

*Financial statements of:*

**SECOND HARVEST HEARTLAND**

Years ended  
September 30, 2021 and 2020

	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	8-25

## 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, 2021 and 2020, 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, 2021 and 2020, 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.

*Schechter Dokken Kanter  
Andrews + Silver Ltd.*

December 9, 2021

**SECOND HARVEST HEARTLAND**

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30

	<u>2021</u>	<u>2020</u>		<u>2021</u>	<u>2020</u>
<b>Assets:</b>			<b>Liabilities and net assets:</b>		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 8,295,458	\$ 19,065,242	Accounts payable	\$ 1,668,726	\$ 2,968,260
Investments:			Fiscal agent payable	43,175	12,357
Operating reserves	20,115,577	23,818,243	Accrued expenses	1,763,657	1,551,329
Strategic initiatives:			Capital leases, current portion	625,979	611,943
DEI investment	3,769,000	-	Long-term debt, current portion	4,266,000	3,428,850
Programs	710,000	-	Deferred revenue	72,100	489,758
Future capabilities	640,000	-			
Accounts receivable:			Total current liabilities	<u>8,439,637</u>	<u>9,062,497</u>
Trade, net	711,391	554,323	Noncurrent liabilities:		
Grants and contracts	1,083,166	2,488,206	Long-term debt	4,000,000	8,266,000
Pledges	347,179	319,653	Noncurrent portion of capital leases	1,446,321	2,058,326
Other	107,210	220,254	Total noncurrent liabilities	<u>5,446,321</u>	<u>10,324,326</u>
Inventory	9,231,516	13,678,550			
Prepaid expenses and other current assets	594,948	613,757	Total liabilities	<u>13,885,958</u>	<u>19,386,823</u>
			Net assets:		
Total current assets	<u>45,605,445</u>	<u>60,758,228</u>	Without donor restrictions:		
Long-term investments:			Operations	53,100,860	68,117,117
Strategic initiatives:			In-kind inventory	8,173,191	10,071,509
DEI investment	5,148,000	-	Board-designated:		
Programs	2,379,000	-	Endowment	22,197,246	-
Future capabilities	1,575,000	-	Strategic initiatives	14,221,000	-
Board-designated endowment	22,197,246	-			
Property and equipment, net	38,244,500	39,701,502	Total without donor restrictions	<u>97,692,297</u>	78,188,626
Capital campaign pledges, net of reserve	630,195	1,803,441	With donor restrictions	<u>4,201,131</u>	4,687,722
			Total net assets	<u>101,893,428</u>	<u>82,876,348</u>
Total noncurrent assets	<u>70,173,941</u>	<u>41,504,943</u>			
Total assets	<u>\$ 115,779,386</u>	<u>\$ 102,263,171</u>	Total liabilities and net assets	<u>\$ 115,779,386</u>	<u>\$ 102,263,171</u>

See notes to financial statements.

**SECOND HARVEST HEARTLAND**

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

	2021			2020		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues:						
Program services	\$ 3,017,990		\$ 3,017,990	\$ 2,635,453		\$ 2,635,453
Purchase program	5,979,076		5,979,076	6,830,245		6,830,245
Government contracts	7,258,635		7,258,635	7,926,325		7,926,325
Contributions	49,857,034	\$ 4,091,671	53,948,705	60,505,135	\$ 6,619,710	67,124,845
Special Events, net of expenses of \$145,541 and \$128,449 in 2021 and 2020, respectively	582,998		582,998	620,195		620,195
In-Kind donations:						
Product	150,625,228		150,625,228	148,972,094		148,972,094
Services	778,713		778,713	787,507		787,507
Investment income	735,654		735,654	490,680		490,680
Miscellaneous income	131,574		131,574	2,534,632		2,534,632
	<u>218,966,902</u>	<u>4,091,671</u>	<u>223,058,573</u>	<u>231,302,266</u>	<u>6,619,710</u>	<u>237,921,976</u>
Net assets released from restrictions	<u>4,578,262</u>	<u>(4,578,262)</u>	<u>-</u>	<u>8,421,002</u>	<u>(8,421,002)</u>	<u>-</u>
Total support and revenues	<u>223,545,164</u>	<u>(486,591)</u>	<u>223,058,573</u>	<u>239,723,268</u>	<u>(1,801,292)</u>	<u>237,921,976</u>
Expenses:						
Programs	192,138,714		192,138,714	175,521,214		175,521,214
General & administrative	5,249,585		5,249,585	4,250,260		4,250,260
Fundraising	6,653,194		6,653,194	5,166,205		5,166,205
Total expenses	<u>204,041,493</u>		<u>204,041,493</u>	<u>184,937,679</u>		<u>184,937,679</u>
Change in net assets	19,503,671	(486,591)	19,017,080	54,785,589	(1,801,292)	52,984,297
Change in net assets, increase (decrease) from operations	21,401,988	(486,591)	20,915,397	54,266,496	(1,801,292)	52,465,204
In-kind inventory change	<u>(1,898,317)</u>		<u>(1,898,317)</u>	<u>519,093</u>		<u>519,093</u>
Total change in net assets	19,503,671	(486,591)	19,017,080	54,785,589	(1,801,292)	52,984,297
Net assets, beginning	<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>
Net assets, ending	<u>\$ 97,692,297</u>	<u>\$ 4,201,131</u>	<u>\$ 101,893,428</u>	<u>\$ 78,188,626</u>	<u>\$ 4,687,722</u>	<u>\$ 82,876,348</u>

See notes to financial statements.

**SECOND HARVEST HEARTLAND**STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 19,017,080	\$ 52,984,297
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,181,798	1,553,763
Donated securities	(2,454,133)	(1,359,762)
(Gain) loss on disposal of property and equipment	-	(2,299,305)
Investment income	(668,104)	(293,466)
Capital campaign cash contributions with donor restrictions	(1,438,389)	(5,264,947)
(Increase) decrease in assets:		
Pledges receivable	1,145,720	1,170,457
Accounts receivable	(44,024)	88,164
Inventory	4,447,034	(7,884,221)
Prepaid expenses and other current assets	18,809	138,824
Grants and contracts receivable, net	1,405,040	(1,937,347)
Increase (decrease) in liabilities:		
Accounts payable	(1,268,716)	1,044,305
Accrued expenses	212,328	308,831
Deferred revenue	(417,658)	476,891
Net cash provided by operating activities	<u>22,136,785</u>	<u>38,726,484</u>
Cash flows from investing activities:		
Proceeds from sale of:		
Property and equipment	-	3,462,340
Investments	19,205,545	3,858,823
Purchase of:		
Property and equipment	(724,796)	(15,747,031)
Investments	(48,798,888)	(17,825,584)
Net cash used in investing activities	<u>(30,318,139)</u>	<u>(26,251,452)</u>
Cash flows from financing activities:		
Payments on capital leases	(597,969)	(530,747)
Capital campaign cash contributions	1,438,389	5,264,947
Payments on notes payable	(3,428,850)	(6,134,000)
Proceeds from notes payable	-	1,428,850
Net cash (used in) provided by financing activities	<u>(2,588,430)</u>	<u>29,050</u>

See notes to financial statements.

**SECOND HARVEST HEARTLAND**STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30

	<u>2021</u>	<u>2020</u>
Net (decrease) increase in cash	\$ (10,769,784)	\$ 12,504,082
Cash at beginning of year	<u>19,065,242</u>	<u>6,561,160</u>
Cash at end of year	<u>\$ 8,295,458</u>	<u>\$ 19,065,242</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 300,830</u>	<u>\$ 319,905</u>
Non-cash investing and financing activity, purchase of equipment through capital leases	<u>\$ -</u>	<u>\$ 970,618</u>

See notes to financial statements.



**SECOND HARVEST HEARTLAND**

STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2021

	Program Services				Supporting Services				Total
	CSFP	Food Bank	Food Sourcing	Community Outreach	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Wages and temporary services	304,913	2,634,024	1,550,610	1,917,119	6,406,666	\$ 3,477,416	\$ 1,947,129	\$ 5,424,545	\$ 11,831,211
Fringe benefits and payroll taxes	69,249	710,023	330,518	433,468	1,543,258	572,445	417,485	989,930	2,533,188
Professional fees	707	7,756	205	327,015	335,683	424,152	888,040	1,312,192	1,647,875
In-kind professional fees	3,150	60,575	-	677,115	740,840	21,351	16,522	37,873	778,713
Occupancy	314,550	552,712	22,415	69,638	959,315	164,473	78,188	242,661	1,201,976
Vehicles operation	22,852	454,059	190,584	15,126	682,621	3,993	175	4,168	686,789
Procurement	61,201	379,562	5,388,453	237,991	6,067,207	-	133,459	133,459	6,200,666
Equipment	43,986	428,454	142,715	250,182	865,337	133,880	242,528	376,408	1,241,745
Supplies	9,370	38,232	3,542	131,543	182,687	69,463	202,766	272,229	454,916
Meeting, travel and staff development	2,232	8,951	11,408	54,480	77,071	103,932	14,444	118,376	195,447
Promotions and marketing	1,513	-	-	81,044	82,557	93,731	276,810	370,541	453,098
Special events expense	-	-	-	-	-	-	145,541	145,541	145,541
Direct mail	-	-	-	14,949	14,949	7,350	2,281,598	2,288,948	2,303,897
Cluster/network fees	-	-	-	-	-	7,995	-	7,995	7,995
Agency assistance	194	-	-	653,585	653,779	-	-	-	653,779
In-kind distributed*	5,152,488	141,691,759	-	5,679,300	152,523,547	-	-	-	152,523,547
Cost of purchased product disbursed	-	10,113,865	-	8,712,404	18,826,269	-	-	-	18,826,269
Other	-	-	-	1,260	1,260	13,105	3	13,108	14,368
Depreciation and amortization	53,825	1,509,732	280,258	123,844	1,967,659	76,700	137,440	214,140	2,181,799
Bad debts	-	-	-	-	-	3,385	-	3,385	3,385
Interest	-	154,938	40,832	12,239	208,009	76,214	16,607	92,821	300,830
	<b>6,040,230</b>	<b>158,744,642</b>	<b>7,961,540</b>	<b>19,392,302</b>	<b>192,138,714</b>	<b>5,249,585</b>	<b>6,798,735</b>	<b>12,048,320</b>	<b>204,187,034</b>
Less:									
Special events direct expenses	-	-	-	-	-	-	145,541	145,541	145,541
	<b>\$ 6,040,230</b>	<b>\$ 158,744,642</b>	<b>\$ 7,961,540</b>	<b>\$ 19,392,302</b>	<b>\$ 192,138,714</b>	<b>\$ 5,249,585</b>	<b>\$ 6,653,194</b>	<b>\$ 11,902,779</b>	<b>\$ 204,041,493</b>

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

**SECOND HARVEST HEARTLAND**

STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2020

	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	\$ 2,644,518	\$ 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*	135,821,085	965,308	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
	150,985,625	10,042,182	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
	<u>\$ 150,985,625</u>	<u>\$ 10,042,182</u>	<u>\$ 8,313,934</u>	<u>\$ 6,179,473</u>	<u>\$ 175,521,214</u>	<u>\$ 4,250,260</u>	<u>\$ 5,166,205</u>	<u>\$ 9,416,465</u>	<u>\$ 184,937,679</u>

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

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 food 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 to 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 shelf programs) 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 and fees charged to member agencies. Non-financial funding comes from donations 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 facility in Brooklyn Park opened for use in March 2020. The Organization also continues to lease space for its hunger relief activities in Maplewood, MN.

Fiscal Year 2021 brought a wide range of challenges to Second Harvest Heartland's hunger-relief work. The COVID-19 pandemic, continued into its second year, leading many who have never experienced food insecurity to ask for help from their local food shelves. The need spiked in 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 took steps to eliminate the hunger divide, the unjust reality that communities of color live with hunger at twice the rates of their White neighbors. Major results in Fiscal Year 2021 included:

- Distributing 120.8 million pounds of food through the food bank, an amount equivalent to 100.6 million meals. Continuing to deliver food in new ways, the Organization relied on emergency grocery pop ups to get food to community members safely.

1. Summary of significant accounting policies (continued):

## Nature of activities (continued):

- Producing 1,031,188 ready-to-eat meals through Minnesota Central Kitchen program, the Organization fed unhoused individuals, those working front-line jobs and others unable to cook. Minnesota Central Kitchen is a collaborative effort of restaurant, catering, nonprofit and corporate partners initiated by the Organization.
- Assisting 8,902 households to apply for the Supplemental Nutrition Assistance Program (SNAP), resulting in the activation of 5.38 million meals for eligible people in the organization's service area.

## 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 records the following exchange transaction revenue in its statements of activities:

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.

Purchased product revenue is recognized at the point in time at which purchased product is shipped or distributed to partner agencies. Revenue is collected by the end of the month following the date of shipment or distribution. The performance obligation is the transfer of the goods.

## Major source of revenue:

The Organization received approximately 15% and 16% of total support and revenue from one governmental agency for the years ended September 30, 2021 and 2020, respectively.

## 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.

1. Summary of significant accounting policies (continued):

## Contributions and grants (continued):

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, 2021, the Organization has conditional grants with remaining commitments of \$2,046,434. These remaining funds are conditional upon incurring eligible expenditures. Conditional promises to give are recognized in the financial statements when the conditions have been met. The conditions expected to be met in fiscal year 2022 are \$1,142,629 with the remaining \$903,805 to be met in future years.

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.

Unconditional 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. The governing board has designated, from net assets without donor restrictions, net assets for strategic initiatives and a board-designated endowment.

*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 2021 and 2020, 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 2021 and 2020, the Organization received 120,422,000 and 127,923,000 pounds of food, respectively. The Organization reported in-kind donations for donated food, along with purchased product valued at cost, as follows:

	<u>2021</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	<b>81,432,000</b>	<b>\$ 121,662,000</b>
TEFAP	<b>12,272,000</b>	<b>24,244,000</b>
CSFP	<b><u>2,356,000</u></b>	<b><u>4,719,000</u></b>
In-kind donations	<b>96,060,000</b>	<b>150,625,000</b>
Purchased	<b>18,040,000</b>	<b>14,282,000</b>
In-kind donations as agent	<b><u>6,322,000</u></b>	<b><u>15,846,000</u></b>
Total received	<b><u><u>120,422,000</u></u></b>	<b><u><u>\$ 180,753,000</u></u></b>

	<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	<b><u>3,824,000</u></b>	<b><u>8,526,000</u></b>
In-kind donations	99,737,000	148,972,000
Purchased	20,818,000	14,588,000
In-kind donations as agent	<b><u>7,368,000</u></b>	<b><u>16,914,000</u></b>
Total received	<b><u><u>127,923,000</u></u></b>	<b><u><u>\$ 180,474,000</u></u></b>

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 2021 and 2020, the Organization distributed 120,838,000 and 119,650,000 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 2021 and 2020:

	<u>2021</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	78,793,000	\$ 117,665,000
TEFAP	13,406,000	27,342,000
CSFP	<u>2,553,000</u>	<u>5,142,000</u>
In-kind distributions, net of revaluation and waste	94,752,000	150,149,000
Purchased	18,876,000	16,823,000
In-kind distributions as agent	<u>6,210,000</u>	<u>15,724,000</u>
Total distributions	<u>120,838,000</u>	<u>\$ 182,696,000</u>

	<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>119,650,000</u>	<u>\$ 169,260,000</u>

Contributed services:

The Organization received donated in-kind professional services, skilled volunteer services, and in-kind rent in 2021 and 2020 which were recorded as revenue and expense at the fair value as established by the donor of \$778,713 and \$787,507, 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 4,306 and 24,164 in 2021, respectively. The number of unique volunteers and hours of service totaled 14,161 and 68,218 in 2020, respectively. The value of these donated services is estimated to be \$362,450 and \$1,023,270 in 2021 and 2020, 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. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses.

Certain amounts of investments have been designated by the board for strategic initiatives and a board-designated endowment.

## Strategic investments:

The Organization, along with its board, has developed a plan of strategic investments to further its mission over the next five years. The plan totals over \$14.2 million and covers three main areas:

- DEI Investment, which includes culturally specific food and meals, agency grants, and research and marketing to create awareness;
- Programs, which includes developing a food resource center, enhancing service delivery equity, and expanding cluster collaboration;
- Future Capabilities, which includes HITRUST information security and deploying data and analytics.

## 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 Organization capitalizes 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 \$7,453 and \$14,694 as of September 30, 2021 and 2020, 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, 2021 and 2020. Grants receivable at September 30, 2021 and 2020 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 \$28,842 and \$50,199 as of September 30, 2021 and 2020, 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 \$2,408,834 and \$1,923,245 for the years ended September 30, 2021 and 2020, respectively.

**Reclassifications:**

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

**Subsequent events:**

The Organization evaluated for subsequent events through December 9, 2021, the date the financial statements were available for issuance.

2. Liquidity:

The following represents the Organization’s financial assets at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 8,295,458	\$ 23,250,588
Investments	34,336,577	19,632,897
Accounts receivable, trade, net	711,391	554,323
Grants and contracts receivable	1,083,166	2,488,206
Pledges receivable, current portion, net	347,179	319,653
Other	<u>107,210</u>	<u>220,254</u>
Total financial assets	<u>44,880,981</u>	<u>46,465,921</u>
Less amounts not available to be used within one year:		
Investments designated for strategic initiatives	9,102,000	
Net assets with donor restrictions	4,201,131	4,687,722
Less net assets with purpose restrictions to be met in less than a year	<u>(4,108,232)</u>	<u>(96,440)</u>
	<u>9,194,899</u>	<u>4,591,282</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 35,686,082</u>	<u>\$ 41,874,639</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.

Our board-designated endowment is subject to an annual spending rate of 5% percent as described in Note 12 and totaled \$22,197,246 at September 30, 2021. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board’s annual budget approval and appropriation), these amounts could be made available if necessary.

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, 2021 and 2020.

	<u>2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity	\$ 19,007,255			\$ 19,007,255
Fixed income	36,420,317			36,420,317
Cash	<u>1,106,251</u>			<u>1,106,251</u>
	<u>\$ 56,533,823</u>			<u>\$ 56,533,823</u>
	<u>2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity	\$ 1,199,269			\$ 1,199,269
Fixed income	18,433,627			18,433,628
Cash	<u>4,185,346</u>			<u>4,185,346</u>
	<u>\$ 23,818,243</u>			<u>\$ 23,818,243</u>

**SECOND HARVEST HEARTLAND**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2021 AND 2020**4. Inventory:**

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Ending inventory is comprised of the following:

	<u>2021</u>	<u>2020</u>
Donated	\$ 3,695,434	\$ 3,099,379
TEFAP	2,318,184	4,379,294
CSFP	2,159,573	2,592,835
Purchased	<u>1,058,325</u>	<u>3,607,042</u>
	<u>\$ 9,231,516</u>	<u>\$ 13,678,550</u>

**5. 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, net of allowance, at September 30 are as follows:

	<u>2021</u>	<u>2020</u>
Promises without donor restriction	\$ 311,716	\$ 96,440
Promises with donor restriction	<u>665,658</u>	<u>2,026,654</u>
Pledges and capital campaign pledges receivable	<u>\$ 977,374</u>	<u>\$ 2,123,094</u>
Amounts due in:		
Less than one year	\$ 952,374	\$ 1,731,853
One to five years	\$ 25,000	\$ 391,241

**6. Property and equipment:**

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	<u>2021</u>	<u>2020</u>
Building	\$ 11,120,902	\$ 11,120,902
Building improvements	21,808,971	21,361,544
Office equipment	4,291,800	4,198,229
Warehouse equipment	3,001,363	2,940,809
Autos and trucks	7,602,297	7,479,053
Land	<u>2,470,000</u>	<u>2,470,000</u>
	<u>50,295,333</u>	49,570,537
Less accumulated depreciation and amortization	<u>12,050,833</u>	<u>9,869,035</u>
	<u>\$ 38,244,500</u>	<u>\$ 39,701,502</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 a specified index rate (the index rate is 0.08% at September 30, 2021). No balance was drawn on the line of credit at September 30, 2021 and 2020. The Organization was in process of renewing the line of credit as of September 30, 2021.

Revolving Bridge Promissory Note whereby the Organization may borrow up to \$4,000,000 with Interest at 2.25% over a specified index 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, 2021 and 2020. 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>2021</u>	<u>2020</u>
Mortgage payable with interest at 2.25% over 1-month LIBOR rate 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 0.08% at September 30, 2021. 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: \$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.	<b>\$ 5,266,000</b>	\$ 7,266,000
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.	<b>3,000,000</b>	3,000,000

**SECOND HARVEST HEARTLAND**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2021 AND 20208. Long-term debt (continued):

	<u>2021</u>	<u>2020</u>
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. At the time of application for forgiveness, the Organization decided to repay the loan in full. The amount was paid in January 2021.	\$ -	\$ 1,428,850
	<b>8,266,000</b>	11,694,850
Less current portion	<u>4,266,000</u>	<u>3,428,850</u>
	<u><b>\$ 4,000,000</b></u>	<u>\$ 8,266,000</u>

Future maturities of long-term debt are as follows:

<u>Year ending September 30</u>	<u>Amount</u>
2022	\$ 4,266,000
2023	513,300
2024	513,300
2025	513,300
2026	513,300
Thereafter	<u>1,946,800</u>
	<u><b>\$ 8,266,000</b></u>

9. Operating leases:

The Organization leases equipment through short-term leases. Total rent expense for the years ended September 30, 2021 and 2020 was \$85,092 and \$159,203, 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 \$196,681 and \$231,503 for the years ended September 30, 2021 and 2020, respectively. Future minimum rent payments are as follows:

<u>Year ending September 30</u>	<u>Amount</u>
2022	\$ 120,799
2023	123,517
2024	126,296
2025	129,138
2026	132,043
Thereafter	<u>699,254</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>2021</u>	<u>2020</u>
Equipment cost	\$ 4,332,353	\$ 4,332,353
Less accumulated amortization	<u>2,355,489</u>	<u>1,729,562</u>
	<u>\$ 1,976,864</u>	<u>\$ 2,602,791</u>



10. Capital leases (continued):

Future principal and interest payments under the capital lease as of September 30, 2021, are as follows:

<u>Year ending September 30</u>	<u>Amount</u>
2022	\$ 689,912
2023	493,218
2024	394,438
2025	324,126
2026	245,365
Thereafter	<u>95,393</u>
	2,242,452
Less amounts representing interest	<u>170,152</u>
Present value of net minimum lease obligation payments	<u>\$ 2,072,300</u>

11. Lease-use agreement:

The Brooklyn Park food bank facility renovation was partially funded by \$18 million of a General Obligation Grant from the State of Minnesota (State) to the City of Brooklyn Park (City).

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.

12. Endowment :

During 2021, Second Harvest Heartland established a Board-designated endowment fund, called Endowment for a Hunger-Free Future. The purpose of this endowment is to fight hunger now and lay the groundwork for a stronger Minnesota that's ready for new challenges. The funds will help feed the community, strengthen food shelves and other hunger-relief agencies and address the racial hunger divide. Each year the Board can authorize up to 5% of the market value of the Endowment for any purpose consistent with the purpose of the endowment. The balance of the endowment fund is considered a long-term asset and is included in Board-designated unrestricted net assets.

12. Endowment (continued):

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the date of gift of donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. The endowment fund is not donor-restricted. The Organization's investment policy indicates the following factors, if relevant, must be considered in managing and investing the endowment:

- General economic conditions;
- The possible effect of inflation or deflation;
- The expected tax consequences, if any, of investment decisions or strategies;
- The role that each investment or course of action plays within the overall investment portfolio of the fund;
- The expected total return from income and the appreciation of investments;
- Other resources of Second Harvest Heartland;
- The needs of Second Harvest Heartland and the Fund to make distributions and to preserve capital; and
- The asset's special relationship or special value, if any, to the charitable purposes of Second Harvest Heartland.

The composition of the Organization's endowment fund by type for the years ended September 30 is as follows:

	<u>2021</u>		
	<u>Without donor</u>	<u>With donor</u>	
	<u>restrictions</u>	<u>restrictions</u>	<u>Total</u>
Total endowment funds, board-designated	<u>\$ 22,197,246</u>	<u>\$ 0</u>	<u>\$ 22,197,246</u>

The Organization has adopted investment and spending policies for the endowment that attempt to achieve a balanced return of current income and growth of principal. The goal over the investment horizon shall be to meet or exceed the market index selected by the finance committee and maintain an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark selected. The endowment's return objective is its primary concern. To satisfy the current income and growth of principal objective, the investment portfolio is structured with a balanced investment objective with targets of 44-64% equity, 25-45% fixed income, and 0-16% real estate. In order to achieve objectives, the endowment fund could tolerate a maximum loss of 20% over any one year period.

**SECOND HARVEST HEARTLAND**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2021 AND 2020**12. Endowment (continued):**

The Organization has adopted an endowment policy to determine the amount to spend from the endowment. Each year, with Board approval, up to 5% of the market value of the Endowment may be expended for the charitable purposes of the Organization.

Changes in endowment funds are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds, October 1, 2020	\$ -		\$ -
Board designation for endowment	19,235,545		19,235,545
Investment earnings:			
Net appreciation of investments	2,888,017		2,888,017
Investment income	<u>73,684</u>		<u>73,684</u>
Endowment funds, board designated, September 30, 2021	<u>\$ 22,197,246</u>		<u>\$ 22,197,246</u>

**13. Net assets with donor restrictions:**

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

	<u>2021</u>	<u>2020</u>
Minnesota Central Kitchen	\$ 2,138,756	\$ 1,013,915
Capital Campaign	1,326,898	3,067,736
Child Hunger	283,855	
Equipment	207,467	75,925
Other programming and fundraising	<u>244,155</u>	<u>530,146</u>
	<u>\$ 4,201,131</u>	<u>\$ 4,687,722</u>

**SECOND HARVEST HEARTLAND**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2021 AND 2020**14. 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>2021</u>	<u>2020</u>
Minnesota Central Kitchen	\$ 1,899,521	\$ 1,086,085
Capital Campaign	1,821,072	6,792,609
Child Nutrition	216,145	35,139
Equipment	18,457	249,075
Other programming and fundraising	<u>623,067</u>	<u>258,094</u>
	<u>\$ 4,578,262</u>	<u>\$ 8,421,002</u>

**15. Fiscal agent:**

During the years ending September 30, 2021 and 2020, 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 \$700,985 and \$613,839 for September 30, 2021 and 2020, respectively. These amounts were not included in the final inventory as presented on the statement of financial position.

**16. 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 \$523,783 and \$482,571 to the for the years ended September 30, 2021 and 2020, respectively.