HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2018 and 2017

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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 & Subsidiary (the "Organization") which comprise the consolidated statement of financial position as of June 30, 2018, 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, 2018, 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 2017 financial statements, and in our report dated September 11, 2017, 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, 2017, 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 10, 2018

HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 8,950,436	$ 9,226,400
Unconditional promises to give, current portion, less allowance for uncollectibles	1,670,976	1,898,041
Investments	4,982,100	4,475,753
Accounts receivable	522,312	650,012
Inventory	7,274,770	6,728,293
Prepaid expenses and other assets	229,780	251,217
TOTAL CURRENT ASSETS	23,630,374	23,229,716
LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less current portion above, net of unamortized discount	653,599	257,480
LEVERAGE LOAN RECEIVABLE	7,688,500	7,688,500
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	17,552,808	15,602,184
INVESTMENTS - OTHER	28,268	-
CASH - ENDOWMENT	237,877	-
INVESTMENTS - ENDOWMENT	458,955	372,880
TOTAL ASSETS	$ 50,250,381	$ 47,150,760
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,475,894	$ 1,397,606
Current portion of long-term debt	2,742,547	-
TOTAL CURRENT LIABILITIES	4,218,441	1,397,606
LONG-TERM DEBT, less current portion above, net of unamortized debt issuance costs	12,601,380	15,926,666
TOTAL LIABILITIES	16,819,821	17,324,272
NET ASSETS		
UNRESTRICTED NET ASSETS		
Foodbank		
Undesignated	19,484,832	16,871,114
Board designated - reserve	4,974,603	4,463,050
Total foodbank	24,459,435	21,334,164
Contributed food	6,323,617	6,187,342
TOTAL UNRESTRICTED NET ASSETS	30,783,052	27,521,506
TEMPORARILY RESTRICTED NET ASSETS	2,043,631	1,988,982
PERMANENTLY RESTRICTED NET ASSETS	603,877	316,000
TOTAL NET ASSETS	33,430,560	29,826,488
TOTAL LIABILITIES AND NET ASSETS	$ 50,250,381	$ 47,150,760

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, 2018, with Summarized Financial Information for the Year Ended June 30, 2017

	2018						2017
	Unrestricted		Temporarily Restricted				
	Operating	Contributed Food	Operating	Capital Campaign	Permanently Restricted	Total	Total
OPERATING SUPPORT AND REVENUE							
Contributions received	$ 15,364,308	$ -	$ 1,700,565	$ -	$ 287,877	$ 17,352,750	$ 14,104,731
Contributed food received	-	83,180,650	-	-	-	83,180,650	87,403,118
Handling fees and other revenues	1,384,992	-	-	-	-	1,384,992	1,320,850
Investment income	358,241	-	36,075	-	-	394,316	417,333
Special events	506,736	-	-	-	-	506,736	466,901
Capital campaign revenue	2,606,581	-	-	-	-	2,606,581	3,532,568
Net assets released from restriction	1,681,991	-	(1,656,991)	(25,000)	-	-	-
TOTAL OPERATING SUPPORT AND REVENUE	21,902,849	83,180,650	79,649	(25,000)	287,877	105,426,025	107,245,501
EXPENSES							
Foodbank program	14,010,814	-	-	-	-	14,010,814	13,533,243
Contributed food distributed	-	83,044,375	-	-	-	83,044,375	85,284,145
Management and general	1,355,144	-	-	-	-	1,355,144	1,180,755
Fund development	2,225,159	-	-	-	-	2,225,159	2,317,505
TOTAL EXPENSES	17,591,117	83,044,375	-	-	-	100,635,492	102,315,648
CHANGES IN NET ASSETS BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO DEBT ISSUANCE COSTS, AND GAIN (LOSS) ON DISPOSAL OF ASSETS	4,311,732	136,275	79,649	(25,000)	287,877	4,790,533	4,929,853
OTHER REVENUE (EXPENSE)							
Depreciation expense	(1,108,231)	-	-	-	-	(1,108,231)	(1,042,126)
Interest attributable to debt issuance costs	(12,917)	-	-	-	-	(12,917)	(11,423)
Gain (loss) on disposal of assets	(65,313)	-	-	-	-	(65,313)	703
TOTAL OTHER REVENUE (EXPENSE)	(1,186,461)	-	-	-	-	(1,186,461)	(1,052,846)
CHANGES IN NET ASSETS	3,125,271	136,275	79,649	(25,000)	287,877	3,604,072	3,877,007
NET ASSETS, BEGINNING OF YEAR	21,334,164	6,187,342	1,963,982	25,000	316,000	29,826,488	25,949,481
NET ASSETS, END OF YEAR	$ 24,459,435	$ 6,323,617	$ 2,043,631	$ -	$ 603,877	$ 33,430,560	$ 29,826,488

See Notes to Financial Statements

HARVESTERS - THE COMMUNITY FOOD NETWORK
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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018, with Summarized Financial Information for the Year Ended June 30, 2017

	2018				2017
	Foodbank Program	Management and General	Fund Development	Total	Total
Compensation and benefits	$ 6,371,818	$ 843,432	$ 852,110	$ 8,067,360	$ 7,910,002
Insurance, contracts and leases	716,429	90,998	37,166	844,593	691,555
Fees and dues	159,803	138,622	26,023	324,448	267,793
Supplies, printing and postage	476,789	108,366	645,255	1,230,410	1,243,445
Repairs, maintenance, and storage	391,607	4,537	4,710	400,854	515,165
Services and staff support	375,626	127,865	214,374	717,865	772,021
Utilities and telephone	469,396	9,718	11,215	490,329	445,801
Vehicle cost and freight	1,125,743	-	-	1,125,743	926,854
Interest expense	324,529	28,167	55,517	408,213	35,102
Special events	-	-	378,789	378,789	383,354
Food purchases	3,299,074	-	-	3,299,074	3,771,605
Miscellaneous expense	300,000	3,439	-	303,439	68,806
Expenses before depreciation and interest attributable to debt issuance costs and contributed food distributed	14,010,814	1,355,144	2,225,159	17,591,117	17,031,503
Depreciation and amortization expense	1,076,667	14,840	16,724	1,108,231	1,042,126
Interest attributable to debt amortization issuance costs	12,549	173	195	12,917	11,423
Contributed food distributed	83,044,375	-	-	83,044,375	85,284,145
TOTAL EXPENSES	$ 98,144,405	$ 1,370,157	$ 2,242,078	$ 101,756,640	$ 103,369,197
	96.45%	1.35%	2.20%	100.00%	

See Notes to Financial Statements

HARVESTERS - THE COMMUNITY FOOD NETWORK
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CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 3,604,072	$ 3,877,007
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Net contributed food activity	(136,275)	(2,118,973)
Loss (gain) on disposal of assets	65,313	(703)
Realized and unrealized gain on investments	(213,635)	(336,055)
Depreciation	1,108,231	1,042,126
Interest attributable to debt issuance costs	12,917	11,423
Contributions to finance long-term capital improvements	(2,606,581)	(3,532,568)
Contributions restricted for endowment	(287,877)	-
Change in operating assets:		
Unconditional promises to give	(266,973)	2,596,318
Accounts receivable	127,700	(145,539)
Inventory	(410,202)	176,958
Prepaid expenses and other assets	21,437	46,499
Change in operating liabilities:		
Accounts payable and accrued expenses	114,183	141,321
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,132,310	1,757,814
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	642,578	496,158
Acquisition of investments	(1,021,365)	(575,571)
Acquisition of investments - other	(28,268)	-
Acquisition of property and equipment	(3,001,440)	(5,502,059)
Proceeds from sale of property and equipment	219,070	17,133
NET CASH FLOWS FROM INVESTING ACTIVITIES	(3,189,425)	(5,564,339)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts for capital campaign	2,704,500	3,511,209
Cash contributions restricted for permanent endowment	287,877	-
Receipts to finance long-term capital improvements	-	20,000
Repayment of long-term debt	(570,000)	(5,902,718)
Repayment of accounts payable and accrued expenses used to finance property and equipment	(377,693)	(835,107)
Payment of loan fees	(25,656)	(314,691)
Proceeds from long-term debt	-	21,358,436
Issuance of note receivable	-	(7,688,500)
NET CASH FLOWS FROM FINANCING ACTIVITIES	2,019,028	10,148,629
NET CHANGES IN CASH	(38,087)	6,342,104
CASH, BEGINNING OF YEAR	9,226,400	2,884,296
CASH, END OF YEAR	$ 9,188,313	$ 9,226,400

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 36% and 35% of its contributed food through this network for the years ended June 30, 2018 and 2017, 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.

During the year ended June 30, 2018, South Park Properties LLC ("South Park") was formed. The entity is a single-member LLC, with Harvesters as its sole member. As of and during the year ended June 30, 2018, South Park's accounts were immaterial. As such, South Park's accounts are combined with those of Harvesters.

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.

(1) Summary of significant accounting policies (continued)

Temporarily restricted net assets released during the years ended June 30, 2018 and 2017 were $1,644,491 and $3,752,446, respectively, for time restrictions and $37,500 and $722,430, respectively, for purpose restrictions. Temporarily restricted net assets consisted of time restrictions totaling $1,950,676 and $1,894,602 along with purpose restrictions for long-term capital improvements and unappropriated earnings on endowment investments of $92,955 and $94,380 at June 30, 2018 and 2017, 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.

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, 2018, 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 $102,910 and $95,352 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 the Organization's uninsured balances totaled $6,322,308 and $8,642,679, respectively. The Organization has not experienced any losses in such accounts and management believes the risk of loss is negligible.

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

Investments – Other - Investments - Other consist of an annuity investment which is recorded at fair value.

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

(1) Summary of significant accounting policies (continued)

Inventory - Contributed food is valued on a first-in, first-out basis using a weighted average wholesale price per pound as determined by the Feeding America national food bank network. For the years ended June 30, 2018 and 2017, contributed food was valued at $1.68 and $1.73 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 $5,000 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. During the years ended June 30, 2018 and 2017, amortization amounts included within interest expense amounted to $12,917 and $11,423.

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 - Harvesters and HCFN are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. South Park is a single member limited liability company and is considered a disregarded entity for federal income tax purposes. Accordingly, no provision has been made for federal and state income taxes.

The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the consolidated financial statements during the period which, based on all available evidence, it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. No accrual has been recorded at June 30, 2018 or 2017, as management does not believe any material uncertainties exist.

(1) Summary of significant accounting policies (continued)

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

Summarized comparative information - The consolidated financial statements include certain prior year summarized comparative information in total but neither by net asset class nor by 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, 2017, from which the summarized information was derived.

Reclassification - Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

(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, 2018 and 2017. Amortization of the discounts is included in contribution revenue.

	June 30, 2018	June 30, 2017
Unconditional promises to give - capital campaign	$ 388,500	$ 475,500
Unconditional promises to give - operations	2,020,884	1,732,041
Subtotal	2,409,384	2,207,541
Less: Unamortized discount	(59,809)	(27,020)
Subtotal	2,349,575	2,180,521
Less: Allowance for uncollectibles	(25,000)	(25,000)
Net unconditional promises to give	$ 2,324,575	$ 2,155,521

Amounts due in:

Years ending June 30,

2019	$ 1,695,976
2020	551,968
2021	136,440
2022	25,000
Total unconditional promises to give	$ 2,409,384

(3) Investments

Investments are comprised of the following:

	June 30, 2018	June 30, 2017
Fixed income pool	$ 1,449,724	$ 1,293,991
Money market pool	1,252,538	1,080,271
Equity pool:		
Large cap allocation	1,971,931	1,784,021
International allocation	766,862	690,350
Total equity pool	2,738,793	2,474,371
Total investments	$ 5,441,055	$ 4,848,633

Investment income is comprised of the following:

	2018	2017
Interest and dividend income	$ 196,839	$ 96,935
Investment fees	(16,158)	(15,657)
Unrealized gain (loss)	136,092	288,147
Realized gain	77,543	47,908
Total investment income	$ 394,316	$ 417,333

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, 2018 and 2017, 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, 2018 and 2017:

	June 30, 2018			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Money market pool	$ 1,252,538	$ -	$ 1,252,538	$ -
Equity pool	2,738,793	-	2,738,793	-
Fixed income pool	1,449,724	-	1,449,724	-
	$ 5,441,055	$ -	$ 5,441,055	$ -

	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	$ -

(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,	
	2018	**2017**
Cost		
Land and land improvements	$ 667,827	$ 770,068
Building and building improvements	15,440,854	13,358,098
Equipment	8,737,066	8,202,495
Total cost	24,845,747	22,330,661
Less: Accumulated depreciation	7,292,939	6,728,477
Net property and equipment	$ 17,552,808	$ 15,602,184

Depreciation expense charged to operations for the years ended June 30, 2018 and 2017 was $1,108,231 and $1,042,126, 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, 2018 and 2017. The line available during the year ended June 30, 2018 matures on November 30, 2018, and bears interest at 1.8% over LIBOR (3.80% and 3.02% at June 30, 2018 and 2017, respectively). At June 30, 2018 and 2017, 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, 2018	June 30, 2017
Harvesters		
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	$ 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.	1,430,000	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	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	1,686,272

(8) Long-term debt (continued)

	June 30, 2018	June 30, 2017
Term loan A with CBKC CDC SUB-CDE 42, LLC, with an original balance of $3,494,773, and interest accruing at 1.38%. Quarterly payments interest only through June 2024, converting to quarterly payments of principal and interest of $44,404 beginning September 1, 2024 with all unpaid principal and accrued interest due at maturity on June 30, 2047. The loan is collateralized by the assets and personal property of HCFN.	3,494,773	3,494,773
Term loan B with CBKC CDC SUB-CDE 42, LLC, with an original balance of $1,405,227, and interest accruing at 1.38%. Quarterly payments of interest only through 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	1,405,227
Total debt	15,718,511	16,288,511
Less: current portion	(2,742,547)	-
Less: unamortized debt issuance costs	(374,584)	(361,845)
Non-current portion	$ 12,601,380	$ 15,926,666

Maturities on longer-term debt are as follows:

Years ending June 30,	
2019	$ 2,742,547
2020	330,424
2021	346,898
2022	363,908
2023	215,598
Thereafter	11,719,136
Total	$ 15,718,511

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, 2018		
	Temporarily Restricted	Permanently Restricted	Total
Beginning balance, July 1, 2017	$ 56,880	$ 316,000	$ 372,880
Contributions	-	287,877	287,877
Interest/dividend income	9,079	-	9,079
Investment fees	(1,257)	-	(1,257)
Net unrealized gain	18,459	-	18,459
Realized gains	9,794	-	9,794
Total change in endowment funds	36,075	287,877	323,952
Ending balance, June 30, 2018	$ 92,955	$ 603,877	$ 696,832

	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

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. In December 2017 the KS facility lease was replaced by a memorandum of occupancy between Harvesters and HCFN. The memorandum of occupancy has an effective date of June 2017. The memorandum expires December 2018 and requires no payments from Harvesters. The MO real estate lease is for 25 years and the equipment leases are for 62 months. All three leases require quarterly payments.

During the year ended June 30, 2018, Harvesters entered into an operating lease for vehicles that expires July 2024. The future minimum rental payments required under this operating lease are as follows:

Years ending June 30,		
2019	$	62,472
2020		62,472
2021		62,472
2022		62,472
2023		62,472
Thereafter		5,206
	$	317,566

Total rental expense, including month-to-month leases, for the years ended June 30, 2018 and 2017 was $145,203 and $132,934, 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 $4,974,603 and $4,463,050 at June 30, 2018 and 2017, 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, 2018 and 2017, contributions to the plan charged to operations were $226,027 and $200,182, 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. During the years ended June 30, 2018, and 2017 17% and 11%, respectively, of Harvesters' purchased were with Feeding America for the acquisition of food items. In addition, 40% and 39% of Harvesters' donated food came from Feeding America during the years ended June 30, 2018, and 2017, respectively. During the year ended June 30, 2018, 70% of HCFN's purchases were paid to Kelley Construction, which were for the expansion efforts of the Topeka, KS property.

(14) Cash flow disclosures

The following is a summary of supplemental cash flow information:

	June 30, 2018	June 30, 2017
Cash paid for interest	$ 348,916	$ 35,102
Purchase of property and equipment with accounts payable and accrued expenses	$ 341,798	$ 377,693

(15) Recent accounting pronouncements

Revenue recognition - In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. This standard applies to most contracts with customers and prescribes a five-step framework in accounting for revenues from contracts, including (a) identification of the contract, (b) identification of the performance obligation under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligation and (e) recognition of revenue as the identified performance obligation is satisfied. This standard also prescribes additional disclosures and financial statement presentations. This standard is effective for the Organization's June 30, 2020 financial statements, and early adoption is permitted. The Organization may adopt the standard retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

(15) Recent accounting pronouncements (continued)

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 10, 2018, 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 matter listed below.

In July 2018, the Organization paid $2,450,000 towards the principal balance of term loan A with US Bank.

SUPPLEMENTARY INFORMATION

HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS

	Harvesters	HCFN	Eliminations	Total
CURRENT ASSETS				
Cash	$ 6,633,669	$ 2,316,767	$ -	$ 8,950,436
Unconditional promises to give, current portion, less allowance for uncollectibles	1,670,976	-	-	1,670,976
Investments	4,982,100	-	-	4,982,100
Accounts receivable	522,312	71,706	(71,706)	522,312
Inventory	7,274,770	-	-	7,274,770
Prepaid expenses and other assets	229,780	-	-	229,780
TOTAL CURRENT ASSETS	21,313,607	2,388,473	(71,706)	23,630,374
LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less current portion above, net of unamortized discount	653,599	-	-	653,599
LEVERAGE LOAN RECEIVABLE	7,688,500	-	-	7,688,500
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	1,597,101	15,955,707	-	17,552,808
INVESTMENTS - OTHER	28,268	-	-	28,268
CASH - ENDOWMENT	237,877			237,877
INVESTMENTS - ENDOWMENT	458,955	-	-	458,955
TOTAL ASSETS	$ 31,977,907	$ 18,344,180	$ (71,706)	$ 50,250,381
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$ 1,210,969	$ 336,631	$ (71,706)	$ 1,475,894
Current portion of long-term debt	2,742,547	-	-	2,742,547
TOTAL CURRENT LIABILITIES	3,953,516	336,631	(71,706)	4,218,441
LONG-TERM DEBT, less current portion above	2,195,964	10,405,416	-	12,601,380
TOTAL LIABILITIES	6,149,480	10,742,047	(71,706)	16,819,821
NET ASSETS				
UNRESTRICTED NET ASSETS				
Foodbank				
Undesignated	11,837,657	7,602,133	45,042	19,484,832
Board designated - reserve	4,974,603	-	-	4,974,603
Total foodbank	16,812,260	7,602,133	45,042	24,459,435
Contributed food	6,323,617	-	-	6,323,617
TOTAL UNRESTRICTED NET ASSETS	23,135,877	7,602,133	45,042	30,783,052
TEMPORARILY RESTRICTED NET ASSETS	2,088,673	-	(45,042)	2,043,631
PERMANENTLY RESTRICTED NET ASSETS	603,877	-	-	603,877
TOTAL NET ASSETS	25,828,427	7,602,133	-	33,430,560
TOTAL LIABILITIES AND NET ASSETS	$ 31,977,907	$ 18,344,180	$ (71,706)	$ 50,250,381

See Notes to Supplementary Information – Consolidating Statements

HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	Harvesters	HCFN	Eliminations	Total
UNRESTRICTED NET ASSETS				
OPERATING SUPPORT AND REVENUE				
Contributions received	$ 15,454,392	$ -	$ (90,084)	$ 15,364,308
Contributed food received	83,180,650	-	-	83,180,650
Handling fees and other revenues	1,384,992	-	-	1,384,992
Rental income	-	1,001,156	(1,001,156)	-
Investment income	350,648	7,593	-	358,241
Special events	506,736	-	-	506,736
Capital campaign revenue	2,606,581	-	-	2,606,581
Net assets released from restriction	1,681,991	-	-	1,681,991
TOTAL OPERATING SUPPORT AND REVENUE	105,165,990	1,008,749	(1,091,240)	105,083,499
EXPENSES				
Foodbank program	14,893,600	249,847	(1,132,633)	14,010,814
Contributed food distributed	83,044,375	-	-	83,044,375
Management and general	1,292,491	64,410	(1,757)	1,355,144
Fund development	2,204,910	22,141	(1,892)	2,225,159
TOTAL EXPENSES	101,435,376	336,398	(1,136,282)	100,635,492
CHANGES IN NET ASSETS BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO DEBT ISSUANCE COSTS, AND GAIN (LOSS) ON DISPOSAL OF ASSETS	3,730,614	672,351	45,042	4,448,007
OTHER EXPENSE				
Depreciation expense	(589,587)	(518,644)	-	(1,108,231)
Interest attributable to debt issuance costs	-	(12,917)	-	(12,917)
Loss on disposal of assets	(65,313)	-	-	(65,313)
TOTAL OTHER EXPENSE	(654,900)	(531,561)	-	(1,186,461)
CHANGES UNRESTRICTED IN NET ASSETS	3,075,714	140,790	45,042	3,261,546
TEMPORARILY RESTRICTED CONTRIBUTIONS				
Temporarily restricted contributions	1,781,682	-	(45,042)	1,736,640
Net assets released from restrictions	(1,681,991)	-	-	(1,681,991)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	99,691	-	(45,042)	54,649
PERMANENTLY RESTRICTED CONTRIBUTIONS				
Permanently restricted contributions	287,877	-	-	287,877
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	287,877	-	-	287,877
NET ASSETS, BEGINNING OF YEAR	22,365,145	7,461,343	-	29,826,488
NET ASSETS, END OF YEAR	$ 25,828,427	$ 7,602,133	$ -	$ 33,430,560

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, 2018 Harvesters owed HCFN $71,706 for the net effect of straight-line rent expense and other certain operating expenses and capital expenditures.

During the year ended June 30, 2018 HCFN leased certain property and equipment at the Kansas and Missouri locations to Harvesters. As a part of these transactions, HCFN recognized rental revenue of $1,001,156 and Harvesters recognized rental expense of $1,001,156. Under the Kansas property memorandum of occupancy, HCFN donated the use of the space to Harvesters, which resulted in in-kind revenue of $135,126 for Harvesters and in-kind expense of $135,126 for HCFN. At June 30, 2018, as a result of the Missouri property lease, Harvesters recognized a deferred rent payable and HCFN recognized a deferred rent receivable of $398,646 for the difference between the straight line rent expense and the actual rent paid.