HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

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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, 2019, 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 audit. We conducted our audit 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, 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2019, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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 2018 consolidated financial statements, and in our report dated September 10, 2018, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
September 9, 2019

HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 3,080,247	$ 8,950,436
Unconditional promises to give, current portion, less allowance for uncollectibles	2,575,969	1,670,976
Investments	5,255,857	4,982,100
Accounts receivable	751,852	522,312
Inventory	8,354,981	7,274,770
Prepaid expenses and other assets	230,322	229,780
TOTAL CURRENT ASSETS	20,249,228	23,630,374
LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less current portion above, net of unamortized discount	271,059	653,599
LEVERAGE LOAN RECEIVABLE	7,688,500	7,688,500
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	17,755,288	17,552,808
INVESTMENTS - OTHER	22,898	28,268
CASH - ENDOWMENT	-	237,877
INVESTMENTS - ENDOWMENT	793,343	458,955
TOTAL ASSETS	$ 46,780,316	$ 50,250,381
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,277,777	$ 1,475,894
Current portion of long-term debt	173,634	2,742,547
TOTAL CURRENT LIABILITIES	1,451,411	4,218,441
LONG-TERM DEBT, less current portion above, net of unamortized debt issuance costs	11,658,767	12,601,380
TOTAL LIABILITIES	13,110,178	16,819,821
NET ASSETS		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Foodbank		
Undesignated	18,989,939	19,484,832
Board designated - reserve	5,232,851	4,974,603
Total foodbank	24,222,790	24,459,435
Contributed food	7,219,618	6,323,617
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	31,442,408	30,783,052
NET ASSETS WITH DONOR RESTRICTIONS	2,227,730	2,647,508
TOTAL NET ASSETS	33,670,138	33,430,560
TOTAL LIABILITIES AND NET ASSETS	$ 46,780,316	$ 50,250,381

HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2019, with Summarized Financial Information for the Year Ended June 30, 2018

	2019					2018
	Without Donor Restrictions		With Donor Restrictions			
	Operating	Contributed Food	Operating	Endowment Restricted	Total	Total
OPERATING SUPPORT AND REVENUE						
Contributions received	$ 14,981,773	$ -	$ 1,057,436	$ 52,000	$ 16,091,209	$ 17,352,750
Contributed food received	-	83,679,262	-	-	83,679,262	83,180,650
Handling fees and other revenues	1,322,352	-	-	-	1,322,352	1,384,992
Investment return	356,485	-	44,511	-	400,996	394,316
Special events	424,623	-	-	-	424,623	506,736
Capital campaign revenue	14,018	-	-	-	14,018	2,606,581
Net assets released from restriction	1,573,725	-	(1,573,725)	-	-	-
TOTAL OPERATING SUPPORT AND REVENUE	18,672,976	83,679,262	(471,778)	52,000	101,932,460	105,426,025
EXPENSES						
Foodbank program	14,116,315	-	-	-	14,116,315	14,010,814
Contributed food distributed	-	82,783,261	-	-	82,783,261	83,044,375
Management and general	1,537,369	-	-	-	1,537,369	1,355,144
Fund development	2,104,214	-	-	-	2,104,214	2,225,159
TOTAL EXPENSES	17,757,898	82,783,261	-	-	100,541,159	100,635,492
CHANGES IN NET ASSETS BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO DEBT ISSUANCE COSTS, AND GAIN (LOSS) ON DISPOSAL OF ASSETS	915,078	896,001	(471,778)	52,000	1,391,301	4,790,533
OTHER REVENUE (EXPENSE)						
Depreciation expense	(1,148,230)	-	-	-	(1,148,230)	(1,108,231)
Interest attributable to debt issuance costs	(13,177)	-	-	-	(13,177)	(12,917)
Gain (loss) on disposal of assets	9,684	-	-	-	9,684	(65,313)
TOTAL OTHER REVENUE (EXPENSE)	(1,151,723)	-	-	-	(1,151,723)	(1,186,461)
CHANGES IN NET ASSETS	(236,645)	896,001	(471,778)	52,000	239,578	3,604,072
NET ASSETS, BEGINNING OF YEAR	24,459,435	6,323,617	2,043,631	603,877	33,430,560	29,826,488
NET ASSETS, END OF YEAR	$ 24,222,790	$ 7,219,618	$ 1,571,853	$ 655,877	$ 33,670,138	$ 33,430,560

See Notes to Consolidated Financial Statements

HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019, with Summarized Financial Information for the Year Ended June 30, 2018

	2019				2018
	Foodbank Program	Management and General	Fund Development	Total	Total
Compensation and benefits	$ 6,855,118	1,000,567	828,366	8,684,051	8,067,360
Insurance, contracts and leases	727,355	94,109	41,377	862,841	844,593
Fees and dues	159,307	128,636	15,001	302,944	324,448
Supplies, printing and postage	509,820	90,374	636,518	1,236,712	1,230,410
Repairs, maintenance, and storage	436,323	5,569	5,039	446,931	400,854
Services and staff support	319,351	180,546	199,878	699,775	717,865
Utilities and telephone	447,204	10,474	11,744	469,422	490,329
Vehicle cost and freight	1,193,862	-	-	1,193,862	1,125,743
Interest expense	208,635	20,157	32,983	261,775	408,213
Special events	-	-	333,308	333,308	378,789
Food purchases	3,259,340	-	-	3,259,340	3,299,074
Miscellaneous expense	-	6,937	-	6,937	303,439
Expenses before depreciation and interest attributable to debt issuance costs and contributed food distributed	14,116,315	1,537,369	2,104,214	17,757,898	17,591,117
Depreciation expense	1,115,393	17,240	15,597	1,148,230	1,108,231
Interest attributable to debt amortization issuance costs	12,800	198	179	13,177	12,917
Contributed food distributed	82,783,261	-	-	82,783,261	83,044,375
TOTAL EXPENSES	$ 98,027,769	$ 1,554,807	$ 2,119,990	$ 101,702,566	$ 101,756,640
	96.39%	1.53%	2.08%	100.00%	

See Notes to Consolidated Financial Statements

HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 239,578	$ 3,604,072
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Net contributed food activity	(896,001)	(136,275)
Donated property and equipment	(9,000)	-
Loss (gain) on disposal of assets	(9,684)	65,313
Realized and unrealized gain on investments	(182,110)	(213,635)
Depreciation	1,148,230	1,108,231
Interest attributable to debt issuance costs	13,177	12,917
Contributions to finance long-term capital improvements	(14,018)	(2,606,581)
Contributions restricted for endowment	(52,000)	(287,877)
Change in operating assets:		
Unconditional promises to give	(661,935)	(266,973)
Accounts receivable	(229,540)	127,700
Inventory	(184,210)	(410,202)
Prepaid expenses and other assets	(542)	21,437
Change in operating liabilities:		
Accounts payable and accrued expenses	75,078	114,183
NET CASH FLOWS FROM OPERATING ACTIVITIES	(762,977)	1,132,310
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	639,081	642,578
Acquisition of investments	(1,065,116)	(1,021,365)
Proceeds from sale of investments - other	5,370	-
Acquisition of investments - other	-	(28,268)
Acquisition of property and equipment	(1,295,243)	(3,001,440)
Proceeds from sale of property and equipment	31,820	219,070
NET CASH FLOWS FROM INVESTING ACTIVITIES	(1,684,088)	(3,189,425)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts for capital campaign	153,500	2,704,500
Cash contributions restricted for endowment	52,000	287,877
Repayment of long-term debt	(3,517,153)	(570,000)
Repayment of accounts payable and accrued expenses used to finance property and equipment	(341,798)	(377,693)
Payment of loan fees	(7,550)	(25,656)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(3,661,001)	2,019,028
NET CHANGES IN CASH	(6,108,066)	(38,087)
CASH, BEGINNING OF YEAR	9,188,313	9,226,400
CASH, END OF YEAR	$ 3,080,247	$ 9,188,313
Cash per Consolidated Statements of Financial Position		
Cash	$ 3,080,247	$ 8,950,436
Cash - endowment	-	237,877
Total cash per Consolidated Statements of Financial Position	$ 3,080,247	$ 9,188,313

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Organization - Harvesters - The Community Food Network ("Harvesters") is a not-for-profit, tax-exempt (Section 501(c)(3)) food bank committed to providing food to hungry people in 26 counties in northeast Kansas and northwest Missouri. Harvesters is a charter member of Feeding America and received approximately 32% and 36% of its food through this network for the years ended June 30, 2019 and 2018, 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 years ended June 30, 2019 and 2018, South Park's accounts were immaterial. As such, South Park's accounts are included 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.

- Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions. Items that affect (i.e., increase or decrease) this category of net assets primarily consist of program service fees (handling fees) paid on a per-pound basis by member agencies, and related expenses associated with the core activities of the Organization. In addition to these exchange transactions, changes to this category of net assets include certain types of philanthropic support - namely, contributions and grants without donor restrictions, including those designated by the Board to function as reserves, as well as contributions and grants with donor restrictions whose donor-imposed restrictions were met during the fiscal year, and income from investments with no restrictions.

- Net assets with donor restrictions are net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time. Items that affect this category of net assets are restricted contributions and grants. Contributions and grants received with donor-imposed restrictions are reported as support in the net assets with donor restrictions class unless the restrictions are both imposed and met in the same year (in which case they are reported as support in the net assets without donor restrictions). These amounts are reclassified to net assets without donor restrictions when such restrictions are met or have expired. Net assets with donor restrictions associated with the capital campaign are to be released from restriction when the assets are placed in service or expenses associated with the campaign are incurred.

(1) Summary of significant accounting policies (continued)

- Net assets with donor restrictions also include endowment funds subject to donor-imposed stipulations, which, as interpreted by the Board of Directors, according to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requirements, require the Organization to permanently maintain the fair value of the original gift as of the gift date. The donors of these assets permit the Organization to spend a part of the income earned on these assets, which are subject to appropriation or expenditure, on certain programs. These net assets are permanent endowment funds being held by the Organization such that the Organization has a perpetual interest in the earnings.

- Releases from net assets with donor restrictions during the years ended June 30, 2019 and 2018 were $1,473,725 and $1,644,491, respectively, for time restrictions and $100,000 and $37,500, respectively, for purpose restrictions. Net assets with donor restrictions consisted of time restrictions totaling $1,371,249 and $1,950,676, purpose restrictions for food distribution programs and endowment funds subject to appropriation or expenditure of $200,604 and $92,955, and endowment funds not subject to appropriation or expenditure of $655,877 and $603,877 at June 30, 2019 and 2018, respectively.

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 contributions without donor restrictions.

Donated assets are reflected as contributions at their estimated fair value at the date of receipt. A substantial number of volunteers have donated thousands of hours during the year ended June 30, 2019, 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 $141,030 and $102,910 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018 the Organization’s uninsured balances totaled $2,996,379 and $6,322,308, 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.

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

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

(1) **<u>Summary of significant accounting policies</u> (continued)**

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, 2019 and 2018, contributed food was valued at $1.62 and $1.68 per pound, respectively. Purchased food is valued on a first-in, first-out basis.

Property and equipment - Property and equipment are stated at cost or the fair value at date of gift for donated assets, less accumulated depreciation. 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, 2019 and 2018, amortization amounted to $13,177 and $12,917, respectively.

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. Specifically, those costs are allocated by department, a full time equivalent measure, and by square footage. 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, 2019 or 2018, as management does not believe any material uncertainties exist.

(1) Summary of significant accounting policies (continued)

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

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

Summarized comparative information - The consolidated financial statements include certain prior year summarized comparative information in total but neither by net asset class nor by natural classification of expenses by function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Harvesters' consolidated financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Recent accounting pronouncements - During 2019 the Organization adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, Not-for-profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-profit Entities*. This standard addresses the complexity and understandability of net asset classification, information about liquidity and the availability of resources, and provides expanded disclosure of expenses presented by functional categories. Certain items in the 2018 financial statements have been reclassified to conform to the 2019 presentation that incorporates the change in net asset classification from unrestricted, temporarily restricted, and permanently restricted to net assets without donor restrictions and net assets with donor restrictions.

(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, 2019 and 2018. Amortization of the discounts is included in contribution revenue.

	June 30, 2019	June 30, 2018
Unconditional promises to give - capital campaign	$ 235,000	$ 388,500
Unconditional promises to give - operations	2,667,304	2,020,884
Subtotal	2,902,304	2,409,384
Less: Unamortized discount	(30,276)	(59,809)
Subtotal	2,872,028	2,349,575
Less: Allowance for uncollectibles	(25,000)	(25,000)
Net unconditional promises to give	$ 2,847,028	$ 2,324,575

(2) Promises to give (continued)

Amounts due in:

Years ending June 30,	
2020	$ 2,600,969
2021	186,335
2022	75,000
2023	-
2024	40,000
Total unconditional promises to give	$ 2,902,304

(3) Investments

Investments are comprised of the following:

	June 30, 2019	June 30, 2018
Fixed income pool	$ 1,555,045	$ 1,449,724
Money market pool	1,240,344	1,252,538
Equity pool:		
Domestic allocation	2,330,643	1,971,931
International allocation	923,168	766,862
Total equity pool	3,253,811	2,738,793
Total investments	$ 6,049,200	$ 5,441,055

Investment income is comprised of the following:

	Years ended June 30, 2019	Years ended June 30, 2018
Interest and dividend income	$ 235,615	$ 196,839
Investment fees	(16,729)	(16,158)
Unrealized gain	92,676	136,092
Realized gain	89,434	77,543
Total investment return	$ 400,996	$ 394,316

The Organization maintains the above investment portfolios at the Greater Kansas City Community Foundation (the “Community Foundation”), and specified itself as beneficiary at the time of the transfer. Amounts will be distributed to the Organization upon the Community Foundation’s receipt of the written recommendation of two authorized signers of the Organization. The Community Foundation will monitor distributions requested by the Organization to ensure amounts are being distributed in accordance with the Organization’s intentions. The investment portfolios above are included in Investments and Investments - Endowment on the consolidated statements of financial position as of the years ended June 30, 2019 and 2018, respectively.

(3) Investments (continued)

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

The three levels are defined as follows:

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

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

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

The Organization endeavors to utilize the best available information in measuring fair value. The fair values of the Organization's investments can be determined using the following valuation methods as of June 30, 2019 and 2018:

	June 30, 2019			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Money market pool	$ 1,240,344	$ -	$ 1,240,344	$ -
Equity pool	3,253,811	-	3,253,811	-
Fixed income pool	1,555,045	-	1,555,045	-
	$ 6,049,200	$ -	$ 6,049,200	$ -

	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	$ -

(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, 2019	June 30, 2018
Cost		
Land and land improvements	$ 667,827	$ 667,827
Building and building improvements	15,900,552	15,440,854
Equipment	9,286,138	8,737,066
Total cost	25,854,517	24,845,747
Less: Accumulated depreciation	8,099,229	7,292,939
Net property and equipment	$ 17,755,288	$ 17,552,808

Depreciation expense charged to operations for the years ended June 30, 2019 and 2018 was $1,148,230 and $1,108,231, 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, 2019 and 2018. 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 and are .01% owned by CBKC CDC, LLC, the organization that manages the CDEs. The Fund also made an additional $1,000,000 capital contribution to CDE 41.

CDE 41 made qualified low income community investments (the "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.

(6) New market tax credit financing transaction (continued)

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) Long-term debt

	June 30, 2019	June 30, 2018
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.	$ 80,399	$ 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.	1,340,959	1,430,000
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

(7) Long-term debt (continued)

	June 30, 2019	June 30, 2018
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	12,201,358	15,718,511
Less: current portion	(173,634)	(2,742,547)
Less: unamortized debt issuance costs	(368,957)	(374,584)
Non-current portion	$ 11,658,767	$ 12,601,380

Maturities on longer-term debt are as follows:

Years ending June 30,	
2020	173,634
2021	97,980
2022	102,784
2023	107,824
2024	112,994
Thereafter	11,606,142
Total	$ 12,201,358

(8) Line of credit

The Organization maintained a $3,000,000 line of credit during the years ended June 30, 2019 and 2018. The line available during the year ended June 30, 2019 was renewed with a new maturity date of November 29, 2019 and accrues interest at 1.8% over LIBOR (4.20% at June 30, 2019). The line available during the year ended June 30, 2018 matured on November 30, 2018 and accrued interest at 1.8% over LIBOR (3.80% at June 30, 2018). At June 30, 2019 and 2018, 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.

(9) Endowment

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

	For the year ended June 30, 2019		
	Net Assets With Donor Restrictions		
	Subject to appropriation or expenditure	Not subject to appropriation or expenditure	Total
Beginning balance, July 1, 2018	$ 92,955	$ 603,877	$ 696,832
Contributions	-	52,000	52,000
Investment return	44,511	-	44,511
Total change in endowment funds	44,511	52,000	96,511
Ending balance, June 30, 2019	$ 137,466	$ 655,877	$ 793,343

	For the year ended June 30, 2018		
	Net Assets With Donor Restrictions		
	Subject to appropriation or expenditure	Not subject to appropriation or expenditure	Total
Beginning balance, July 1, 2017	$ 56,880	$ 316,000	$ 372,880
Contributions	-	287,877	287,877
Investment return	36,075	-	36,075
Total change in endowment funds	36,075	287,877	323,952
Ending balance, June 30, 2018	$ 92,955	$ 603,877	$ 696,832

<u>Return objectives and risk parameters</u>

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 and requires no payments from Harvesters. The memorandum expired December 2018 but automatically renews for one year periods for nine years. The MO real estate lease is for 25 years and the equipment leases are for 62 months. All three leases require quarterly payments.

Harvesters began leases during the years ended June 30, 2019 and 2018 which expire in 2024 and 2025. The future minimum rental payments required under these operating leases are as follows:

Years ending June 30,		
2020	$	151,700
2021		151,700
2022		151,700
2023		151,700
2024		151,700
Thereafter		100,700
	$	859,200

Total rental expense for the years ended June 30, 2019 and 2018 was $296,864 and $145,203, respectively.

(11) Liquidity

Cash	$ 2,893,920
Unconditional promises to give	2,485,969
Investments	5,255,857
Accounts receivable	751,852
Other investments	5,530
Appropriations from endowment	23,726
	$ 11,416,854

Cash - The amount shown above reflects cash on hand available to meet general expenditures. As of the financial statement date, Harvesters had cash on hand for the purpose of repaying debt; this cash is not reflected in this liquidity disclosure.

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

Investments - Included in the amount above is $5,232,851 designated as an operating reserve by the Board. Harvesters does not intend to spend from the reserve in the upcoming year, but this amount is available for general expenditures as needed. These funds are invested at the Greater Kansas City Community Foundation.

Accounts receivable - Receivables due within the year from Harvesters' agency partners, government partners, and others.

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

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

For purposes of analyzing resources available to meet general expenditures over a 12-month period, management and Board consider all expenditures of the organization, including operating expenses, capital acquisition needs and debt service requirements. Based on these expenditures, the organization prepares a balanced budget; deficit budgets are not prepared except in unusual circumstances. Liquidity is monitored regularly by management and Board. In addition to the financial assets shown below, Harvesters has a $3,000,000 line of credit which it can draw upon as needed.

(12) 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 $5,232,851 and $4,974,603 at June 30, 2019 and 2018, 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.

(13) Retirement plan

The Organization sponsors a non-participatory defined contribution retirement plan for employees following completion of two consecutive years of employment. The Organization contributes 5% of gross compensation of eligible employees. During the years ended June 30, 2019 and 2018, contributions to the plan charged to operations were $295,200 and $226,027, respectively.

(14) Concentrations

During the years ended June 30, 2019 and 2018, 13% and 17%, respectively, of Harvesters' purchases were with Feeding America for the acquisition of food items. In addition, 36% and 40% of Harvesters' donated food came from Feeding America during the years ended June 30, 2019, and 2018, respectively. During the years ended June 30, 2019 and 2018, 58% and 70% of HCFN's purchases were paid to Kelley Construction, respectively, which were for the expansion efforts of the Topeka, KS property.

(15) Cash flow disclosures

The following is a summary of supplemental cash flow information:

	June 30, 2019	June 30, 2018
Cash paid for interest	$ 261,775	$ 408,213
In-kind donations of property and equipment	$ 9,000	$ -
Purchase of property and equipment with accounts payable and accrued expenses	$ 68,603	$ 341,798

(16) 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 consolidated 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 consolidated financial statements and related disclosures.

(16) 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 consolidated financial statements and early adoption is permitted. The Organization is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

(17) Subsequent events

The Organization has evaluated subsequent events through September 9, 2019, which is the date the consolidated financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.

SUPPLEMENTARY INFORMATION

HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2019

ASSETS

	Harvesters	HCFN	Eliminations	Total
CURRENT ASSETS				
Cash	$ 2,708,254	$ 371,993	$ -	$ 3,080,247
Unconditional promises to give, current portion, less allowance for uncollectibles	2,575,969	-	-	2,575,969
Investments	5,255,857	-	-	5,255,857
Accounts receivable	751,852	635,172	(635,172)	751,852
Inventory	8,354,981	-	-	8,354,981
Prepaid expenses and other assets	230,322	-	-	230,322
TOTAL CURRENT ASSETS	19,877,235	1,007,165	(635,172)	20,249,228
LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less current portion above, net of unamortized discount	271,059	-	-	271,059
LEVERAGE LOAN RECEIVABLE	7,688,500	-	-	7,688,500
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	1,801,330	15,953,958	-	17,755,288
INVESTMENTS - OTHER	22,898	-	-	22,898
INVESTMENTS - ENDOWMENT	793,343	-	-	793,343
TOTAL ASSETS	$ 30,454,365	$ 16,961,123	$ (635,172)	$ 46,780,316

LIABILITIES

	Harvesters	HCFN	Eliminations	Total
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$ 1,912,949	$ -	$ (635,172)	$ 1,277,777
Current portion of long-term debt	173,634	-	-	173,634
TOTAL CURRENT LIABILITIES	2,086,583	-	(635,172)	1,451,411
LONG-TERM DEBT, less current portion above	1,247,724	10,411,043	-	11,658,767
TOTAL LIABILITIES	3,334,307	10,411,043	(635,172)	13,110,178

NET ASSETS

	Harvesters	HCFN	Eliminations	Total
NET ASSETS WITHOUT DONOR RESTRICTIONS				
Foodbank				
Undesignated	12,393,915	6,550,080	45,944	18,989,939
Board designated - reserve	5,232,851	-	-	5,232,851
Total foodbank	17,626,766	6,550,080	45,944	24,222,790
Contributed food	7,219,618	-	-	7,219,618
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	24,846,384	6,550,080	45,944	31,442,408
NET ASSETS WITH DONOR RESTRICTIONS	2,273,674	-	(45,944)	2,227,730
TOTAL NET ASSETS	27,120,058	6,550,080	-	33,670,138
TOTAL LIABILITIES AND NET ASSETS	$ 30,454,365	$ 16,961,123	$ (635,172)	$ 46,780,316

HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

	Harvesters	HCFN	Eliminations	Total
NET ASSETS WITHOUT DONOR RESTRICTIONS				
OPERATING SUPPORT AND REVENUE				
Contributions received	$ 16,226,261	$ -	$ (1,244,488)	$ 14,981,773
Contributed food received	83,679,262	3,489	(3,489)	83,679,262
Handling fees and other revenues	1,322,352	-	-	1,322,352
Rental income	-	1,072,269	(1,072,269)	-
Investment return	352,631	3,854	-	356,485
Special events	424,623	-	-	424,623
Capital campaign revenue	14,018	-	-	14,018
Net assets released from restriction	1,618,767	-	(45,042)	1,573,725
TOTAL OPERATING SUPPORT AND REVENUE	103,637,914	1,079,612	(2,365,288)	102,352,238
EXPENSES				
Foodbank program	15,020,324	1,403,896	(2,307,905)	14,116,315
Contributed food distributed	82,783,261	3,489	(3,489)	82,783,261
Management and general	1,502,912	63,224	(28,767)	1,537,369
Fund development	2,109,011	21,232	(26,029)	2,104,214
TOTAL EXPENSES	101,415,508	1,491,841	(2,366,190)	100,541,159
CHANGES IN NET ASSETS BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO DEBT ISSUANCE COSTS, AND GAIN ON SALE OF ASSETS	2,222,406	(412,229)	902	1,811,079
OTHER EXPENSE				
Depreciation expense	(521,583)	(626,647)	-	(1,148,230)
Interest attributable to debt issuance costs	-	(13,177)	-	(13,177)
Gain on sale of assets	9,684	-	-	9,684
TOTAL OTHER EXPENSE	(511,899)	(639,824)	-	(1,151,723)
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,710,507	(1,052,053)	902	659,356
NET ASSETS WITH DONOR RESTRICTIONS				
Contributions with donor restrictions	1,103,380	-	(45,944)	1,057,436
Contributions with donor restrictions - endowment	52,000	-	-	52,000
Endowment earnings	44,511	-	-	44,511
Releases from net assets with donor restrictions	(1,618,767)	-	45,042	(1,573,725)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	(418,876)	-	(902)	(419,778)
NET ASSETS, BEGINNING OF YEAR	25,828,427	7,602,133	-	33,430,560
NET ASSETS, END OF YEAR	$ 27,120,058	$ 6,550,080	$ -	$ 33,670,138

HARVESTERS - THE COMMUNITY FOOD NETWORK
& SUBSIDIARY

NOTES TO SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENTS

(1) <u>Principles of consolidation</u>

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, 2019 and 2018, Harvesters owed HCFN $635,172 and $71,706, respectively, for the net effect of straight-line rent expense and certain operating expenses and capital expenditures.

During the years ended June 30, 2019 and 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 $1,072,269 and $1,001,156 and Harvesters recognized rental expense of $1,072,269 and $1,001,156 during the years ended June 30, 2019 and 2018, respectively. Under the Kansas property memorandum of occupancy, HCFN donated the use of the space to Harvesters, which resulted in in-kind revenue of $90,985 and $135,126 for Harvesters and in-kind expense of $90,985 and $135,126 for HCFN during the years ended June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, as a result of the Missouri property lease, Harvesters recognized a deferred rent payable and HCFN recognized a deferred rent receivable of $ $681,115 and $398,646, respectively, for the difference between the straight line rent expense and the actual rent paid.