

Financial Statements Together with
Report of Independent Certified Public Accountants

CITY HARVEST, INC.

June 30, 2019 and 2018

CITY HARVEST, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
City Harvest, Inc.:

We have audited the accompanying financial statements of City Harvest, Inc. (“City Harvest”), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City Harvest, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
November 12, 2019

CITY HARVEST, INC.
Statements of Financial Position
As of June 30, 2019 and 2018

ASSETS	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,432,812	\$ 4,361,107
Contributions receivable - current portion	5,665,171	5,358,912
Grants and awards receivable	768,818	764,699
Prepaid expenses and other current assets	<u>454,490</u>	<u>171,697</u>
Total current assets	10,321,291	10,656,415
Investments	8,293,172	11,065,654
Inventory	1,510,025	1,501,185
Security deposits	322,962	477,367
Contributions receivable, net - long-term portion	2,264,561	-
Property and equipment, net	<u>1,480,867</u>	<u>1,850,599</u>
Total assets	<u>\$ 24,192,878</u>	<u>\$ 25,551,220</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,587,279	\$ 3,029,538
Deferred revenue	378,973	1,381,051
Leases payable, current portion	<u>-</u>	<u>87,646</u>
Total current liabilities	2,966,252	4,498,235
Deferred rent	<u>1,300,381</u>	<u>1,441,650</u>
Total long-term liabilities	<u>1,300,381</u>	<u>1,441,650</u>
Total liabilities	<u>4,266,633</u>	<u>5,939,885</u>
Commitments and contingencies (Note 10)		
NET ASSETS		
Without donor restrictions		
Undesignated	6,048,825	9,018,062
Board designated	<u>9,155,000</u>	<u>8,300,000</u>
Total net assets without donor restrictions	15,203,825	17,318,062
With donor restrictions		
Time restricted	1,512,267	647,015
Purpose restricted	<u>3,210,153</u>	<u>1,646,258</u>
Total net assets with donor restrictions	<u>4,722,420</u>	<u>2,293,273</u>
Total net assets	<u>19,926,245</u>	<u>19,611,335</u>
Total liabilities and net assets	<u>\$ 24,192,878</u>	<u>\$ 25,551,220</u>

The accompanying notes are an integral part of these financial statements.

CITY HARVEST, INC.
Statements of Activities
For the years ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES						
Public support:						
Contributions:						
Donated food (Note 7)	\$ 107,614,463	\$ -	\$ 107,614,463	\$ 104,140,767	\$ -	\$ 104,140,767
Corporations	3,597,265	820,000	4,417,265	3,949,382	515,000	4,464,382
Foundations	9,940,679	3,274,763	13,215,442	8,916,383	801,580	9,717,963
Individuals	9,825,219	-	9,825,219	10,353,196	1,817	10,355,013
Organizations	562,372	-	562,372	765,153	6,678	771,831
Special events (net of direct benefits to donors of \$937,396 in 2019 and \$970,919 in 2018)	5,443,228	-	5,443,228	5,882,148	-	5,882,148
Total public support	<u>136,983,226</u>	<u>4,094,763</u>	<u>141,077,989</u>	<u>134,007,029</u>	<u>1,325,075</u>	<u>135,332,104</u>
Revenues:						
Government grants and awards	843,077	7,556	850,633	892,343	238,000	1,130,343
Investment income (loss)	302,900	7,069	309,969	111,754	(5,377)	106,377
Other income	211,720	-	211,720	48,911	-	48,911
Total revenues	<u>1,357,697</u>	<u>14,625</u>	<u>1,372,322</u>	<u>1,053,008</u>	<u>232,623</u>	<u>1,285,631</u>
Net assets released from restrictions	<u>1,680,241</u>	<u>(1,680,241)</u>	<u>-</u>	<u>1,138,276</u>	<u>(1,138,276)</u>	<u>-</u>
Total public support, revenues and net assets released from restrictions	<u>140,021,164</u>	<u>2,429,147</u>	<u>142,450,311</u>	<u>136,198,313</u>	<u>419,422</u>	<u>136,617,735</u>
EXPENSES						
Program services:						
Emergency food operations	128,610,147	-	128,610,147	122,669,103	-	122,669,103
Healthy neighborhoods and other programming	4,325,825	-	4,325,825	4,262,207	-	4,262,207
Total program services	<u>132,935,972</u>	<u>-</u>	<u>132,935,972</u>	<u>126,931,310</u>	<u>-</u>	<u>126,931,310</u>
Supporting services:						
Management and general	858,738	-	858,738	1,545,757	-	1,545,757
Development	8,340,691	-	8,340,691	7,666,153	-	7,666,153
Total supporting services	<u>9,199,429</u>	<u>-</u>	<u>9,199,429</u>	<u>9,211,910</u>	<u>-</u>	<u>9,211,910</u>
Total expenses	<u>142,135,401</u>	<u>-</u>	<u>142,135,401</u>	<u>136,143,220</u>	<u>-</u>	<u>136,143,220</u>
Change in net assets before effect of non-operating activity and donated services	<u>(2,114,237)</u>	<u>2,429,147</u>	<u>314,910</u>	<u>55,093</u>	<u>419,422</u>	<u>474,515</u>
Non-operating activity						
Write-off of pledge receivable	-	-	-	12,934	(77,000)	(64,066)
Total non-operating activity	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,934</u>	<u>(77,000)</u>	<u>(64,066)</u>
Donated services - revenue	2,110,343	-	2,110,343	2,486,848	-	2,486,848
Donated services - expenses	(2,110,343)	-	(2,110,343)	(2,486,848)	-	(2,486,848)
Change in net assets	<u>(2,114,237)</u>	<u>2,429,147</u>	<u>314,910</u>	<u>68,027</u>	<u>342,422</u>	<u>410,449</u>
Net assets, beginning of year	<u>17,318,062</u>	<u>2,293,273</u>	<u>19,611,335</u>	<u>17,250,035</u>	<u>1,950,851</u>	<u>19,200,886</u>
Net assets, end of year	<u>\$ 15,203,825</u>	<u>\$ 4,722,420</u>	<u>\$ 19,926,245</u>	<u>\$ 17,318,062</u>	<u>\$ 2,293,273</u>	<u>\$ 19,611,335</u>

The accompanying notes are an integral part of these financial statements.

CITY HARVEST, INC.
Statement of Functional Expenses
For the year ended June 30, 2019, with comparative information for 2018

	Program Services			Supporting Services			Total Expenses	
	Emergency Food Operations	Other Programming	Total	Management and General	Development	Total	2019	2018
Salaries	\$ 7,078,638	\$ 2,498,978	\$ 9,577,616	\$ 308,268	\$ 3,682,788	\$ 3,991,056	\$ 13,568,672	\$ 12,400,655
Employee benefits and payroll taxes	2,236,742	702,887	2,939,629	65,668	805,217	870,885	3,810,514	3,595,421
Food distributed	107,938,597	-	107,938,597	-	-	-	107,938,597	104,494,661
Food transportation and distribution	7,243,339	-	7,243,339	238	-	238	7,243,577	6,399,882
Food packaging supplies	108,057	-	108,057	-	-	-	108,057	157,901
Communication, printing and postage	125,793	35,104	160,897	15,368	1,010,642	1,026,010	1,186,907	1,201,793
Rent, utilities and cleaning	1,188,727	205,768	1,394,495	191,772	351,385	543,157	1,937,652	1,835,699
Promotion	9,548	53,948	63,496	11,037	639,124	650,161	713,657	692,531
Computer support	250,033	64,921	314,954	74,388	103,873	178,261	493,215	510,134
Professional fees	911,212	407,898	1,319,110	118,303	1,318,886	1,437,189	2,756,299	2,926,934
Grant expense	532,965	31,786	564,751	-	-	-	564,751	165,003
Office supplies and miscellaneous	490,081	314,515	804,596	65,947	414,741	480,688	1,285,284	1,059,620
Total expenses before depreciation and amortization and donated services	<u>128,113,732</u>	<u>4,315,805</u>	<u>132,429,537</u>	<u>850,989</u>	<u>8,326,656</u>	<u>9,177,645</u>	<u>141,607,182</u>	<u>135,440,234</u>
Depreciation and amortization	496,415	10,020	506,435	7,749	14,035	21,784	528,219	702,986
Donated services	<u>158,603</u>	<u>43,426</u>	<u>202,029</u>	<u>35,873</u>	<u>1,872,441</u>	<u>1,908,314</u>	<u>2,110,343</u>	<u>2,486,848</u>
Total expenses	<u>\$ 128,768,750</u>	<u>\$ 4,369,251</u>	<u>\$ 133,138,001</u>	<u>\$ 894,611</u>	<u>\$ 10,213,132</u>	<u>\$ 11,107,743</u>	<u>\$ 144,245,744</u>	<u>\$ 138,630,068</u>

The accompanying notes are an integral part of this financial statement.

CITY HARVEST, INC.
Statement of Functional Expenses
For the year ended June 30, 2018

	Program Services			Supporting Services			Total Expenses
	Emergency Food Operations	Healthy Neighborhoods and Other Programming	Total	Management and General	Development	Total	2018
Salaries	\$ 6,123,817	\$ 2,402,667	\$ 8,526,484	\$ 558,575	\$ 3,315,596	\$ 3,874,171	\$ 12,400,655
Employee benefits and payroll taxes	2,089,702	690,584	2,780,286	119,699	695,436	815,135	3,595,421
Food distributed	104,494,661	-	104,494,661	-	-	-	104,494,661
Food transportation and distribution	6,393,627	-	6,393,627	275	5,980	6,255	6,399,882
Food packaging supplies	146,246	11,655	157,901	-	-	-	157,901
Communication, printing and postage	125,668	44,422	170,090	31,744	999,959	1,031,703	1,201,793
Rent, utilities and cleaning	998,373	198,707	1,197,080	340,534	298,085	638,619	1,835,699
Promotion	14,632	13,619	28,251	7,993	656,287	664,280	692,531
Computer support	240,580	67,654	308,234	102,324	99,576	201,900	510,134
Professional fees	823,071	562,148	1,385,219	261,613	1,280,102	1,541,715	2,926,934
Grant expense	162,908	2,095	165,003	-	-	-	165,003
Office supplies and miscellaneous	401,259	258,059	659,318	101,176	299,126	400,302	1,059,620
Total expenses before depreciation and amortization and donated services	<u>122,014,544</u>	<u>4,251,610</u>	<u>126,266,154</u>	<u>1,523,933</u>	<u>7,650,147</u>	<u>9,174,080</u>	<u>135,440,234</u>
Depreciation and amortization	654,559	10,597	665,156	21,824	16,006	37,830	702,986
Donated services	<u>174,674</u>	<u>51,124</u>	<u>225,798</u>	<u>53,255</u>	<u>2,207,795</u>	<u>2,261,050</u>	<u>2,486,848</u>
Total expenses	<u>\$ 122,843,777</u>	<u>\$ 4,313,331</u>	<u>\$ 127,157,108</u>	<u>\$ 1,599,012</u>	<u>\$ 9,873,948</u>	<u>\$ 11,472,960</u>	<u>\$ 138,630,068</u>

The accompanying notes are an integral part of this financial statement.

CITY HARVEST, INC.
Statements of Cash Flows
For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 314,910	\$ 410,449
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	528,219	702,986
Donated securities	(901,751)	(826,954)
Proceeds from the sale of donated securities	874,565	829,666
Net realized and unrealized loss on investments	(73,224)	87,495
Changes in assets and liabilities:		
Contributions receivable	(2,570,820)	(1,525,682)
Grants receivable	(4,119)	34,251
Prepaid and other current assets	(282,793)	120,718
Inventory	(8,840)	149,016
Security deposits	154,405	-
Accounts payable and accrued expenses	(442,259)	588,295
Deferred revenue	(1,002,078)	(957,770)
Deferred rent	(141,269)	(48,315)
	<u>(3,555,054)</u>	<u>(435,845)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(158,488)	(692,668)
Purchase of securities	(4,265,527)	(2,603,182)
Proceeds from sales of securities	<u>7,138,420</u>	<u>1,387,270</u>
	<u>2,714,405</u>	<u>(1,908,580)</u>
Net cash provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments from capital leases	<u>(87,646)</u>	<u>(152,650)</u>
	<u>(87,646)</u>	<u>(152,650)</u>
Net cash used in financing activities		
Decrease in cash and cash equivalents	(928,295)	(2,497,075)
Cash and cash equivalents, beginning of year	<u>4,361,107</u>	<u>6,858,182</u>
Cash and cash equivalents, end of year	<u>\$ 3,432,812</u>	<u>\$ 4,361,107</u>

The accompanying notes are an integral part of these financial statements.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2019 and 2018

1. THE ORGANIZATION

Organization

City Harvest, Inc. (“City Harvest”) was incorporated in the State of New York pursuant to the Not-for-Profit Corporation Law in 1983. City Harvest was determined to be a publicly supported organization by the Internal Revenue Service and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the “Code”) and a similar provision under New York State tax laws.

City Harvest is a member of Feeding America, the nationwide network of food banks.

Nature of Activities

City Harvest is New York City’s largest food rescue organization, helping to feed the more than 1.2 million New Yorkers who are struggling to put meals on their tables. This year, we rescued 63.1 million pounds of food and delivered it, free of charge, to hundreds of food pantries, soup kitchens and other community partners across the five boroughs. Our programs help food-insecure New Yorkers access nutritious food that fits their needs and desires; increase our partners’ capacity; and strengthen the local food system, building a path to a food-secure future for all New Yorkers.

Our principal programs are:

Emergency Food: City Harvest was founded on the visionary concept that excess food should feed someone who is hungry rather than be thrown away. With a fleet of 22 trucks, we rescue food that would otherwise go to waste and deliver it free of charge to community programs that provide nutritious food to New Yorkers in need. We rescue food from more than 2,500 donors across the city and country, including farms, grocers, restaurants, and manufacturers. We focus on sourcing fresh, local food, and more than 50% of the food we deliver is produce, and 75% is nutrient-dense. Since we were founded in 1982, we have collected more than 700 million pounds of food and distributed it to New Yorkers in need across the five boroughs.

Food Security Programming: Through our food security programs, City Harvest partners with residents, local businesses and non-profit organizations, and other community partners in high-need neighborhoods across New York City to make it easier for food-insecure New Yorkers to acquire and prepare food that is desired, usable, and nutritious; ensure that there are policies and systems that protect and strengthen food security for all New Yorkers; and increase the capacity among individuals and local organizations to move toward a food-secure future for all. Our community-tailored programming reaches some 400,000 New Yorkers annually across the five boroughs through our Mobile Markets, nutrition education classes and interventions, and retail partnerships.

City Harvest works with partners in communities across the city to ensure that residents stay informed about anti-hunger policies and programs, and we advocate for equity and inclusion in the decision making process that shapes the local food system. In addition, we engage elected officials at the city, state and federal levels to help shape policies that address hunger and food insecurity.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (“ASU 2016-14”). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

- Requiring the presentation of two net asset classes classified as “net assets without donor restrictions” and “net assets with donor restrictions;”
- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement or in the notes to the financial statements;
- Requiring disclosure of quantitative and qualitative information on liquidity;
- Presenting investment return net of external and direct internal investment expenses; and
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

As required by the standard, City Harvest adopted ASU No. 2016-14 as of and for the year ended June 30, 2019.

Net Asset Classifications

The accompanying financial statements of City Harvest have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”). Those standards require that net assets and revenues, gains, expenses and losses be classified as net assets without restrictions or net assets with restrictions based on the existence or absence of donor-imposed restrictions as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions represent resources that are available in support of operations.

Net assets with donor restrictions - Includes net assets subject to donor-imposed stipulations that expire with the passage of time or can be fulfilled by actions of City Harvest, pursuant to those stipulations.

Another portion of net assets with donor restrictions stipulates that the corpus of the gifts be maintained in perpetuity, but allow for the expenditure of net investment income and gains earned on the corpus for either specified or unspecified purposes.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2019 and 2018

Functional Allocation of Expenses

The cost of providing City Harvest's various programs and supporting services has been summarized on a functional basis in the accompanying statements of activities. The majority of expenses can be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses including depreciation, occupancy, information technology, and administration services have been allocated among program and supporting service classifications using headcount.

Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. The most significant estimates pertain to the valuation of donated food, operating accruals and estimated useful lives of long-lived assets.

Cash Equivalents

City Harvest considers all highly-liquid investments with original maturities of three months or less when purchased to be cash equivalents. City Harvest places its temporary cash investments with high credit quality financial institutions. At times, such investments may exceed federally insured limits. However, management believes that City Harvest does not face a significant risk of loss on these accounts due to the possible failure of these financial institutions.

Investments

Investments in equity, debt and government-backed securities with readily determined fair values are reported at their fair values, with gains and losses included in the accompanying statements of activities. Net investment income is recorded as a component of net assets without donor restrictions or net assets with donor restrictions in accordance with donor intent.

Donated securities are recorded at their fair values on the dates of receipt. It is City Harvest's policy to sell donated securities immediately and, accordingly, for purposes of the accompanying statements of cash flows, donated securities and the proceeds generated from their sales are included as operating activities.

Inventory

Contributed food is valued on a first-in, first-out basis. Beginning in fiscal year 2019, public donations are valued based on the five-year weighted average price per pound as determined by the annual Product Valuation Survey provided by Feeding America. In fiscal 2018, public donations were based on the wholesale value of the donated produce at the national level, provided annually. Purchased items are valued at cost (Note 7). Management has determined that no obsolescence reserve was required based on the nature and rapid turnover of City Harvest's inventory at June 30, 2019 and 2018.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2019 and 2018

Property and Equipment

Property and equipment are stated at their costs at the dates of acquisition or at their fair values at the dates of donation. Depreciation is provided using the straight-line method, applied over the assets' estimated useful lives, which range from 4 to 10 years. Expenditures for leasehold improvements are capitalized and amortized using the straight-line method over the shorter of the estimated useful life of the specific asset or the term of the applicable lease. Equipment acquired under capital lease arrangements is amortized using the straight-line method over the lesser of the lease term or the estimated useful life of the asset.

Deferred Lease Costs

Costs incurred in connection with the issuance of a lease agreement are amortized using the straight-line method over the term of the lease agreement. The accumulative difference between rent expense incurred by City Harvest and the rental amounts paid, which are attributable to scheduled rent increases, is reported as deferred rent in the statements of financial position.

Accrued Vacation

Based on their tenure, City Harvest's employees are entitled to be paid for unused vacation time if they leave City Harvest. Accordingly, at each fiscal year end, City Harvest must recognize a liability for the amount that would be incurred if the employees with such vacation were to leave. At June 30, 2019 and 2018, this accrued vacation obligation was \$307,682 and \$335,176, respectively, and was reported in the accompanying statements of financial position as a component of accrued expenses.

Revenue Recognition

Contributions and pledges - Contributions to City Harvest are recognized as revenue upon the receipt of cash or of unconditional pledges. Contributions of marketable securities are recorded at their fair values at the dates of donation. Contributions are reported as "with donor restrictions" if they are received with purpose restrictions or time considerations as to their use. Conditional contributions are recognized when the donor's conditions have been met by requisite actions of City Harvest's management or necessary events have taken place. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

Grants and awards - Grants and awards receivable are amounts reimbursable to City Harvest under the terms of client service and other agreements with various governmental agencies. Grants are reported as "with donor restrictions" if they are received with purpose restrictions or time considerations as to their use. Revenues from grants and awards are recognized when costs are incurred or services have been performed. Grants received in advance are recorded as deferred revenue, and revenue is deferred until the related expenses are incurred.

Special Events - A portion of the gross proceeds paid by attendees at special events held as fundraising activities represents contribution revenue whereas the other portion serves as the payment of the direct cost of the benefit received by the attendee at the event. Special event income is reported net of the direct benefit to donors. Special event revenues applicable to a current year are recognized as revenue in the year a special event takes place.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2019 and 2018

In-Kind Contributions

City Harvest records donated food, marketable securities, and other noncash donations as contributions at the time of receipt, at their estimated fair values. The fair value of gifts of donated food over which City Harvest has control (i.e., variance power) is reported as public support without donor restrictions and shortly thereafter, as expense when granted to agencies or other food banks. In fiscal year 2019, the estimated fair value of donated food is based upon the five-year average wholesale value of donated product at the national level, as determined by an independent study for applicable food categories for perishable and packaged food received by City Harvest (Note 7). In fiscal year 2018, the estimated fair value of donated food was based upon the annual wholesale value, not an average of five years.

Volunteers

A number of unpaid volunteers have made significant contributions of their time supporting City Harvest. The value of this contributed time is not recorded in the financial statements because it does not meet the criteria for revenue recognition required by US GAAP.

Income Taxes

City Harvest follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

City Harvest is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. City Harvest has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated business income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. City Harvest has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. In addition, City Harvest has not recorded a provision for income taxes as it has no material tax liability from unrelated business income activities.

Fair Value Measurements

City Harvest defines fair value in a way that focuses on an exit price between market participants in an orderly transaction. City Harvest also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of the respective financial instrument.

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Concentrations of Credit Risk

Cash, cash equivalents, and investments are exposed to various risks, such as interest rate, market and credit risk. City Harvest maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed federally insured limits. City Harvest's cash accounts are placed with high credit quality financial institutions and, accordingly, City Harvest does not expect nonperformance.

New Accounting Standards

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement (or a referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. For recipients, the effective date of the amendment is effective for annual periods beginning after December 15, 2018 (i.e., City Harvest's fiscal year 2020). City Harvest is currently evaluating the new guidance and has not determined the impact this standard may have on the financial statements.

During February 2016, the FASB issued ASU No. 2016-02: "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 was intended to improve transparency and comparability among organizations by recognizing right-to-use assets and lease liabilities on the balance sheet and disclosing key information concerning leasing arrangements. The new guidance is effective for City Harvest's fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. City Harvest is currently evaluating the new guidance and has not determined the impact this standard may have on the financial statements.

Reclassifications

Certain reclassifications were made to the 2018 financial statements to conform to the 2019 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as previously reflected in the 2018 financial statements.

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3. CONTRIBUTIONS RECEIVABLE

At each fiscal year end, City Harvest's pledges receivable consisted of the following:

	<u>2019</u>	<u>2018</u>
Gross amounts due in:		
One year	\$ 5,665,171	\$ 5,358,912
One to five years	<u>2,352,524</u>	<u>-</u>
	8,017,695	5,358,912
Discount to present value (1.74%)	<u>(87,963)</u>	<u>-</u>
	<u>\$ 7,929,732</u>	<u>\$ 5,358,912</u>

At June 30, 2019 and 2018, City Harvest estimates that, based on past history and subsequent collections, contributions receivable will be substantially collected in full. Accordingly, no allowance for uncollectible amounts has been provided. Contributions receivable are nonrecurring fair value measurements. Any multi-year pledges received were recorded at the present value of the expected future cash flows using a credited adjusted discount rate.

4. INVESTMENTS

City Harvest's investments are classified as follows within the fair value hierarchy of the standard. At June 30, 2019 and 2018, investments at fair value were comprised of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equities	\$ 210,419	\$ 226,767	\$ 195,589	\$ 204,639
Government and corporate obligations	660,184	661,971	3,620,068	3,617,324
Debt securities	<u>7,383,398</u>	<u>7,404,434</u>	<u>7,320,268</u>	<u>7,243,691</u>
Total investments	<u>\$ 8,254,001</u>	<u>\$ 8,293,172</u>	<u>\$ 11,135,925</u>	<u>\$ 11,065,654</u>

City Harvest follows the FASB standard on fair value measurements. The standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of the respective financial instrument.

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Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as certain US Treasury securities.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain US government and agency mortgage-backed securities, and corporate debt securities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

At June 30, 2019 and 2018, City Harvest's investments were classified as follows within the fair value hierarchy standard:

	2019			
	Level 1	Level 2	Level 3	Total
Equities	\$ 207,613	\$ 19,154	\$ -	\$ 226,767
Government and corporate obligations	-	661,971	-	661,971
Debt securities	<u>26,333</u>	<u>7,378,101</u>	<u>-</u>	<u>7,404,434</u>
Total investments	<u>\$ 233,946</u>	<u>\$ 8,059,226</u>	<u>\$ -</u>	<u>\$ 8,293,172</u>
	2018			
	Level 1	Level 2	Level 3	Total
Equities	\$ 192,134	\$ 12,505	\$ -	\$ 204,639
Government and corporate obligations	-	3,617,324	-	3,617,324
Debt securities	<u>25,556</u>	<u>7,218,135</u>	<u>-</u>	<u>7,243,691</u>
Total investments	<u>\$ 217,690</u>	<u>\$ 10,847,964</u>	<u>\$ -</u>	<u>\$ 11,065,654</u>

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5. PROPERTY AND EQUIPMENT

At each fiscal year end, property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Transportation vehicles and equipment	\$ 2,304,409	\$ 2,662,880
Furniture and fixtures	578,705	578,705
Computer equipment	550,680	671,788
Office equipment	1,043,901	956,801
Leasehold improvements	1,166,969	1,166,969
Construction in progress	<u>190,732</u>	<u>632,115</u>
	5,835,396	6,669,258
Less accumulated depreciation and amortization	<u>(4,354,529)</u>	<u>(4,818,659)</u>
	<u>\$ 1,480,867</u>	<u>\$ 1,850,599</u>

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 were \$528,219 and \$702,986, respectively.

Included in construction in progress are the costs committed to building one custom truck that is in the process of being assembled at June 30, 2019 as well as the purchase of software and equipment to be utilized in the installation of a warehouse management system.

Included in transportation vehicles and equipment are vehicles acquired under a capital lease arrangement for 3-6 years with a cost of approximately \$855,230, and with accumulated amortization of approximately \$0 and \$781,936 at June 30, 2019 and 2018, respectively. Amortization expense under capital leases totaled approximately \$73,294 and \$142,538 at June 30, 2019 and 2018, respectively. Amounts outstanding under this capital lease included in the accompanying statements of financial position totaled approximately \$0 and \$87,646 at June 30, 2019 and 2018, respectively.

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6. NET ASSETS WITH DONOR RESTRICTIONS

At each fiscal year end, net assets with donor restrictions were restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Restricted as to purpose:		
Emergency food	\$ 2,542,763	\$ 11,580
Healthy neighborhoods	659,834	1,046,678
Capital	7,556	338,000
Strategic plan	<u>-</u>	<u>250,000</u>
	3,210,153	1,646,258
Time restricted	<u>1,512,267</u>	<u>647,015</u>
	<u>\$ 4,722,420</u>	<u>\$ 2,293,273</u>

At June 30, 2019, \$2,830,596 of the balance of net assets with donor restrictions as to purpose is also time restricted.

During each fiscal year, net assets with donor restrictions released from restrictions were due to the following purposes:

	<u>2019</u>	<u>2018</u>
Emergency food	\$ 11,580	\$ -
Healthy neighborhoods	738,844	100,102
Nutrition education	-	15,000
Capital	338,000	100,000
Strategic plan	<u>250,000</u>	<u>-</u>
	1,338,424	215,102
Time restricted	<u>341,817</u>	<u>923,174</u>
	<u>\$ 1,680,241</u>	<u>\$ 1,138,276</u>

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7. IN-KIND CONTRIBUTIONS

Food products are donated to City Harvest by restaurants, corporations and individuals. These food products are subsequently distributed to a network of approximately 400 community food programs. City Harvest also arranges for food from its donors to be distributed directly to other food banks or directly to agencies. In addition to donations of food products, City Harvest also accepts donations of prepared food and meals. For the year ended June 30, 2019, City Harvest reported the value of food based on a five year average of the annual wholesale values of donated product at the national level, as determined by an independent study, which has been calculated by City Harvest at \$1.70 per pound. Prior to fiscal 2019, the value was based on the wholesale value for the most recent year, which was \$1.73 per pound in fiscal year 2018. During fiscal years 2019 and 2018, the total pounds and value of food distributed consisted of the following:

	2019		2018	
	Pounds	Value	Pounds	Value
Donated food	63,096,871	\$ 107,614,463	60,538,973	\$ 104,140,767
Purchased food	<u>349,218</u>	<u>316,578</u>	<u>177,660</u>	<u>204,878</u>
Total food contributed	63,446,089	107,931,041	60,716,633	104,345,645
(Increase) decrease in inventory	<u>(17,398)</u>	<u>(8,840)</u>	<u>125,217</u>	<u>149,016</u>
Total food distributed	<u>63,428,691</u>	<u>\$ 107,922,201</u>	<u>60,841,850</u>	<u>\$ 104,494,661</u>

If the new valuation methodology had been used in 2018, the average cost per pound would have been \$1.70 and the value of donated food distributed would have been \$103,334,001.

City Harvest also recognized donated legal services in connection with its program and administrative operations, the estimated fair value of which was \$305,877 and \$351,478 for each of the fiscal years 2019 and 2018, respectively. Additionally, City Harvest recorded donated advertising services for public service announcements, the fair value of which was \$1,804,466 and \$2,135,370 for fiscal years 2019 and 2018, respectively.

In connection with City Harvest's special event auction and gala during the fiscal years 2019 and 2018, City Harvest recorded the value of donated items and services, the fair value of which was \$121,925 and \$220,030, respectively.

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8. ENDOWMENT FUND

On September 17, 2010, the State of New York enacted the New York Prudent Management of Institutional Funds Act (“NYPMIFA”). NYPMIFA applies to donor-restricted endowments and, among other things, updates requirements governing investment conduct, expenditure of funds, delegation of management and investment, and release or modification of restrictions. Accounting guidance issued by the FASB addresses the disclosure of endowment funds and addresses the net asset classification of donor-restricted endowment funds for organizations subject to the State enacted Prudent Management of Institutional Funds Act. A key component of this guidance is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as net assets with donor restrictions as such until appropriated for expenditure. In addition, the FASB issued guidance requiring new disclosures about an organization’s donor-restricted and board-designated endowment funds.

Interpretation of Relevant Law

City Harvest’s Board of Directors has interpreted the NYPMIFA as requiring City Harvest, absent explicit donor stipulations to the contrary, to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulate endowment funds, taking into account both its obligations to preserve the value of the endowment and its obligation to use the endowment to achieve the purposes for which it was donated. City Harvest classifies as net assets with donor restrictions (held in perpetuity) (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment required by the applicable donor gift instrument.

The following table illustrates the composition of City Harvest’s endowment fund, which is managed by a donor designated asset manager, as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Endowment net assets, beginning of year	\$ 305,198	\$ 310,575
Investment return:		
Net realized and unrealized appreciation (depreciation)	<u>7,069</u>	<u>(5,377)</u>
Total investment return	<u>7,069</u>	<u>(5,377)</u>
Endowment net assets, end of year	<u>\$ 312,267</u>	<u>\$ 305,198</u>

Distributions of \$15,679 and \$14,236 were received by City Harvest during the years ended June 30, 2019 and 2018, respectively.

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9. RETIREMENT PLAN

City Harvest offers a defined contribution plan, as defined in the Code Section 403(b), to all eligible employees who may make voluntary contributions to the plan, up to the maximum amount allowed by the Code. City Harvest contributes an amount equal to 3% of the salary for each employee who has completed one year of service. City Harvest also makes an additional matching contribution for those employees that contribute to the plan. The matching contribution for employees who have completed one year of service is a maximum of 3% of eligible compensation. City Harvest's contribution for fiscal years 2019 and 2018 was approximately \$595,000 and \$514,000, respectively.

10. COMMITMENTS AND CONTINGENCIES

In April 2011, City Harvest entered into a lease for a 45,000 square feet Food Rescue Facility in Long Island City, Queens. The lease provides for minimum annual base rent, as well as escalations in real estate taxes and other expenses, and expires in June 2021.

In April 2012, City Harvest entered into a twelve-year lease for new administrative office space located in Midtown, Manhattan.

Future minimum rent obligations under all of the lease agreements as of June 30, 2019, are as follows:

	<u>Commitment</u>
Year Ending June 30,	
2020	\$ 1,903,512
2021	1,601,022
2022	1,326,592
2023	1,375,117
2024	1,409,495
Thereafter	<u>354,535</u>
	<u>\$ 7,970,273</u>

Rental expense under operating leases (which includes payments for rentals of additional trucks on an as-needed basis) for fiscal years 2019 and 2018 was approximately \$1,816,000 and \$1,716,200, respectively.

Government-supported projects are subject to audit by the applicable government granting agencies. At June 30, 2019 and 2018, there were no material obligations outstanding as a result of such audits, and management believes that unaudited projects will not result in any material obligations.

City Harvest maintains a \$3,000,000 unsecured line of credit from a financial institution. City Harvest may elect the method of calculating the interest rate at the time of the drawdown; the interest rate calculation methods are outlined in the Line of Credit Note maintained with the financial institution. As of June 30, 2019 and 2018, City Harvest had no outstanding balances due, and there were no borrowings in either year. The line of credit agreement expires February 28, 2020.

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11. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

City Harvest regularly monitors liquidity required to meet its operating needs. For purposes of analyzing resources available to meet general expenditures over a 12-month period, City Harvest considers all expenditures related to its ongoing activities.

City Harvest regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a twelve month period, City Harvest considers all expenditures related to its ongoing activities. City Harvest strives to operate with a balanced budget and anticipates collecting sufficient revenue from contributions, including donated food, individual, foundation, corporate and individuals to cover general expenditures not covered by donor restricted resources.

City Harvest's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Financial assets as of June 30, 2019

Cash and cash equivalents	\$	3,432,812
Contributions receivable - current portion		5,665,171
Grants and awards receivable		768,818
Investments		<u>8,293,172</u>
Total financial assets available within one year		<u>18,159,973</u>
Less:		
Contractual, legal or donor-imposed restrictions:		
Amounts subject to expenditure after one year		2,000,000
Endowment funds maintained in perpetuity		<u>312,267</u>
Total amounts unavailable to management for general expenditures within one year		<u>2,312,267</u>
Total financial assets available to management for general expenditures within one year	\$	<u>15,847,706</u>

12. SUBSEQUENT EVENTS

City Harvest evaluated its June 30, 2019 financial statements for subsequent events through November 12, 2019, the date the financial statements were available to be issued. Management is not aware of any subsequent events which would require recognition or disclosure in the financial statements.