Consolidated financial statements of:

SECOND HARVEST HEARTLAND AND SUBSIDIARY

Years ended
September 30, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

December 15, 2014

SECOND HARVEST HEARTLAND
AND SUBSIDIARY

	2014	2013
Assets:		
Current assets:		
Cash and cash equivalents	**$ 3,029,812**	$ 3,735,143
Certificates of deposits	**765,181**	760,713
Receivables:		
Trade, net	**1,084,897**	661,634
Grants	**575,176**	338,573
Pledges, current portion	**431,533**	1,074,695
Other	**52,622**	30,214
Inventory	**5,284,534**	6,630,465
Prepaid expenses	**398,755**	135,508
Total current assets	**11,622,510**	13,366,945
Property and equipment, net	**4,809,917**	4,602,569
Pledges receivable, net of current portion and discount of $10,027 in 2013		229,973
Other assets	**18,649**	21,099
	18,649	251,072
Total assets	**$ 16,451,076**	$ 18,220,586

See notes to consolidated financial statements.

	2014	2013
Liabilities and net assets:		
Current liabilities:		
Accounts payable	**$ 1,315,624**	$ 1,012,875
Line of credit		200,000
Fiscal agent payable	**16,361**	11,776
Accrued expenses	**900,741**	737,419
Deferred revenue	**394,000**	
Current portion of:		
Note payable	**301,543**	291,011
Capital leases	**18,891**	38,637
Deferred rent	**13,055**	8,607
Total current liabilities	**2,960,215**	2,300,325
Long-term liabilities, net of current portion:		
Note payable	**857,470**	1,159,013
Capital leases	**16,855**	36,730
Deferred rent	**54,366**	67,422
Total liabilities	**3,888,906**	3,563,490
Net assets:		
Unrestricted:		
Operations	**5,882,718**	5,768,256
In-kind	**4,731,481**	5,903,674
	10,614,199	11,671,930
Temporarily restricted	**1,947,971**	2,985,166
Total net assets	**12,562,170**	14,657,096
Total liabilities and net assets	**$ 16,451,076**	$ 18,220,586

SECOND HARVEST HEARTLAND
AND SUBSIDIARY

	2014		
	Unrestricted	Temporarily restricted	Total
Support and revenues:			
Program services	$ 2,011,732		$ 2,011,732
Purchase program	7,355,185		7,355,185
Government contracts	2,174,509		2,174,509
Contributions	13,359,143	$ 1,532,577	14,891,720
Special events, net of expenses of $298,512 and $305,737 in 2014 and 2013, respectively	1,246,350		1,246,350
In-kind donations	124,670,532		124,670,532
Investment and miscellaneous income	218,991		218,991
	151,036,442	1,532,577	152,569,019
Less: In-kind donations received as agent	20,540,669		20,540,669
	130,495,773	1,532,577	132,028,350
Net assets released from restrictions	2,569,772	(2,569,772)	
Total support and revenues	133,065,545	(1,037,195)	132,028,350
Expenses:			
Programs	127,528,807		127,528,807
General, administrative and marketing	2,621,978		2,621,978
Fundraising	3,972,491		3,972,491
Total expenses	134,123,276		134,123,276
Change in net assets	(1,057,731)	(1,037,195)	(2,094,926)
Change in net assets, increase (decrease) from:			
Operations	114,462	(1,037,195)	(922,733)
In-kind inventory change	(1,172,193)		(1,172,193)
Total change in net assets	(1,057,731)	(1,037,195)	(2,094,926)
Net assets, beginning	11,671,930	2,985,166	14,657,096
Net assets, ending	$ 10,614,199	$ 1,947,971	$ 12,562,170

See notes to consolidated financial statements.

2013		
Unrestricted	Temporarily restricted	Total
$ 1,829,549		$ 1,829,549
7,034,899		7,034,899
1,687,632		1,687,632
10,420,006	$ 2,500,600	12,920,606
1,219,773		1,219,773
127,146,378		127,146,378
109,156		109,156
149,447,393	2,500,600	151,947,993
17,409,167		17,409,167
132,038,226	2,500,600	134,538,826
3,121,352	(3,121,352)	
135,159,578	(620,752)	134,538,826
130,082,957		130,082,957
3,088,182		3,088,182
3,014,103		3,014,103
136,185,242		136,185,242
(1,025,664)	(620,752)	(1,646,416)
(1,653,728)	(620,752)	(2,274,480)
628,064		628,064
(1,025,664)	(620,752)	(1,646,416)
12,697,594	3,605,918	16,303,512
$ 11,671,930	$ 2,985,166	$ 14,657,096

SECOND HARVEST HEARTLAND
AND SUBSIDIARY

	2014	2013
Cash flows from operating activities:		
Change in net assets	**$ (2,094,926)**	$ (1,646,416)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	**1,085,181**	1,082,517
Donated securities	**(230,271)**	(157,327)
Gain on disposal of equipment		(28,214)
Realized loss (gain) on disposal of investments	**421**	(1,057)
Decrease (increase) in:		
Receivables	**190,861**	463,560
Prepaid expenses	**(263,247)**	(119,385)
Inventory	**1,345,931**	(488,096)
Other assets	**2,450**	(835)
Increase (decrease) in:		
Accounts payable	**302,749**	72,667
Fiscal agent payable	**4,585**	(28,698)
Accrued expenses	**163,322**	147,881
Deferred:		
Rent	**(8,608)**	22,390
Revenue	**394,000**	
Net cash provided by (used in) operating activities	**892,448**	(681,013)
Cash flows from investing activities:		
Purchase of:		
Property and equipment	**(1,292,529)**	(953,502)
Certificates of deposit	**(1,524,286)**	(257,576)
Proceeds from sale of:		
Property and equipment		2,273
Certificates of deposit	**1,749,668**	662,455
Net cash used in investing activities	**(1,067,147)**	(546,350)

See notes to consolidated financial statements.

	2014	2013
Cash flows from financing activities:		
Proceeds from line of credit		$ 200,000
Payments on line of credit	**$ (200,000)**	
Principal payments on long-term debt	**(291,011)**	(280,896)
Payments on capital leases	**(39,621)**	(26,521)
Net cash used in financing activities	**(530,632)**	(107,417)
Net decrease in cash and cash equivalents	**(705,331)**	(1,334,780)
Cash and cash equivalents, beginning	**3,735,143**	5,069,923
Cash and cash equivalents, ending	**$ 3,029,812**	$ 3,735,143
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 50,702**	$ 60,542
Purchase of equipment through capital leases		$ 101,888

See notes to consolidated financial statements.

	Programs			
	CSFP	Food Bank	Food Rescue	Agency Relations
Wages and temporary services	$ 268,507	$ 3,537,215	$ 590,674	$ 601,421
Fringe benefits and payroll taxes	74,493	872,016	153,840	175,175
Professional fees	680	5,859		3
In-kind professional fees				
Occupancy	107,107	660,186	2,696	9,325
Vehicles operation	70,856	946,550	332,456	39,200
Procurement	48,894	597,001	24,062	1,835
Equipment	26,488	509,741	45,118	44,945
Supplies	22,889	175,229	3,239	10,555
Meeting, travel and staff development	7,102	59,560	12,402	43,783
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		163,858
Other	16	825	668	3,467
Depreciation and amortization	28,330	790,172	139,760	15,407
Bad debt		3,113		
Interest	4,273	40,719	195	748
	6,177,323	136,174,805	1,305,110	1,111,088
Less: In-kind distributed as agent		20,357,845		
	$ 6,177,323	$ 115,816,960	$ 1,305,110	$ 1,111,088

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

		Support services			
Community Outreach	**Programs total**	**G&A and marketing**	**Fundraising**	**Support total**	**Total**
$ 796,961	$ 5,794,778	$ 1,693,786	$ 1,471,641	$ 3,165,427	$ 8,960,205
175,906	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
13,181	792,495	124,767	22,253	147,020	939,515
638	1,389,700	5,562	15	5,577	1,395,277
1,634	673,426	5,669	2,235	7,904	681,330
44,712	671,004	6,651	93,944	100,595	771,599
27,290	239,202	53,443	265,029	318,472	557,674
71,834	194,681	95,327	43,198	138,525	333,206
81,519	87,614	13,355	1,183,357	1,196,712	1,284,326
			298,512	298,512	298,512
		277	122,265	122,542	122,542
	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
	7,327,350	48,261		48,261	7,375,611
2,380	7,356	88,233		88,233	95,589
37,465	1,011,134	30,214	43,833	74,047	1,085,181
	3,113				3,113
647	46,582	2,658	1,462	4,120	50,702
3,118,326	147,886,652	2,621,978	4,271,003	6,892,981	154,779,633
	20,357,845				20,357,845
$ 3,118,326	$ 127,528,807	$ 2,621,978	$ 4,271,003	$ 6,892,981	$ 134,421,788

	Programs			
	CSFP	Food Bank	Food Rescue	Agency Relations
Wages and temporary services	$ 267,859	$ 2,998,006	$ 707,349	$ 617,584
Fringe benefits and payroll taxes	58,673	777,708	158,190	169,945
Professional fees	11,928	79,931	1,348	7,000
In-kind professional fees				
Occupancy	43,432	575,398	10,639	10,562
Vehicles operation	60,146	811,312	235,880	25,570
Procurement	59,024	522,107	1,126	3,542
Equipment	2,768	288,526	746	3,654
Supplies	10,230	120,184	5,129	13,340
Meeting, travel and staff development	5,635	44,748	13,971	49,858
Promotions and marketing		41,374	13	
Special events				
Direct mail		97		
Cluster/network fees		715,622	455	
Agency assistance				6,539
Subgrant awards - HFMN				
In-kind distributed*	5,473,596	120,905,817		176
Cost of purchased product disbursed		7,119,414		77,442
Other				8,071
Depreciation and amortization	23,748	835,731	157,886	7,026
Interest	5,071	50,892	638	623
	6,022,110	135,886,867	1,293,370	1,000,932
Less: In-kind distributed as agent		17,970,939		
	$ 6,022,110	$ 117,915,928	$ 1,293,370	$ 1,000,932

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

		Support services			
Community Outreach	Programs total	G&A and marketing	Fundraising	Support total	Total
$ 628,096	$ 5,218,894	$ 1,641,132	$ 989,317	$ 2,630,449	$ 7,849,343
162,982	1,327,498	475,489	219,984	695,473	2,022,971
231,802	332,009	198,942	204,141	403,083	735,092
700,000	700,000				700,000
12,669	652,700	251,196	6,975	258,171	910,871
1,301	1,134,209	72,083		72,083	1,206,292
973	586,772	25,136	6,971	32,107	618,879
1,448	297,142	93,375	8,832	102,207	399,349
16,787	165,670	151,367	142,109	293,476	459,146
60,280	174,492	69,206	48,359	117,565	292,057
168,729	210,116	18,885	1,201,248	1,220,133	1,430,249
			305,737	305,737	305,737
	97		82,094	82,094	82,191
	716,077	125	1,470	1,595	717,672
214,539	221,078	55,573	5,000	60,573	281,651
1,627,496	1,627,496				1,627,496
	126,379,589				126,379,589
	7,196,856				7,196,856
576	8,647	17,416	77,355	94,771	103,418
22,338	1,046,729	16,495	19,293	35,788	1,082,517
601	57,825	1,762	955	2,717	60,542
3,850,617	148,053,896	3,088,182	3,319,840	6,408,022	154,461,918
	17,970,939				17,970,939
$ 3,850,617	$ 130,082,957	$ 3,088,182	$ 3,319,840	$ 6,408,022	$ 136,490,979

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.

This is a collaborative partnership with the five other Feeding America food banks, state government agencies, United Ways and many other hunger relief organizations. It has the support of many corporate sponsors, nonprofit agencies, food banks, food shelves and others throughout the State of Minnesota.

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 14% and 17% of total revenues from one governmental agency for the years ended September 30, 2014 and 2013, 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 2014 and 2013, the Organization did not have any permanently restricted net assets.

Unrestricted net assets:

The Organization presents its unrestricted net assets in two segments. The in-kind amount is the accumulated effect that in-kind activity has on ending inventory, while the operations amount is the accumulated effect of change in net assets excluding in-kind activity.

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.

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 2014 and 2013, the Organization received 90,886,000 and 87,868,000 pounds of food, respectively. The Organization reported in-kind donations for donated food, along with purchased product valued at cost, as follows:

	2014	
	Pounds	**Dollars**
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	**90,886,000**	**$ 131,872,000**
In-kind donations as agent	**9,495,000**	**$ 20,541,000**

	2013	
	Pounds	Dollars
Donated product	60,228,000	$ 101,989,000
TEFAP	10,767,000	18,894,000
CSFP	3,604,000	5,564,000
Donated services		700,000
In-kind donations	74,599,000	127,147,000
Purchased	13,269,000	7,048,000
Total received	87,868,000	$ 134,195,000
In-kind donations as agent	8,656,000	$ 17,409,000

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

Distributed product:

During fiscal years 2014 and 2013, the Organization distributed 89,406,000 and 83,831,000 pounds of food, respectively, to member agencies. The following reflects all of the Organization's distributions (including purchased product) during fiscal years 2014 and 2013:

	2014	
	Pounds	**Dollars**
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	**89,406,000**	**$ 130,062,000**
In-kind distributions as agent	**9,439,000**	**$ 20,329,000**

	2013	
	Pounds	Dollars
Donated product	56,261,000	$ 99,199,000
TEFAP	10,512,000	18,408,000
CSFP	3,566,000	5,487,000
In-kind distributions	70,339,000	123,094,000
Purchased	13,492,000	7,194,000
Total distributions	83,831,000	$ 130,288,000
In-kind distributions as agent	8,764,000	$ 17,914,000

1. Summary of significant accounting policies (continued):

Contributed services:

The Organization received donated in-kind professional business services in 2014 and 2013 which were recorded as revenue and expense at the fair value as established by the donor of $176,147 and $700,000, 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 32,000 and 147,000 in 2014, respectively. The number of unique volunteers and hours of service totaled 28,000 and 130,000 in 2013, 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.

Fair value measurements:

The Organization's investments are reported using a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets, for which prices are available at the measurement date.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used must maximize the use of observable inputs and minimize the use of unobservable inputs.

1. Summary of significant accounting policies (continued):

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 yrs.
Building improvements	10-25 yrs.
Equipment	3-10 yrs.
Autos and trucks	3-10 yrs.

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, 2014 and 2013 was $32,288.

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, 2014 and 2013. Grants receivable at September 30, 2014 and 2013 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. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. As of September 30, 2014 and 2013, 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. The Organization has evaluated its tax positions for uncertainty and has no unrecognized tax matters that are required to be disclosed.

1. Summary of significant accounting policies (continued):

Income taxes (continued):

The Organization is open to examination for tax years 2011 through 2013. The Organization had no income tax expense and there were no cash payments for income taxes in fiscal years 2014 or 2013.

Advertising costs:

Advertising costs are expensed as incurred. Total advertising expense was $1,284,326 and $1,430,249 for the years ended September 30, 2014 and 2013, respectively.

Subsequent events:

The Organization evaluated for subsequent events through December 15, 2014, the date the financial statements were available for issuance.

2. Inventory:

Ending inventory is comprised of the following:

	2014	2013
Donated	**$ 2,266,494**	$ 3,635,106
TEFAP	**960,353**	977,954
CSFP	**1,504,624**	1,290,607
Purchased	**553,063**	726,798
	$ 5,284,534	$ 6,630,465

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.

3. Pledges receivable:

Unconditional promises to give are recorded as pledges receivable and revenue of the appropriate net asset category. The discount rate used on pledges was 2% for 2014 and 2013.

Unconditional promises to give at September 30 are as follows:

	2014	2013
Unrestricted promises	**$ 191,533**	$ 463,570
Restricted promises	**240,000**	851,125
	431,533	1,314,695
Less discounts to net present value		(10,027)
Contributions receivable	**$ 431,533**	$ 1,304,668
Amounts due in:		
Less than one year	**$ 431,533**	$ 1,074,695
One to five years	**$ 0**	$ 229,973

4. Property and equipment:

	2014	2013
Building	**$ 1,235,416**	$ 1,235,416
Building improvements	**4,336,829**	4,329,932
Construction in process		184,040
Office equipment	**2,257,169**	1,160,418
Warehouse equipment	**1,943,293**	1,777,476
Autos and trucks	**3,095,470**	2,999,002
Land	**220,000**	220,000
	13,088,177	11,906,284
Less accumulated depreciation and amortization	**8,278,260**	7,303,715
	$ 4,809,917	$ 4,602,569

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 plus .25% (3.25% at September 30, 2014 and 2013). The line is scheduled to expire on May 30, 2015.

6. Long-term debt:

	2014	2013
Mortgage payable with interest at .25% over the prime rate (currently 3.25%) with ceiling of 5.25%, payable in monthly installments of $28,148 and maturing in May 2018. Mortgage is collateralized by building and accessories.	**$ 1,159,013**	$ 1,450,024
Less current portion	**301,543**	291,011
	$ 857,470	$ 1,159,013

Future maturities of long-term debt are as follows:

Year ending September 30	Amount
2015	$ 301,543
2016	312,347
2017	323,685
2018	221,438
	$ 1,159,013

7. Operating leases:

The Organization leases vehicles and office and warehouse equipment expiring through 2014. Total rent expense for the years ended September 30, 2014 and 2013 was $230,772 and $159,288, 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 $369,556 and $394,497 for the years ended September 30, 2014 and 2013, respectively.

Future minimum lease payments are as follows:

Year ending September 30	Amount
2015	$ 227,246
2016	231,383
2017	236,011
2018	139,266
	$ 833,906

8. Capital lease:

The Organization has four capital leases for vehicles and warehouse equipment which expire at various dates during fiscal years 2014 – 2017. 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:

	2014	2013
Equipment cost	**$ 101,888**	$ 101,888
Less accumulated amortization	**71,629**	33,152
	$ 30,259	$ 68,736

Future principal and interest payments under the capital lease as of September 30, 2014, are as follows:

Year ending September 30	Amount
2015	$ 20,035
2016	9,595
2017	7,997
	37,627
Less amounts representing interest	1,881
Present value of net minimum lease obligation payments	$ 35,746

9. Temporarily restricted net assets:

Temporarily restricted net assets are available for the following purposes:

	2014	2013
SNAP	$ 75,214	
Ag Surplus and Produce Activities	273,620	$ 570,000
Hunger-Free MN	1,069,270	1,597,697
Child Nutrition	199,315	531,534
Other programming and fundraising	55,450	84,476
Capital investment and organizational growth	275,102	201,459
	$ 1947,971	$ 2,985,166

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:

	2014	2013
Capital investment and organizational growth	$ 276,434	$ 565,956
Hunger-Free MN	1,278,427	2,272,704
Child Nutrition	512,219	232,692
SNAP	124,786	50,000
Ag Surplus	296,380	
Other programming	81,526	
	$ 2,569,772	$ 3,121,352

11. Fiscal agent:

During the years ending September 30, 2014 and 2013, the Organization received cash from other donors for which it is acting as a fiscal agent, which were not fully disbursed at September 30, 2014 and 2013. 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 $631,535 and $448,704 for September 30, 2014 and 2013, 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 $392,079 and $402,471 for the years ended September 30, 2014 and 2013, respectively.

SECOND HARVEST HEARTLAND
AND SUBSIDIARY

	2014			
	Second Harvest Heartland	**Hunger-Free Minnesota**	**Eliminations**	**Total**
Total assets	**$ 17,270,182**	**$ 887,156**	**$ (1,706,262)**	**$ 16,451,076**
Total liabilities	**$ 3,821,967**	**$ 1,773,201**	**$ (1,706,262)**	**$ 3,888,906**
Net assets	**13,448,215**	**(886,045)**		**12,562,170**
Total liabilities and net assets	**$ 17,270,182**	**$ 887,156**	**$ (1,706,262)**	**$ 16,451,076**
Revenues:				
Contributions, program, special event and miscellaneous	**$ 26,648,756**	**$ 1,278,667**	**$ (28,936)**	**$ 27,898,487**
In-kind donations	**104,129,863**			**104,129,863**
	130,778,619	**1,278,667**	**(28,936)**	**132,028,350**
Expenses:				
Operating	**26,688,659**	**2,337,641**	**(28,936)**	**28,997,364**
In-kind	**105,125,912**			**105,125,912**
	131,814,571	**2,337,641**	**(28,936)**	**134,123,276**
Total change in net assets	**$ (1,035,952)**	**$ (1,058,974)**	**$ 0**	**$ (2,094,926)**

2013			
Second Harvest Heartland	Hunger-Free Minnesota	Eliminations	Total
$ 17,966,407	$ 2,037,872	$ (1,783,693)	$ 18,220,586
$ 3,482,240	$ 1,864,943	$ (1,783,693)	$ 3,563,490
14,484,167	172,929		14,657,096
$ 17,966,407	$ 2,037,872	$ (1,783,693)	$ 18,220,586
$ 23,786,667	$ 1,584,948	$ (570,000)	$ 24,801,615
109,037,211	700,000		109,737,211
132,823,878	2,284,948	(570,000)	134,538,826
24,213,774	2,988,692	(570,000)	26,632,466
108,852,776	700,000		109,552,776
133,066,550	3,688,692	(570,000)	136,185,242
$ (242,672)	$ (1,403,744)	$ 0	$ (1,646,416)