



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

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2023 and 2022





INDEPENDENT AUDITORS' REPORT

To the Board of Directors

HARVESTERS - THE COMMUNITY FOOD NETWORK

Opinion

We have audited the consolidated financial statements of Harvesters - The Community Food Network & Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, 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.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Organization changed its method of accounting for leases as a result of the adoption of Accounting Standards Codification Topic 842, *Leases*, effective July 1, 2022, under the modified retrospective transition method. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

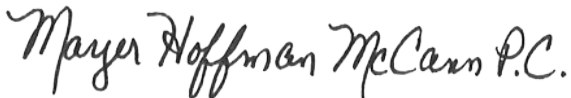
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplemental Information

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

Report on Summarized Comparative Information

We have previously audited Harvesters - The Community Food Network & Subsidiary's 2022 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated October 24, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Kansas City, Missouri
October 23, 2023

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

	2023	2022
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and restricted cash	\$ 12,481,678	\$ 16,302,238
Unconditional promises to give, current portion, less allowance for uncollectibles	1,321,250	642,610
Investments	6,851,751	6,131,957
Accounts receivable	582,867	356,142
Inventory	8,481,137	8,936,021
Prepaid expenses and other assets	555,360	376,285
TOTAL CURRENT ASSETS	30,274,043	32,745,253
LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less current portion above, net of unamortized discount	-	46,941
LEVERAGE LOAN RECEIVABLE	7,688,500	7,688,500
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	22,255,103	17,117,852
ANNUITIES	2,423	7,395
RIGHT OF USE ASSET - OPERATING LEASES	984,664	-
RIGHT OF USE ASSET - FINANCING LEASES, less accumulated amortization	551,034	-
INVESTMENTS - ENDOWMENT	910,502	849,431
TOTAL ASSETS	\$ 62,666,269	\$ 58,455,372
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,437,560	\$ 1,687,959
Deferred revenue	349,980	259,488
Refundable advance	1,779,825	3,067,651
Current portion of long-term debt	1,029,885	110,808
Current portion of operating lease liability	307,358	-
Current portion of finance lease liability	87,005	-
TOTAL CURRENT LIABILITIES	4,991,613	5,125,906
OPERATING LEASE LIABILITY, less current portion above	677,306	-
FINANCE LEASE LIABILITY, less current portion above	469,449	-
LONG-TERM DEBT, less current portion above, net of unamortized debt issuance costs	12,676,764	11,325,884
TOTAL LIABILITIES	18,815,132	16,451,790
<u>NET ASSETS</u>		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Foodbank		
Undesignated	24,513,001	29,287,842
Board designated - reserve	6,750,846	6,120,971
Total foodbank	31,263,847	35,408,813
Contributed food	5,791,367	4,947,415
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	37,055,214	40,356,228
NET ASSETS WITH DONOR RESTRICTIONS	6,795,923	1,647,354
TOTAL NET ASSETS	43,851,137	42,003,582
TOTAL LIABILITIES AND NET ASSETS	\$ 62,666,269	\$ 58,455,372

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2023, with Summarized Financial Information for the Year Ended June 30, 2022

	2023					2022	
	Without Donor Restrictions		With Donor Restrictions			Total	Total
	Operating	Contributed Food	Operating	Capital Campaign	Endowment Restricted		
OPERATING SUPPORT AND REVENUE							
Contributions	\$ 22,051,409	\$ -	\$ 1,042,720	\$ 4,495,000	\$ -	\$ 27,589,129	\$ 27,270,899
Contributed food received	-	114,098,566	-	-	-	114,098,566	115,069,827
Contributed nonfinancial assets	255,746	-	-	13,050	-	268,796	37,609
Cooperative and other revenues	440,375	-	-	-	-	440,375	163,043
Investment return	655,773	-	107,682	-	-	763,455	(673,636)
Special events	456,106	-	-	-	-	456,106	50,825
Net assets released from restriction	509,883	-	(509,883)	-	-	-	-
TOTAL OPERATING SUPPORT AND REVENUE	24,369,292	114,098,566	640,519	4,508,050	-	143,616,427	141,918,567
EXPENSES							
Foodbank program	21,426,771	-	-	-	-	21,426,771	27,495,113
Contributed food distributed	-	113,254,614	-	-	-	113,254,614	116,911,654
Management and general	2,458,191	-	-	-	-	2,458,191	2,581,103
Fund development	3,108,814	-	-	-	-	3,108,814	2,604,396
TOTAL EXPENSES	26,993,776	113,254,614	-	-	-	140,248,390	149,592,266
CHANGES IN NET ASSETS BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO DEBT ISSUANCE COSTS, AND GAIN ON DISPOSAL OF ASSETS	(2,624,484)	843,952	640,519	4,508,050	-	3,368,037	(7,673,699)
OTHER INCOME (EXPENSE)							
Depreciation and amortization expense	(1,500,994)	-	-	-	-	(1,500,994)	(1,345,747)
Interest attributable to debt issuance costs	(24,581)	-	-	-	-	(24,581)	(13,177)
Gain on disposal of assets	5,093	-	-	-	-	5,093	55,975
TOTAL OTHER INCOME (EXPENSE)	(1,520,482)	-	-	-	-	(1,520,482)	(1,302,949)
CHANGES IN NET ASSETS	(4,144,966)	843,952	640,519	4,508,050	-	1,847,555	(8,976,648)
NET ASSETS, BEGINNING OF YEAR	35,408,813	4,947,415	991,477	-	655,877	42,003,582	50,980,230
NET ASSETS, END OF YEAR	\$ 31,263,847	\$ 5,791,367	\$ 1,631,996	\$ 4,508,050	\$ 655,877	\$ 43,851,137	\$ 42,003,582

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2023, with Summarized Financial Information for the Year Ended June 30, 2022

	2023				2022
	Foodbank Program	Management and General	Fund Development	Total	Total
Compensation and benefits	\$ 9,713,372	\$ 1,567,547	\$ 1,338,184	\$ 12,619,103	\$ 12,157,158
Insurance, contracts and leases	876,863	176,184	56,525	1,109,572	1,056,227
Fees and dues	161,767	216,297	15,190	393,254	409,632
Supplies, printing and postage	640,940	96,463	862,144	1,599,547	1,475,896
Repairs, maintenance, and storage	729,968	14,657	16,273	760,898	561,619
Services and staff support	347,070	334,910	471,652	1,153,632	1,185,088
Utilities and telephone	482,757	12,605	13,633	508,995	548,864
Vehicle cost and freight	1,563,365	-	-	1,563,365	1,888,644
Interest expense	175,435	16,480	16,688	208,603	199,595
Special events	-	-	318,525	318,525	161,720
Food purchases	6,726,034	-	-	6,726,034	12,445,767
Grants expense	-	-	-	-	567,286
Miscellaneous expense	9,200	23,048	-	32,248	23,116
Expenses before depreciation and interest attributable to debt issuance costs and contributed food distributed	21,426,771	2,458,191	3,108,814	26,993,776	32,680,612
Depreciation and amortization expense	1,458,069	22,535	20,390	1,500,994	1,345,747
Interest attributable to debt amortization issuance costs	23,878	369	334	24,581	13,177
Contributed food distributed	113,254,614	-	-	113,254,614	116,911,654
TOTAL EXPENSES	\$ 136,163,332	\$ 2,481,095	\$ 3,129,538	\$ 141,773,965	\$ 150,951,190
Percentage of total expenses	96.04%	1.75%	2.20%	100.00%	
Percentage of expenses before depreciation and interest attributable to debt issuance costs and contributed food distributed	79.37%	9.11%	11.52%	100.00%	

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,847,555	\$ (8,976,648)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Net contributed food activity	(843,952)	1,841,827
Gain on disposal of assets	(5,093)	(55,977)
Realized and unrealized (gain) loss on investments	(332,825)	884,314
Depreciation	1,442,989	1,345,747
Amortization of right of use asset - operating lease	355,465	-
Amortization of right of use asset - finance lease	58,005	-
Interest attributable to debt issuance costs	24,581	13,177
Contributions to finance long-term capital improvements	(4,495,000)	-
Change in operating assets:		
Unconditional promises to give	(506,699)	241,219
Accounts receivable	(226,725)	(220,243)
Inventory	11,010	714,995
Prepaid expenses and other assets	(179,075)	(31,355)
Change in operating liabilities:		
Accounts payable and accrued expenses	(285,453)	(535,289)
Operating lease liability	(355,465)	-
Deferred revenue	90,492	259,488
NET CASH FLOWS FROM OPERATING ACTIVITIES	(3,400,190)	(4,518,745)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,077,393	910,681
Purchases of investments	(1,525,433)	(988,189)
Proceeds from sale of investments - other	4,972	5,068
Acquisition of property and equipment	(6,405,611)	(896,705)
Proceeds from sale of property and equipment	5,093	55,977
NET CASH FLOWS FROM INVESTING ACTIVITIES	(6,843,586)	(913,168)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds received from capital campaign	4,370,000	25,000
Repayment of long-term debt	(110,808)	(105,628)
Finance lease payments	(52,585)	-
Repayment of accounts payable and accrued expenses used to finance property and equipment	(139,575)	(294,632)
Payment of loan fees	(43,816)	-
Proceeds from long-term debt	2,400,000	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	6,423,216	(375,260)
NET CHANGES IN CASH AND RESTRICTED CASH	(3,820,560)	(5,807,173)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	16,302,238	22,109,411
CASH AND RESTRICTED CASH, END OF YEAR	\$ 12,481,678	\$ 16,302,238
Cash and restricted cash per consolidated statements of financial position		
Cash	\$ 10,557,727	\$ 15,729,477
Restricted cash	1,923,951	572,761
Total cash and restricted cash	\$ 12,481,678	\$ 16,302,238

See Notes to Consolidated Financial Statements

HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Organization - Harvesters - The Community Food Network (“Harvesters”) is a not-for-profit, tax-exempt (Section 501(c)(3)) food bank committed to providing food to hungry people in 26 counties in northeast Kansas and northwest Missouri. Harvesters is a charter member of Feeding America. Approximately 45% and 42% of food received during the years ended June 30, 2023 and 2022, respectively, was donated to the Organization from Feeding America national product donors. Harvesters collects and purchases food and distributes it to a network of member agencies such as food pantries, soup kitchens, shelters and other non-profit charitable organizations. These agencies provide the food to hungry people in need. Harvesters also educates the community about hunger, hunger relief, and nutrition.

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

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

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

HARVESTERS - THE COMMUNITY FOOD NETWORK & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

- Net assets with donor restrictions also include endowment funds subject to donor-imposed stipulations, which, as interpreted by the Board of Directors, according to the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) requirements, require the Organization to permanently maintain the fair value of the original gift as of the gift date. The donors of these assets permit the Organization to spend a part of the income earned on these assets, which are subject to appropriation or expenditure, on certain programs. These net assets are permanent endowment funds being held by the Organization such that the Organization has a perpetual interest in the earnings.
- Releases from net assets with donor restrictions during the years ended June 30, 2023 and 2022 were \$199,419 and \$557,796, respectively, for time restrictions and \$310,464 and \$1,028,465, respectively, for purpose restrictions. Net assets with donor restrictions consisted of time restrictions totaling \$768,406 and \$235,162, purpose restrictions for food distribution programs and endowment funds subject to appropriation or expenditure of \$5,371,640 and \$756,315, and endowment funds not subject to appropriation or expenditure of \$655,877 and \$655,877 at June 30, 2023 and 2022, respectively.

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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

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

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

The Organization received contributed food totaling \$114,098,566 and \$115,069,827 for the years ended June 30, 2023 and 2022, respectively. Contributed food is valued using a weighted average wholesale price per pound as determined by the Feeding America Product Valuation Methodology Survey.

The Organization received \$268,796 and \$37,609 for the years ended June 30, 2023 and 2022, respectively, for donated services and goods other than contributed food. Donated goods are valued based on estimated prices of identical or similar products considering the condition and utility for use by the Organization. Donated services are valued based on the estimated price of similar services.

All gifts in-kind are utilized by the Organization's food bank program. There were \$13,050 and \$0 of gifts in-kind subject to donor-imposed restrictions during the years ended June 30, 2023 and 2022, respectively.

A substantial number of volunteers have donated thousands of hours during the years ended June 30, 2023 and 2022, which do not meet the requirements of the Not-For-Profit Topic of the FASB ASC related to revenue recognition of contributions received and, accordingly, are not recorded in these consolidated financial statements.

Cash - Cash consists of available cash balances on deposit at financial institutions. At times, the Organization maintains deposits in financial institutions in excess of federally insured limits. At June 30, 2023 and 2022 the Organization's uninsured balances totaled \$12,305,965 and \$16,453,369, respectively. The Organization has not experienced any losses in such accounts and management believes the risk of loss is negligible.

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Inventory - Contributed food is valued on a first-in, first-out basis using a weighted average wholesale price per pound as determined by the Feeding America national food bank network. For the years ended June 30, 2023 and 2022, contributed food was valued at \$1.93 and \$1.92 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 with an expected useful life of two years or greater which either have a unit cost of \$5,000 or greater or items with a unit cost below this threshold which are included in bulk purchases with a combined cost of \$10,000 or greater are generally capitalized.

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

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

Adoption of new lease standard - In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016 - 02, *Leases* ("ASC 842") that requires lessees to recognize a right-of-use asset and lease liability on the statement of financial position and disclose key information about leasing arrangements. The recognition, measurement and presentation of expenses and cash flows arising from an operating lease by a lessee have not significantly changed from current accounting principles generally accepted in the United States of America. The Organization adopted the standard effective July 1, 2022, and recognized and measured leases existing at July 1, 2022 through a cumulative effect adjustment. Lease disclosures for the year ended June 30, 2022, are made under prior lease guidance in FASC ASC 840.

The Organization elected the available practical expedients to account for the existing operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. The Organization elected the short term lease exception provided for in Topic 842; therefore, the Organization only recognizes right-of-use assets and lease liabilities for leases with a term greater than one year.

The standard had a material impact on the Organization's consolidated statements of financial position but did not have a material impact on its statement of activities, nor statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for both finance and operating leases. As a result of the adoption of the new lease accounting guidance, the Organization recognized operating lease liabilities of approximately \$1,340,129 and related operating lease right-of-use assets of approximately \$1,340,129 on July 1, 2022.

Interest attributable to debt issuance costs - In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the consolidated statements of financial position as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. During the years ended June 30, 2023 and 2022, amortization amounted to \$24,581 and \$13,177, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Functional expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying statements of functional expenses. Expenses that can be identified with a specific program and support are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the programs or support source. Specifically, those costs are allocated by department, a full time equivalent measure, or by square footage.

Direct benefit to donor costs have been included in fund development costs on the consolidated statements of functional expenses as the associated costs are not material in relation to the consolidated financial statements taken as a whole.

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

The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the consolidated financial statements during the period which, based on all available evidence, it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. No accrual has been recorded at June 30, 2023 or 2022, as management does not believe any material uncertainties exist.

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

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

Summarized comparative information - The consolidated financial statements include certain prior year summarized comparative information in total but neither by net asset class nor by natural classification of expenses by function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Harvesters' consolidated financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Reclassifications - Certain items in the June 30, 2022 summarized comparative information have been reclassified to conform to the June 30, 2023 consolidated financial statement presentation. There was no impact on the change in net assets.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Unconditional promises to give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. During the year ended June 30, 2023, no discount was recorded as no multi-year unconditional promises to give were outstanding. The discount rate used in valuing unconditional promises to give was 5% for the year ended June 30, 2022. Amortization of the discounts is included in contributions revenue.

Unconditional promises to give that are expected to be collected are as follows:

	June 30,	
	2023	2022
Private donations - capital campaign	\$ 125,000	\$ -
Private donations - operations	798,422	438,461
Government donations	422,828	279,738
Subtotal	1,346,250	718,199
Less: Unamortized discount	-	(3,648)
Subtotal	1,346,250	714,551
Less: Allowance for uncollectibles	(25,000)	(25,000)
Net unconditional promises to give	\$ 1,321,250	\$ 689,551

Amounts due in:

Years ending June 30,

2024

\$ 1,346,250

(3) Conditional promises to give and refundable advances

Conditional promises to give at June 30, 2023 and 2022 amounted to \$6,239,383 and \$3,350,770, respectively. At June 30, 2023 and 2022, \$1,779,825 and \$3,067,651, respectively, of food was received in relation to federal grants where a barrier to entitlement and a right of return still exists. As such, these food amounts received are reflected as refundable advances within the consolidated statements of financial position until the conditions have been substantially met or waived by the donor. The conditional promises to give will be recognized as revenue within the consolidated financial statements when such amounts become unconditional.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Investments

Investments are comprised of the following:

	June 30,	
	2023	2022
Fixed income pool:		
Short term	\$ 1,858,877	\$ 1,776,360
Intermediate	1,594,959	1,517,473
Total fixed income pool	3,453,836	3,293,833
Money market pool	1,119,303	985,996
Equity pool:		
Domestic allocation	2,371,136	1,995,109
International allocation	817,978	706,450
Total equity pool	3,189,114	2,701,559
Total investments	\$ 7,762,253	\$ 6,981,388

Investment return is comprised of the following:

	Years ended June 30,	
	2023	2022
Interest and dividend income	\$ 450,114	\$ 229,887
Investment fees	(19,484)	(19,209)
Unrealized (loss) gain	291,747	(1,124,017)
Realized gain	41,078	239,703
Total investment return	\$ 763,455	\$ (673,636)

The Organization maintains the above investment portfolios at the Greater Kansas City Community Foundation (the "Community Foundation"), and specified itself as beneficiary at the time of the transfer. Amounts will be distributed to the Organization upon the Community Foundation's receipt of the written recommendation of two authorized signers of the Organization. The Community Foundation will monitor distributions requested by the Organization to ensure amounts are being distributed in accordance with the Organization's intentions. The investment portfolios above are included in Investments and Investments - Endowment on the consolidated statements of financial position as of June 30, 2023 and 2022, 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) 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 following table summarizes the valuation of the Organization's investments by the above FASB ASC 820 fair value hierarchy levels as of June 30, 2023 and 2022:

	June 30, 2023			
	Fair Value	Level 1	Level 2	Level 3
Money market pool	\$ 1,119,303	\$ -	\$ 1,119,303	\$ -
Equity pool	3,189,114	-	3,189,114	-
Fixed income pool	3,453,836	-	3,453,836	-
	\$ 7,762,253	\$ -	\$ 7,762,253	\$ -
	June 30, 2022			
	Fair Value	Level 1	Level 2	Level 3
Money market pool	\$ 985,996	\$ -	\$ 985,996	\$ -
Equity pool	2,701,559	-	2,701,559	-
Fixed income pool	3,293,833	-	3,293,833	-
	\$ 6,981,388	\$ -	\$ 6,981,388	\$ -

(5) Leverage loan receivable

During the year ended June 30, 2017, as a part of the NMTC transactions listed in Note 7 below, Harvesters issued a \$7,688,500 loan to U.S. Bancorp Community Development Corporation ("USB CDC") 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.

(6) Property and equipment

	June 30,	
	2023	2022
Cost		
Land and land improvements	\$ 1,296,628	\$ 667,828
Building and building improvements	22,293,280	17,035,680
Equipment	10,498,867	9,945,724
Total cost	34,088,775	27,649,232
Less: Accumulated depreciation	11,833,672	10,531,380
Net property and equipment	\$ 22,255,103	\$ 17,117,852

Depreciation expense charged to operations for the years ended June 30, 2023 and 2022 was \$1,442,989 and \$1,345,747, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) New market tax credit financing transaction

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

As an inducement to such third-party tax credit investors and a CDE to invest in the project, Harvesters committed \$7,688,500 via a leverage loan to the Fund, a Missouri limited liability company. As fully described within Note 5, the leverage loan due to the Fund of \$7,688,500 is reflected as a note receivable on the consolidated statement of financial position at June 30, 2023 and 2022. USBCDC invested \$5,000,000 in the Fund and another \$5,000,000 in USBCDC Investment Fund 201, LLC, which subsequently merged with the Fund. The Fund is a wholly owned subsidiary of USBCDC.

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Long-term debt

	June 30,	
	2023	2022
<u>Harvesters</u>		
Term loan A 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.	\$ 875,310	\$ 986,118
Term loan B with US Bank, with an original balance of \$2,400,000, and interest accruing at 6.75%. Monthly payments of interest only until maturity. The entire principal balance and accrued interest is due at maturity on December 22, 2024. The loan is collateralized by certain real and personal property owned by Harvesters.	2,400,000	-
<u>HCFN</u>		
Term loan A with CBKC CDC SUB-CDE 41, LLC, with an original balance of \$4,193,728, and interest accruing at 1.38%. Quarterly payments of interest only through June 2024, converting to quarterly payments of principal and interest of \$53,285 beginning September 1, 2024 with all unpaid principal and accrued interest due at maturity on June 30, 2047. The loan is collateralized by the assets and personal property of HCFN.	4,193,728	4,193,728
Term loan B with CBKC CDC SUB-CDE 41, LLC, with an original balance of \$1,686,272, and interest accruing at 1.38%. Quarterly payments of interest only through May 2024, with a balloon principal payment due in June 2024, and converting to quarterly payments of principal and interest of \$20,354 beginning July 1, 2024 with all unpaid principal and accrued interest due at maturity on June 30, 2047. The loan is collateralized by the assets and personal property of HCFN.	1,686,272	1,686,272
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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Long-term debt (continued)

	June 30,	
	2023	2022
Term loan B with CBKC CDC SUB-CDE 42, LLC, with an original balance of \$1,405,227, and interest accruing at 1.38%. Quarterly payments of interest only through May 2024, with a balloon principal payment due in June 2024, and converting to quarterly payments of principal and interest of \$16,962 beginning July 1, 2024 with all unpaid principal and accrued interest due at maturity on June 30, 2047. The loan is collateralized by the assets and personal property of HCFN.	1,405,227	1,405,227
Total debt	14,055,310	11,766,118
Less: current portion	(1,029,885)	(110,808)
Less: unamortized debt issuance costs	(348,661)	(329,426)
Non-current portion	\$ 12,676,764	\$ 11,325,884

Maturities on long-term debt are as follows:

Years ending June 30,	
2024	\$ 1,029,885
2025	2,795,303
2026	400,791
2027	406,356
2028	411,998
Thereafter	9,010,977
Total	\$ 14,055,310

During June of 2023, the Organization entered into a construction loan agreement with US Bank in the principal sum of up to \$9,760,000, with a commencement date of July 15, 2023. This construction loan will bear an annual interest rate equal to the sum of the secured overnight financing rate ("SOFR rate") plus a 2.75% margin rate. As of June 30, 2023, no draws on this loan were made.

(9) Line of credit

For the years ended June 30, 2023 and 2022, the Organization maintained a \$5,000,000 line of credit. The line available during the year ended June 30, 2023 was renewed with a new maturity date of January 30, 2025 and accrues interest at 1.9% over SOFR (5.09% at June 30, 2023). The line available during the year ended June 30, 2022 matured on January 30, 2023 and accrued interest at 1.9% over SOFR (3.59% at June 30, 2022). At June 30, 2023 and 2022, there was no outstanding balance on the line. The line is collateralized by all business assets of Harvesters and subject to certain financial and non-financial covenants.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Endowment

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

The Organization had the following endowment-related activities:

	For the year ended June 30, 2023		
	Subject to appropriation or expenditure	Not subject to appropriation or expenditure	Total
Beginning balance, July 1, 2022	\$ 193,554	\$ 655,877	\$ 849,431
Releases from restriction	(46,611)	-	(46,611)
Investment return	107,682	-	107,682
Total change in endowment funds	61,071	-	61,071
Ending balance, June 30, 2023	\$ 254,625	\$ 655,877	\$ 910,502

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

Return objectives and risk parameters

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Endowment (continued)

Strategies employed for achieving objectives

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

Spending policy

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

(11) Lease commitments

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

Harvesters also leases equipment used in operations through multiple leases which expire between August 2024 and October 2029.

In addition, the adoption of the leasing standard ASC 842 requires the disclosure of other information pertaining to the operating cash flows from these leases, the weighted-average remaining lease term, and the weighted average discount rate. These items are disclosed for operating and financing leases below for the year ended June 30, 2023. The Organization had a non-cash investing and financing activity in the amount of \$609,038 and \$1,340,129 related to right-of-use assets financed with financing lease liabilities and operating lease liabilities recorded in connection with the implementation of Topic 842, respectively.

The components of these lease costs during the year ended June 30, 2023 are as follows:

Operating lease cost (cost resulting from lease payments)	<u><u>\$ 500,879</u></u>
Finance lease cost	
Interest	\$ 13,895
Amortization	58,005
Total lease cost	<u><u>\$ 71,900</u></u>
Short-term operating lease expense	<u><u>\$ 114,737</u></u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Lease commitments (continued)

Other information relates to leases was as follows:

Supplemental cash flow information:

Operating cash flows from operating leases	\$ 500,879
Operating cash flows from finance leases	\$ 13,895
Financing cash flows from finance leases	\$ 52,585
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 609,038
Weighted-average remaining lease term	
Operating leases (years)	3.42
Financing leases (years)	6.26
Weighted-average discount rate	
Operating leases (percentage)	2.87%
Financing leases (percentage)	4.18%

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

Years Ending June 30,

	<u>Operating</u>	<u>Financing</u>
2024	\$ 330,831	\$ 100,156
2025	309,199	100,156
2026	200,386	100,156
2027	150,310	100,156
2028	44,620	100,156
Thereafter	-	133,541
Total future undiscounted lease payments	<u>1,035,346</u>	<u>634,321</u>
Less present value discount	(50,682)	(77,867)
Operating lease liability ending balance	<u>\$ 984,664</u>	<u>\$ 556,454</u>

The Organization determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property or equipment (an identified asset) in exchange for consideration. The Organization determines these assets are leased because the Organization has the right to obtain substantially all of the economic benefit from and the right to direct the use of the identified asset. Assets in which the supplier or lessor has the practical ability and right to substitute alternative assets for the identified asset and would benefit economically from the exercise of its right to substitute the asset are not considered to be or contain a lease because the Organization determines it does not have the right to control and direct the use of the identified asset. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating its contracts, the Organization separately identifies lease and non-lease components, such as maintenance costs, in calculating the right-of-use ("ROU") assets and lease liabilities for its leases. The Organization has elected the practical expedient to not separate lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease component.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Lease commitments (continued)

Leases result in the recognition of ROU assets and lease liabilities on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

(12) Liquidity

	June 30,	
	2023	2022
Cash	\$ 11,011,964	\$ 16,302,238
Unconditional promises to give	1,196,250	642,610
Investments	6,851,751	6,131,957
Accounts receivable	582,867	356,142
Other investments	3,066	6,044
Appropriations from endowment	46,364	46,611
	\$ 19,692,262	\$ 23,485,602

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

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 are included when such gifts are restricted for use in the Organization's regular, ongoing activities.

Current investments - Included in the amount above is \$6,750,846 designated as an operating reserve by the Board. Harvesters does not intend to spend from the reserve in the upcoming year, but this amount is available for general expenditures as needed. These funds are invested at the Greater Kansas City Community Foundation (the "Foundation"). The Foundation reserves the right to make the final decision regarding distributions from the fund.

Accounts receivable - Receivables due within the year from the Organizations' agency partners and others.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Liquidity (continued)

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 above, Harvesters has a \$5,000,000 line of credit which it can draw upon as needed. Harvesters may also make short-term borrowings from its operating reserves for temporary liquidity needs.

(13) Retirement plan

The Organization sponsors a non-participatory defined contribution retirement plan for employees following completion of two consecutive years of employment. The Organization contributes 5% of gross compensation of eligible employees. During the years ended June 30, 2023 and 2022, contributions to the plan charged to operations were \$317,995 and \$292,376, respectively.

(14) Board designated reserve

The Board of Directors authorized the establishment of an operating reserve fund. This fund, which is maintained in the Organization's investment account, consisted of \$6,750,846 and \$6,120,971 at June 30, 2023 and 2022, respectively. Reserve funds can be used without board approval for temporary cash flow needs only up to 50% of the total value of the reserve. All other uses require board approval.

(15) Concentrations

During the year ended June 30, 2023, 22% of Harvesters' purchases were from Feeding America for the acquisition of food items. In addition, 53% of Harvesters' donated food came from Feeding America national donors and other Feeding America food banks, and 10% of donated food came from the United States Department of Agriculture.

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

(16) Cash flow disclosures

The following is a summary of supplemental cash flow information:

	June 30,	
	2023	2022
Cash paid for interest	\$ 208,603	\$ 199,595
Purchase of property and equipment with accounts payable and accrued expenses	\$ 174,629	\$ 139,575
Refundable advance of donated inventory	\$ 1,287,826	\$ 367,277

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) Contingencies

The Organization is subject to claims that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Organization.

(18) Commitments

The Kansas Department of Transportation (“KDOT”) has announced plans to reconfigure the section of I-70 in Topeka known as the Polk-Quincy Viaduct. During the fiscal year ending June 30, 2021, KDOT selected a plan design for this project. The design will subject the Organization’s Topeka facility to demolition as part of a right-of-way acquisition. The Organization expects to occupy the building until 2024, when construction on the Polk-Quincy project is scheduled to begin. The Organization has no knowledge of the right-of-way acquisition interfering with the expiration of the NMTC described in Note 7. As of November 30, 2022, the Organization entered into a conveyance contract with KDOT for this property. The contract contains several contingencies. If the contingencies are satisfied by the stated closing date of June 26, 2024, the Organization will convey the property to KDOT for proceeds of not less than \$13,032,981.

In December 2022, Harvesters acquired a new Kansas facility (“Timberedge property”) for \$4,800,000. The acquisition of the Timberedge property is reflected as property and equipment on the consolidated statements of financial position.

(19) Subsequent events

The Organization has evaluated subsequent events through October 23, 2023, which is the date the consolidated financial statements were available to be issued. Except for the construction loan agreement commencement date starting on July 15, 2023 as discussed in Note 8, no additional 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, 2023

ASSETS

	<u>Harvesters</u>	<u>HCFN</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash	\$ 12,177,405	\$ 304,273	\$ -	\$ 12,481,678
Unconditional promises to give, current portion, less allowance for uncollectibles	1,321,250	-	-	1,321,250
Investments	6,851,751	-	-	6,851,751
Accounts receivable	638,111	1,046,963	(1,102,207)	582,867
Inventory	8,481,137	-	-	8,481,137
Prepaid expenses and other assets	555,360	-	-	555,360
TOTAL CURRENT ASSETS	30,025,014	1,351,236	(1,102,207)	30,274,043
LEVERAGE LOAN RECEIVABLE	7,688,500	-	-	7,688,500
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	9,053,059	13,202,044	-	22,255,103
ANNUITIES	2,423	-	-	2,423
RIGHT OF USE ASSET - OPERATING LEASES	11,490,387	-	(10,505,723)	984,664
RIGHT OF USE ASSET - FINANCING LEASES, less accumulated amortization	551,034	-	-	551,034
INVESTMENTS - ENDOWMENT	910,502	-	-	910,502
TOTAL ASSETS	\$ 59,720,919	\$ 14,553,280	\$ (11,607,930)	\$ 62,666,269

LIABILITIES

CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 1,437,560	\$ 55,243	\$ (55,243)	\$ 1,437,560
Grants payable	349,980	-	-	349,980
Refundable advance	1,779,825	-	-	1,779,825
Current portion of long-term debt	1,029,885	-	-	1,029,885
Current portion of operating lease liability	307,358	-	-	307,358
Current portion of finance lease liability	87,005	-	-	87,005
TOTAL CURRENT LIABILITIES	4,991,613	55,243	(55,243)	4,991,613
OPERATING LEASE LIABILITY, less current portion above	12,229,993	-	(11,552,687)	677,306
FINANCE LEASE LIABILITY, less current portion above	469,449	-	-	469,449
LONG-TERM DEBT, less current portion above, net of unamortized debt issuance costs	2,213,013	10,463,751	-	12,676,764
TOTAL LIABILITIES	19,904,068	10,518,994	(11,607,930)	18,815,132

NET ASSETS

NET ASSETS WITHOUT DONOR RESTRICTIONS				
Foodbank				
Undesignated	20,478,715	4,034,286	-	24,513,001
Board designated - reserve	6,750,846	-	-	6,750,846
Total foodbank	27,229,561	4,034,286	-	31,263,847
Contributed food	5,791,367	-	-	5,791,367
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	33,020,928	4,034,286	-	37,055,214
NET ASSETS WITH DONOR RESTRICTIONS	6,795,923	-	-	6,795,923
TOTAL NET ASSETS	39,816,851	4,034,286	-	43,851,137
TOTAL LIABILITIES AND NET ASSETS	\$ 59,720,919	\$ 14,553,280	\$ (11,607,930)	\$ 62,666,269

See Notes to Supplementary Information – Consolidating Financial Statements

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

SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2023

	<u>Harvesters</u>	<u>HCFN</u>	<u>Eliminations</u>	<u>Total</u>
<u>NET ASSETS WITHOUT DONOR RESTRICTIONS</u>				
<u>OPERATING SUPPORT AND REVENUE</u>				
Contributions	\$ 22,688,359	\$ -	\$ (650,000)	\$ 22,038,359
Contributed food received	114,098,566	-	-	114,098,566
Contributed nonfinancial assets	510,134	-	(241,338)	268,796
Cooperative and other revenues	440,375	-	-	440,375
Rental income	-	1,122,661	(1,122,661)	-
Investment return	655,110	663	-	655,773
Special events	456,106	-	-	456,106
Net assets released from restriction	509,883	-	-	509,883
TOTAL OPERATING SUPPORT AND REVENUE	139,358,533	1,123,324	(2,013,999)	138,467,858
<u>EXPENSES</u>				
Foodbank program	22,374,140	1,002,754	(1,950,123)	21,426,771
Contributed food distributed	113,254,614	-	-	113,254,614
Management and general	2,423,760	67,964	(33,533)	2,458,191
Fund development	3,120,689	18,468	(30,343)	3,108,814
TOTAL EXPENSES	141,173,203	1,089,186	(2,013,999)	140,248,390
<u>CHANGES IN NET ASSETS BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO DEBT ISSUANCE COSTS, AND GAIN ON SALE OF ASSETS</u>				
	(1,814,670)	34,138	-	(1,780,532)
<u>OTHER INCOME (EXPENSE)</u>				
Gain on sale of assets	5,093	-	-	5,093
Depreciation and amortization expense	(816,467)	(684,527)	-	(1,500,994)
Interest attributable to debt issuance costs	(11,404)	(13,177)	-	(24,581)
TOTAL OTHER INCOME (EXPENSE)	(822,778)	(697,704)	-	(1,520,482)
<u>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</u>				
	(2,637,448)	(663,566)	-	(3,301,014)
<u>NET ASSETS WITH DONOR RESTRICTIONS</u>				
Contributions with donor restrictions	5,550,770	-	-	5,550,770
Endowment earnings	107,682	-	-	107,682
Releases from net assets with donor restrictions	(509,883)	-	-	(509,883)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	5,148,569	-	-	5,148,569
NET ASSETS, BEGINNING OF YEAR	37,305,730	4,697,852	-	42,003,582
NET ASSETS, END OF YEAR	\$ 39,816,851	\$ 4,034,286	\$ -	\$ 43,851,137

See Notes to Supplementary Information – Consolidating Financial Statements

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

NOTES TO SUPPLEMENTARY INFORMATION – CONSOLIDATING FINANCIAL STATEMENTS

(1) Principles of consolidation

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

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

At June 30, 2023 and 2022, Harvesters owed HCFN \$991,721 and \$971,455, respectively, for the net effect of straight-line rent expense and certain operating expenses and capital expenditures.

During the years ended June 30, 2023 and 2022, HCFN leased certain property and equipment at the Kansas and Missouri locations to Harvesters. As a part of these transactions, HCFN recognized rental revenue, and Harvesters recognized rental expense, of \$881,323 and \$981,230 during the years ended June 30, 2023 and 2022, respectively. Under the memorandums of property and equipment use, HCFN donated the use of space and equipment to Harvesters. This resulted in in-kind donation revenue and in-kind rental expense for Harvesters of \$241,338 and \$96,553 during the years ended June 30, 2023 and 2022, respectively. For HCFN, this resulted in in-kind rental revenue and donation expense of \$241,338 and \$97,508 during the years ended June 30, 2023 and 2022, respectively. Additionally, HCFN made monetary donations to Harvesters, which resulted in contribution expense of \$650,000 and \$750,000, and Harvesters recognized contribution revenue of \$650,000 and \$750,000, during the years ended June 30, 2023 and 2022 respectively. Harvesters and HCFN recorded an intercompany in-kind pledge receivable and payable, respectively, that is ultimately eliminated from the consolidated financial statements.