u>	<u>148,352,907</u>
Less: In-kind donations received as agent	18,880,265		18,880,265
	<u>128,449,892</u>	<u>1,022,750</u>	<u>129,472,642</u>
Net assets released from restrictions	2,297,491	(2,297,491)	
Total support and revenues	<u>130,747,383</u>	<u>(1,274,741)</u>	<u>129,472,642</u>
Expenses:			
Programs	122,721,281		122,721,281
General, administrative and marketing	3,085,320		3,085,320
Fundraising	4,024,733		4,024,733
Total expenses	<u>129,831,334</u>		<u>129,831,334</u>
Change in net assets	916,049	(1,274,741)	(358,692)
Change in net assets, increase (decrease) from:			
Operations	598,927	(864,280)	(265,353)
Other	317,122	(410,461)	(93,339)
Total change in net assets	916,049	(1,274,741)	(358,692)
Net assets, beginning	<u>10,614,199</u>	<u>1,947,971</u>	<u>12,562,170</u>
Net assets, ending	<u>\$ 11,530,248</u>	<u>\$ 673,230</u>	<u>\$ 12,203,478</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES  
AND CHANGES IN NET ASSETS  
YEARS ENDED SEPTEMBER 30

2014		
Unrestricted	Temporarily restricted	Total
\$ 2,011,732		\$ 2,011,732
7,355,185		7,355,185
2,174,509		2,174,509
13,947,767	\$ 1,532,577	15,480,344
657,726		657,726
124,670,532		124,670,532
218,991		218,991
151,036,442	1,532,577	152,569,019
20,540,669		20,540,669
130,495,773	1,532,577	132,028,350
2,569,772	(2,569,772)	
133,065,545	(1,037,195)	132,028,350
127,528,807		127,528,807
2,621,979		2,621,979
3,972,490		3,972,490
134,123,276		134,123,276
(1,057,731)	(1,037,195)	(2,094,926)
114,462	(1,037,195)	(922,733)
(1,172,193)		(1,172,193)
(1,057,731)	(1,037,195)	(2,094,926)
11,671,930	2,985,166	14,657,096
<u>\$ 10,614,199</u>	<u>\$ 1,947,971</u>	<u>\$ 12,562,170</u>



**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF  
CASH FLOWS  
YEARS ENDED SEPTEMBER 30

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (358,692)	\$ (2,094,926)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	1,244,833	1,085,181
Donated securities	(667,679)	(230,271)
Gain on disposal of equipment	(2,345)	
Realized (gain) loss on disposal of investments	(3,946)	421
Decrease (increase) in:		
Receivables, net	487,853	190,861
Prepaid expenses	137,780	(263,247)
Inventory	28,475	1,345,931
Other assets		2,450
Decrease (increase) in:		
Accounts payable	(542,799)	302,749
Fiscal agent payable	49,972	4,585
Accrued expenses	195,654	163,322
Deferred:		
Revenue	(171,078)	394,000
Rent	(13,055)	(8,608)
Net cash provided by operating activities	<u>384,973</u>	<u>892,448</u>
Cash flows from investing activities:		
Purchase of:		
Property and equipment	(375,832)	(1,292,529)
Certificates of deposit		(1,524,286)
Proceeds from sale of:		
Property and equipment	28,000	
Certificates of deposit	<u>1,433,952</u>	<u>1,749,668</u>
Net cash provided by (used in) investing activities	<u>1,086,120</u>	<u>(1,067,147)</u>

See notes to consolidated financial statements.

**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF  
CASH FLOWS  
YEARS ENDED SEPTEMBER 30

	<u>2015</u>	<u>2014</u>
Cash flows from financing activities:		
Payments on:		
Line of credit		\$ (200,000)
Capital leases	\$ (44,518)	(291,011)
Principal payments on long-term debt	<u>(301,507)</u>	<u>(39,621)</u>
Net cash used in financing activities	<u>(346,025)</u>	<u>(530,632)</u>
Net increase (decrease) in cash and cash equivalents	<b>1,125,068</b>	(705,331)
Cash and cash equivalents, beginning	<u>3,029,812</u>	3,735,143
Cash and cash equivalents, ending	<u><b>\$ 4,154,880</b></u>	<u>\$ 3,029,812</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 44,851</u>	<u>\$ 50,702</u>
Purchase of equipment through capital leases	<u><b>\$ 1,349,471</b></u>	

See notes to consolidated financial statements.

**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

	Programs				
	CSFP	Food Bank	Food Rescue	Agency Relations	Community Outreach
Wages and temporary services	\$ 255,536	\$ 3,488,741	\$ 693,874	\$ 451,510	\$ 664,765
Fringe benefits and payroll taxes	72,620	955,759	190,812	126,894	146,395
Professional fees		375			219,546
In-kind professional fees					
Occupancy	94,957	627,387	3,174	5,211	12,958
Vehicles operation	57,228	831,479	324,918		16,255
Procurement	62,110	1,221,600	59		7,130
Equipment	17,095	414,966	34,385	23,736	36,312
Supplies	22,826	79,524	4,899	9,824	19,015
Meeting, travel and staff development	6,207	43,796	12,064	33,912	70,315
Promotions and marketing		16,159		1,432	40,761
Special events					
Direct mail					
Cluster/network fees		606,510			
Agency assistance			622	8,042	75,562
Subgrant awards - HF MN					677,975
In-kind distributed*	5,988,395	113,999,837			
Cost of purchased product disbursed		7,622,058			137,012
Other	68	3,563	1,152	264	2,939
Depreciation and amortization	39,232	913,252	88,209	26,499	38,431
Bad debt					
Interest	3,274	37,100	1,371	407	570
	<u>6,619,548</u>	<u>130,862,106</u>	<u>1,355,539</u>	<u>687,731</u>	<u>2,165,941</u>
Less:					
In-kind distributed as agent		18,969,584			
Special events					
	<u>\$ 6,619,548</u>	<u>\$ 111,892,522</u>	<u>\$ 1,355,539</u>	<u>\$ 687,731</u>	<u>\$ 2,165,941</u>

\*Food Bank in-kind distributed includes Food Rescue Product.

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2015  
(WITH COMPARATIVE TOTALS FOR 2014)

Programs total	Support services			Total	2014 Total
	G&A and marketing	Fundraising	Support total		
\$ 5,554,426	\$ 2,096,049	\$ 1,516,714	\$ 3,612,763	\$ 9,167,189	\$ 8,960,205
1,492,480	435,318	374,371	809,689	2,302,169	2,049,607
219,921	192,566	398,966	591,532	811,453	689,680
	19,366		19,366	19,366	176,147
743,687	111,783	21,175	132,958	876,645	939,515
1,229,880	6,588	25	6,613	1,236,493	1,395,277
1,290,899	398	3,017	3,415	1,294,314	681,330
526,494	37,871	72,038	109,909	636,403	771,599
136,088	32,639	159,292	191,931	328,019	557,674
166,294	48,935	32,528	81,463	247,757	333,206
58,352	8,694	158,287	166,981	225,333	286,984
		269,134	269,134	269,134	298,512
	2,597	1,209,556	1,212,153	1,212,153	1,119,884
606,510	26,309		26,309	632,819	841,454
84,226	522		522	84,748	226,453
677,975				677,975	1,358,153
119,988,232				119,988,232	125,483,757
7,759,070				7,759,070	7,375,611
7,986	2,838	272	3,110	11,096	95,588
1,105,623	61,881	77,329	139,210	1,244,833	1,085,182
					3,113
42,722	966	1,163	2,129	44,851	50,702
141,690,865	3,085,320	4,293,867	7,379,187	149,070,052	154,779,633
18,969,584				18,969,584	20,357,845
		269,134	269,134	269,134	298,512
<u>\$ 122,721,281</u>	<u>\$ 3,085,320</u>	<u>\$ 4,024,733</u>	<u>\$ 7,110,053</u>	<u>\$ 129,831,334</u>	<u>\$ 134,123,276</u>

**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

	Programs			Agency Relations
	CSFP	Food Bank	Food Rescue	
Wages and temporary services	\$ 268,507	\$ 3,537,215	\$ 590,674	\$ 512,446
Fringe benefits and payroll taxes	74,493	872,016	153,840	150,104
Professional fees	680	5,859		3
In-kind professional fees				
Occupancy	107,107	660,186	2,696	7,057
Vehicles operation	70,856	946,550	332,456	
Procurement	48,894	597,001	24,062	
Equipment	26,488	509,741	45,118	35,406
Supplies	22,889	175,229	3,239	6,634
Meeting, travel and staff development	7,102	59,560	12,402	36,016
Promotions and marketing		5,679		416
Special events				
Direct mail				
Cluster/network fees		841,329		
Agency assistance		50		950
Subgrant awards - HFMN				
In-kind distributed*	5,517,121	119,966,636		
Cost of purchased product disbursed	567	7,162,925		
Other	16	825	668	3,466
Depreciation and amortization	28,330	790,172	139,760	13,132
Bad debt		3,113		
Interest	4,273	40,719	195	646
	<u>6,177,323</u>	<u>136,174,805</u>	<u>1,305,110</u>	<u>766,276</u>
Less:				
In-kind distributed as agent		20,357,845		
Special events				
	<u>\$ 6,177,323</u>	<u>\$ 115,816,960</u>	<u>\$ 1,305,110</u>	<u>\$ 766,276</u>

\*Food Bank in-kind distributed includes Food Rescue Product.

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2014

Community Outreach	Programs total	Support services			Total
		G&A and marketing	Fundraising	Support total	
\$ 885,936	\$ 5,794,778	\$ 1,693,786	\$ 1,471,641	\$ 3,165,427	\$ 8,960,205
200,977	1,451,430	282,623	315,554	598,177	2,049,607
280,553	287,095	171,027	231,558	402,585	689,680
			176,147	176,147	176,147
15,449	792,495	124,767	22,253	147,020	939,515
39,838	1,389,700	5,562	15	5,577	1,395,277
3,469	673,426	5,669	2,235	7,904	681,330
54,251	671,004	6,651	93,944	100,595	771,599
31,211	239,202	53,443	265,029	318,472	557,674
79,601	194,681	95,327	43,198	138,525	333,206
81,519	87,614	13,356	186,014	199,370	286,984
			298,512	298,512	298,512
		277	1,119,607	1,119,884	1,119,884
	841,329	125		125	841,454
225,453	226,453				226,453
1,358,153	1,358,153				1,358,153
	125,483,757				125,483,757
163,858	7,327,350	48,261		48,261	7,375,611
2,380	7,355	88,233		88,233	95,588
39,741	1,011,135	30,214	43,833	74,047	1,085,182
	3,113				3,113
749	46,582	2,658	1,462	4,120	50,702
<u>3,463,138</u>	<u>147,886,652</u>	<u>2,621,979</u>	<u>4,271,002</u>	<u>6,892,981</u>	<u>154,779,633</u>
	20,357,845				20,357,845
			298,512	298,512	298,512
<u>\$ 3,463,138</u>	<u>\$ 127,528,807</u>	<u>\$ 2,621,979</u>	<u>\$ 3,972,490</u>	<u>\$ 6,594,469</u>	<u>\$ 134,123,276</u>

1. Summary of significant accounting policies:

Nature of activities:

Second Harvest Heartland (the Organization) is a not-for-profit organization dedicated to ending hunger through community partnerships and increasing public awareness of hunger. The Organization obtains, stores and distributes donated and purchased food to member agencies and directly to low income individuals in Minnesota and Western Wisconsin. The Organization is a member of Feeding America. The Organization administers two government programs: The Emergency Food Assistance Program (TEFAP) and the Commodity Supplemental Food Program (CSFP). The Organization also administers a food rescue program as well as provides food to member agencies (food bank program) and other programs that address hunger issues. Funding for the Organization comes financially from general contributions, grants, fees charged to member agencies and non-financially from donations and grants of food.

During fiscal year 2011, Second Harvest Heartland created a single member LLC called Hunger-Free Minnesota, LLC. Hunger-Free Minnesota has a strategic, three-year action plan to close the gap of 100 million missing meals every year across the state of Minnesota. In fiscal year 2015, after providing grants to more than 400 partner agencies, and sponsoring media to create hunger insecurity awareness statewide, Second Harvest Heartland ceased operations of Hunger-Free Minnesota, LLC.

Principles of consolidation:

The consolidated financial statements include the accounts of Second Harvest Heartland and its wholly owned subsidiary, Hunger-Free Minnesota, LLC. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Use of estimates:

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions

that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Significant estimates include in-kind donated food inventory, receipts and distributions.

Major source of revenue:

The Organization received approximately 13% and 14% of total revenues from one governmental agency for the years ended September 30, 2015 and 2014, respectively.

Contributions and grants:

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. If a restriction expires in the same fiscal year in which the contribution was recognized, the contribution is reported as an increase in unrestricted net assets. At the end of fiscal years 2015 and 2014, the Organization did not have any permanently restricted net assets.

Unrestricted net assets:

The Organization presents its unrestricted net assets in two segments. The other amount is the accumulated effect that in-kind activity has on ending inventory, along with the repayment of administrative expenses for prior years made by its single member LLC, Hunger-Free MN, while the operations amount is the accumulated effect of change in net assets excluding those other activities.

Functional allocation of expenses:

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and change in net assets. Expenses that relate to more than one program or function have been allocated based on the best estimates of management.

**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

1. Summary of significant accounting policies  
(continued):

Received product:

The Organization reports contributions of food over which it has control (i.e. variance power) as unrestricted in-kind donations. Public donations of food and food obtained through USDA commodity programs (TEFAP and CSFP) are valued based on a weighted average wholesale price per pound. This valuation is determined using a report provided annually by Feeding America based on an annual study. During fiscal years 2015 and 2014, the Organization received 91,254,000 and 90,886,000 pounds of food, respectively. The Organization reported in-kind donations for donated food, along with purchased product valued at cost, as follows:

	2015	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	65,440,000	\$ 102,902,000
TEFAP	7,281,000	11,048,000
CSFP	3,449,000	5,856,000
Donated services		19,000
In-kind donations	76,170,000	119,825,000
Purchased	15,084,000	7,806,000
Total received	<u>91,254,000</u>	<u>\$ 127,631,000</u>
In-kind donations as agent	<u>8,104,000</u>	<u>\$ 18,880,000</u>
	2014	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	63,868,000	\$ 104,770,000
TEFAP	9,232,000	13,993,000
CSFP	3,979,000	5,731,000
Donated services		176,000
In-kind donations	77,079,000	124,670,000
Purchased	13,807,000	7,202,000
Total received	<u>90,886,000</u>	<u>\$ 131,872,000</u>
In-kind donations as agent	<u>9,495,000</u>	<u>\$ 20,541,000</u>

The Organization acts as an agent for five other Feeding America entities with locations in Minnesota. Per contractual arrangements, the Organization redistributes certain products to these other Feeding America locations.

Distributed product:

During fiscal years 2015 and 2014, the Organization distributed 88,912,000 and 89,406,000 pounds of food, respectively, to member agencies. The following reflects all of the Organization's distributions (including purchased product) during fiscal years 2015 and 2014:

	2015	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	63,019,000	\$ 99,613,000
TEFAP	7,312,000	10,831,000
CSFP	3,717,000	6,078,000
In-kind distributions	74,048,000	116,522,000
Purchased	14,864,000	7,714,000
Total distributions	<u>88,912,000</u>	<u>\$ 124,236,000</u>
In-kind distributions as agent	<u>8,070,000</u>	<u>\$ 18,899,000</u>
	2014	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	62,644,000	\$ 103,195,000
TEFAP	9,019,000	13,978,000
CSFP	3,674,000	5,519,000
In-kind distributions	75,337,000	122,692,000
Purchased	14,069,000	7,370,000
Total distributions	<u>89,406,000</u>	<u>\$ 130,062,000</u>
In-kind distributions as agent	<u>9,439,000</u>	<u>\$ 20,329,000</u>



**1. Summary of significant accounting policies**  
(continued):**Contributed services:**

The Organization received donated in-kind professional business services in 2015 and 2014 which were recorded as revenue and expense at the fair value as established by the donor of \$19,366 and \$176,147, respectively.

Members of the Organization and volunteers have donated significant amounts of their time to enhancing the Organization's activities. The number of unique volunteers and hours of service totaled 30,500 and 140,750 in 2015, respectively. The number of unique volunteers and hours of service totaled 32,000 and 147,000 in 2014, respectively. However, the value of these donated services is generally not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services.

**Cash and cash equivalents:**

Cash and cash equivalents include interest bearing money market accounts and any investments with an original maturity of three months or less. The Organization maintains its cash and cash equivalents with various financial institutions. At times, these balances may exceed federally insured limits. The Organization has not experienced a loss as a result of these deposits.

**Investments:**

Investments in marketable securities with readily determinable fair value and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

**Certificates of deposit:**

Included in investments are non-negotiable certificates of deposit. Non-negotiable certificates of deposit are time deposits held at a local bank and are stated at amortized cost.

**Inventory:**

Inventory is valued on a first-in, first-out basis. Public donations of food and food obtained through USDA commodity programs (TEFAP and CFSP) are valued based on a weighted average wholesale price per pound. This valuation is determined using a report provided annually by Feeding America based on an annual study. Purchased food is valued based on actual cost. Inventory is shown net of any inventory on-hand that is allocated to Feeding America entities for which the Organization is only acting as an agent.

**Property and equipment:**

Property and equipment are stated at cost. Contributed property and equipment are recorded at fair value at the date of donation. Depreciation is provided over the estimated useful lives of the assets by the straight-line method. The capitalization policy of the Organization is to capitalize all property and equipment over \$5,000. Asset lives are as follows:

Buildings	40 years
Building improvements	10-25 years
Equipment	3-10 years
Autos and trucks	3-10 years

**Computer software:**

The Organization capitalizes the costs of obtaining or developing internal use software including directly related payroll costs and amortizes those costs over a period of three years, beginning when the software is ready for its intended use.

**Trade receivable and bad debt:**

Trade receivables are stated at original invoice amount less an estimate for doubtful receivables based on management's review of all outstanding amounts and historical experience. Accounts receivable are written-off when deemed uncollectible. Recoveries of accounts previously written-off are recorded when received. The allowance for doubtful accounts as of September 30, 2015 and 2014 was \$32,109 and \$32,288, respectively.

**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

1. Summary of significant accounting policies  
(continued):

Trade receivable and bad debt (continued):

The Organization transacts with its member agencies on open credit and such accounts receivable are uncollateralized. The maximum loss that would be incurred if a member agency failed to pay amounts owed would be limited to the recorded amount due after any allowances provided.

An account is considered past due if the balance is outstanding for more than 90 days.

Grants receivable:

Grants receivable are stated at the estimated net realizable value after provision for doubtful accounts. There was no allowance related to grants receivable at September 30, 2015 and 2014. Grants receivable at September 30, 2015 and 2014 are due in less than one year.

Pledges receivable:

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. As of September 30, 2015 and 2014, all pledges were considered collectible.

Deferred revenue:

Deferred revenue represents governmental grants collected before the related service has been performed.

Income taxes:

The Organization is exempt, as a public charity, from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes. However, income from certain activities not directly related to the Organization's tax-exempt purpose could result in taxable income.

Income taxes (continued):

The Organization has evaluated its tax positions for uncertainty and has no unrecognized tax matters that are required to be disclosed.

The Organization is open to examination for tax years 2012 through 2014. The Organization had no income tax expense and there were no cash payments for income taxes in fiscal years 2015 or 2014.

Advertising costs:

Advertising costs are expensed as incurred. Total advertising expense was \$1,342,011 and \$1,284,326 for the years ended September 30, 2015 and 2014, respectively.

Reclassifications:

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation.

Subsequent events:

The Organization evaluated for subsequent events through , 2015, the date the financial statements were available for issuance.

2. Inventory:

Ending inventory is comprised of the following:

	<u>2015</u>	<u>2014</u>
Donated	\$ 2,322,951	\$ 2,266,494
TEFAP	942,631	960,353
CSFP	1,372,548	1,504,624
Purchased	<u>617,929</u>	<u>553,063</u>
	<u>\$ 5,256,059</u>	<u>\$ 5,284,534</u>

Donated and governmental commodity inventory is valued using a weighted average wholesale price per pound methodology, suggested by Feeding America. Purchased inventory is valued based on actual cost.

**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

3. Pledges receivable:

Unconditional promises to give are recorded as pledges receivable and revenue of the appropriate net asset category.

Unconditional promises to give at September 30 are as follows:

	<u>2015</u>	<u>2014</u>
Unrestricted promises	\$ 25,750	\$ 191,533
Restricted promises	<u>215,000</u>	<u>240,000</u>
Contributions receivable	<u>\$ 240,750</u>	<u>\$ 431,533</u>
Amounts due in:		
Less than one year	\$ 140,750	\$ 431,533
One to five years	\$ 100,000	\$ 0

4. Property and equipment:

	<u>2015</u>	<u>2014</u>
Building	\$ 1,235,416	\$ 1,235,416
Building improvements	4,350,379	4,336,829
Office equipment	2,322,378	2,257,169
Warehouse equipment	2,172,805	1,943,293
Autos and trucks	4,283,945	3,095,470
Land	<u>220,000</u>	<u>220,000</u>
	<u>14,584,923</u>	13,088,177
Less accumulated depreciation and amortization	<u>9,320,192</u>	<u>8,278,260</u>
	<u>\$ 5,264,731</u>	<u>\$ 4,809,917</u>

5. Line of credit:

The Organization has a bank line of credit, secured by certain assets, in the amount of \$1,200,000. The line carries an interest rate of prime less .25% (3.25% at September 30, 2015 and 2014). The balance of the line was \$0 at September 30, 2015 and 2014. The line is scheduled to expire on May 1, 2017.

6. Long-term debt:

	<u>2015</u>	<u>2014</u>
Mortgage payable with interest at .25% over the prime rate (currently 3.25%) with ceiling of 5.25%, payable in monthly installments of \$28,148 and maturing in May 2018. Mortgage is collateralized by building and accessories.	\$ 857,506	\$ 1,159,013
Less current portion	<u>312,311</u>	<u>301,543</u>
	<u>\$ 545,195</u>	<u>\$ 857,470</u>

Future maturities of long-term debt are as follows:

<u>Year ending September 30</u>	<u>Amount</u>
2016	\$ 312,311
2017	323,685
2018	<u>221,510</u>
	<u>\$ 857,506</u>

7. Operating leases:

The Organization leases vehicles and warehouse equipment expiring through 2020. Total rent expense for the years ended September 30, 2015 and 2014 was \$276,309 and \$230,772, respectively.

The Organization also leases space to carry out organization objectives. This lease expires in May 2018. In addition to minimum base rental payments, the Organization is required to pay its proportional share of real estate taxes and operating expenses. Rent expense was \$332,583 and \$369,556 for the years ended September 30, 2015 and 2014, respectively.

**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

7. Operating leases (continued):

Future minimum lease payments are as follows:

Year ending September 30	Amount
2016	\$ 235,936
2017	240,563
2018	143,818
2019	4,552
2020	<u>379</u>
	<u>\$ 625,248</u>

8. Capital lease:

The Organization has ten capital leases for vehicles and warehouse equipment which expire at various dates during fiscal years 2016 – 2023. The vehicles and warehouse equipment were recorded at fair value on the lease commitment date.

The cost and accumulated amortization related to an asset that was held under capital leases are as follows:

	<u>2015</u>	<u>2014</u>
Equipment cost	\$ 1,384,386	\$ 101,888
Less accumulated amortization	<u>50,978</u>	<u>71,629</u>
	<u>\$ 1,333,408</u>	<u>\$ 30,259</u>

Future principal and interest payments under the capital lease as of September 30, 2015, are as follows:

Year ending September 30	Amount
2016	\$ 206,474
2017	215,884
2018	207,888
2019	207,888
2020	207,888
Thereafter	<u>471,778</u>
	1,517,800
Less amounts representing interest	<u>177,101</u>
Present value of net minimum lease obligation payments	<u>\$ 1,340,699</u>

9. Temporarily restricted net assets:

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
SNAP	\$ 108,000	\$ 75,214
Ag Surplus and Produce Activities	10,000	273,620
Hunger-Free MN Child Nutrition	127,802	1,069,270
Other programming and fundraising	64,040	199,315
Capital investment and organizational growth	338,600	55,450
Equipment	<u>24,788</u>	<u>275,102</u>
	<u>\$ 673,230</u>	<u>\$ 1,947,971</u>

10. Net assets released from restriction:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

	<u>2015</u>	<u>2014</u>
Capital investment and organizational growth	\$ 379,502	\$ 276,434
Hunger-Free MN	1,069,270	1,278,427
Child Nutrition	399,013	512,219
SNAP	82,213	124,786
Ag Surplus	278,620	296,380
Other programming	66,410	81,526
Equipment	<u>22,463</u>	<u>                    </u>
	<u>\$ 2,297,491</u>	<u>\$ 2,569,772</u>

11. Fiscal agent:

During the years ending September 30, 2015 and 2014, the Organization received cash from other donors for which it is acting as a fiscal agent, which were not fully disbursed at September 30, 2015 and 2014. As such, these funds have been treated as current liabilities in the accompanying financial statements.

The Organization has received food donations that are, by contract, allocated to other food banks. Amounts of inventory on-site that were so allocated were \$542,223 and \$631,535 for September 30, 2015 and 2014, respectively. These amounts were not included in the final inventory as presented on the statement of financial position.

12. Retirement plan:

The Organization has a defined contribution 403(b) thrift plan, in which employees are eligible to participate on the first of the month following 30 days of employment. Through December 31, 2013, the Organization contributed 6% of the employees' annual salaries to the plan regardless of whether the employees contributed any of their pre-tax wages to the plan. Effective January 1, 2014, the Organization contributed 4% of the employees' annual salaries to the Plan regardless of whether the employees contributed any of their pretax wages to the Plan. The Organization also matched 50% of employees' contributions up to 4%. The employees vest at a rate of 25% per year and are fully vested after four years in the plan. The expense for the plan was \$446,580 and \$392,079 for the years ended September 30, 2015 and 2014, respectively.

**SECOND HARVEST HEARTLAND  
AND SUBSIDIARY**

	2015			
	Second Harvest Heartland	Hunger-Free Minnesota	Eliminations	Total
Total assets	<u>\$ 16,614,524</u>			<u>\$ 16,614,524</u>
Total liabilities	\$ 4,411,046			\$ 4,411,046
Net assets	<u>12,203,478</u>			<u>12,203,478</u>
Total liabilities and net assets	<u>\$ 16,614,524</u>			<u>\$ 16,614,524</u>
Revenues:				
Contributions, program, special event and miscellaneous	\$ 28,327,030	\$ 1,947,061	\$ (1,746,122)	\$ 28,527,969
In-kind donations	<u>100,944,673</u>			<u>100,944,673</u>
	<u>129,271,703</u>	<u>1,947,061</u>	<u>(1,746,122)</u>	<u>129,472,642</u>
Expenses:				
Operating	29,497,792	1,061,016	(1,746,122)	28,812,686
In-kind	<u>101,018,648</u>			<u>101,018,648</u>
	<u>130,516,440</u>	<u>1,061,016</u>	<u>(1,746,122)</u>	<u>129,831,334</u>
Total change in net assets	<u>\$ (1,244,737)</u>	<u>\$ 886,045</u>	<u>\$ 0</u>	<u>\$ (358,692)</u>

CONSOLIDATING SCHEDULES  
YEARS ENDED SEPTEMBER 30

2014

Second Harvest Heartland	Hunger-Free Minnesota	Eliminations	Total
<u>\$ 17,270,182</u>	<u>\$ 887,156</u>	<u>\$ (1,706,262)</u>	<u>\$ 16,451,076</u>
\$ 3,821,967	\$ 1,773,201	\$ (1,706,262)	\$ 3,888,906
<u>13,448,215</u>	<u>(886,045)</u>	<u>                    </u>	<u>12,562,170</u>
<u>\$ 17,270,182</u>	<u>\$ 887,156</u>	<u>\$ (1,706,262)</u>	<u>\$ 16,451,076</u>
\$ 26,648,756	\$ 1,278,667	\$ (28,936)	\$ 27,898,487
<u>104,129,863</u>	<u>                    </u>	<u>                    </u>	<u>104,129,863</u>
<u>130,778,619</u>	<u>1,278,667</u>	<u>(28,936)</u>	<u>132,028,350</u>
26,688,659	2,337,641	(28,936)	28,997,364
<u>105,125,912</u>	<u>                    </u>	<u>                    </u>	<u>105,125,912</u>
<u>131,814,571</u>	<u>2,337,641</u>	<u>(28,936)</u>	<u>134,123,276</u>
<u>\$ (1,035,952)</u>	<u>\$ (1,058,974)</u>	<u>\$ 0</u>	<u>\$ (2,094,926)</u>