

Financial statements of:

SECOND HARVEST HEARTLAND

Years ended
September 30, 2020 and 2019

	Page
Independent auditor's report	1
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 financial statements	8-23



Suite 1600
100 Washington Avenue South
Minneapolis, MN 55401-2192

P 612.332.5500 F 612.332.1529
www.sdkcpa.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Second Harvest Heartland
7101 Winnetka Avenue N.
Brooklyn Park, MN 55428

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Heartland (the Organization) which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on October 1, 2019, the Organization adopted new accounting guidance, ASC 606 – Revenue from Contracts with Customers. The Organization also adopted the Financial Accounting Standards Board’s Accounting Standards (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The requirements of the new accounting standards have been applied using the modified prospective method. The adoption of the guidance has not impacted the timing or amount of revenue recognized. Our opinion is not modified with respect to this matter.

*Schechter Dokken Kanter
Andrews & Selzer Ltd.*

December 18, 2020

SECOND HARVEST HEARTLAND

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30

	<u>2020</u>	<u>2019</u>		<u>2020</u>	<u>2019</u>
Assets:			Liabilities and net assets:		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 23,250,588	\$ 6,561,160	Accounts payable	\$ 2,968,260	\$ 1,919,491
Investments	19,632,897	8,198,254	Fiscal agent payable	12,357	16,821
Accounts receivable:			Accrued expenses	1,551,329	1,242,498
Trade, net	554,323	819,250	Capital leases, current portion	611,943	470,203
Grants and contracts	2,488,206	550,859	Long-term debt, current portion	3,428,850	3,000,000
Pledges	319,653	256,409	Deferred revenue	489,758	12,867
Other	220,254	43,491			
Inventory	13,678,550	5,794,329			
Prepaid expenses and other current assets	613,757	752,581			
Total current assets	<u>60,758,228</u>	<u>22,976,333</u>	Total current liabilities	<u>9,062,497</u>	<u>6,661,880</u>
			Noncurrent liabilities:		
			Long-term debt	8,266,000	13,400,000
			Noncurrent portion of capital leases	2,058,326	1,760,195
			Total noncurrent liabilities	<u>10,324,326</u>	<u>15,160,195</u>
Property and equipment, net	39,701,502	25,700,651			
			Total liabilities	<u>19,386,823</u>	<u>21,822,075</u>
Capital campaign pledges, net of reserve	1,803,441	3,037,142			
			Net assets:		
Total noncurrent assets	<u>41,504,943</u>	<u>28,737,793</u>	Without donor restrictions:		
			Operations	68,117,117	18,178,256
			In-kind inventory	10,071,509	5,224,781
			Total without donor restrictions	78,188,626	23,403,037
			With donor restrictions	4,687,722	6,489,014
			Total net assets	<u>82,876,348</u>	<u>29,892,051</u>
Total assets	<u>\$ 102,263,171</u>	<u>\$ 51,714,126</u>	Total liabilities and net assets	<u>\$ 102,263,171</u>	<u>\$ 51,714,126</u>

See notes to financial statements.

SECOND HARVEST HEARTLAND

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED SEPTEMBER 30

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues:						
Program services	\$ 2,635,453		\$ 2,635,453	\$ 3,992,816		\$ 3,992,816
Purchase program	6,830,245		6,830,245	7,342,897		7,342,897
Government contracts	7,926,325		7,926,325	3,560,309		3,560,309
Contributions	60,505,135	\$ 6,619,710	67,124,845	16,100,778	\$ 4,351,161	20,451,939
Special Events, net of expenses of \$128,449 and \$420,112 in 2020 and 2019, respectively	620,195		620,195	298,333		298,333
In-Kind donations:						
Product	148,972,094		148,972,094	125,776,454		125,776,454
Services	787,507		787,507	305,355		305,355
Investment income	490,680		490,680	528,133		528,133
Miscellaneous income	2,534,632		2,534,632	94,184		94,184
	<u>231,302,266</u>	<u>6,619,710</u>	<u>237,921,976</u>	<u>157,999,259</u>	<u>4,351,161</u>	<u>162,350,420</u>
Net assets released from restrictions	<u>8,421,002</u>	<u>(8,421,002)</u>	<u>-</u>	<u>5,678,143</u>	<u>(5,678,143)</u>	<u>-</u>
Total support and revenues	<u>239,723,268</u>	<u>(1,801,292)</u>	<u>237,921,976</u>	<u>163,677,402</u>	<u>(1,326,982)</u>	<u>162,350,420</u>
Expenses:						
Programs	175,521,214		175,521,214	149,090,170		149,090,170
General & administrative	4,250,260		4,250,260	3,799,466		3,799,466
Fundraising	5,166,205		5,166,205	4,507,064		4,507,064
Total expenses	<u>184,937,679</u>		<u>184,937,679</u>	<u>157,396,700</u>		<u>157,396,700</u>
Change in net assets	54,785,589	(1,801,292)	52,984,297	6,280,702	(1,326,982)	4,953,720
Change in net assets, increase (decrease) from:						
Operations	49,938,862	(1,801,292)	48,137,570	5,761,609	(1,326,982)	4,434,627
In-kind inventory change	4,846,727	-	4,846,727	519,093	-	519,093
Total change in net assets	54,785,589	(1,801,292)	52,984,297	6,280,702	(1,326,982)	4,953,720
Net assets, beginning	23,403,037	6,489,014	29,892,051	17,122,335	7,815,996	24,938,331
Net assets, ending	<u>\$ 78,188,626</u>	<u>\$ 4,687,722</u>	<u>\$ 82,876,348</u>	<u>\$ 23,403,037</u>	<u>\$ 6,489,014</u>	<u>\$ 29,892,051</u>

See notes to financial statements.

SECOND HARVEST HEARTLANDSTATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 52,984,297	\$ 4,953,720
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,553,763	1,223,141
Donated securities	(1,359,762)	(1,303,921)
(Gain) loss on disposal of property and equipment	(2,299,305)	13,750
Realized and unrealized investment gains	(293,466)	(464,837)
Capital campaign cash contributions with donor restrictions	(5,264,947)	(8,635,034)
(Increase) decrease in assets:		
Pledges receivable	1,170,457	2,808,478
Accounts receivable	88,164	132,262
Inventory	(7,884,221)	(453,124)
Prepaid expenses and other current assets	138,824	(234,631)
Grants and contracts receivable, net	(1,937,347)	107,584
Increase (decrease) in liabilities:		
Accounts payable	1,044,305	287,198
Accrued expenses	308,831	268,702
Deferred revenue	476,891	(61,148)
Net cash provided by (used in) operating activities	<u>38,726,484</u>	<u>(1,357,860)</u>
Cash flows from investing activities:		
Proceeds from sale of:		
Property and equipment	3,462,340	-
Investments	3,858,823	1,731,108
Purchase of:		
Property and equipment	(15,747,031)	(5,847,222)
Investments	(13,640,238)	(1,300,000)
Net cash used in investing activities	<u>(22,066,106)</u>	<u>(5,416,114)</u>
Cash flows from financing activities:		
Payments on capital leases	(530,747)	(372,193)
Capital campaign cash contributions	5,264,947	8,635,034
Payments on notes payable	(6,134,000)	-
Proceeds from notes payable	1,428,850	3,000,000
Net cash provided by financing activities	<u>29,050</u>	<u>11,262,841</u>

See notes to financial statements.

SECOND HARVEST HEARTLANDSTATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30

	<u>2020</u>	<u>2019</u>
Net increase in cash	\$ 16,689,428	\$ 4,488,867
Cash at beginning of year	<u>6,561,160</u>	<u>2,072,293</u>
Cash at end of year	<u>\$ 23,250,588</u>	<u>\$ 6,561,160</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 319,905</u>	<u>\$ 322,377</u>
Non-cash investing and financing activity, purchase of equipment through capital leases	<u>\$ 970,618</u>	<u>\$ 1,034,196</u>

See notes to financial statements.

SECOND HARVEST HEARTLAND

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2020

	Program Services				Total Program Services	Supporting Services			Total
	Food Bank	Community Outreach	CSFP	Food Sourcing		Management and General	Fundraising	Total Supporting Services	
Wages and temporary services	\$ 2,644,518	\$ 1,774,305	\$ 303,891	\$ 1,561,145	\$ 6,283,859	\$ 2,589,834	\$ 1,824,280	\$ 4,414,114	\$ 10,697,973
Fringe benefits and payroll taxes	624,511	406,207	71,381	350,054	1,452,153	449,302	418,261	867,563	2,319,716
Professional fees	55,387	1,284,149	-	-	1,339,536	455,522	306,140	761,662	2,101,198
In-kind professional fees	16,927	151,865	316	571,692	740,800	6,615	21,853	28,468	769,268
Occupancy	636,297	43,969	392,085	19,475	1,091,826	145,224	133,975	279,199	1,371,025
Vehicles operation	511,031	36,830	27,777	251,203	826,841	7,063	-	7,063	833,904
Procurement	234,637	454,147	66,494	3,022,038	3,777,316	350	-	350	3,777,666
Equipment	454,753	145,407	33,865	111,967	745,992	79,891	146,588	226,479	972,471
Supplies	50,068	116,936	23,396	10,104	200,504	28,319	166,535	194,854	395,358
Meeting, travel and staff development	14,325	45,080	6,111	27,118	92,634	72,085	10,749	82,834	175,468
Promotions and marketing	-	54,889	1,788	-	56,677	163,202	269,716	432,918	489,595
Special events expense	-	-	-	-	-	-	128,449	128,449	128,449
Direct mail	-	-	-	-	-	4,774	1,709,721	1,714,495	1,714,495
Cluster/network fees	-	-	-	-	-	26,085	-	26,085	26,085
Agency assistance	-	655,484	660	5,520	661,664	-	1,674	1,674	663,338
In-kind distributed*	136,786,393	-	7,338,973	-	144,125,366	-	-	-	144,125,366
Cost of purchased product disbursed	8,691,584	3,833,539	-	-	12,525,123	-	-	-	12,525,123
Other	-	-	-	-	-	103,364	-	103,364	103,364
Depreciation and amortization	1,063,293	67,263	46,395	216,092	1,393,043	47,281	113,439	160,720	1,553,763
Bad debts	-	-	-	-	-	2,598	-	2,598	2,598
Interest	167,209	6,804	802	33,065	207,880	68,751	43,274	112,025	319,905
	151,950,933	9,076,874	8,313,934	6,179,473	175,521,214	4,250,260	5,294,654	9,544,914	185,066,128
Less:									
Special events direct expenses						-	128,449	128,449	128,449
	\$ 151,950,933	\$ 9,076,874	\$ 8,313,934	\$ 6,179,473	\$ 175,521,214	\$ 4,250,260	\$ 5,166,205	\$ 9,416,465	\$ 184,937,679

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

SECOND HARVEST HEARTLAND

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2019

	Program Services					Supporting Services			
	Food Bank	Community Outreach	CSFP	Food Sourcing	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Wages and temporary services	\$ 2,391,678	\$ 1,531,756	\$ 313,657	\$ 1,689,301	\$ 5,926,392	\$ 2,391,226	\$ 1,863,482	\$ 4,254,708	\$ 10,181,100
Fringe benefits and payroll taxes	550,537	349,695	69,935	414,753	1,384,920	471,476	442,240	913,716	2,298,636
Professional fees	74,069	352,554	81	21,840	448,544	387,887	219,207	607,094	1,055,638
In-kind professional fees	5,200	17,900	142,010	18,400	183,510	59,040	62,805	121,845	305,355
Occupancy	532,516	23,647	155,368	10,039	721,570	123,828	20,752	144,580	866,150
Vehicles operation	602,932	8,414	34,944	392,510	1,038,800	8,280	229	8,509	1,047,309
Procurement	104,509	2,034	61,910	3,652,729	3,821,182	-	33	33	3,821,215
Equipment	464,145	144,553	26,762	109,416	744,876	26,756	127,534	154,290	899,166
Supplies	57,490	52,369	21,459	19,624	150,942	11,470	151,416	162,886	313,828
Meeting, travel and staff development	6,272	125,802	6,291	40,310	178,675	68,789	23,253	92,042	270,717
Promotions and marketing	-	41,045	661	770	42,476	143,350	172,585	315,935	358,411
Special events expense	-	-	-	-	-	55	420,057	420,112	420,112
Direct mail	816	-	-	-	816	2,018	1,398,389	1,400,407	1,401,223
Cluster/network fees	-	-	-	-	-	23,985	-	23,985	23,985
Agency assistance	162	282,629	-	151	282,942	10	-	10	282,952
In-kind distributed*	119,700,285	-	5,557,075	-	125,257,360	-	-	-	125,257,360
Cost of purchased product disbursed	7,273,781	175,649	-	-	7,449,430	10,263	-	10,263	7,459,693
Other	211	-	-	-	211	1,529	91	1,620	1,831
Depreciation and amortization	1,051,732	24,240	29,701	75,507	1,181,180	18,355	23,606	41,961	1,223,141
Bad debts	553	-	-	-	553	6,060	-	6,060	6,613
Interest	260,688	577	-	14,526	275,791	45,144	1,442	46,586	322,377
	133,077,576	3,132,864	6,419,854	6,459,876	149,090,170	3,799,521	4,927,121	8,726,642	157,816,812
Less:									
Special events direct expenses						55	420,057	420,112	420,112
	<u>\$ 133,077,576</u>	<u>\$ 3,132,864</u>	<u>\$ 6,419,854</u>	<u>\$ 6,459,876</u>	<u>\$ 149,090,170</u>	<u>\$ 3,799,466</u>	<u>\$ 4,507,064</u>	<u>\$ 8,306,530</u>	<u>\$ 157,396,700</u>

1. Summary of significant accounting policies:

Nature of activities:

Second Harvest Heartland (the Organization) is a Minnesota not-for-profit organization with a mission of ending hunger together. 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 government programs: The Emergency Food Assistance Program (TEFAP), the Commodity Supplemental Food Program (CSFP) and Farm 2 Food shelf. Partnerships with the health care industry to improve food security and health outcomes continue to evolve and expand. The Organization also administers a food rescue program with grocery and hospitality partners, and provides food to member agencies (food bank program) and other programs that address hunger issues. In addition, the Organization leads the Midwest Region, Produce Cooperative, through which it sources millions of pounds of fresh produce each year, and delivers it to cooperative members. 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.

In 2020, the Organization completed a capital campaign for funding of capital expansion and improvements by meeting 100% of its fundraising goal. The \$50 million campaign supported acquisition and improvements for a new food bank facility in Brooklyn Park, MN; upgrades to its truck fleet and supported new and growing programs to enhance its hunger relief efforts.

The Capital Campaign included \$18 million of funding sponsored by a General Obligation Grant from the State of Minnesota (State) to the City of Brooklyn Park (City) for renovation of the food bank facility. Contributions from the City were recognized in contribution revenue as project expenses were incurred.

Access to grant funds by the organization to complete the food bank facility required ownership of the food bank facility by the City. On February 11, 2019 the Organization leased the land and food bank facility to the City for 37.5 years resulting in constructive ownership as required by State regulations. No amounts are due under this lease. The term of the lease-use agreement is 15 years.

The Organization has two renewal options (15 years and 7.5 years). In the event that the lease-use is not renewed or the agreement is terminated early, the City has the option to buy the facility or sell the facility. Proceeds from the sale of the facility must be used to repay State bond funding, outstanding debt and Organization improvements to the facility. No amounts are due under this lease-use agreement.

Renovation of the facility in Brooklyn Park commenced in April of 2019. The new volunteer center opened in September 2019 the remainder of the food bank facility opened for use in March 2020. The Organization also continues to lease space for its hunger relief activities in Maplewood, MN.

1. Summary of significant accounting policies (continued):

Nature of activities (continued):

Fiscal Year 2020 brought a wide range of challenges to Second Harvest Heartland's hunger relief work. The COVID-19 pandemic, which began in March, led to the highest regional rates of unemployment since the Great Depression. This greatly increased food insecurity throughout the urban, suburban, and rural areas served by the Organization. At the same time, major disruptions in the food supply chain brought huge variability to the availability of food donations, and food for purchase. The Organization was also challenged to deliver services in new ways to eliminate further spread of the COVID-19 virus. Major results in Fiscal Year 2020 included:

- Distributing 119.6 million pounds of food through the food bank, an amount equivalent to 99.6 million meals. After March, distribution of produce from the Midwest Region Produce Cooperative fell sharply as the federal government made huge amounts of fresh produce available through the Coronavirus Food Assistance Program. The food bank pivoted toward meeting new needs from food pantry partners, delivering 28% more food to them on average during the months of the pandemic.
- Producing 854,965 individually packaged meals through the new Minnesota Central Kitchen program, a collaborative effort of restaurant, catering, nonprofit and corporate partners initiated by the Organization.
- Assisting 6,568 households to apply for the Supplemental Nutrition Assistance Program (SNAP), resulting in the activation of 5.1 million meals for eligible people in the organization's service area. Overall, the Organization assisted 2,800 more households with application assistance than was planned during this time frame.

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.

Revenue recognition:

The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09, applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization records the following exchange transaction revenue in its statements of activities for the years ending September 30, 2020 and 2019:

Sponsorship and event registration revenue collected in advance of the related event are deferred and recognized as revenue at the point in time at which the event takes place. Registrations are refundable if the event is cancelled. The performance obligation is hosting the event for registered attendees.

Major source of revenue:

The Organization received approximately 16% and 12% of total support and revenue from one governmental agency for the years ended September 30, 2020 and 2019, respectively.

1. Summary of significant accounting policies (continued):

Contributions and grants:

All grants and contributions are considered to be without donor restrictions and available for use unless specifically restricted by the donor.

Grant revenue is then recognized when applicable expenses are incurred, which is considered the condition for recognition of revenue. As a condition of receiving certain grants, the Organization is obligated to arrange certain obligations dependent on that grant.

Grants and contributions with restrictions from non-government sources are recorded as revenue when received and/or pledged. Amounts are released as donor restrictions are satisfied or as restrictions expire. If a restriction expires in the same fiscal year in which the contribution was recognized, the contribution is reported as an increase in net assets without donor restriction.

As of September 30, 2020, the Organization has conditional grants with remaining commitments of \$3,083,931. These remaining funds are conditional upon incurring eligible expenditures or arranging matching funds. Conditional promises to give are recognized in the financial statements when the conditions have been met. The conditions are expected to be met in fiscal year 2021.

Some grant agreements include required outcomes or reporting, however these requirements do not constitute a barrier or condition which must be met prior to revenue recognition.

Contributions without donor restrictions are recognized as revenue when received and/or pledged.

Net assets:

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Organization presents its net assets without donor restrictions 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.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. At the end of fiscal years 2020 and 2019, the Organization did not have any net assets with donor restrictions in perpetuity.

1. Summary of significant accounting policies (continued):

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. Salary expenditures and related benefits are allocated directly to the appropriate departments based on time records. Occupancy and depreciation/interest charges are allocated based on a combination of square footage (for warehouse space) and FTEs (for office space). Supplies & technology and management/admin expenses are allocated to various departments based on FTEs at the end of each month. Communications and advocacy expenses are allocated based on estimates of content of communications materials.

Received product:

The Organization reports contributions of food over which it has control as in-kind donations without donor restriction. 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 2020 and 2019, the Organization received 127,923,000 and 117,675,000 pounds of food, respectively. The Organization reported in-kind donations for donated food, along with purchased product valued at cost, as follows:

	<u>2020</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	79,105,000	\$ 112,705,000
TEFAP	16,808,000	27,741,000
CSFP	<u>3,824,000</u>	<u>8,526,000</u>
In-kind donations	99,737,000	148,972,000
Purchased	20,818,000	14,588,000
In-kind donations as agent	<u>7,368,000</u>	<u>16,914,000</u>
Total received	<u><u>127,923,000</u></u>	<u><u>\$ 180,474,000</u></u>
	<u>2019</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	84,748,000	\$ 107,918,000
TEFAP	8,454,000	12,564,000
CSFP	<u>3,354,000</u>	<u>5,294,000</u>
In-kind donations	96,556,000	125,776,000
Purchased	14,292,000	7,488,000
In-kind donations as agent	<u>6,827,000</u>	<u>12,838,000</u>
Total received	<u><u>117,675,000</u></u>	<u><u>\$ 146,102,000</u></u>

1. 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 2020 and 2019, the Organization distributed 119,650,000 and 113,367,000 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 2020 and 2019:

	<u>2020</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	75,740,000	\$ 109,089,000
TEFAP	14,820,000	24,344,000
CSFP	<u>3,315,000</u>	<u>7,579,000</u>
In-kind distributions, net of revaluation and waste	93,875,000	141,012,000
Purchased	18,467,000	11,546,000
In-kind distributions as agent	<u>7,308,000</u>	<u>16,702,000</u>
Total distributions	<u><u>119,650,000</u></u>	<u><u>\$ 169,260,000</u></u>

	<u>2019</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	80,884,000	\$ 103,976,000
TEFAP	7,796,000	11,818,000
CSFP	<u>3,447,000</u>	<u>5,516,000</u>
In-kind distributions, net of revaluation and waste	92,127,000	121,310,000
Purchased	14,449,000	7,550,000
In-kind distributions as agent	<u>6,791,000</u>	<u>12,865,000</u>
Total distributions	<u><u>113,367,000</u></u>	<u><u>\$ 141,725,000</u></u>

Contributed services:

The Organization received donated in-kind professional services, skilled volunteer services, and in-kind rent in 2020 and 2019 which were recorded as revenue and expense at the fair value as established by the donor of \$787,507 and \$305,355, respectively.

Volunteers have donated significant amounts of their time to enhancing the Organization's activities. The number of unique volunteers and hours of service totaled 14,247 and 72,154 in 2020, respectively. The number of unique volunteers and hours of service totaled 24,193 and 105,515 in 2019, respectively. The value of these donated services totaled \$1,792,538 and \$1,040,380 in 2020 and 2019, respectively, however the amount is not reflected in the accompanying financial statements as they are non-specialized services.

1. Summary of significant accounting policies (continued):

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.

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 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 \$14,694 and \$14,200 as of September 30, 2020 and 2019, 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.

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, 2020 and 2019. Grants receivable at September 30, 2020 and 2019 are due in less than one year.

1. Summary of significant accounting policies (continued):**Capital Campaign and Pledges receivable:**

Unconditional promises to give are recorded at net realizable value. The allowance for uncollectible pledges was \$50,199 and \$70,935 as of September 30, 2020 and 2019, respectively. Capital campaign pledges to be utilized for a long-term purpose are recorded as long term. Conditional pledges are not included as support until such time as the conditions are substantially 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 \$1,941,085 and \$1,768,044 for the years ended September 30, 2020 and 2019, respectively.

Change in accounting principle:

On October 1, 2019 the Organization adopted Revenue from Contracts with Customers (Topic 606). Topic 606 is a comprehensive new revenue recognition standard that superseded most existing revenue recognition guidance under accounting principles generally accepted in the United States of America (GAAP). The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This framework requires entities to make greater use of judgements and estimates than previously required under GAAP. Topic 606 also prescribes additional disclosures and financial statement presentations.

On October 1, 2019 the Organization also adopted ASU 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 establishes standards for evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to Topic 606 and if a contribution, determining whether a contribution is conditional.

The adoption of both revenue recognition standards on a modified prospective basis did not impact the timing or amount of revenue recognized.

Subsequent events:

The Organization evaluated for subsequent events through December 18, 2020, the date the financial statements were available for issuance.

2. Liquidity:

The following represents the Organization’s financial assets at September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 23,250,588	\$ 6,561,160
Investments	19,632,897	8,198,254
Accounts receivable, trade, net	554,323	819,250
Grants and contracts receivable	2,488,206	550,859
Pledges receivable, current portion, net	319,653	256,409
Other	<u>220,254</u>	<u>43,491</u>
Total financial assets	<u>46,465,921</u>	<u>16,429,423</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	4,687,722	6,489,014
Less net assets with purpose restrictions to be met in less than a year	<u>(96,440)</u>	<u>(256,409)</u>
	<u>4,591,282</u>	<u>6,232,605</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 41,874,639</u>	<u>\$ 10,196,818</u>

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12 month period, the Organization considers all funding sources and expenditures related to operations and capital improvements.

Financial assets include the following and generally are expected to be managed as defined below:

- Operating Cash – maintain 30 to 45 days of cash operating expense.
- Investments – excess operating reserves to be managed in accordance with investment policy.
- Investments – for restricted purposes (i.e.: Capital Campaign) – to be managed in accordance with investment policy and donor wishes with respect to timing of expenditure.
- Accounts receivable – provide 30 to 45 days of credit to agencies.
- Contracts receivable – per contract terms.
- Pledges receivable – per pledge agreement terms.
- Prepaid expenses – minimize based on financial value and contractual terms.
- Donated Stock – liquidate as soon as practical and in accordance with gift receipt policy.

2. Liquidity (continued):

Funding and management of liquidity and investment returns may be facilitated by the following:

- Accounts payable – payment according to vendor terms to avoid finance charges.
- Short-term Debt/Line of credit – maintain a line of credit based on short-term financial exposure.
- Long-term Debt – obtain based on Board authorized financial plan.
- Restricted assets – maintain based on restricted expenditure timeframe.

3. 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, 2020 and 2019.

	<u>2020</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Equity	\$ 1,199,269			\$ 1,199,269
Fixed income	<u>18,433,627</u>			<u>18,433,628</u>
	<u>\$ 19,632,896</u>			<u>\$ 19,632,897</u>
	<u>2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity	\$ 1,114,796			\$ 1,114,796
Fixed income	<u>7,083,458</u>			<u>7,083,458</u>
	<u>\$ 8,198,254</u>			<u>\$ 8,198,254</u>

4. Inventory:

Ending inventory is comprised of the following:

	<u>2020</u>	<u>2019</u>
Donated	\$ 3,099,379	\$ 2,610,132
TEFAP	4,379,294	1,208,947
CSFP	2,592,835	1,405,703
Purchased	<u>3,607,042</u>	<u>569,547</u>
	<u>\$ 13,678,550</u>	<u>\$ 5,794,329</u>

SECOND HARVEST HEARTLANDNOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 20195. Pledges and capital campaign 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>2020</u>	<u>2019</u>
Promises without donor restriction	\$ 96,440	\$ 438,920
Promises with donor restriction	<u>2,026,654</u>	<u>2,854,631</u>
Pledges and capital campaign pledges receivable	<u>\$ 2,123,094</u>	<u>\$ 3,293,551</u>
Amounts due in:		
Less than one year	\$ 1,782,053	\$ 1,431,897
One to five years	\$ 391,241	\$ 1,861,654

6. Property and equipment:

	<u>2020</u>	<u>2019</u>
Building	\$ 11,120,902	\$ 12,028,904
Building improvements	21,361,544	12,061,436
Office equipment	4,198,229	3,499,991
Warehouse equipment	2,940,809	2,317,198
Autos and trucks	7,479,053	6,172,869
Land	<u>2,470,000</u>	<u>2,690,000</u>
	49,570,537	38,770,398
Less accumulated depreciation and amortization	<u>9,869,035</u>	<u>13,069,747</u>
	<u>\$ 39,701,502</u>	<u>\$ 25,700,651</u>

7. Line of credit and revolving bridge promissory note:

The Organization has a bank line of credit, secured by certain assets, in the amount of \$2,000,000. The line carries an interest rate of 2.50% over 1-month LIBOR rate (LIBOR rate is 0.15% at September 30, 2020). No balance was drawn on the line of credit at September 30, 2020 and 2019. The line was in process of renewing the line of credit as of September 30, 2020.

Revolving Bridge Promissory Note whereby the Organization may borrow up to \$4,000,000 with Interest at 2.25% over 1-month LIBOR rate with a floor of 2.25%. Accrued interest payable monthly and all unpaid principal and interest due at maturity on February 1, 2022. No amounts were outstanding on this note as of September 30, 2020 and 2019. The note is subject to a pledge of existing and future donations, gifts, and contributions, including balances in investment accounts.

8. Long-term debt:

	<u>2020</u>	<u>2019</u>
Mortgage payable with interest at 2.25% over 1-month LIBOR rate with a floor of 2.25% through February 28, 2022, and interest at 2.45% over the business day yield on 5 year Interest Rate Swaps after that date. The 1-month LIBOR rate was 0.15% at September 30, 2020. Interest accrues and is due monthly through March 1, 2022. Beginning April 1, 2022, monthly installments of principal and interest in order to fully amortize outstanding principal due for 20 years from February 11, 2019 are due. In addition, principal payments in order to reduce the principal balance to the following amounts as of February 11 of each year are required: \$7,266,000 by 2020, \$5,266,000 by 2021 and \$4,000,000 by 2022. All unpaid principal and interest is due February 1, 2027. Mortgage is collateralized by building and accessories.	\$ 7,266,000	\$ 10,266,000
Mortgage payable with interest at 2.25% over 1-month LIBOR rate with a floor of 2.25%. The 1-month LIBOR rate was 0.15% at September 30, 2020. Interest accrues and is due monthly beginning March 1, 2019. Mortgage is collateralized by building and accessories, and was paid in full when the building was sold during the year ended September 30, 2020.		3,134,000
Note payable with interest only payments through maturity date. Interest payments of 2% per annum on the unpaid principal balance due January 14, 2020, 2021, and at maturity of January 14, 2022, when the entire unpaid principal and interest is due.	3,000,000	3,000,000

8. Long-term debt (continued):

On June 25, 2020 the Organization qualified for and received a Paycheck Protection Program loan. The loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount is subject to forgiveness upon the Organization's request to the extent that the proceeds are used to pay expenses permitted by the Paycheck Protection Program. To the extent that all or part of the loan is not forgiven, the Organization will be required to pay interest on the loan, and commencing October 2021 principal and interest payments will be required through the maturity date in June 2025. The terms of the PPP Loan provide for customary events of default and the loan may be accelerated upon the occurrence of an event of default.

	<u>\$ 1,428,850</u>	<u> </u>
	11,694,850	\$ 16,400,000
Less current portion	<u>3,428,850</u>	<u>3,000,000</u>
	<u>\$ 8,266,000</u>	<u>\$ 13,400,000</u>

Future maturities of long-term debt are as follows:

<u>Year ending</u> <u>September 30</u>	<u>Amount</u>
2021	\$ 3,428,850
2022	1,266,000
2023	3,513,300
2024	513,300
2025	513,300
Thereafter	<u>2,460,100</u>
	<u>\$ 11,694,850</u>

9. Operating leases:

The Organization leases equipment through a lease expiring in 2020. Total rent expense for the years ended September 30, 2020 and 2019 was \$159,203 and \$246,641, respectively.

The Organization also leased space to carry out organization objectives. 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 \$231,503 for the year ended September 30, 2020. Future minimum rent payments are as follows:

<u>Year ending September 30</u>	<u>Amount</u>
2021	\$ 118,141
2022	120,799
2023	123,517
2024	126,296
2025	129,138
Thereafter	<u>713,156</u>
	<u>\$ 1,331,047</u>

10. Capital leases:

The Organization has capital leases for vehicles and warehouse equipment which expire at various dates during fiscal years 2022 – 2026. 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 is held under capital leases are as follows:

	<u>2020</u>	<u>2019</u>
Equipment cost	\$ 4,332,353	\$ 3,361,735
Less accumulated amortization	<u>1,729,562</u>	<u>1,201,020</u>
	<u>\$ 2,602,791</u>	<u>\$ 2,160,715</u>

SECOND HARVEST HEARTLANDNOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 201910. Capital leases (continued):

Future principal and interest payments under the capital lease as of September 30, 2020, are as follows:

<u>Year ending September 30</u>	<u>Amount</u>
2021	\$ 696,226
2022	688,040
2023	472,626
2024	394,438
2025	325,996
Thereafter	<u>338,063</u>
	2,915,389
Less amounts representing interest	<u>245,120</u>
Present value of net minimum lease obligation payments	<u>\$ 2,670,269</u>

11. Net assets with donor restrictions:

Net assets with donor restrictions are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Child Nutrition		\$ 35,140
Equipment	\$ 75,925	35,000
Hunger and Health		12,190
Capital Campaign	3,067,736	6,253,430
Minnesota Central Kitchen	1,013,915	
Other programming and fundraising	<u>530,149</u>	<u>153,254</u>
	<u>\$ 4,687,722</u>	<u>\$ 6,489,014</u>

12. 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>2020</u>	<u>2019</u>
SNAP	\$ 1,384	\$ 3,615
Child Nutrition	35,139	28,000
Capital investment		13,333
Equipment	249,075	38,603
Hunger and Health	12,190	15,364
Capital Campaign	6,792,609	5,247,717
Minnesota Central Kitchen	1,086,085	
Other programming and fundraising	<u>244,520</u>	<u>331,511</u>
	<u>\$ 8,421,002</u>	<u>\$ 5,678,143</u>

13. Fiscal agent:

During the years ending September 30, 2020 and 2019, the Organization received cash from donors for which it is acting as a fiscal agent, which were not fully disbursed at September 30, 2020 and 2019. 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 \$613,839 and \$443,447 for September 30, 2020 and 2019, respectively. These amounts were not included in the final inventory as presented on the statement of financial position.

14. 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's employer contributions were \$482,571 and \$480,985 to the for the years ended September 30, 2020 and 2019, respectively.