HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Harvesters - The Community Food Network and & Subsidiary (the "Organization") which comprise the consolidated statement of financial position as of June 30, 2017, 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.

Management's Responsibility 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harvesters - The Community Food Network & Subsidiary as of June 30, 2017, 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

Supplementary 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 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 audits 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's 2016 financial statements, and in our report dated September 12, 2016, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
September 11, 2017

HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	$ 9,226,400	$ 2,884,296
Unconditional promises to give, current portion, less allowance for uncollectibles	1,898,041	4,420,211
Investments	4,475,753	4,107,835
Accounts receivable	650,012	504,473
Inventory	6,728,293	4,786,278
Prepaid expenses and other assets	251,217	297,716
TOTAL CURRENT ASSETS	23,229,716	17,000,809
LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less current portion above, net of unamortized discount	257,480	330,269
LEVERAGE LOAN RECEIVABLE	7,688,500	-
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	15,602,184	10,780,988
INVESTMENTS - ENDOWMENT	372,880	325,330
TOTAL ASSETS	$ 47,150,760	$ 28,437,396
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,397,606	$ 1,713,699
Current portion of long-term debt	-	82,911
TOTAL CURRENT LIABILITIES	1,397,606	1,796,610
LONG-TERM DEBT, less current portion above, net of unamortized debt issuance costs	15,926,666	691,305
TOTAL LIABILITIES	17,324,272	2,487,915
NET ASSETS		
UNRESTRICTED NET ASSETS		
Foodbank		
Undesignated	16,871,114	12,274,097
Board designated - reserve	4,463,050	4,107,835
Total foodbank	21,334,164	16,381,932
Contributed food	6,187,342	4,068,369
TOTAL UNRESTRICTED NET ASSETS	27,521,506	20,450,301
TEMPORARILY RESTRICTED NET ASSETS	1,988,982	5,183,180
PERMANENTLY RESTRICTED NET ASSETS	316,000	316,000
TOTAL NET ASSETS	29,826,488	25,949,481
TOTAL LIABILITIES AND NET ASSETS	$ 47,150,760	$ 28,437,396

See Notes to Financial Statements

HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2017, with Summarized Financial Information for the Year Ended June 30, 2016

	2017						2016
	Unrestricted		Temporarily Restricted				
	Operating	Contributed Food	Operating	Capital Campaign	Permanently Restricted	Total	Total
OPERATING SUPPORT AND REVENUE							
Contributions received	$ 12,871,603	$	$ 1,233,128	$ -	$ -	$ 14,104,731	$ 17,738,968
Contributed food received	-	87,403,118	-	-	-	87,403,118	77,978,131
Handling fees and other revenues	1,320,850	-	-	-	-	1,320,850	1,131,338
Investment income	369,783	-	47,550	-	-	417,333	36,286
Special events	466,901	-	-	-	-	466,901	562,527
Capital campaign revenue	3,532,568	-	-	-	-	3,532,568	572,430
Net assets released from restriction	4,474,876	-	(3,752,446)	(722,430)	-	-	-
TOTAL OPERATING SUPPORT AND REVENUE	23,036,581	87,403,118	(2,471,768)	(722,430)	-	107,245,501	98,019,680
EXPENSES							
Foodbank program	13,533,243	-	-	-	-	13,533,243	13,564,586
Contributed food distributed	-	85,284,145	-	-	-	85,284,145	77,612,392
Management and general	1,180,755	-	-	-	-	1,180,755	1,161,143
Fund development	2,317,505	-	-	-	-	2,317,505	2,197,255
TOTAL EXPENSES	17,031,503	85,284,145	-	-	-	102,315,648	94,535,376
CHANGES IN NET ASSETS BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO DEBT ISSUANCE COSTS, AND GAIN (LOSS) ON DISPOSAL OF ASSETS	6,005,078	2,118,973	(2,471,768)	(722,430)	-	4,929,853	3,484,304
OTHER REVENUE (EXPENSE)							
Depreciation expense	(1,042,126)	-	-	-	-	(1,042,126)	(974,801)
Interest attributable to debt issuance costs	(11,423)	-	-	-	-	(11,423)	(5,084)
Gain (loss) on disposal of assets	703	-	-	-	-	703	(1,681)
TOTAL OTHER REVENUE (EXPENSE)	(1,052,846)	-	-	-	-	(1,052,846)	(981,566)
CHANGES IN NET ASSETS	4,952,232	2,118,973	(2,471,768)	(722,430)	-	3,877,007	2,502,738
NET ASSETS, BEGINNING OF YEAR	16,381,932	4,068,369	4,435,750	747,430	316,000	25,949,481	23,446,743
NET ASSETS, END OF YEAR	$ 21,334,164	$ 6,187,342	$ 1,963,982	$ 25,000	$ 316,000	$ 29,826,488	$ 25,949,481

See Notes to Financial Statements

HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017, with Summarized Financial Information for the Year Ended June 30, 2016

	2017				2016
	Foodbank Program	Management and General	Fund Development	Total	Total
Compensation and benefits	$ 6,237,815	$ 802,569	$ 869,618	$ 7,910,002	$ 7,566,045
Insurance, contracts and leases	581,294	74,546	35,715	691,555	617,871
Fees and dues	158,429	85,984	23,380	267,793	231,692
Supplies, printing and postage	480,885	97,848	664,712	1,243,445	1,232,111
Repairs, maintenance, and storage	505,078	5,134	4,953	515,165	485,766
Services and staff support	354,108	98,347	319,566	772,021	657,435
Utilities and telephone	425,022	9,100	11,679	445,801	393,954
Vehicle cost and freight	926,854	-	-	926,854	991,870
Interest expense	28,152	2,422	4,528	35,102	33,674
Special events	-	-	383,354	383,354	396,557
Food purchases	3,771,605	-	-	3,771,605	4,307,760
Miscellaneous expense	64,001	4,805	-	68,806	8,249
Expenses before depreciation and interest attributable to debt issuance costs and contributed food distributed	13,533,243	1,180,755	2,317,505	17,031,503	16,922,984
Depreciation expense	1,012,445	13,955	15,726	1,042,126	974,801
Interest attributable to debt amortization issuance costs	9,077	792	1,554	11,423	5,084
Contributed food distributed	85,284,145	-	-	85,284,145	77,612,392
TOTAL EXPENSES	$ 99,838,910	$ 1,195,502	$ 2,334,785	$ 103,369,197	$ 95,515,261
	96.58%	1.16%	2.26%	100.00%	

See Notes to Financial Statements

HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 3,877,007	$ 2,502,738
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Net contributed food activity	(2,118,973)	(365,739)
(Gain) loss on disposal of assets	(703)	1,681
Realized and unrealized (gain) loss on investments	(336,055)	22,201
Depreciation	1,042,126	974,801
Interest attributable to debt issuance costs	11,423	5,084
In-kind donation of property and equipment	-	(18,980)
Contributions to finance long-term capital improvements	(3,532,568)	(572,430)
Change in operating assets:		
Unconditional promises to give	2,596,318	(2,709,956)
Accounts receivable	(145,539)	35,787
Inventory	176,958	(82,767)
Prepaid expenses and other assets	46,499	(50,544)
Change in operating liabilities:		
Accounts payable and accrued expenses	(693,786)	55,066
Grants payable	-	(10,000)
NET CASH FLOWS FROM OPERATING ACTIVITIES	922,707	(213,058)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	496,158	313,799
Acquisition of investments	(575,571)	(928,891)
Acquisition of property and equipment	(5,502,059)	(662,444)
Proceeds from sale of property and equipment	17,133	4,650
NET CASH FLOWS FROM INVESTING ACTIVITIES	(5,564,339)	(1,272,886)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts for capital campaign	3,511,209	231,170
Receipts to finance long-term capital improvements	20,000	95,000
Repayment of long-term debt	(5,902,718)	(79,711)
Payment of loan fees	(314,691)	(59,502)
Proceeds from long-term debt	21,358,436	-
Issuance of note receivable	(7,688,500)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	10,983,736	186,957
NET CHANGES IN CASH	6,342,104	(1,298,987)
CASH, BEGINNING OF YEAR	2,884,296	4,183,283
CASH, END OF YEAR	$ 9,226,400	$ 2,884,296

See Notes to Financial Statements

NOTES TO 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 39% and 38% of its contributed food through this network for the years ended June 30, 2017 and 2016, 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, MO and Topeka, KS 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 6.

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.

- 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 with no restrictions.

- 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 released during the years ended June 30, 2017 and 2016 were $3,752,446 and $1,248,022 for time restrictions and $722,430 and $0 for purpose restrictions. Temporarily restricted net assets consisted of time restrictions totaling $1,894,602 and $4,426,420 along with purpose restrictions for long-term capital improvements and unappropriated earnings on endowment investments of $94,380 and $756,760 at June 30, 2017 and 2016, respectively.

(1) Summary of significant accounting policies (continued)

- 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.

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, 2017, 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 consolidated financial statements. The Organization received $95,352 and $170,850 for the years ended June 30, 2017 and 2016, respectively, for donated services and goods other than contributed food.

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, 2017 and 2016 the Organization's uninsured balances totaled $8,642,679 and $2,392,057, respectively. The Organization has not experienced any losses in such accounts and management believes the risk of loss is negligible.

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, 2017 and 2016, contributed food was valued at $1.73 and $1.67 per pound, respectively. Purchased food is valued on a first-in, first-out basis.

(1) Summary of significant accounting policies (continued)

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:

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

Amortization - In April 2015, the FASB issued Accounting Standards Update (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 balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. Previously, Harvesters reflected unamortized debt issuance costs as intangible assets on the balance sheet. Amortization is required to be included with interest expense in the statement of activities. During the years ended June 30, 2017 and 2016, amortization amounts included within interest expense amounted to $11,423 and $5,084.

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 consolidated 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 consolidated 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 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, 2017 or 2016, as management does not believe any material uncertainties exist.

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.

(1) Summary of significant accounting policies (continued)

Summarized comparative information - The consolidated 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 Harvesters' financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Reclassification - Certain items in the 2016 financial statements have been reclassified to conform to the 2017 consolidated financial statement presentation. There was no impact to the change in net assets.

(2) 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, 2017 and 2016. Amortization of the discounts is included in contribution revenue.

	June 30, 2017	June 30, 2016
Unconditional promises to give - capital campaign	$ 475,500	$ 450,000
Unconditional promises to give - operations	1,732,041	4,362,211
Subtotal	2,207,541	4,812,211
Less: Unamortized discount	(27,020)	(36,731)
Subtotal	2,180,521	4,775,480
Less: Allowance for uncollectibles	(25,000)	(25,000)
Net unconditional promises to give	$ 2,155,521	$ 4,750,480

Amounts due in:

Years ending June 30,	
2018	$ 1,923,041
2019	159,500
2020	105,000
2021	20,000
Total unconditional promises to give	$ 2,207,541

(3) Investments

Investments are comprised of the following:

	June 30, 2017	June 30, 2016
Fixed income pool	$ 1,293,991	$ 1,205,358
Money market pool	1,080,271	982,301
Equity pool:		
Large cap allocation	1,784,021	1,678,516
Small/mid cap allocation	123,719	-
Diversified allocation	-	120,134
International allocation	566,631	446,856
Total equity pool	2,474,371	2,245,506
Total investments	$ 4,848,633	$ 4,433,165

Investment income is comprised of the following:

	Years ended June 30, 2017	Years ended June 30, 2016
Interest and dividend income	$ 96,936	$ 73,485
Investment fees	(15,657)	(14,998)
Unrealized gain (loss)	288,146	(28,957)
Realized gain	47,908	6,756
Total investment income	$ 417,333	$ 36,286

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 investment - endowment on the statements of financial position as of the years ended June 30, 2017 and 2016, 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.

(3) Investments (continued)

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, 2017 and 2016:

	June 30, 2017			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Money market pool	$ 1,080,271	$ -	$ 1,080,271	$ -
Equity pool	2,474,371	-	2,474,371	-
Fixed income pool	1,293,991	-	1,293,991	-
	$ 4,848,633	$ -	$ 4,848,633	$ -

	June 30, 2016			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
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	$ -	$ 4,433,165	$ -

(4) Leverage loan receivable

During the year ended June 30, 2017, as a part of the NMTC transactions listed in note 6 below, Harvesters issued a $7,688,500 loan to 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.

(5) Property and equipment

	June 30,	
	2017	**2016**
Cost		
Land and land improvements	$ 770,068	$ 699,445
Building and building improvements	13,358,098	11,917,345
Equipment	8,202,495	7,574,170
Construction in progress	-	1,068,244
Total cost	22,330,661	21,259,204
Less: Accumulated depreciation	6,728,477	10,478,216
Net property and equipment	$ 15,602,184	$ 10,780,988

Depreciation expense charged to operations for the years ended June 30, 2017 and 2016 was $1,042,126 and $974,801, respectively.

(6) New market tax credit financing transaction

During the year ended June 30, 2017 Harvesters sponsored a financing of its Kansas City, MO and Topeka, KS 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 USBCDC Investment Fund 200, LLC (the "Fund"), a Missouri limited liability company. The leverage loan of $7,688,500 is reflected as a note receivable on the consolidated statement of financial position at June 30, 2017. U.S. Bancorp Community Development Corporation (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 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 "QLICIs") in HCFN, in the form of loans: (i) $4,193,728 (Loan A) and (ii) $1,686,272 (Loan B). CDE 42 made QLICIs 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, MO facility and Topeka, KS assets to HCFN. Harvesters and HCFN then entered into four leases – two real estate leases for both the KS and MO 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 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 UBCDC'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 QLICIs 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.

(7) Line of credit

The Organization maintained a $3,000,000 line of credit during the years ended June 30, 2017 and 2016. The line available during the year ended June 30, 2017 matures on March 31, 2018, and bears interest at 1.8% over LIBOR (3.02% and 2.27% at June 30, 2017 and 2016, respectively). At June 30, 2017 and 2016, 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.

(8) Long-term debt

	June 30, 2017	June 30, 2016
Harvesters		
Term loan with US Bank, with an original balance of $939,250, and 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 was collateralized by real estate previously held by Harvesters and was subject to certain financial covenants. This loan was paid off in June 2017.	$ -	$ 832,793
Term loan A with US Bank, with an original balance of $3,508,511, and interest accruing at 4.75%. Quarterly payments of interest only through June 2018, converting to quarterly payments of principal and interest of $68,561 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.	3,508,511	-
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.	2,000,000	-
HCFN		
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	-
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 June 2024, converting to quarterly payments of principal and interest of $20,354 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.	1,686,272	-

(8) Long-term debt (continued)

	June 30, 2017	June 30, 2016
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	-
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 June 2024, converting to quarterly payments of principal and interest of $16,962 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.	1,405,227	-
Total debt	16,288,511	832,793
Less: current portion	-	(82,911)
Less: unamortized debt issuance costs	(361,845)	(58,577)
Non-current portion	$ 15,926,666	$ 691,305

Maturities on longer-term debt are as follows:

Years ending June 30,	
2018	$ -
2019	168,260
2020	175,809
2021	185,131
2022	194,209
Thereafter	15,565,102
Total	$ 16,288,511

Construction Loan

During the year ended June 30, 2016 Harvesters entered into a construction loan with a bank for the purpose of funding certain capital improvements. The terms of the agreement provided for incremental drawings as the project progressed. Advances were allowed with a maximum principal amount of $6,000,000. Quarterly interest-only payments on the outstanding balance were required. Interest was computed at LIBOR plus 1.50% through June 20, 2017, when the construction loan was paid off in full.

(9) Endowment

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. 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:

	For the year ended June 30, 2017		
	Temporarily Restricted	Permanently Restricted	Total
Beginning balance, July 1, 2016	$ 9,330	$ 316,000	$ 325,330
Interest income	8,013	-	8,013
Investment fees	(1,173)	-	(1,173)
Net unrealized gain	35,379	-	35,379
Realized gains	5,331	-	5,331
Total change in endowment funds	47,550	-	47,550
Ending balance, June 30, 2017	$ 56,880	$ 316,000	$ 372,880

	For the year ended June 30, 2016		
	Temporarily Restricted	Permanently Restricted	Total
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

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.

(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

Harvesters previously leased its Topeka, KS facility under an operating lease which was to expire June 30, 2020. The lease ended in June 2017 when HCFN purchased the Topeka, KS facility. In June 2017 Harvesters donated the Kansas City, MO facility along with certain Topeka, KS assets to HCFN. Harvesters and HCFN then entered into four leases – two real estate leases for both the KS and MO 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 and require quarterly payments.

Total rental expense, including month-to-month leases, for the years ended June 30, 2017 and 2016 was $132,934 and $123,485, respectively.

(11) 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 $4,463,049 and $4,107,835 at June 30, 2017 and 2016, 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.

(12) 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, 2017 and 2016, contributions to the plan charged to operations were $200,182 and $193,160, respectively.

(13) Concentrations

During the year ended June 30, 2017, 26% of Harvesters' purchases were paid to JE Dunn Construction, which were for the expansion efforts on the Kansas City, MO and Topeka, KS properties, and 11% of Harvesters' purchases were with Feeding America for the acquisition of food items. In addition, 39% and 38% of Harvesters' donated food came from Feeding America during the years ended June 30, 2017 and 2016, respectively.

(14) Cash flow disclosures

The following is a summary of supplemental cash flow information:

	June 30, 2017	June 30, 2016
Cash paid for interest	$ 35,102	$ 33,674
In-kind donations of property and equipment	$ -	$ 18,980
Purchase of property and equipment with accounts payable and accrued expenses	$ 377,693	$ 835,107

(15) 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 Consolidated 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.

(15) 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.

(16) Subsequent events

The Organization has evaluated subsequent events through September 11, 2017, which is the date the consolidated financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation, other than the matters listed below.

In July 2017, Harvesters secured a $2,341,267 grant under the Temporary Assistance for Needy Families (TANF) program for funding from July 2017 through June 2018.

In July 2017, Harvesters formed South Park Properties, LLC, of which Harvesters is the sole member. In August 2017, Harvesters made a contribution of capital to the LLC in the form of land and unoccupied building.

SUPPLEMENTARY INFORMATION

HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

	Harvesters	HCFN	Eliminations	Total
CURRENT ASSETS				
Cash	$ 4,432,477	$ 4,793,923	$ -	$ 9,226,400
Unconditional promises to give, current portion, less allowance for uncollectibles	1,898,041	-	-	1,898,041
Investments	4,475,753	-	-	4,475,753
Accounts receivable	819,437	-	(169,425)	650,012
Inventory	6,728,293	-	-	6,728,293
Prepaid expenses and other assets	251,217	-	-	251,217
TOTAL CURRENT ASSETS	18,605,218	4,793,923	(169,425)	23,229,716
LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less current portion above, net of unamortized discount	257,480	-	-	257,480
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	1,990,130	13,612,054	-	15,602,184
LOAN RECEIVABLE	7,688,500	-	-	7,688,500
INVESTMENTS - ENDOWMENT	372,880	-	-	372,880
TOTAL ASSETS	$ 28,914,208	$ 18,405,977	$ (169,425)	$ 47,150,760

LIABILITIES

	Harvesters	HCFN	Eliminations	Total
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$ 1,040,552	$ 526,479	$ (169,425)	$ 1,397,606
Current portion of long-term debt	-	-	-	-
TOTAL CURRENT LIABILITIES	1,040,552	526,479	(169,425)	1,397,606
LONG-TERM DEBT, less current portion above	5,508,511	10,418,155	-	15,926,666
TOTAL LIABILITIES	6,549,063	10,944,634	(169,425)	17,324,272

NET ASSETS

	Harvesters	HCFN	Eliminations	Total
UNRESTRICTED NET ASSETS				
Foodbank				
Undesignated	9,409,771	7,461,343	-	16,871,114
Board designated - reserve	4,463,050	-	-	4,463,050
Total foodbank	13,872,821	7,461,343	-	21,334,164
Contributed food	6,187,342	-	-	6,187,342
TOTAL UNRESTRICTED NET ASSETS	20,060,163	7,461,343	-	27,521,506
TEMPORARILY RESTRICTED NET ASSETS	1,988,982	-	-	1,988,982
PERMANENTLY RESTRICTED NET ASSETS	316,000	-	-	316,000
TOTAL NET ASSETS	22,365,145	7,461,343	-	29,826,488
TOTAL LIABILITIES AND NET ASSETS	$ 28,914,208	$ 18,405,977	$ (169,425)	$ 47,150,760

HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	Harvesters	HCFN	Eliminations	Total
UNRESTRICTED NET ASSETS				
OPERATING SUPPORT AND REVENUE				
Contributions received	$ 12,871,603	$ 7,632,958	$ (7,632,958)	$ 12,871,603
Contributed food received	87,403,118	-	-	87,403,118
Handling fees and other revenues	1,320,850	-	-	1,320,850
Investment income	369,783	-	-	369,783
Special events	466,901	-	-	466,901
Capital campaign revenue	3,532,568	-	-	3,532,568
Net assets released from restriction	4,474,876	-	-	4,474,876
TOTAL OPERATING SUPPORT AND REVENUE	110,439,699	7,632,958	(7,632,958)	110,439,699
EXPENSES				
Foodbank program	13,473,693	59,550	-	13,533,243
Contributed food distributed	85,284,145		-	85,284,145
Management and general	1,179,915	840	-	1,180,755
Fund development	2,317,505	-	-	2,317,505
TOTAL EXPENSES	102,255,258	60,390	-	102,315,648
CHANGES IN NET ASSETS BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO DEBT ISSUANCE COSTS, AND GAIN (LOSS) ON DISPOSAL OF ASSETS	8,184,441	7,572,568	(7,632,958)	8,124,051
OTHER REVENUE (EXPENSE)				
Intercompany contributions expense	(7,632,958)	-	7,632,958	-
Depreciation expense	(941,208)	(100,918)	-	(1,042,126)
Interest attributable to debt issuance costs	(1,116)	(10,307)	-	(11,423)
Gain (loss) on disposal of assets	703	-	-	703
TOTAL OTHER REVENUE (EXPENSE)	(8,574,579)	(111,225)	7,632,958	(1,052,846)
CHANGES UNRESTRICTED IN NET ASSETS	(390,138)	7,461,343	-	7,071,205
TEMPORARILY RESTRICTED CONTRIBUTIONS				
Temporarily restricted contributions	1,280,678	-	-	1,280,678
Net assets released from restrictions	(4,474,876)	-	-	(4,474,876)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(3,194,198)	-	-	(3,194,198)
NET ASSETS, BEGINNING OF YEAR	25,949,481	-	-	25,949,481
NET ASSETS, END OF YEAR	$ 22,365,145	$ 7,461,343	$ -	$ 29,826,488

NOTES TO SUPPLEMENTARY INFORMATION – CONSOLIDATING 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, 2017 HCFN owed Harvesters for the purchase of certain assets in the amount of $169,425.

During the year ended June 30, 2017, Harvesters donated assets at net book value to HCFN in the amount of $7,353,497.

During the year ended June 30, 2017, Harvesters made a donation to HCFN in the amount of $279,461.