

*Consolidated financial statements of:*

**SECOND HARVEST HEARTLAND**

Years ended  
September 30, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying consolidated financial statements of Second Harvest Heartland (the Organization) which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, 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, 2018 and 2017, 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.

*Schechter Dokken Kanter  
Andrews & Selzer Ltd.*

December 10, 2018

## SECOND HARVEST HEARTLAND

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	<u>2018</u>	<u>2017</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 2,072,293	\$ 2,563,917
Investments	6,860,604	6,700,372
Receivables:		
Trade, net	968,799	764,720
Grants	658,443	582,324
Pledges, current portion, net	169,532	90,304
Capital Campaign Pledges		1,123,025
Other	26,204	10,109
Inventory	5,341,205	4,442,531
Prepaid expense	517,950	377,873
	<u>16,615,030</u>	<u>16,655,175</u>
Property and equipment, net	<u>20,056,124</u>	<u>17,923,101</u>
Capital campaign pledges, net of reserve	5,932,497	2,139,127
Other assets	-	18,649
	<u>5,932,497</u>	<u>2,157,776</u>
Total assets	<u>\$ 42,603,651</u>	<u>\$ 36,736,052</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30

	2018	2017
<b><i>Liabilities and net assets:</i></b>		
Current liabilities:		
Accounts payable	\$ 1,630,520	\$ 1,413,769
Fiscal agent payable	18,594	12,368
Accrued expenses	973,796	807,390
Current portion of:		
Capital leases	320,791	254,602
Deferred rent	-	14,554
Deferred revenue	74,015	-
	<b>3,017,716</b>	2,502,683
Long - term liabilities, net of current portions:		
Notes payable	13,400,000	13,400,000
Capital leases	1,247,604	1,183,634
	<b>14,647,604</b>	14,583,634
Total liabilities	<b>17,665,320</b>	17,086,317
Net assets:		
Unrestricted:		
Operations	12,416,647	10,033,246
In-kind inventory	4,705,688	3,900,148
	<b>17,122,335</b>	13,933,394
Temporarily restricted	7,815,996	5,716,341
Total net assets	<b>24,938,331</b>	19,649,735
Total liabilities and net assets	<b>\$ 42,603,651</b>	\$ 36,736,052

## SECOND HARVEST HEARTLAND

	2018		
	Unrestricted	Temporarily restricted	Total
Revenues:			
Program services	\$ 3,670,744		\$ 3,670,744
Purchase program	7,489,739		7,489,739
Government contracts	3,127,595		3,127,595
Contributions	15,493,994	\$ 6,080,935	21,574,929
Special Events, net of expenses of \$479,117 and \$288,475 in 2018 and 2017, respectively	567,714		567,714
In-Kind donations:			
Product	116,328,488		116,328,488
Services	645,721		645,721
Investment income	111,995		111,995
Miscellaneous income	233,482		233,482
	<u>147,669,472</u>	<u>6,080,935</u>	<u>153,750,407</u>
Net assets released from restrictions	<u>3,981,280</u>	<u>(3,981,280)</u>	<u>-</u>
Total support and revenues	151,650,752	2,099,655	153,750,407
Expenses:			
Programs	139,910,110		139,910,110
General, administrative and marketing	3,542,218		3,542,218
Fundraising	5,009,483		5,009,483
	<u>148,461,811</u>		<u>148,461,811</u>
Change in net assets	3,188,941	2,099,655	5,288,596
Change in net assets, increase (decrease) from:			
Operations	2,383,401	2,099,655	4,483,056
In-kind inventory change	805,540	-	805,540
	<u>3,188,941</u>	<u>2,099,655</u>	<u>5,288,596</u>
Total change in net assets	3,188,941	2,099,655	5,288,596
Net assets, beginning	<u>13,933,394</u>	<u>5,716,341</u>	<u>19,649,735</u>
Net assets, ending	<u>\$ 17,122,335</u>	<u>\$ 7,815,996</u>	<u>\$ 24,938,331</u>

See notes to consolidated financial statements.

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

2017		
Unrestricted	Temporarily restricted	Total
\$ 2,975,329		\$ 2,975,329
6,502,698		6,502,698
2,629,488		2,629,488
15,239,192	\$ 4,004,768	19,243,960
626,357		626,357
109,268,679		109,268,679
732,000		732,000
323,973		323,973
154,332		154,332
<u>138,452,048</u>	<u>4,004,768</u>	<u>142,456,816</u>
2,030,577	(2,030,577)	
140,482,625	1,974,191	142,456,816
131,016,073		131,016,073
3,649,842		3,649,842
4,271,600		4,271,600
<u>138,937,515</u>		<u>138,937,515</u>
1,545,110	1,974,191	3,519,301
1,994,111	1,974,191	3,968,302
(449,001)	-	(449,001)
<u>1,545,110</u>	<u>1,974,191</u>	<u>3,519,301</u>
12,388,284	3,742,150	16,130,434
<u>\$ 13,933,394</u>	<u>\$ 5,716,341</u>	<u>\$ 19,649,735</u>



CONSOLIDATED STATEMENTS OF  
CASH FLOWS

**SECOND HARVEST HEARTLAND**

YEARS ENDED SEPTEMBER 30

	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Change in net assets	\$ 5,288,596	\$ 3,519,301
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	996,201	1,206,412
Donated securities	(868,394)	(665,643)
Loss on disposal of equipment	18,700	1,351
Realized and unrealized gains	(105,352)	(319,304)
Temporarily restricted capital campaign cash contributions	(3,740,174)	(1,974,191)
Decrease (increase) in:		
Receivables, net	(3,045,866)	(1,612,304)
Prepaid expenses	(140,077)	(63,800)
Inventory	(898,674)	409,517
Other assets - deposits	18,649	-
Decrease (increase) in:		
Accounts payable	216,751	471,134
Fiscal agent payable	6,226	(1,993)
Accrued expenses	166,406	(171,175)
Deferred:		
Revenue	74,015	-
Rent	(14,554)	(22,220)
	<b>(2,027,547)</b>	<b>777,085</b>
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Purchase of:		
Property and equipment	(2,705,894)	(1,031,482)
Investments	(132,322)	(2,509,694)
Proceeds from sale of:		
Property and equipment	(18,700)	-
Investments	945,836	1,869,734
	<b>(1,911,080)</b>	<b>(1,671,442)</b>
Net cash used in investing activities		

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF  
CASH FLOWS  
YEARS ENDED SEPTEMBER 30

**SECOND HARVEST HEARTLAND AND SUBSIDIARIES**

	<b>2018</b>	2017
Cash flows from financing activities:		
Capital campaign cash contributions	\$ <b>3,740,174</b>	\$ 1,974,191
Payments on:		
Capital leases	<b>(293,171)</b>	(246,017)
Notes payable	-	(545,939)
Net change in line of credit	-	(500,000)
Proceeds from notes payable	-	236,847
	<b>3,447,003</b>	919,082
Net cash provided by financing activities	<b>3,447,003</b>	919,082
Net (decrease) increase in cash and cash equivalents	<b>(491,624)</b>	24,725
Cash and cash equivalents, beginning	<b>2,563,917</b>	2,539,192
Cash and cash equivalents, ending	<b>\$ 2,072,293</b>	\$ 2,563,917
Supplemental disclosure of cash flow information:		
Cash paid for interest	<b>\$ 227,716</b>	\$ 123,981
Purchase of building through debt financing		\$ 13,163,153
Purchase of equipment through capital leases	<b>\$ 423,330</b>	\$ 121,761

See notes to consolidated financial statements.

## SECOND HARVEST HEARTLAND

	Programs			
	CSFP	Food Bank	Food Sourcing	Community Outreach
Wages and temporary services	\$ 310,909	\$ 2,369,583	\$ 1,570,803	\$ 1,638,840
Fringe benefits and payroll taxes	69,802	611,890	385,909	384,920
Professional fees	484	21,500	2,497	484,436
In-kind professional fees	150	7,800	506,089	4,200
Occupancy	116,764	771,331	12,362	25,363
Vehicles operation	38,514	708,800	417,542	13,857
Procurement	63,672	35,316	3,394,726	7,617
Equipment	38,489	476,555	146,578	183,828
Supplies	28,019	83,950	30,992	40,334
Meeting, travel and staff development	12,036	11,841	58,593	144,526
Promotions and marketing	1,151	-	992	38,737
Direct events	-	-	-	-
Direct mail	-	-	-	-
Cluster/network fees	-	-	-	-
Agency assistance	-	2,384	4,449	183,796
In-kind distributed*	6,033,916	109,489,031	-	-
Cost of purchased product disbursed	-	7,423,993	-	212,353
Other	-	91,769	1,895	1,165
Depreciation and amortization	19,401	872,092	56,052	18,368
Bad debts	-	41	-	-
Interest	-	217,533	9,520	55
	<b>6,733,307</b>	<b>123,195,409</b>	<b>6,598,999</b>	<b>3,382,395</b>
Less:				
Special events				
	<b>\$ 6,733,307</b>	<b>\$ 123,195,409</b>	<b>\$ 6,598,999</b>	<b>\$ 3,382,395</b>

\*Food Bank In-kind distributed includes Food Rescue product.

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)

Programs total	Support services			Support total	Total	2017 Total
	G&A and marketing	Fundraising				
\$ 5,890,135	\$ 2,208,194	\$ 2,049,934	\$ 4,258,128	\$ 10,148,263	\$ 9,213,874	
1,452,521	402,942	489,167	892,109	2,344,630	2,239,202	
508,917	397,836	274,681	672,517	1,181,434	919,322	
518,239	4,219	112,013	116,232	634,471	732,000	
925,820	29,964	24,883	54,847	980,667	1,007,638	
1,178,713	7,963	730	8,693	1,187,406	1,217,539	
3,501,331	-	-	-	3,501,331	2,338,688	
845,450	94,740	190,285	285,025	1,130,475	856,525	
183,295	56,413	176,203	232,616	415,911	312,150	
226,996	99,910	46,041	145,951	372,947	330,904	
40,880	194,273	282,623	476,896	517,776	391,870	
-	-	363,634	363,634	363,634	288,475	
-	7,789	1,458,444	1,466,233	1,466,233	1,368,004	
-	30,888	-	30,888	30,888	29,762	
190,629	426	-	426	191,055	115,353	
115,522,947	-	-	-	115,522,947	109,717,682	
7,636,346	15,622	-	15,622	7,651,968	6,691,107	
94,829	(1,420)	800	(620)	94,209	124,195	
965,913	11,568	18,720	30,288	996,201	1,206,412	
41	(19,275)	-	(19,275)	(19,234)	1,307	
227,108	166	442	608	227,716	123,981	
<b>139,910,110</b>	<b>3,542,218</b>	<b>5,488,600</b>	<b>9,030,818</b>	<b>148,940,928</b>	<b>139,225,990</b>	
		<b>479,117</b>	<b>479,117</b>	<b>479,117</b>	<b>288,475</b>	
<b>\$ 139,910,110</b>	<b>\$ 3,542,218</b>	<b>\$ 5,009,483</b>	<b>\$ 8,551,701</b>	<b>\$ 148,461,811</b>	<b>\$ 138,937,515</b>	

## SECOND HARVEST HEARTLAND

	Programs			
	CSFP	Food Bank	Food Sourcing	Community Outreach
Wages and temporary services	\$ 272,076	\$ 2,663,934	\$ 1,299,571	\$ 1,356,574
Fringe benefits and payroll taxes	60,179	676,062	298,273	358,414
Professional fees	-	3,270	1,050	193,059
In-kind professional fees	-	244,000		488,000
Occupancy	193,680	620,448	10,539	23,271
Vehicles operation	101,483	618,207	477,819	12,276
Procurement	76,336	23,247	2,232,175	6,877
Equipment	28,465	428,424	81,340	118,404
Supplies	24,473	59,649	14,240	30,896
Meeting, travel and staff development	8,366	17,157	50,691	116,712
Promotions and marketing	67	1,112	12	31,402
Special events	-	-	-	-
Direct mail	-	(11,385)	-	-
Cluster/network fees	-	-	-	-
Agency assistance	-	781	6,000	108,572
In-kind distributed*	6,928,261	102,789,421	-	-
Cost of purchased product disbursed	-	6,626,039	(138,047)	200,317
Other	-	-	-	19,512
Depreciation and amortization	31,868	915,837	91,412	58,768
Bad debts	-	706	-	-
Interest	1,075	56,514	7,810	382
	<u>7,726,329</u>	<u>115,733,423</u>	<u>4,432,885</u>	<u>3,123,436</u>
Less:				
Special events				
	<u>\$ 7,726,329</u>	<u>\$ 115,733,423</u>	<u>\$ 4,432,885</u>	<u>\$ 3,123,436</u>

\*Food Bank In-kind distributed includes Food Rescue product.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2017

Programs total	Support services			Support total	Total
	G&A and marketing	Fundraising			
\$ 5,592,155	\$ 1,990,540	\$ 1,631,179	\$ 3,621,719	\$ 9,213,874	
1,392,928	423,679	422,595	846,274	2,239,202	
197,379	452,649	269,294	721,943	919,322	
732,000	-	-	-	732,000	
847,938	136,338	23,362	159,700	1,007,638	
1,209,785	5,815	1,939	7,754	1,217,539	
2,338,635	-	53	53	2,338,688	
656,633	96,902	102,990	199,892	856,525	
129,258	22,516	160,376	182,892	312,150	
192,926	95,471	42,507	137,978	330,904	
32,593	182,813	176,464	359,277	391,870	
-	-	288,475	288,475	288,475	
(11,385)	3,707	1,375,682	1,379,389	1,368,004	
-	29,762	-	29,762	29,762	
115,353	-	-	-	115,353	
109,717,682	-	-	-	109,717,682	
6,688,309	2,798	-	2,798	6,691,107	
19,512	104,683	-	104,683	124,195	
1,097,885	43,720	64,807	108,527	1,206,412	
706	601	-	601	1,307	
65,781	57,848	352	58,200	123,981	
131,016,073	3,649,842	4,560,075	8,209,917	139,225,990	
		288,475	288,475	288,475	
<u>\$ 131,016,073</u>	<u>\$ 3,649,842</u>	<u>\$ 4,271,600</u>	<u>\$ 7,921,442</u>	<u>\$ 138,937,515</u>	

**SECOND HARVEST HEARTLAND**

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1. Summary of significant accounting policies:

Nature of activities:

Second Harvest Heartland (the Organization) is a Minnesota 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 approximately 1,100 member agency programs and directly to low income individuals in Minnesota and Western Wisconsin. The Organization is a member of Feeding America, an association of more than 200 food banks serving the entire country. Through partnerships with public agencies and other nonprofit organizations, the Organization assists in the administration of two government programs: The Emergency Food Assistance Program (TEFAP) and the Commodity Supplemental Food Program (CSFP). The organization is engaged in a capital campaign for funding of capital expansion and improvements. Private and governmental funding was raised in 2018 and 2017 to pursue expansion of services in partnership with the Health care industry. 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. Financial funding for the Organization comes from general contributions, grants, fees charged to member agencies and non-financial funding comes from donations and grants of food.

The Organization is engaged in a Capital Campaign to raise \$52 million to support acquisition and improvements for a new food bank facility, upgrade its truck fleet and support new and growing programs to enhance its hunger relief efforts. In May of 2018 the Minnesota legislature adopted a General Obligation Bonding Bill that included \$18 million to support the new facility. Application for the \$18 million is currently underway and will support a facility project completion date in early 2020.

Principles of consolidation:

The consolidated financial statements include the accounts of Second Harvest Heartland and its wholly owned subsidiary, Hunger-Free Minnesota, LLC which operations were sun-setted in 2015. There was no activity for Hunger-Free Minnesota LLC in 2017 or 2018.

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 and in-kind donated services.

Major source of revenue:

The Organization received approximately 9% and 11% of total support and revenue from one governmental agency for the years ended September 30, 2018 and 2017, respectively.

Contributions and grants:

All contributions and grants are considered 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 2018 and 2017, the Organization did not have any permanently restricted net assets.

**SECOND HARVEST HEARTLAND**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 20171. Summary of significant accounting policies (continued):

## Unrestricted net assets:

The Organization presents its unrestricted net assets in two categories: operations and in-kind inventory. The in-kind inventory category 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 the in-kind inventory 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.

## Received product:

The Organization reports contributions of food over which it has control 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 value per pound. This valuation is determined using a report provided annually by Feeding America based on an annual study. During fiscal years 2018 and 2017, the Organization received 108,090,000 and 98,380,000 pounds of food, respectively. The Organization reported in-kind donations for donated food, along with purchased product valued at cost, as follows:

	<u>2018</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	<b>77,776,000</b>	<b>\$ 103,046,000</b>
TEFAP	<b>3,942,000</b>	<b>6,759,000</b>
CSFP	<b>3,854,000</b>	<b>6,523,000</b>
In-kind donations	<b>85,572,000</b>	<b>116,328,000</b>
Purchased	<b>16,126,000</b>	<b>7,820,000</b>
In-kind donations as agent	<b>6,392,000</b>	<b>13,828,000</b>
Total received	<b><u>108,090,000</u></b>	<b><u>\$ 137,976,000</u></b>

	<u>2017</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	68,325,000	\$ 94,487,000
TEFAP	4,923,000	8,120,000
CSFP	3,479,000	6,662,000
In-kind donations	76,727,000	109,269,000
Purchased	14,330,000	6,763,000
In-kind donations as agent	7,323,000	17,514,000
Total received	<b><u>98,380,000</u></b>	<b><u>\$ 133,546,000</u></b>



**SECOND HARVEST HEARTLAND**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 20171. Summary of significant accounting policies (continued):

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

## Distributed product:

During fiscal years 2018 and 2017, the Organization distributed 110,805,000 and 94,785,000 pounds of food, respectively, to member agencies and partners. The following reflects all of the Organization's distributions (including purchased product, but excluding waste) during fiscal years 2018 and 2017:

	2018	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	74,307,000	\$ 98,900,000
TEFAP	4,037,000	7,028,000
CSFP	<u>3,546,000</u>	<u>5,928,000</u>
In-kind distributions	81,890,000	111,856,000
Purchased	15,996,000	7,736,000
In-kind distributions as agent	<u>6,353,000</u>	<u>13,585,000</u>
Total distributions	<u>104,239,000</u>	<u>\$ 133,177,000</u>

  

	2017	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	64,558,000	\$ 90,528,000
TEFAP	4,936,000	8,076,000
CSFP	<u>3,677,000</u>	<u>6,956,000</u>
In-kind distributions	73,171,000	105,560,000
Purchased	14,269,000	6,708,000
In-kind distributions as agent	<u>7,345,000</u>	<u>17,625,000</u>
Total distributions	<u>94,785,000</u>	<u>\$ 129,893,000</u>

1. Summary of significant accounting policies (continued):

## Contributed services:

The Organization received donated in-kind professional services, skilled volunteer services, and in-kind rent in 2018 and 2017 which were recorded as revenue and expense at the fair value as established by the donor of \$645,721 and \$732,000, 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 27,530 and 105,634 in 2018, respectively. The number of unique volunteers and hours of service totaled 31,175 and 128,200 in 2017, respectively. The value of these donated services totaled \$1,019,368 and \$1,218,546 in 2018 and 2017, respectively, however the amount is not reflected in the accompanying financial statements as they are non-specialized services.

## Cash and cash equivalents:

Cash and cash equivalents include interest bearing money market accounts and any debt securities 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.

## 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.

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

## Fair value measurements (continued):

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.

## 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 was \$12,498 and \$32,109 as of September 30, 2018 and 2017, respectively. 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 60 days.

**1. Summary of significant accounting policies (continued):****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, 2018 and 2017. Grants receivable at September 30, 2018 and 2017 are due in less than one year.

**Capital Campaign and Pledges receivable:**

Unconditional promises to give are recorded at net realizable value. The allowance for uncollectible pledges was \$95,939 and \$95,024 as of September 30, 2018 and 2017, respectively. Capital campaign pledges to be utilized for a long-term purpose are recorded as long term. Conditional promises to give are recognized when the conditions are met.

**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.

**Advertising costs:**

Advertising costs are expensed as incurred. Total advertising expense was \$ 1,896,143 and \$1,690,582 for the years ended September 30, 2018 and 2017, respectively.

**Subsequent events:**

The Organization evaluated for subsequent events through December 10, 2018, the date the financial statements were available for issuance.

**SECOND HARVEST HEARTLAND**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**2. Fair value measurements:**

The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of September 30, 2018 and 2017.

	<b>2018</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Equities:</b>				
Large cap	\$ 919,989			\$ 919,989
Mid cap	174,670			174,670
Small cap	139,602			139,602
Emerging	79,199			79,199
Diversified	534,280			534,280
Other	7,202			7,202
<b>Fixed income:</b>				
Corporate bond	1,923,078			1,923,078
Fixed income fund	216,429			216,429
Core fixed income fund	1,871,084			1,871,084
Floating rate fund	325,895			325,895
Short term bond fund	450,785			450,785
High yield fund	108,446			108,446
Other	109,945			109,945
	<u>\$ 6,860,604</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,860,604</u>
<b>2017</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Equities:</b>				
Large cap	\$ 609,207			\$ 609,207
Mid cap	30,237			30,237
Small cap	44,236			44,236
Emerging	56,634			56,634
Diversified	442,691			442,691
Other	215,429			215,429
<b>Fixed income:</b>				
Corporate bond	1,058,964			1,058,964
Fixed income fund	1,225,133			1,225,133
Core fixed income fund	2,369,246			2,369,246
High yield fund	291,496			291,496
US treasury bond	99,813			99,813
Other	257,286			257,282
	<u>\$ 6,700,372</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,700,372</u>

**SECOND HARVEST HEARTLAND**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**3. Inventory:**

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Ending inventory is comprised of the following:

	<u>2018</u>	<u>2017</u>
Donated	\$ 2,542,276	\$ 1,920,261
TEFAP	495,103	801,047
CSFP	1,668,309	1,178,840
Purchased	<u>635,517</u>	<u>542,383</u>
	<u>\$ 5,341,205</u>	<u>\$ 4,442,531</u>

**4. Pledges and capital campaign pledges receivable:**

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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>2018</u>	<u>2017</u>
Unrestricted promises	\$ 14,533	\$ 85,304
Restricted promises	<u>6,087,496</u>	<u>3,27,152</u>
Pledges and capital campaign pledges receivable	<u>\$ 6,102,029</u>	<u>\$ 3,352,456</u>
Amounts due in:		
Less than one year	\$ 3,254,000	\$ 1,213,329
One to five years	\$ 2,848,029	\$ 2,139,127

**SECOND HARVEST HEARTLAND**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**5. Property and equipment:**

	<u>2018</u>	<u>2017</u>
Building	\$ 12,028,904	\$ 12,028,904
Building improvements	7,481,524	5,183,735
Office equipment	2,543,119	2,473,700
Warehouse equipment	2,166,220	2,147,443
Autos and trucks	5,292,287	4,596,296
Land	<u>2,690,000</u>	<u>2,690,000</u>
	<b>32,202,054</b>	29,120,078
Less accumulated depreciation and amortization	<u>12,145,930</u>	<u>11,196,977</u>
	<u><b>\$ 20,056,124</b></u>	<u>\$ 17,923,101</u>

**6. Line of credit:**

The Organization has a bank line of credit, secured by certain assets, in the amount of \$2,000,000. The line carries an interest of 2.50% over 1-month LIBOR rate (LIBOR rate is 2.26% at September 30, 2018). No balance was drawn on the line of credit at September 30, 2018 and 2017. The line is scheduled to expire on May 30, 2019.

**7. Long-term debt:**

	<u>2018</u>	<u>2017</u>
Mortgage payable with interest only payments through maturity date. Interest at 0.25% over 1-month LIBOR rate with a floor of 2.50%. The 1-month LIBOR rate was 2.26% at September 30, 2018. Interest accrues and is due monthly. Mortgage is collateralized by building and accessories, and matures on June 21, 2020.	<b>\$ 10,266,000</b>	\$ 10,266,000
Mortgage payable with interest only payments through maturity date. Interest at 0.25% over 1-month LIBOR rate with a floor of 2.50%. The 1-month LIBOR rate was 2.26% at September 30, 2018. Interest accrues and is due monthly. Mortgage is collateralized by building and accessories, and matures on June 21, 2020.	<u>3,134,000</u>	<u>3,134,000</u>
	<u><b>\$ 13,400,000</b></u>	<u>\$ 13,400,000</u>

**SECOND HARVEST HEARTLAND**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**8. Operating leases:**

The Organization leases equipment through a lease expiring in 2020. Total rent expense for the years ended September 30, 2018 and 2017 was \$303,612 and \$322,156, respectively.

The Organization also leased space to carry out organization objectives. This lease expired in May 2018. In addition to minimum base rental payments, the Organization was required to pay its proportional share of real estate taxes and operating expenses. Rent expense was \$214,729 and \$341,112 for the years ended September 30, 2018 and 2017, respectively.

**9. Capital leases:**

The Organization has capital leases for vehicles and warehouse equipment which expire at various dates during fiscal years 2022 – 2025. 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>2018</u>	<u>2017</u>
Equipment cost	\$ 2,327,539	\$ 1,904,209
Less accumulated amortization	<u>827,240</u>	<u>516,262</u>
	<u>\$ 1,500,299</u>	<u>\$ 1,387,947</u>



**SECOND HARVEST HEARTLAND**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 20179. Capital leases (continued):

Future principal and interest payments under the capital lease as of September 30, 2018, are as follows:

<u>Year ending September 30</u>	<u>Amount</u>
2019	\$ 371,290
2020	371,290
2021	371,290
2022	363,104
2023	147,690
Thereafter	<u>80,811</u>
Less amounts representing interest	<u>137,080</u>
Present value of net minimum lease obligation payments	<u>\$ 1,568,395</u>

10. Temporarily restricted net assets:

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
SNAP		\$ 35,300
Child Nutrition	\$ 28,000	70,745
Capital investment	13,333	53,333
Equipment	38,603	18,227
Hunger and Health	2,553	448,473
Capital Campaign	7,403,126	4,745,604
Other programming and fundraising	<u>330,381</u>	<u>344,659</u>
	<u>\$ 7,815,996</u>	<u>\$ 5,716,341</u>

**SECOND HARVEST HEARTLAND**

11. 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>2018</u>	<u>2017</u>
SNAP	\$ 35,300	\$ 40,700
Child Nutrition	70,745	255,647
Capital investment	40,000	26,667
Equipment	39,978	32,581
Hunger and Health	445,920	364,359
Capital Campaign	2,919,352	859,251
Other programming and fundraising	<u>429,985</u>	<u>451,372</u>
	<u>\$ 3,981,280</u>	<u>\$ 2,030,577</u>

12. Fiscal agent:

During the years ending September 30, 2018 and 2017, the Organization received cash from donors for which it is acting as a fiscal agent, which were not fully disbursed at September 30, 2018 and 2017. 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 \$533,709 and \$342,097 for September 30, 2018 and 2017, respectively. These amounts were not included in the final inventory as presented on the statement of financial position.

13. 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. The Organization contributes 4% of the employees' annual salaries to the Plan regardless of whether the employees contribute any of their pretax wages to the Plan. The Organization also matches 50% of employees' contributions up to 4% of the employees' annual salaries. The employees vest at a rate of 25% per year and are fully vested after four years in the plan. The Organization employer contributions were \$497,363 and \$446,802 to the for the years ended September 30, 2018 and 2017, respectively.