



**HARVESTERS - THE COMMUNITY FOOD NETWORK**

**FINANCIAL STATEMENTS**

Years Ended June 30, 2016 and 2015





## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors

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

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

We have audited the accompanying financial statements of Harvesters - The Community Food Network, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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.

#### ***Auditors' 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 auditors' 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.

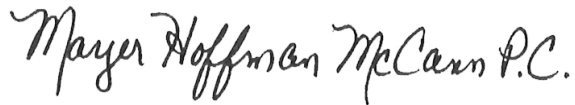
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harvesters - The Community Food Network as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Report on Summarized Comparative Information*

We have previously audited Harvesters - The Community Food Network's 2015 financial statements, and our report dated September 14, 2015, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive script.

Kansas City, Missouri  
September 12, 2016

**HARVESTERS - THE COMMUNITY FOOD NETWORK**

**STATEMENTS OF FINANCIAL POSITION**

June 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash		
Cash	\$ 2,884,296	\$ 3,867,107
Cash - endowment	-	316,176
Total cash	2,884,296	4,183,283
Unconditional promises to give, current portion, less allowance for uncollectibles	4,420,211	1,374,142
Investments	4,107,835	3,840,274
Accounts receivable	504,473	540,260
Inventory	4,786,278	4,337,772
Prepaid expenses and other assets	297,716	247,172
<b>TOTAL CURRENT ASSETS</b>	17,000,809	14,522,903
<b>LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less current portion above, net of unamortized discount</b>	330,269	420,122
<b>PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation</b>	10,780,988	10,245,589
<b>LOAN ORIGATION FEES, less accumulated amortization</b>	58,577	4,159
<b>INVESTMENTS - ENDOWMENT</b>	325,330	-
<b>TOTAL ASSETS</b>	\$ 28,495,973	\$ 25,192,773
<b><u>LIABILITIES</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,713,699	\$ 823,526
Grants payable	-	10,000
Current portion of long-term debt	82,911	79,710
<b>TOTAL CURRENT LIABILITIES</b>	1,796,610	913,236
<b>LONG-TERM DEBT, less current portion above</b>	749,882	832,794
<b>TOTAL LIABILITIES</b>	2,546,492	1,746,030
<b><u>NET ASSETS</u></b>		
<b>UNRESTRICTED NET ASSETS</b>		
Foodbank		
Undesignated	12,274,097	13,719,590
Board designated - reserve	4,107,835	3,837,421
Total foodbank	16,381,932	17,557,011
Contributed food	4,068,369	3,702,630
<b>TOTAL UNRESTRICTED NET ASSETS</b>	20,450,301	21,259,641
<b>TEMPORARILY RESTRICTED NET ASSETS</b>	5,183,180	1,871,102
<b>PERMANENTLY RESTRICTED NET ASSETS</b>	316,000	316,000
<b>TOTAL NET ASSETS</b>	25,949,481	23,446,743
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 28,495,973	\$ 25,192,773

See Notes to Financial Statements

## HARVESTERS - THE COMMUNITY FOOD NETWORK

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2016, with Summarized Financial Information for the Year Ended June 30, 2015

	2016					2015	
	Unrestricted		Temporarily Restricted			Total	Total
	Total Foodbank	Contributed Food	Operating	Capital Campaign	Permanently Restricted		
<b>OPERATING SUPPORT AND REVENUE</b>							
Contributions received	\$ 13,760,452	\$ -	\$ 3,978,516	\$ 572,430	\$ -	\$ 18,311,398	\$ 16,847,601
Contributed food received	-	77,978,131	-	-	-	77,978,131	74,525,372
Handling fees and other revenues	1,131,338	-	-	-	-	1,131,338	1,275,931
Investment income	27,132	-	9,154	-	-	36,286	88,467
Special events	562,527	-	-	-	-	562,527	527,676
Net assets released from restriction	1,248,022	-	(1,248,022)	-	-	-	-
<b>TOTAL OPERATING SUPPORT AND REVENUE</b>	<b>16,729,471</b>	<b>77,978,131</b>	<b>2,739,648</b>	<b>572,430</b>	<b>-</b>	<b>98,019,680</b>	<b>93,265,047</b>
<b>EXPENSES</b>							
Foodbank program	13,564,586	-	-	-	-	13,564,586	12,340,618
Contributed food distributed	-	77,612,392	-	-	-	77,612,392	75,621,666
Management and general	1,161,143	-	-	-	-	1,161,143	1,086,605
Fund development	2,197,255	-	-	-	-	2,197,255	1,915,731
<b>TOTAL EXPENSES</b>	<b>16,922,984</b>	<b>77,612,392</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>94,535,376</b>	<b>90,964,620</b>
<b>CHANGES IN NET ASSETS FROM OPERATIONS, BEFORE DERIVATIVE, DEPRECIATION AND AMORTIZATION, AND GAIN (LOSS) ON DISPOSAL OF ASSETS</b>	<b>(193,513)</b>	<b>365,739</b>	<b>2,739,648</b>	<b>572,430</b>	<b>-</b>	<b>3,484,304</b>	<b>2,300,427</b>
<b>OTHER REVENUE (EXPENSE)</b>							
Change in value of derivative	-	-	-	-	-	-	29,538
Depreciation and amortization expense	(979,885)	-	-	-	-	(979,885)	(1,028,533)
Gain (loss) on disposal of assets	(1,681)	-	-	-	-	(1,681)	10,817
<b>TOTAL OTHER REVENUE (EXPENSE)</b>	<b>(981,566)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(981,566)</b>	<b>(988,178)</b>
<b>CHANGES IN NET ASSETS</b>	<b>(1,175,079)</b>	<b>365,739</b>	<b>2,739,648</b>	<b>572,430</b>	<b>-</b>	<b>2,502,738</b>	<b>1,312,249</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>17,557,011</b>	<b>3,702,630</b>	<b>1,696,102</b>	<b>175,000</b>	<b>316,000</b>	<b>23,446,743</b>	<b>22,134,494</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 16,381,932</b>	<b>\$ 4,068,369</b>	<b>\$ 4,435,750</b>	<b>\$ 747,430</b>	<b>\$ 316,000</b>	<b>\$ 25,949,481</b>	<b>\$ 23,446,743</b>

See Notes to Financial Statements

## HARVESTERS - THE COMMUNITY FOOD NETWORK

### STATEMENTS OF FUNCTIONAL EXPENSES

Years ended June 30, 2016 and 2015

	2016				2015			
	Foodbank Program	Management and General	Fund Development	Total	Foodbank Program	Management and General	Fund Development	Total
Compensation and benefits	\$ 5,950,950	\$ 760,073	\$ 855,022	\$ 7,566,045	\$ 5,594,261	\$ 736,236	\$ 750,484	\$ 7,080,981
Insurance, contracts and leases	518,498	67,557	31,816	617,871	426,011	56,939	27,287	510,237
Fees and dues	139,321	74,837	17,534	231,692	135,693	77,112	13,596	226,401
Supplies, printing and postage	522,344	113,623	596,144	1,232,111	464,335	95,575	607,236	1,167,146
Repairs, maintenance, and storage	476,331	4,802	4,633	485,766	443,880	4,130	3,907	451,917
Services and staff support	253,075	123,598	280,762	657,435	218,644	102,249	225,252	546,145
Utilities and telephone	374,904	8,472	10,578	393,954	364,592	8,092	9,873	382,557
Vehicle cost and freight	991,870	-	-	991,870	774,131	-	-	774,131
Interest expense	27,074	2,391	4,209	33,674	41,218	3,272	4,346	48,836
Special events	-	-	396,557	396,557	-	-	273,750	273,750
Food purchases	4,307,760	-	-	4,307,760	3,877,751	-	-	3,877,751
Miscellaneous expense	2,459	5,790	-	8,249	102	3,000	-	3,102
	<b>13,564,586</b>	<b>1,161,143</b>	<b>2,197,255</b>	<b>16,922,984</b>	<b>12,340,618</b>	<b>1,086,605</b>	<b>1,915,731</b>	<b>15,342,954</b>
Expenses before depreciation and amortization expense and contributed food distributed								
Depreciation and amortization expense	951,977	13,121	14,787	979,885	999,239	13,773	15,521	1,028,533
Contributed food distributed	77,612,392	-	-	77,612,392	75,621,666	-	-	75,621,666
	<b>\$ 92,128,955</b>	<b>\$ 1,174,264</b>	<b>\$ 2,212,042</b>	<b>\$ 95,515,261</b>	<b>\$ 88,961,523</b>	<b>\$ 1,100,378</b>	<b>\$ 1,931,252</b>	<b>\$ 91,993,153</b>
	<b>96.45%</b>	<b>1.23%</b>	<b>2.32%</b>	<b>100.00%</b>	<b>96.70%</b>	<b>1.20%</b>	<b>2.10%</b>	<b>100.00%</b>

See Notes to Financial Statements

## HARVESTERS - THE COMMUNITY FOOD NETWORK

### STATEMENTS OF CASH FLOWS

Years ended June 30, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 2,502,738	\$ 1,312,249
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Net contributed food activity	(365,739)	1,096,294
(Gain) loss on disposal of assets	1,681	(10,817)
Realized and unrealized (gain) loss on investments	22,201	(31,680)
Depreciation and amortization	979,885	1,028,533
Contributions restricted for permanent investment	-	(75,000)
In-kind donation of property and equipment	(18,980)	(36,695)
Contributions to finance long-term capital improvements	(572,430)	(75,000)
Change in derivative	-	(29,538)
Change in operating assets:		
Unconditional promises to give	(2,709,956)	(520,615)
Accounts receivable	35,787	(138,521)
Inventory	(82,767)	113,827
Prepaid expenses and other assets	(50,544)	(102,576)
Change in operating liabilities:		
Accounts payable and accrued expenses	55,066	(38,394)
Grants payable	(10,000)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	(213,058)	2,492,067
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	313,799	341,545
Acquisition of investments	(928,891)	(642,630)
Change in perpetual trust held by a third party	-	232,488
Acquisition of property and equipment	(662,444)	(706,347)
Proceeds from sale of property and equipment	4,650	39,693
NET CASH FLOWS FROM INVESTING ACTIVITIES	(1,272,886)	(735,251)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts for capital campaign	231,170	250
Contributions restricted for permanent investment	-	75,000
Receipts to finance long-term capital improvements	95,000	95,000
Repayment of long-term debt	(79,711)	(76,746)
Payment of loan fees	(59,502)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	186,957	93,504
 NET CHANGES IN CASH	 (1,298,987)	 1,850,320
 CASH, BEGINNING OF YEAR	 4,183,283	 2,332,963
 CASH, END OF YEAR	 \$ 2,884,296	 \$ 4,183,283

See Notes to Financial Statements

## HARVESTERS - THE COMMUNITY FOOD NETWORK

### NOTES TO FINANCIAL STATEMENTS

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

**Organization** - Harvesters - The Community Food Network (the Organization) 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. The Organization is a charter member of Feeding America and received approximately 38% and 44% of its contributed food through this network for the years ended June 30, 2016 and 2015, respectively. The Organization 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. The Organization also educates the community about hunger, hunger relief, and nutrition.

**Basis of presentation** - The Organization's 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.

- Unrestricted Net Assets 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, unrestricted contributions and grants, including those designated by the Board to function as reserves, as well as restricted contributions and grants whose donor-imposed restrictions were met during the fiscal year, and income from investments.
- Temporarily Restricted Net Assets 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 temporarily restricted net assets class unless the restrictions are both imposed and met in the same year (in which case they are reported as support in the unrestricted net assets class). These amounts are reclassified to unrestricted net assets when such restrictions are met or have expired. Net assets with temporary restrictions associated with the capital campaign are to be released from restriction when the assets are acquired or expenses associated with the campaign are incurred. Temporarily restricted net assets consisted of time restrictions totaling \$4,426,420 and \$1,795,926 along with purpose restrictions for long-term capital improvements and unappropriated earnings on endowment investments of \$756,760 and \$75,176 at June 30, 2016 and 2015, respectively.
- Permanently Restricted Net Assets are net assets 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. Generally, the donors of these assets permit the Organization to use all or part of the income earned on these assets. These net assets are permanent endowment funds being held by the Organization such that the Organization has a perpetual interest in the earnings.



# HARVESTERS - THE COMMUNITY FOOD NETWORK

## NOTES TO FINANCIAL STATEMENTS

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

**Revenues and other support** - Contributions and grants, including unconditional promises to give, represent amounts raised from the public and are recognized in the period received. 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. If any funding is received for exchange transactions in advance of the expenditure, it is recorded as deferred revenue on the statement of financial position. Revenues from program service fees (handling fees) are recognized as earned from member agencies who receive food.

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 an unrestricted contribution.

Donated assets are reflected as contributions at their estimated fair value at the date of receipt. A substantial number of volunteers have donated hundreds of hours during the year ended June 30, 2016, which do not meet the requirements of the Not-For-Profit Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) related to revenue recognition of contributions received and, accordingly, are not recorded in these financial statements. The Organization received \$170,850 and \$176,717 for the years ended June 30, 2016 and 2015, respectively, for donated services and goods other than contributed food.

**Cash** - Cash consists of available cash balances on deposit at financial institutions. At times, balances in these accounts are in excess of federally insured limits. Management monitors the soundness of the institutions involved and feels the Organization's risk is negligible. The Organization has not experienced any losses in such accounts.

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

**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, 2016 and 2015, contributed food was valued at \$1.67 and \$1.70 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 market value at date of gift for donated assets, less accumulated depreciation. Acquisitions of \$1,500 or more are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

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

## HARVESTERS - THE COMMUNITY FOOD NETWORK

### NOTES TO FINANCIAL STATEMENTS

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

**Grants payable** - The Organization accounts for program grants awarded in accordance with ASC 720-25, *Contributions Made*. Under this statement, grants are recognized in the accompanying financial statements when the Organization has an obligation to transfer assets to a grantee.

**Functional expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement 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. Direct benefit to donor costs have been included in fund development costs on the statements of functional expenses as the associated costs are not material in relation to the financial statements taken as a whole.

**Income taxes** - The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as a not-for-profit organization. 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 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, 2016 or 2015, as management does not believe any material uncertainties exist.

**Use of estimates** - The preparation of 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 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 financial statements include certain prior year summarized comparative information in total but neither by net asset class nor by functional expense. 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 Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

**Reclassification** - Certain items in the 2015 financial statements have been reclassified to conform to the 2016 financial statement presentation. There was no impact to the change in net assets.

#### (2) Promises to give

##### **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, 2016 and 2015. Amortization of the discounts is included in contribution revenue.

**HARVESTERS - THE COMMUNITY FOOD NETWORK**

**NOTES TO FINANCIAL STATEMENTS**

**(2) Promises to give (continued)**

Included in unconditional promises to give are the amounts related to operations and the capital campaign.

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Unconditional promises to give - capital campaign	\$ 450,000	\$ 100,000
Unconditional promises to give - operations	4,362,211	1,758,832
Subtotal	4,812,211	1,858,832
Less: Unamortized discount	(36,731)	(39,568)
Subtotal	4,775,480	1,819,264
Less: Allowance for uncollectibles	(25,000)	(25,000)
Net unconditional promises to give	\$ 4,750,480	\$ 1,794,264

Amounts due in:

Years ending June 30,

2017	\$ 4,445,211
2018	211,000
2019	81,000
2020	75,000
Total unconditional promises to give	\$ 4,812,211

**Conditional promises to give**

The Organization received notice of one contribution during the year ended June 30, 2016 and two contributions during the year ended June 30, 2015 that are contingent upon the Organization meeting certain benchmarks. As such, these contributions are considered conditional promises to give and are not recorded within the Organization's financial statements. The total conditional promises to give as of June 30, 2016 and 2015 were \$2,750,000 and \$1,750,000, respectively.

**(3) Investments**

Investments are comprised of the following:

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Fixed income pool	\$ 1,205,358	\$ 1,023,440
Money market pool	982,301	911,958
Equity pool:		
Large cap allocation	1,678,516	1,432,466
Diversified allocation	120,134	99,054
International allocation	446,856	373,356
Total equity pool	2,245,506	1,904,876
Total investments	\$ 4,433,165	\$ 3,840,274

**HARVESTERS - THE COMMUNITY FOOD NETWORK**

**NOTES TO FINANCIAL STATEMENTS**

**(3) Investments (continued)**

Investment income is comprised of the following:

	<b>Years ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Interest and dividend income	\$ 73,485	\$ 71,508
Investment fees	(14,998)	(14,721)
Unrealized gain (loss)	(28,957)	21,554
Realized gain	6,756	10,126
Total investment income	\$ 36,286	\$ 88,467

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. The Community Foundation reserves the right to make the final decision regarding the distribution from the Fund. 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 investment portfolios above are included in investments and endowment on the statements of financial position as of the years ended June 30, 2016 and 2015, respectively.

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 fair values of the Organization's investments can be determined using the following valuation methods as of June 30, 2016 and 2015:

	<b>June 30, 2016</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market pool	\$ 982,301	\$ 982,301	\$ -	\$ -
Equity pool	2,245,506	2,245,506	-	-
Fixed income pool	1,205,358	-	1,205,358	-
	\$ 4,433,165	\$ 3,227,807	\$ 1,205,358	\$ -
	<b>June 30, 2015</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market pool	\$ 911,958	\$ 911,958	\$ -	\$ -
Equity pool	1,904,876	1,904,876	-	-
Fixed income pool	1,023,440	-	1,023,440	-
	\$ 3,840,274	\$ 2,816,834	\$ 1,023,440	\$ -

**HARVESTERS - THE COMMUNITY FOOD NETWORK**

**NOTES TO FINANCIAL STATEMENTS**

**(4) Property and equipment**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Cost		
Land and land improvements	\$ 699,445	\$ 699,445
Building and building improvements	11,917,345	11,883,905
Equipment	7,574,170	7,185,326
Construction in progress	1,068,244	25,824
Total cost	21,259,204	19,794,500
Less: Accumulated depreciation	10,478,216	9,548,911
Net property and equipment	\$ 10,780,988	\$ 10,245,589

Depreciation expense charged to operations for the years ended June 30, 2016 and 2015 was \$974,801 and \$1,028,213, respectively.

**(5) Loan origination fees**

The Organization capitalizes loan origination fees related to its term loan and construction loan and amortizes them over the term of their respective agreements, which mature in February 2022 and April 2023, respectively, as described in Note 8. Loan origination fees consisted of the following at June 30, 2016 and 2015:

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Loan origination fees	\$ 63,981	\$ 4,479
Less: Accumulated amortization	(5,404)	(320)
Net loan origination fees	\$ 58,577	\$ 4,159

Amortization expense charged to operations for the years ended June 30, 2016 and 2015 was \$5,084 and \$320, respectively.

**(6) 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 \$4,107,835 and \$3,837,421 at June 30, 2016 and 2015, 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.

**(7) Line of credit**

The Organization maintained a \$3,000,000 line of credit during the years ended June 30, 2016 and 2015. The line available during the year ended June 30, 2016 matures on February 15, 2017, and bears interest at 1.8% over LIBOR (2.27% and 1.98% at June 30, 2016 and 2015, respectively). At June 30, 2016 and 2015, there was no outstanding balance on the line. The line is collateralized by all business assets of the Organization and subject to certain financial and non-financial covenants.

**HARVESTERS - THE COMMUNITY FOOD NETWORK**

**NOTES TO FINANCIAL STATEMENTS**

**(8) Long-term debt**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
<u>Term Loan</u>		
Term loan with a bank with interest accruing at 3.78%. Monthly payments of principal and interest of \$9,449 with all unpaid principal and accrued interest due at maturity on February 15, 2022. The note is collateralized by real estate held by the Organization and is subject to certain financial covenants.	\$ 832,793	\$ 912,504
Less: current portion	(82,911)	(79,710)
Non-current portion	\$ 749,882	\$ 832,794

Maturities on long-term debt are as follows:

2017	\$ 82,911
2018	86,145
2019	89,505
2020	92,942
2021	96,621
Thereafter	384,669
Total	\$ 832,793

Construction Loan

During the year ended June 30, 2016 the Organization entered into a construction loan with a bank for the purpose of funding certain capital improvements. The terms of the agreement provide for incremental drawings as the project progresses. Advances may be made until May 31, 2017 with a maximum principal amount of \$6,000,000. Quarterly interest-only payments on the outstanding balance are required until May 31, 2017. After May 31, 2017 payments are made quarterly and include both principal and interest. Interest is computed at LIBOR plus 1.50% (1.97% at June 30, 2016) through May 31, 2017. After May 31, 2017, interest is calculated at a fixed rate equal to the bank's cost of funds plus 1.40%, plus prepayment penalty waiver premium not yet determined. There was no balance on this note as of June 30, 2016. The loan matures April 29, 2023, is secured by an interest in the property, and is subject to certain financial and non-financial covenants. Subsequent to June 30, 2016, the Organization received advances in the amount of \$1,120,407 to be applied to progress billings received on the construction of the capital improvements.

**(9) Endowment**

The Organization has an unconditional interest in an endowment formerly held by an unrelated not-for-profit whereby the Organization received 75% of the income earned on the investment funds. During the year ended June 30, 2015 the unrelated not-for-profit transferred the entire endowment to the Organization. The Organization administers the endowment and receives 100% of the income earned on the investment funds.

## HARVESTERS - THE COMMUNITY FOOD NETWORK

### NOTES TO FINANCIAL STATEMENTS

**(9) Endowment (continued)**

The Organization's endowment consists of two 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. As of June 30, 2015, the endowment balance was included in cash in the statements of financial position. As of June 30, 2016 the endowment balance is included in endowment investments in the statements of financial position. Permanently restricted endowment balances include the original value at the date of the gift. The earnings on these funds are temporarily restricted until appropriated for expenditure.

The Organization had the following endowment-related activities:

	<b>For the year ended June 30, 2016</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Beginning balance, July 1, 2015	\$ 176	\$ 316,000	\$ 316,176
Interest income	2,677	-	2,677
Investment fees	(470)	-	(470)
Net unrealized gain	6,768	-	6,768
Realized gains	179	-	179
Total change in endowment funds	9,154	-	9,154
Ending balance, June 30, 2016	\$ 9,330	\$ 316,000	\$ 325,330

	<b>For the year ended June 30, 2015</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Beginning balance, July 1, 2014	\$ -	\$ 239,500	\$ 239,500
Investment income	176	-	176
Contributions to perpetual endowment	-	76,500	76,500
Total change in endowment funds	176	76,500	76,676
Ending balance, June 30, 2015	\$ 176	\$ 316,000	\$ 316,176

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

### NOTES TO FINANCIAL STATEMENTS

**(9) 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.

**(10) Lease commitments**

The Organization currently leases its Topeka, Kansas facility under an operating lease which expires June 30, 2020. The lease carries with it a provision in which either party may cancel the lease on or after June 30, 2018 by providing 6 months written notice to the other party. Minimum future rental payments under the non-cancelable operating lease have remaining terms in excess of one year as of June 30, 2016 as follows:

<u>Years ending June 30,</u>	
2017	\$ 116,378
2018	118,705
	<u>\$ 235,083</u>

Total rental expense, including month-to-month leases, for the years ended June 30, 2016 and 2015 was \$123,485 and \$112,938, respectively.

**(11) 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, 2016 and 2015, contributions to the plan charged to operations were \$193,160 and \$188,593, respectively.

**(12) Cash flow disclosures**

The following is a summary of supplemental cash flow information:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Cash paid for interest	<u>\$ 33,674</u>	<u>\$ 53,690</u>
In-kind donations of property and equipment	<u>\$ 18,980</u>	<u>\$ 36,695</u>
Purchase of property and equipment		
with accounts payable and accrued expenses	<u>\$ 835,107</u>	<u>\$ -</u>



## HARVESTERS - THE COMMUNITY FOOD NETWORK

### NOTES TO FINANCIAL STATEMENTS

#### (13) Recent accounting pronouncements

**Recent accounting pronouncements - Not-for-Profit Entities** - In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This update, which amends the requirements for financial statements and notes in *Topic 958, Not-for-Profit Entities*, require a Not-for-Profit (NFP) to:

- Present on the face of the statement of financial position amounts for two classes of net assets as “net assets with donor restrictions” and “net assets without donor restrictions,” rather than for the currently required three classes.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted above) rather than that of the currently required three classes.
- Continue to present on the face of the statement of cash flows the net amount of operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- Provide enhanced disclosures about (1) amounts and purposes of governing board designations that result in self-imposed limits on the use of resources without donor-imposed restrictions (2) composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources (3) qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date (4) quantitative information, either on the face of the balance sheet or in the notes, and additional qualitative information in the notes that communicates the availability of a NFP’s financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date (5) amounts of expenses by both their natural classification and their functional classification (6) report investment return net of external and direct internal investment expenses, and no longer require disclosure of those netted expenses (7) use, in absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption.

This update is effective for the Organization’s June 30, 2019 financial statements, and early adoption is permitted. The Organization is evaluating the impact that this updated standard will have on the financial statements and related notes to the financial statements.

**Recent accounting pronouncements - Debt Issuance Costs** - In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*. This standard requires that debt issuance costs related to a recognized debt liability be presented in the statements of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is effective for the Organization’s June 30, 2017 financial statements. The impact to the financial statements for the years ended June 30, 2016 and 2015 would be a reduction in assets of \$58,577 and \$4,159, respectively, with a corresponding reduction in liabilities in the statements of financial position.

**Recent accounting pronouncements - Going Concern** - In August 2014, the FASB issued ASC 2014-15, *Presentation of Financial Statements – Going Concern*, which will require an Organization’s management to assess, for each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the Organization’s ability to continue as a going concern within one year of when the financial statements are available for issuance and provide related disclosures. This standard is effective for the Organization’s June 30, 2017 financial statements, and early adoption is permitted. The Organization does not believe that this standard will have a material impact on the financial statements.

## HARVESTERS - THE COMMUNITY FOOD NETWORK

### NOTES TO FINANCIAL STATEMENTS

**(13) Recent accounting pronouncements (continued)**

**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 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, 2021 financial statements and early adoption is permitted. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

**(14) Subsequent events**

The Organization has evaluated subsequent events through September 12, 2016, which is the date the financial statements were available to be issued. Other than the matter described in Note 8, there were no subsequent events that occurred during this period that would require disclosure in these financial statements or would be required to be recognized in the financial statements as of and for the year ended June 30, 2016.