



**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended June 30, 2022 and 2021





**Mayer Hoffman McCann P.C.**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors

### **HARVESTERS - THE COMMUNITY FOOD NETWORK**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of Harvesters - The Community Food Network & Subsidiary (the "Organization") which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harvesters - The Community Food Network & Subsidiary as of June 30, 2022, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Consolidated Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

#### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

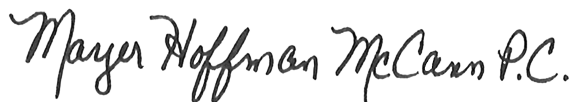
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position, and the consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### ***Report on Summarized Comparative Information***

We have previously audited Harvesters – The Community Food Network & Subsidiary's 2021 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated October 26, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Kansas City, Missouri  
October 24, 2022

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b><u>ASSETS</u></b>		
CURRENT ASSETS		
Cash and restricted cash	\$ 16,302,238	\$ 22,109,411
Unconditional promises to give, current portion, less allowance for uncollectibles	642,610	890,275
Investments	6,131,957	6,759,983
Accounts receivable	356,142	135,899
Inventory	8,936,021	11,860,120
Prepaid expenses and other assets	376,285	344,930
TOTAL CURRENT ASSETS	32,745,253	42,100,618
LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less current portion above, net of unamortized discount	46,941	65,495
LEVERAGE LOAN RECEIVABLE	7,688,500	7,688,500
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	17,117,852	17,427,319
ANNUITIES	7,395	12,463
INVESTMENTS - ENDOWMENT	849,431	1,028,211
TOTAL ASSETS	<u>\$ 58,455,372</u>	<u>\$ 68,322,606</u>
<b><u>LIABILITIES</u></b>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,687,959	\$ 2,378,305
Deferred revenue	259,488	-
Refundable advance	3,067,651	3,434,928
Current portion of long-term debt	110,808	105,617
TOTAL CURRENT LIABILITIES	5,125,906	5,918,850
LONG-TERM DEBT, less current portion above, net of unamortized debt issuance costs	11,325,884	11,423,526
TOTAL LIABILITIES	<u>16,451,790</u>	<u>17,342,376</u>
<b><u>NET ASSETS</u></b>		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Foodbank		
Undesignated	29,287,842	34,398,446
Board designated - reserve	6,120,971	6,660,013
Total foodbank	35,408,813	41,058,459
Contributed food	4,947,415	6,789,242
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	40,356,228	47,847,701
NET ASSETS WITH DONOR RESTRICTIONS	1,647,354	3,132,529
TOTAL NET ASSETS	42,003,582	50,980,230
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 58,455,372</u>	<u>\$ 68,322,606</u>

See Notes to Consolidated Financial Statements

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the Year Ended June 30, 2022, with Summarized Financial Information for the Year Ended June 30, 2021

	2022					2021
	Without Donor Restrictions		With Donor Restrictions		Total	Total
	Operating	Contributed Food	Operating	Endowment Restricted		
OPERATING SUPPORT AND REVENUE						
Contributions	\$ 27,059,588	\$ -	\$ 239,758	\$ -	\$ 27,299,346	\$ 38,709,229
Contributed food received	-	115,069,827	-	-	115,069,827	124,417,634
Handling fees and other revenues	163,043	-	-	-	163,043	543,171
Investment return	(534,964)	-	(138,672)	-	(673,636)	1,140,195
Special events	59,987	-	-	-	59,987	227,914
Net assets released from restriction	1,586,261	-	(1,586,261)	-	-	-
TOTAL OPERATING SUPPORT AND REVENUE	28,333,915	115,069,827	(1,485,175)	-	141,918,567	165,038,143
EXPENSES						
Foodbank program	27,495,113	-	-	-	27,495,113	25,837,280
Contributed food distributed	-	116,911,654	-	-	116,911,654	123,292,451
Management and general	2,581,103	-	-	-	2,581,103	2,315,762
Fund development	2,604,396	-	-	-	2,604,396	2,424,051
TOTAL EXPENSES	32,680,612	116,911,654	-	-	149,592,266	153,869,544
CHANGES IN NET ASSETS BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO DEBT ISSUANCE COSTS, AND GAIN (LOSS) ON DISPOSAL OF ASSETS	(4,346,697)	(1,841,827)	(1,485,175)	-	(7,673,699)	11,168,599
OTHER INCOME (EXPENSE)						
Depreciation expense	(1,345,747)	-	-	-	(1,345,747)	(1,166,361)
Interest attributable to debt issuance costs	(13,177)	-	-	-	(13,177)	(13,177)
Gain (loss) on disposal of assets	55,975	-	-	-	55,975	(4,257)
TOTAL OTHER INCOME (EXPENSE)	(1,302,949)	-	-	-	(1,302,949)	(1,183,795)
CHANGES IN NET ASSETS	(5,649,646)	(1,841,827)	(1,485,175)	-	(8,976,648)	9,984,804
NET ASSETS, BEGINNING OF YEAR	41,058,459	6,789,242	2,476,652	655,877	50,980,230	40,995,426
NET ASSETS, END OF YEAR	\$ 35,408,813	\$ 4,947,415	\$ 991,477	\$ 655,877	\$ 42,003,582	\$ 50,980,230

See Notes to Consolidated Financial Statements

# HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2022, with Summarized Financial Information for the Year Ended June 30, 2021

	<b>2022</b>				<b>2021</b>
	<b>Foodbank Program</b>	<b>Management and General</b>	<b>Fund Development</b>	<b>Total</b>	<b>Total</b>
Compensation and benefits	\$ 9,443,279	\$ 1,553,919	\$ 1,159,960	\$ 12,157,158	\$ 11,553,714
Insurance, contracts and leases	817,983	183,991	54,253	1,056,227	1,103,377
Fees and dues	162,999	220,389	26,244	409,632	411,584
Supplies, printing and postage	474,588	88,720	912,588	1,475,896	1,332,661
Repairs, maintenance, and storage	540,507	9,879	11,233	561,619	598,788
Services and staff support	464,030	473,074	247,984	1,185,088	744,634
Utilities and telephone	521,371	12,846	14,647	548,864	461,143
Vehicle cost and freight	1,888,644	-	-	1,888,644	1,386,930
Interest expense	168,659	15,169	15,767	199,595	205,560
Special events	-	-	161,720	161,720	116,555
Food purchases	12,445,767	-	-	12,445,767	10,946,238
Grants expense	567,286	-	-	567,286	1,695,178
Miscellaneous expense	-	23,116	-	23,116	20,731
Expenses before depreciation and interest attributable to debt issuance costs and contributed food distributed	27,495,113	2,581,103	2,604,396	32,680,612	30,577,093
Depreciation expense	1,307,262	20,204	18,281	1,345,747	1,166,361
Interest attributable to debt amortization issuance costs	12,799	198	180	13,177	13,177
Contributed food distributed	116,911,654	-	-	116,911,654	123,292,451
<b>TOTAL EXPENSES</b>	<b>\$ 145,726,828</b>	<b>\$ 2,601,505</b>	<b>\$ 2,622,857</b>	<b>\$ 150,951,190</b>	<b>\$ 155,049,082</b>
Percentage of total expenses	96.54%	1.72%	1.74%	100.00%	
Percentage of expenses before depreciation and interest attributable to debt issuance costs and contributed food distributed	84.13%	7.90%	7.97%	100.00%	

See Notes to Consolidated Financial Statements

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (8,976,648)	\$ 9,984,804
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Net contributed food activity	1,841,827	(1,125,183)
Donated property and equipment	-	(10,000)
(Gain) loss on disposal of assets	(55,977)	4,257
Realized and unrealized (gain) loss on investments	884,314	(922,217)
Depreciation	1,345,747	1,166,361
Interest attributable to debt issuance costs	13,177	13,177
Change in operating assets:		
Unconditional promises to give	241,219	783,877
Accounts receivable	(220,243)	111,467
Inventory	714,995	(393,920)
Prepaid expenses and other assets	(31,355)	91,310
Change in operating liabilities:		
Accounts payable and accrued expenses	(535,289)	354,987
Deferred revenue	259,488	(245,260)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(4,518,745)</u>	<u>9,813,660</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	910,681	1,335,561
Purchases of investments	(988,189)	(1,958,748)
Proceeds from sale of investments - other	5,068	5,167
Acquisition of property and equipment	(896,705)	(1,316,551)
Proceeds from sale of property and equipment	55,977	39,853
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(913,168)</u>	<u>(1,894,718)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts for capital campaign	25,000	95,000
Repayment of long-term debt	(105,628)	(134,665)
Repayment of accounts payable and accrued expenses used to finance property and equipment	(294,632)	(5,410)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>(375,260)</u>	<u>(45,075)</u>
NET CHANGES IN CASH AND RESTRICTED CASH	(5,807,173)	7,873,867
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	22,109,411	14,235,544
CASH AND RESTRICTED CASH, END OF YEAR	<u>\$ 16,302,238</u>	<u>\$ 22,109,411</u>
<b>Cash and restricted cash per consolidated statements of financial position</b>		
Cash	\$ 15,729,477	\$ 20,556,694
Restricted cash	572,761	1,552,717
Total cash and restricted cash	<u>\$ 16,302,238</u>	<u>\$ 22,109,411</u>

See Notes to Consolidated Financial Statements

## HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### (1) Summary of significant accounting policies

**Organization** - Harvesters - The Community Food Network ("Harvesters") is a not-for-profit, tax-exempt (Section 501(c)(3)) food bank committed to providing food to hungry people in 26 counties in northeast Kansas and northwest Missouri. Harvesters is a charter member of Feeding America and received approximately 35% and 29% of its food through this network for the years ended June 30, 2022 and 2021, respectively. Harvesters collects and purchases food and distributes it to a network of member agencies such as food pantries, soup kitchens, shelters and other non-profit charitable organizations. These agencies provide the food to hungry people in need. Harvesters also educates the community about hunger, hunger relief, and nutrition.

**Principles of consolidation** - Harvesters - The Community Food Network & Subsidiary's (the "Organization") consolidated financial statements include the accounts of Harvesters and HCFN Title Holding Corporation ("HCFN"). All inter-organizational accounts and transactions have been eliminated. HCFN is a public benefit corporation organized exclusively for the benefit of, to perform the functions of, or to carry out the purposes of Harvesters. In conjunction with this charitable purpose, HCFN owns warehouses in Kansas City, Missouri and Topeka, Kansas critical to Harvesters' mission. HCFN participates in transactions that qualify under the Federal New Markets Tax Credit ("NMTC") program, pursuant to Section 45D of the Internal Revenue Code of 1986, as amended. Through HCFN's participation in the NMTC program, HCFN has secured financing related to eligible capital projects. See additional details related to the NMTC transaction at Note 7.

**Basis of presentation** - The Organization's consolidated financial statements are prepared on the accrual basis of accounting. Balances and transactions are presented in accordance with the existence or absence of donor-imposed restrictions. The Organization maintains its financial accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives of the Organization.

- Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions. Items that affect (i.e., increase or decrease) this category of net assets primarily consist of program service fees (handling fees) paid on a per-pound basis by member agencies, and related expenses associated with the core activities of the Organization. In addition to these exchange transactions, changes to this category of net assets include certain types of philanthropic support - namely, contributions and grants without donor restrictions, including those designated by the Board to function as reserves, as well as contributions and grants with donor restrictions whose donor-imposed restrictions were met during the fiscal year, and income from investments with no restrictions.
- Net assets with donor restrictions are net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time. Items that affect this category of net assets are restricted contributions and grants. Contributions and grants received with donor-imposed restrictions are reported as support in the net assets with donor restrictions class unless the restrictions are both imposed and met in the same year (in which case they are reported as support in the net assets without donor restrictions). These amounts are reclassified to net assets without donor restrictions when such restrictions are met or have expired. Net assets with donor restrictions associated with capital campaigns are to be released from restriction when the assets are placed in service or expenses associated with the campaign are incurred.

## HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### (1) Summary of significant accounting policies (continued)

- Net assets with donor restrictions also include endowment funds subject to donor-imposed stipulations, which, as interpreted by the Board of Directors, according to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") requirements, require the Organization to permanently maintain the fair value of the original gift as of the gift date. The donors of these assets permit the Organization to spend a part of the income earned on these assets, which are subject to appropriation or expenditure, on certain programs. These net assets are permanent endowment funds being held by the Organization such that the Organization has a perpetual interest in the earnings.
- Releases from net assets with donor restrictions during the years ended June 30, 2022 and 2021 were \$557,796 and \$1,132,320, respectively, for time restrictions and \$1,028,465 and \$31,386, respectively, for purpose restrictions. Net assets with donor restrictions consisted of time restrictions totaling \$235,162 and \$571,600, purpose restrictions for food distribution programs and endowment funds subject to appropriation or expenditure of \$756,315 and \$1,905,052, and endowment funds not subject to appropriation or expenditure of \$655,877 and \$655,877 at June 30, 2022 and 2021, respectively.

**Revenues and other support** - Contributions and grants, including unconditional promises to give are recognized in accordance with Accounting Standards Codification ("ASC"), following the guidance described in Accounting Standards Update ("ASU") 2018-08 Topic 958, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Under this guidance revenue is considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are restricted for future periods or restricted by the donor are reported as restricted contributions and increase net assets with donor restrictions.

Contributions other than cash, including unconditional promises to give and donated materials with clearly measurable bases, are recorded at their estimated fair value at the date of receipt. Revenue from fees and grants from government agencies are recognized as they are earned through expenditure in accordance with the agreement. Conditional promises to give – that is, those with a measurable performance or other barrier and right of return – are not recognized until the conditions on which they depend have been met.

Revenue from contributed food received, as well as the related food distributed expense and the contributed food inventory accounts, are computed by valuing the Organization's respective pounds of food at a weighted average wholesale price per pound as determined by the Feeding America national food bank network. The Organization treats contributed food as contributions without donor restrictions.

Revenue from contracts is recognized in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. Revenue recognition is based on the five-step model: (i) identify the contract with the customer; (ii) identify the performance obligation in the contract; (iii) determine the contract price; (iv) allocate the transaction price; and (v) recognize revenue (or as) each performance obligation is satisfied. If it is determined that a contract with an enforceable right and obligation does not exist, revenues are deferred until all criteria for an enforceable contract are met.

Revenues from program service fees (handling fees) are recognized as earned from member agencies who receive food. The Organization applies the right to invoice practical expedient to contract revenue, and recognizes revenue as invoiced, since the Organization's right to payment is for an amount that corresponds directly with the value provided to customers based on the Organization's performance to-date.

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

**Gifts in-kind** - The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958). The update requires additional transparency regarding contributed nonfinancial assets through presentation and disclosure, both quantitative and qualitative. The Organization adopted this standard during the year ended June 30, 2022.

Donated assets are reflected as contributions at their estimated fair value at the date of receipt.

The Organization received contributed food totaling \$115,069,827 and \$124,417,634 for the years ended June 30, 2022 and 2021, respectively. Contributed food is valued using a weighted average wholesale price per pound as determined by the Feeding America Product Valuation Methodology Survey.

The Organization received \$37,609 and \$75,030 for the years ended June 30, 2022 and 2021, respectively, for donated services and goods other than contributed food. Donated goods are valued based on estimated prices of identical or similar products considering the condition and utility for use by the Organization. Donated services are valued based on the estimated price of similar services.

All gifts in-kind are utilized by the Organization's food bank program. There were no gifts in-kind subject to donor-imposed restrictions during the years ended June 30, 2022 and 2021.

A substantial number of volunteers have donated thousands of hours during the year ended June 30, 2022, which do not meet the requirements of the Not-For-Profit Topic of the FASB Accounting Standards Codification ("ASC") related to revenue recognition of contributions received and, accordingly, are not recorded in these consolidated financial statements.

**Cash** - Cash consists of available cash balances on deposit at financial institutions. At times, the Organization maintains deposits in financial institutions in excess of federally insured limits. At June 30, 2022 and 2021 the Organization's uninsured balances totaled \$16,453,369 and \$21,859,411, respectively. The Organization has not experienced any losses in such accounts and management believes the risk of loss is negligible.

**Restricted cash** - Amounts included in restricted cash represent those funds required to be set aside by donor restriction. These restricted cash amounts are reflected as assets on the consolidated statements of financial position and as donor restricted funds. The restriction will lapse when the Organization's donor restrictions are satisfied.

**Investments and Investments - Endowment** - Investments and Investments - Endowment consist of money market funds, equities, and fixed income securities which are recorded at their fair value.

**Investment return** - Investment return is reported on the consolidated statements of activities and changes in net assets and consists of interest, dividends, realized and unrealized gains and losses, and fees.

**Annuities** - Annuities consists of an annuity investment which is recorded at fair value.

**Accounts receivable** - Accounts receivable balances result from government reimbursements and handling fees earned. On a periodic basis, the Organization evaluates receivables and establishes an allowance based on history, past write-offs, collections, and current economic conditions. Receivables are written off when it is determined that all collection efforts have been exhausted.

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Inventory** - Contributed food is valued on a first-in, first-out basis using a weighted average wholesale price per pound as determined by the Feeding America national food bank network. For the years ended June 30, 2022 and 2021, contributed food was valued at \$1.92 and \$1.79 per pound, respectively. Purchased food is valued on a first-in, first-out basis.

**Property and equipment** - Property and equipment are stated at cost or the fair value at date of gift for donated assets, less accumulated depreciation. For the year ended June 30, 2021, acquisitions over \$5,000 with a useful life greater than two years were capitalized. This policy was revised for the year ended June 30, 2022 to include all items with an expected useful life of two years or greater which either have a unit cost of \$5,000 or greater or items with a unit cost below this threshold which are included in bulk purchases with a combined cost of \$10,000 or greater.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

<b><u>Assets</u></b>	<b><u>Estimated Useful Lives</u></b>
Building and building improvements	7 - 30 years
Land improvements	15 years
Equipment	3 - 10 years

**Amortization** - In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the consolidated statements of financial position as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. During the years ended June 30, 2022 and 2021, amortization amounted to \$13,177 and \$13,177, respectively.

**Functional expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying statements of functional expenses. Expenses that can be identified with a specific program and support are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the programs or support source. Specifically, those costs are allocated by department, a full time equivalent measure, or by square footage. Direct benefit to donor costs have been included in fund development costs on the consolidated statements of functional expenses as the associated costs are not material in relation to the consolidated financial statements taken as a whole.

**Income taxes** - Harvesters and HCFN are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for federal and state income taxes.

The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the consolidated financial statements during the period which, based on all available evidence, it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. No accrual has been recorded at June 30, 2022 or 2021, as management does not believe any material uncertainties exist.

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Refundable advance** - Refundable advance and expense are recorded in accordance with ASC Topic 958, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Under this guidance, grants are recognized in the accompanying consolidated financial statements when the Organization has an obligation to transfer assets to a grantee.

**Use of estimates** - The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Summarized comparative information** - The consolidated financial statements include certain prior year summarized comparative information in total but neither by net asset class nor by natural classification of expenses by function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Harvesters' consolidated financial statements for the year ended June 30, 2021, from which the summarized information was derived.

**(2) Unconditional promises to give**

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. The discount rate used in valuing unconditional promises to give was 5% for the years ended June 30, 2022 and 2021. Amortization of the discounts is included in contributions revenue.

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Unconditional promises to give - capital campaign	\$ -	\$ 25,000
Unconditional promises to give - operations	438,461	659,138
Unconditional promises to give - government	279,738	303,697
Subtotal	718,199	987,835
Less: Unamortized discount	(3,648)	(7,065)
Subtotal	714,551	980,770
Less: Allowance for uncollectibles	(25,000)	(25,000)
Net unconditional promises to give	<u>\$ 689,551</u>	<u>\$ 955,770</u>

Amounts due in:

Years ending June 30,

2023	\$ 667,610
2024	50,589
Total unconditional promises to give	<u>\$ 718,199</u>

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(3) Conditional promises to give and refundable advances**

Conditional promises to give at June 30, 2022 and 2021 amounted to \$3,350,770 and \$3,681,094, respectively. At June 30, 2022 and 2021, \$3,067,651 and \$3,434,928, respectively, of food was received in relation to federal grants where a barrier to entitlement and a right of return still exists. As such, these food amounts received are reflected as refundable advances within the consolidated statements of financial position until the conditions have been substantially met or waived by the donor. The conditional promises to give will be recognized as revenue within the consolidated financial statements when such amounts become unconditional.

**(4) Investments**

Investments are comprised of the following:

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Fixed income pool:		
Short term	\$ 1,776,360	\$ 1,882,078
Intermediate	1,517,473	1,631,776
Total fixed income pool	<u>3,293,833</u>	<u>3,513,854</u>
Money market pool	<u>985,996</u>	<u>1,093,112</u>
Equity pool:		
Domestic allocation	1,995,109	2,366,864
International allocation	706,450	814,364
Total equity pool	<u>2,701,559</u>	<u>3,181,228</u>
Total investments	<u>\$ 6,981,388</u>	<u>\$ 7,788,194</u>

Investment return is comprised of the following:

	<b>Years ended June 30,</b>	
	<b>2022</b>	<b>2021</b>
Interest and dividend income	\$ 229,887	\$ 236,049
Investment fees	(19,209)	(18,070)
Unrealized (loss) gain	(1,124,017)	585,771
Realized gain	239,703	336,445
Total investment return	<u>\$ (673,636)</u>	<u>\$ 1,140,195</u>

The Organization maintains the above investment portfolios at the Greater Kansas City Community Foundation (the "Community Foundation"), and specified itself as beneficiary at the time of the transfer. Amounts will be distributed to the Organization upon the Community Foundation's receipt of the written recommendation of two authorized signers of the Organization. The Community Foundation will monitor distributions requested by the Organization to ensure amounts are being distributed in accordance with the Organization's intentions. The investment portfolios above are included in Investments and Investments - Endowment on the consolidated statements of financial position as of June 30, 2022 and 2021, respectively.

# HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (4) Investments (continued)

FASB ASC 820, *Fair Value Measurements and Disclosures* provide the framework for measuring fair value. ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

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

The Organization endeavors to utilize the best available information in measuring fair value. The following table summarizes the valuation of the Organization's investments by the above FASB ASC 820 fair value hierarchy levels as of June 30, 2022 and 2021:

June 30, 2022				
	Fair Value	Level 1	Level 2	Level 3
Money market pool	\$ 985,996	\$ -	\$ 985,996	\$ -
Equity pool	2,701,559	-	2,701,559	-
Fixed income pool	3,293,833	-	3,293,833	-
	<u>\$ 6,981,388</u>	<u>\$ -</u>	<u>\$ 6,981,388</u>	<u>\$ -</u>
June 30, 2021				
	Fair Value	Level 1	Level 2	Level 3
Money market pool	\$ 1,093,112	\$ -	\$ 1,093,112	\$ -
Equity pool	3,181,228	-	3,181,228	-
Fixed income pool	3,513,854	-	3,513,854	-
	<u>\$ 7,788,194</u>	<u>\$ -</u>	<u>\$ 7,788,194</u>	<u>\$ -</u>

### (5) Leverage loan receivable

During the year ended June 30, 2017, as a part of the NMTC transactions listed in Note 7 below, Harvesters issued a \$7,688,500 loan to U.S. Bancorp Community Development Corporation ("USBCDC") Investment Fund 200, LLC (the "Fund"). The loan has an interest rate of 1% and requires quarterly interest payments beginning July 1, 2017 and requires quarterly interest and principal payments beginning July 1, 2024, with all unpaid principal and accrued interest due June 30, 2047.

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(6) Property and equipment**

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Cost		
Land and land improvements	\$ 667,828	\$ 667,828
Building and building improvements	16,972,509	16,813,875
Equipment	10,008,895	9,597,445
Total cost	27,649,232	27,079,148
Less: Accumulated depreciation	10,531,380	9,651,829
Net property and equipment	<u>\$ 17,117,852</u>	<u>\$ 17,427,319</u>

Depreciation expense charged to operations for the years ended June 30, 2022 and 2021 was \$1,345,747 and \$1,166,361, respectively.

**(7) New market tax credit financing transaction**

During the year ended June 30, 2017 Harvesters sponsored a financing of its Kansas City, Missouri and Topeka, Kansas site expansions under the NMTC program. NMTC financing allows organizations such as HCFN to receive low-interest loans or investment capital from certified community development entities ("CDEs") which allows third-party investors to receive Federal income tax credits based upon the amount of total investment in projects in certain "low income communities".

As an inducement to such third-party tax credit investors and a CDE to invest in the project, Harvesters committed \$7,688,500 via a leverage loan to the Fund, a Missouri limited liability company. As fully described within Note 5, the leverage loan due to the Fund of \$7,688,500 is reflected as a note receivable on the consolidated statement of financial position at June 30, 2022 and 2021. USBCDC invested \$5,000,000 in the Fund and another \$5,000,000 in USBCDC Investment Fund 201, LLC, which subsequently merged with the Fund. The Fund is a wholly owned subsidiary of USBCDC.

The Fund then contributed \$5,000,000 to CBKC CDC SUB-CDE 41, LLC ("CDE 41") and \$5,000,000 to CBKC CDC SUB-CDE 42, LLC ("CDE 42"), the entities having the authority to provide the Federal income tax credits to investors, as a capital contribution. CDE 41 and 42 are 99.99% owned by the Fund and are .01% owned by CBKC CDC, LLC, the organization that manages the CDEs. The Fund also made an additional \$1,000,000 capital contribution to CDE 41.

CDE 41 made qualified low income community investments (the "QLICs") in HCFN, in the form of loans: (i) \$4,193,728 (Loan A) and (ii) \$1,686,272 (Loan B). CDE 42 made QLICs in HCFN in the form of loans: (i) \$3,494,773 (Loan A) and (ii) \$1,405,227 (Loan B). Such loans are secured by the assets and property of HCFN, which consists of cash, land, buildings, and equipment financed by the loans under the program. As part of the financing, Harvesters contributed the Kansas City, Missouri facility and Topeka, Kansas assets to HCFN. Harvesters and HCFN then entered into four leases – two real estate leases for both the Kansas and Missouri properties and two equipment leases for assets related to these properties. The real estate leases are for 25 years and the equipment leases are for 62 months.

# HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**(7) New market tax credit financing transaction (continued)**

Harvesters entered into a put and call agreement with USBCDC during the year ended June 30, 2017. The agreement grants USBCDC the right to exercise the requirement that Harvesters purchase USBCDC'S interest in the Fund and in CDE 41 and 42 for a put exercise price of \$1,000.

This right may be exercised upon the occurrence of the first day following the end of the tax credit investment period, which is defined by Section 45D of the Internal Revenue Code of 1986 as the date on which the investment is initially made and each of the six anniversary dates of such date thereafter. This right may also be exercised upon the occurrence of a NMTC recapture event, which is a disallowance of any NMTCs attributable to any Qualified Equity Investment ("QEI") in the Community Development Entity ("CDE"), the proceeds of which were or will be used to fund the QLICs or related fees, but only to the extent such recapture or disallowance is the direct or indirect result of certain events as disclosed in the HCFN Guaranty Agreement.

**(8) Long-term debt**

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
<b><u>Harvesters</u></b>		
Term loan B with US Bank, with an original balance of \$2,000,000, and interest accruing at 4.75%. Quarterly payments of interest only through June 2018, converting to quarterly payments of principal and interest of \$39,083 beginning September 30, 2018 with all unpaid principal and accrued interest due at maturity on June 30, 2024. The loan is collateralized by Harvesters' leverage loan receivable.	\$ 986,118	\$ 1,091,746
<b><u>HCFN</u></b>		
Term loan A with CBKC CDC SUB-CDE 41, LLC, with an original balance of \$4,193,728, and interest accruing at 1.38%. Quarterly payments of interest only through June 2024, converting to quarterly payments of principal and interest of \$53,285 beginning September 1, 2024 with all unpaid principal and accrued interest due at maturity on June 30, 2047. The loan is collateralized by the assets and personal property of HCFN.	4,193,728	4,193,728
Term loan B with CBKC CDC SUB-CDE 41, LLC, with an original balance of \$1,686,272, and interest accruing at 1.38%. Quarterly payments of interest only through May 2024, with a balloon principal payment due in June 2024, and converting to quarterly payments of principal and interest of \$20,354 beginning July 1, 2024 with all unpaid principal and accrued interest due at maturity on June 30, 2047. The loan is collateralized by the assets and personal property of HCFN.	1,686,272	1,686,272

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(8) Long-term debt (continued)**

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Term loan A with CBKC CDC SUB-CDE 42, LLC, with an original balance of \$3,494,773, and interest accruing at 1.38%. Quarterly payments interest only through June 2024, converting to quarterly payments of principal and interest of \$44,404 beginning September 1, 2024 with all unpaid principal and accrued interest due at maturity on June 30, 2047. The loan is collateralized by the assets and personal property of HCFN.	3,494,773	3,494,773
Term loan B with CBKC CDC SUB-CDE 42, LLC, with an original balance of \$1,405,227, and interest accruing at 1.38%. Quarterly payments of interest only through May 2024, with a balloon principal payment due in June 2024, and converting to quarterly payments of principal and interest of \$16,962 beginning July 1, 2024 with all unpaid principal and accrued interest due at maturity on June 30, 2047. The loan is collateralized by the assets and personal property of HCFN.	1,405,227	1,405,227
Total debt	11,766,118	11,871,746
Less: current portion	(110,808)	(105,617)
Less: unamortized debt issuance costs	(329,426)	(342,603)
Non-current portion	<u>\$ 11,325,884</u>	<u>\$ 11,423,526</u>

Maturities on long-term debt are as follows:

<u>Years ending June 30,</u>	
2023	\$ 110,808
2024	1,030,105
2025	395,303
2026	400,791
2027	406,356
Thereafter	9,422,755
Total	<u>\$ 11,766,118</u>

**(9) Line of credit**

For the years ended June 30, 2022 and 2021, the Organization maintained a \$5,000,000 line of credit. The line available during the year ended June 30, 2022 was renewed with a new maturity date of January 30, 2023 and accrues interest at 1.9% over SOFR (3.59% at June 30, 2022). The line available during the year ended June 30, 2021 matured on January 31, 2022 and accrued interest at 1.8% over LIBOR (1.92% at June 30, 2021). At June 30, 2022 and 2021, there was no outstanding balance on the line. The line is collateralized by all business assets of Harvesters and subject to certain financial and non-financial covenants.

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(10) Endowment**

The Organization's endowment consists of three funds established for a variety of purposes. The funds only include donor-restricted funds. In accordance with FASB ASC 958, net assets associated with endowment funds and funds designated by the Board of Directors are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment funds include the original value at the date of the gift. The earnings on these funds are restricted until appropriated for expenditure on certain programs.

The Organization had the following endowment-related activities:

	<b>For the year ended June 30, 2022</b>		
	<b>Subject to appropriation or expenditure</b>	<b>Not subject to appropriation or expenditure</b>	<b>Total</b>
Beginning balance, July 1, 2021	\$ 372,334	\$ 655,877	\$ 1,028,211
Releases from restriction	(40,108)	-	(40,108)
Investment return	(138,672)	-	(138,672)
Total change in endowment funds	(178,780)	-	(178,780)
Ending balance, June 30, 2022	<u>\$ 193,554</u>	<u>\$ 655,877</u>	<u>\$ 849,431</u>

	<b>For the year ended June 30, 2021</b>		
	<b>Subject to appropriation or expenditure</b>	<b>Not subject to appropriation or expenditure</b>	<b>Total</b>
Beginning balance, July 1, 2020	\$ 148,318	\$ 655,877	\$ 804,195
Releases from restriction	(31,386)	-	(31,386)
Investment return	255,402	-	255,402
Total change in endowment funds	224,016	-	224,016
Ending balance, June 30, 2021	<u>\$ 372,334</u>	<u>\$ 655,877</u>	<u>\$ 1,028,211</u>

**Return objectives and risk parameters**

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds. In order to obtain maximum benefits from the assets of the Organization, the investment goals include achieving long-term growth of capital within specified risk constraints, production of a reasonable rate of return on the investment assets, consistent with the assumption of a prudent level of risk, and protection of the Organization's assets from inflation, so that they will be available for long-term use.

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(10) Endowment (continued)**

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization's risk tolerance is moderate. The Organization targets a diversified asset allocation that places a greater emphasis on equity-based and fixed-income investments, selection of quality securities, and seeking lower volatility to achieve its long-term return objectives within prudent risk constraints.

Spending policy

One of the purposes of the Organization's investment assets is to provide funds to cover the portion of the Organization's program costs and organizational expenses that are not covered by fees for services or by donations and grants. Distributions will be made annually at 5% of a trailing 3-year average of the endowments' total market value as of December 31. No distribution will be made if such distribution would bring the value of the fund below the historic dollar value of the fund.

**(11) Lease commitments**

Harvesters and HCFN have entered into three leases where Harvesters is the lessee and HCFN is the lessor - one real estate lease for the Kansas City, Missouri facility and two equipment leases for assets in both Kansas and Missouri. Additionally, the two entities have a memorandum of occupancy for use of the Topeka, Kansas facility. The memorandum expired December 2018 but automatically renews for one-year periods through December 2027. The Missouri real estate lease expires June 2042 and the equipment leases expire August 2022. All three leases require quarterly payments. The activity related to these leases has been eliminated in the consolidated financial statements and is not reflected in the future minimum rental payments below.

Harvesters also leases equipment used in operations through multiple leases which expire between August 2024 and June 2027.

The future minimum rental payments required under these operating leases are as follows:

Years ending June 30,

2023	\$	334,204
2024		334,204
2025		291,066
2026		192,417
2027		142,237
	<u>\$</u>	<u>1,294,128</u>

Total rental expense for the years ended June 30, 2022 and 2021 was \$488,566 and \$413,082, respectively.

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(12) Liquidity**

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Cash	\$ 16,302,238	\$ 21,678,460
Unconditional promises to give	642,610	890,275
Investments	6,131,957	6,759,983
Accounts receivable	356,142	135,899
Other investments	6,044	5,867
Appropriations from endowment	46,611	40,108
	<b>\$ 23,485,602</b>	<b>\$ 29,510,592</b>

Cash - The amount shown above reflects cash on hand available to meet general expenditures within the next year. Cash on hand for the purpose of repaying debt or for capital expenditures is not reflected here.

Unconditional promises to give - The amount reflected above includes those contributions receivable within one year and which may be used for general expenditures. Contributions with donor-imposed restrictions are included when such gifts are restricted for use in Harvesters regular, ongoing activities.

Investments - Included in the amount above is \$6,120,971 designated as an operating reserve by the Board. Harvesters does not intend to spend from the reserve in the upcoming year, but this amount is available for general expenditures as needed. These funds are invested at the Greater Kansas City Community Foundation. The Foundation reserves the right to make the final decision regarding distributions from the fund.

Accounts receivable - The amount reflected above includes receivables due within the year from Harvesters' agency partners and others.

Other investments - The amount above reflects the guaranteed cash payments due within one year from an annuity owned by Harvesters.

Appropriations from permanent endowment - The Board has appropriated the above amount, in accordance with the spending policy of the endowment, for general expenditures within the next year.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, management and the Board consider all expenditures of the organization, including operating expenses, capital acquisition needs and debt service requirements. Based on these expenditures, the Organization prepares a balanced budget; deficit budgets are not prepared except in unusual circumstances. Liquidity is monitored regularly by management and the Board. In addition to the financial assets shown above, Harvesters has a \$5,000,000 line of credit, as described in Note 9, which it can draw upon as needed. Harvesters may also make short-term borrowings from its operating reserves for temporary liquidity needs.

**(13) Retirement plan**

The Organization sponsors a non-participatory defined contribution retirement plan for employees following completion of two consecutive years of employment. The Organization contributes 5% of gross compensation of eligible employees. During the years ended June 30, 2022 and 2021, contributions to the plan charged to operations were \$292,376 and \$398,622, respectively.

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(14) Board designated reserve**

The Board of Directors authorized the establishment of an operating reserve fund. This fund, which is maintained in the Organization's investment account, consisted of \$6,120,971 and \$6,660,013 at June 30, 2022 and 2021, respectively. Reserve funds can be used without board approval for temporary cash flow needs only up to 50% of the total value of the reserve. All other uses require board approval.

**(15) Concentrations**

During the year ended June 30, 2022, 11% of Harvesters' purchases were from Feeding America for the acquisition of food items. In addition, 42% and 16% of Harvesters' donated food came from Feeding America and the United States Department of Agriculture, respectively.

During the year ended June 30, 2021, 10% of Harvesters' purchases were with one vendor for the acquisition of food items. In addition, 35% and 29% of Harvesters' donated food came from Feeding America and the United States Department of Agriculture, respectively.

**(16) Cash flow disclosures**

The following is a summary of supplemental cash flow information:

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Cash paid for interest	\$ 199,595	\$ 205,559
In-kind donations of property and equipment	\$ -	\$ 10,000
Purchase of property and equipment with accounts payable and accrued expenses	\$ 139,575	\$ 294,632
Refundable advance of donated inventory	\$ 367,277	\$ 355,392

**(17) Recent accounting pronouncements**

**Leases** - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, office equipment, and vehicles. Under the current accounting model, an organization applies a classification test to determine the accounting for the lease arrangement as an operating or capital lease. The new guidance will require organizations that lease assets to recognize on the statements of financial position the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with terms of more than twelve months. Consistent with accounting principles generally accepted in the United States ("U.S. GAAP"), the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a capital or operating lease. However, unlike current U.S. GAAP, the new ASU will require both types of leases to be recognized on the statements of financial position. The ASU will also require disclosure to help donors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative analysis. This ASU is effective for the Organization's June 30, 2023 consolidated financial statements. The Organization is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(18) Paycheck Protection Program**

During the year ended June 30, 2020, the Organization received a Paycheck Protection Program ("PPP") loan of \$1,556,900, granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). PPP loans are considered conditional contributions, with a right-of-return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (rent, utilities, and interest on mortgages) incurred following the receipt of the funds. During the year ended June 30, 2020, the Organization recognized the amount received as contribution income as qualified expenses occurred and barriers to entitlement were met. A formal request for forgiveness was approved in March 2021. All documentation supporting program compliance has been made available for the financial statement audit.

**(19) Commitments**

The Kansas Department of Transportation ("KDOT") has announced plans to reconfigure the section of I-70 in Topeka known as the Polk-Quincy Viaduct. During the fiscal year ending June 30, 2021, KDOT selected a plan design for this project. The design will subject the Organization's Topeka facility to demolition as part of a right-of-way acquisition. The Organization expects to occupy the building until 2024, when construction on the Polk-Quincy project is scheduled to begin. The Organization has no knowledge of the right-of-way acquisition interfering with the expiration of the NMTC described in Note 7. As of the date these consolidated financial statements were available to be issued, any right-of-way proceeds from the disposition of the affected property are unknown.

In May 2022, Harvesters entered into a purchase agreement to acquire a new Kansas facility ("Timberedge property"). The total expected cost to purchase this facility is \$4.8 million. The Organization is expected to close on the Timberedge property on December 22, 2022.

**(20) Subsequent events**

The Organization has evaluated subsequent events through October 24, 2022, which is the date the consolidated financial statements were available to be issued. Except for the matters discussed in Note 19, no significant matters were identified for disclosure during this evaluation.

## **SUPPLEMENTARY INFORMATION**

# HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

## SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2022

### ASSETS

	<u>Harvesters</u>	<u>HCFN</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash	\$ 16,011,838	\$ 290,400	\$ -	\$ 16,302,238
Unconditional promises to give, current portion, less allowance for uncollectibles	642,610	-	-	642,610
Investments	6,131,957	-	-	6,131,957
Accounts receivable	356,142	971,455	(971,455)	356,142
Inventory	8,936,021	-	-	8,936,021
Prepaid expenses and other assets	376,285	-	-	376,285
TOTAL CURRENT ASSETS	32,454,853	1,261,855	(971,455)	32,745,253
LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less current portion above, net of unamortized discount	46,941	-	-	46,941
LEVERAGE LOAN RECEIVABLE	7,688,500	-	-	7,688,500
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	3,231,281	13,886,571	-	17,117,852
ANNUITIES	7,395	-	-	7,395
INVESTMENTS - ENDOWMENT	849,431	-	-	849,431
TOTAL ASSETS	<u>\$ 44,278,401</u>	<u>\$ 15,148,426</u>	<u>\$ (971,455)</u>	<u>\$ 58,455,372</u>

### LIABILITIES

CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 2,659,414	\$ -	\$ (971,455)	\$ 1,687,959
Grants payable	259,488	-	-	\$ 259,488
Refundable advance	3,067,651	-	-	3,067,651
Current portion of long-term debt	110,808	-	-	110,808
TOTAL CURRENT LIABILITIES	6,097,361	-	(971,455)	5,125,906
LONG-TERM DEBT, less current portion above	875,310	10,450,574	-	11,325,884
TOTAL LIABILITIES	<u>6,972,671</u>	<u>10,450,574</u>	<u>(971,455)</u>	<u>16,451,790</u>

### NET ASSETS

NET ASSETS WITHOUT DONOR RESTRICTIONS				
Foodbank				
Undesignated	24,589,990	4,697,852		29,287,842
Board designated - reserve	6,120,971	-	-	6,120,971
Total foodbank	30,710,961	4,697,852	-	35,408,813
Contributed food	4,947,415	-	-	4,947,415
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	35,658,376	4,697,852	-	40,356,228
NET ASSETS WITH DONOR RESTRICTIONS	1,647,354	-	-	1,647,354
TOTAL NET ASSETS	37,305,730	4,697,852	-	42,003,582
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 44,278,401</u>	<u>\$ 15,148,426</u>	<u>\$ (971,455)</u>	<u>\$ 58,455,372</u>

See Notes to Supplementary Information – Consolidating Financial Statements

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2022

	Harvesters	HCFN	Eliminations	Total
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>				
<b>OPERATING SUPPORT AND REVENUE</b>				
Contributions	\$ 27,907,096	\$ -	\$ (847,508)	\$ 27,059,588
Contributed food received	115,069,827	-	-	115,069,827
Handling fees and other revenues	163,043	-	-	163,043
Rental income	-	1,078,738	(1,078,738)	-
Investment return	(535,510)	546	-	(534,964)
Special events	59,987	-	-	59,987
Net assets released from restriction	1,586,261	-	-	1,586,261
<b>TOTAL OPERATING SUPPORT AND REVENUE</b>	<b>144,250,704</b>	<b>1,079,284</b>	<b>(1,926,246)</b>	<b>143,403,742</b>
<b>EXPENSES</b>				
Foodbank program	28,398,074	967,746	(1,870,707)	27,495,113
Contributed food distributed	116,911,654	-	-	116,911,654
Management and general	2,547,866	62,394	(29,157)	2,581,103
Fund development	2,616,367	14,411	(26,382)	2,604,396
<b>TOTAL EXPENSES</b>	<b>150,473,961</b>	<b>1,044,551</b>	<b>(1,926,246)</b>	<b>149,592,266</b>
<b>CHANGES IN NET ASSETS BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO DEBT ISSUANCE COSTS, AND GAIN ON SALE OF ASSETS</b>	<b>(6,223,257)</b>	<b>34,733</b>	<b>-</b>	<b>(6,188,524)</b>
<b>OTHER INCOME (EXPENSE)</b>				
Gain on sale of assets	55,975	-	-	55,975
Depreciation expense	(661,010)	(684,737)	-	(1,345,747)
Interest attributable to debt issuance costs	-	(13,177)	-	(13,177)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<b>(605,035)</b>	<b>(697,914)</b>	<b>-</b>	<b>(1,302,949)</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>(6,828,292)</b>	<b>(663,181)</b>	<b>-</b>	<b>(7,491,473)</b>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>				
Contributions with donor restrictions	239,758	-	-	239,758
Endowment earnings	(138,672)	-	-	(138,672)
Releases from net assets with donor restrictions	(1,586,261)	-	-	(1,586,261)
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>(1,485,175)</b>	<b>-</b>	<b>-</b>	<b>(1,485,175)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>45,619,197</b>	<b>5,361,033</b>	<b>-</b>	<b>50,980,230</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 37,305,730</b>	<b>\$ 4,697,852</b>	<b>\$ -</b>	<b>\$ 42,003,582</b>

**HARVESTERS - THE COMMUNITY FOOD NETWORK  
& SUBSIDIARY**

**NOTES TO SUPPLEMENTARY INFORMATION – CONSOLIDATING FINANCIAL STATEMENTS**

**(1) Principles of consolidation**

The consolidated financial statements include the accounts of Harvesters and HCFN (the “Organization”). All inter-organizational accounts and transactions have been eliminated.

The supplemental consolidating financial statements therefore show certain accounts and transactions that were otherwise eliminated in the consolidated financial statements, which are described below.

At June 30, 2022 and 2021, Harvesters owed HCFN \$971,455 and \$949,599, respectively, for the net effect of straight-line rent expense and certain operating expenses and capital expenditures.

During the years ended June 30, 2022 and 2021 HCFN leased certain property and equipment at the Kansas and Missouri locations to Harvesters. As a part of these transactions, HCFN recognized rental revenue, and Harvesters recognized rental expense, of \$981,230 and \$981,248 during the years ended June 30, 2022 and 2021, respectively. Under the Kansas property memorandum of occupancy, HCFN donated the use of the space to Harvesters. This resulted in in-kind donation revenue and in-kind rental expense for Harvesters of \$96,553 and \$94,661 during the years ended June 30, 2022 and 2021, respectively. For HCFN, this resulted in in-kind rental revenue and donation expense of \$97,508 and \$95,598 during the years ended June 30, 2022 and 2021, respectively. Additionally, HCFN made monetary donations to Harvesters, which resulted in contribution expense of \$750,000 and \$800,000, and Harvesters recognized contribution revenue of \$750,000 and \$800,000, during the years ended June 30, 2022 and 2021, respectively

At June 30, 2022 and 2021, as a result of the Missouri property lease, Harvesters recognized a deferred rent payable and HCFN recognized a deferred rent receivable of \$1,026,588 and \$998,795, respectively, for the difference between the straight line rent expense and the actual rent paid. Harvesters and HCFN also recorded an intercompany in-kind pledge receivable and payable, respectively, that is ultimately eliminated from the consolidated financial statements.