

Financial Statements Together with
Report of Independent Certified Public Accountants

CITY HARVEST, INC.

June 30, 2016 and 2015

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, 2016 and 2015, 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 the 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 the 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, 2016 and 2015, 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 15, 2016

CITY HARVEST, INC.
Statements of Financial Position
As of June 30, 2016 and 2015

ASSETS	2016	2015
Cash and cash equivalents	\$ 9,753,107	\$ 11,936,674
Contributions receivable - current portion	3,896,480	4,800,280
Grants and awards receivable	878,300	845,229
Prepaid expenses and other current assets	394,473	301,523
Total current assets	<u>14,922,360</u>	<u>17,883,706</u>
Investments	4,633,257	343,133
Inventory	996,653	869,585
Property and equipment, net	2,574,682	3,183,080
Contributions receivable, net - long-term portion	613,099	499,013
Security deposits	608,628	605,492
Total assets	<u>\$ 24,348,679</u>	<u>\$ 23,384,009</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 627,062	\$ 857,828
Accrued expenses	1,242,299	1,200,983
Deferred revenue	1,879,440	21,057
Leases payable, current portion	146,280	140,176
Total current liabilities	<u>3,895,081</u>	<u>2,220,044</u>
Deferred rent	1,492,639	1,395,487
Leases payable, long-term portion	240,296	386,575
Total long-term liabilities	<u>1,732,935</u>	<u>1,782,062</u>
Total liabilities	<u>5,628,016</u>	<u>4,002,106</u>
Commitments and contingencies		
NET ASSETS		
Unrestricted	13,114,219	13,418,073
Temporarily restricted	5,293,181	5,659,073
Permanently restricted	313,263	304,757
Total net assets	<u>18,720,663</u>	<u>19,381,903</u>
Total liabilities and net assets	<u>\$ 24,348,679</u>	<u>\$ 23,384,009</u>

The accompanying notes are an integral part of these statements.

CITY HARVEST, INC.
Statements of Activities
For the years ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently	Total	Unrestricted	Temporarily Restricted	Permanently	Total
PUBLIC SUPPORT AND REVENUES								
Public support:								
Contributions:								
Donated food (Note 7)	\$ 95,163,775	\$ -	\$ -	\$ 95,163,775	\$ 87,746,112	\$ -	\$ -	\$ 87,746,112
Corporations	3,462,305	115,260	-	3,577,565	3,458,333	284,080	-	3,742,413
Foundations	7,528,158	1,575,572	-	9,103,730	6,778,397	569,178	-	7,347,575
Individuals	9,981,036	102,658	-	10,083,694	9,784,666	444,791	-	10,229,457
Organizations	392,230	16,500	-	408,730	302,897	1,200	-	304,097
Special events (net of direct benefits to donors of \$1,160,427 in 2016 and \$1,280,550 in 2015)	2,894,819	-	-	2,894,819	4,448,308	-	-	4,448,308
Total public support	<u>119,422,323</u>	<u>1,809,990</u>	<u>-</u>	<u>121,232,313</u>	<u>112,518,713</u>	<u>1,299,249</u>	<u>-</u>	<u>113,817,962</u>
Revenues:								
Government grants and awards	1,503,996	-	-	1,503,996	1,223,855	-	-	1,223,855
Investment income (loss)	8,900	-	8,506	17,406	11,119	-	(39,784)	(28,665)
Other income	11,979	-	-	11,979	53,021	-	-	53,021
Total revenues	<u>1,524,875</u>	<u>-</u>	<u>8,506</u>	<u>1,533,381</u>	<u>1,287,995</u>	<u>-</u>	<u>(39,784)</u>	<u>1,248,211</u>
Net assets released from restrictions	<u>2,175,882</u>	<u>(2,175,882)</u>	<u>-</u>	<u>-</u>	<u>1,884,206</u>	<u>(1,884,206)</u>	<u>-</u>	<u>-</u>
Total public support, revenues and net assets released from restrictions	<u>123,123,080</u>	<u>(365,892)</u>	<u>8,506</u>	<u>122,765,694</u>	<u>115,690,914</u>	<u>(584,957)</u>	<u>(39,784)</u>	<u>115,066,173</u>
EXPENSES								
Program services:								
Emergency food operations	111,695,885	-	-	111,695,885	104,341,899	-	-	104,341,899
Healthy neighborhoods and other programming	3,858,504	-	-	3,858,504	4,361,932	-	-	4,361,932
Total program services	<u>115,554,389</u>	<u>-</u>	<u>-</u>	<u>115,554,389</u>	<u>108,703,831</u>	<u>-</u>	<u>-</u>	<u>108,703,831</u>
Supporting services:								
Management and general	1,049,934	-	-	1,049,934	1,030,392	-	-	1,030,392
Development	6,822,611	-	-	6,822,611	6,750,104	-	-	6,750,104
Total supporting services	<u>7,872,545</u>	<u>-</u>	<u>-</u>	<u>7,872,545</u>	<u>7,780,496</u>	<u>-</u>	<u>-</u>	<u>7,780,496</u>
Total expenses	<u>123,426,934</u>	<u>-</u>	<u>-</u>	<u>123,426,934</u>	<u>116,484,327</u>	<u>-</u>	<u>-</u>	<u>116,484,327</u>
Change in net assets before effect of donated services	(303,854)	(365,892)	8,506	(661,240)	(793,413)	(584,957)	(39,784)	(1,418,154)
Donated services - revenue	1,949,525	-	-	1,949,525	1,740,407	-	-	1,740,407
Donated services - expenses	(1,949,525)	-	-	(1,949,525)	(1,740,407)	-	-	(1,740,407)
Change in net assets	(303,854)	(365,892)	8,506	(661,240)	(793,413)	(584,957)	(39,784)	(1,418,154)
Net assets, beginning of year	<u>13,418,073</u>	<u>5,659,073</u>	<u>304,757</u>	<u>19,381,903</u>	<u>14,211,486</u>	<u>6,244,030</u>	<u>344,541</u>	<u>20,800,057</u>
Net assets, end of year	<u>\$ 13,114,219</u>	<u>\$ 5,293,181</u>	<u>\$ 313,263</u>	<u>\$ 18,720,663</u>	<u>\$ 13,418,073</u>	<u>\$ 5,659,073</u>	<u>\$ 304,757</u>	<u>\$ 19,381,903</u>

The accompanying notes are an integral part of this statement.

CITY HARVEST, INC.

Statement of Functional Expenses

For the year ended June 30, 2016, with comparative information for 2015

	Program Services			Supporting Services			Total Expenses	
	Emergency Food Operations	Healthy Neighborhoods and Other Programming	Total	Management and General	Development	Total	2016	2015
Salaries	\$ 5,733,036	\$ 2,225,643	\$ 7,958,679	\$ 374,811	\$ 2,714,066	\$ 3,088,877	\$ 11,047,556	\$ 11,428,595
Employee benefits and payroll taxes	2,117,583	577,281	2,694,864	96,172	698,389	794,561	3,489,425	3,602,849
Food distributed	95,383,805	-	95,383,805	-	-	-	95,383,805	88,503,916
Food transportation and distribution	5,182,626	60	5,182,686	-	-	-	5,182,686	5,103,382
Food packaging supplies	168,949	-	168,949	-	12,254	12,254	181,203	190,926
Communication, printing and postage	143,948	84,818	228,766	19,145	1,081,215	1,100,360	1,329,126	1,485,514
Rent, utilities and cleaning	1,055,121	234,330	1,289,451	232,005	290,470	522,475	1,811,926	1,785,490
Promotion	2,067	27,355	29,422	4,122	705,794	709,916	739,338	674,148
Computer support	290,624	96,615	387,239	85,829	101,054	186,883	574,122	361,504
Professional fees	320,809	226,308	547,117	89,418	979,319	1,068,737	1,615,854	1,310,170
Office supplies and miscellaneous	546,662	345,547	892,209	107,886	189,772	297,658	1,189,867	1,189,854
Total expenses before depreciation and amortization and donated services	<u>110,945,230</u>	<u>3,817,957</u>	<u>114,763,187</u>	<u>1,009,388</u>	<u>6,772,333</u>	<u>7,781,721</u>	<u>122,544,908</u>	<u>115,636,348</u>
Depreciation and amortization	750,655	40,547	791,202	40,546	50,278	90,824	882,026	847,979
Donated services	<u>109,224</u>	<u>32,507</u>	<u>141,731</u>	<u>32,507</u>	<u>1,775,287</u>	<u>1,807,794</u>	<u>1,949,525</u>	<u>1,740,407</u>
Total expenses	<u>\$ 111,805,109</u>	<u>\$ 3,891,011</u>	<u>\$ 115,696,120</u>	<u>\$ 1,082,441</u>	<u>\$ 8,597,898</u>	<u>\$ 9,680,339</u>	<u>\$ 125,376,459</u>	<u>\$ 118,224,734</u>

The accompanying notes are an integral part of this statement.

CITY HARVEST, INC.
Statement of Functional Expenses
For the year ended June 30, 2015

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Emergency Food Operations</u>	<u>Healthy Neighborhoods and Other Programming</u>	<u>Total</u>	<u>Management and General</u>	<u>Development</u>	<u>Total</u>	<u>2015</u>
Salaries	\$ 5,558,049	\$ 2,597,686	\$ 8,155,735	\$ 353,187	\$ 2,919,673	\$ 3,272,860	\$ 11,428,595
Employee benefits and payroll taxes	2,109,700	629,472	2,739,172	125,417	738,260	863,677	3,602,849
Food distributed	88,503,916	-	88,503,916	-	-	-	88,503,916
Food transportation and distribution	5,101,600	804	5,102,404	45	933	978	5,103,382
Food packaging supplies	190,926	-	190,926	-	-	-	190,926
Communication, printing and postage	171,338	107,764	279,102	32,352	1,174,060	1,206,412	1,485,514
Rent, utilities and cleaning	991,509	270,281	1,261,790	215,449	308,251	523,700	1,785,490
Promotion	1,265	38,288	39,553	3,119	631,476	634,595	674,148
Computer support	170,235	80,064	250,299	46,612	64,593	111,205	361,504
Professional fees	307,521	277,691	585,212	70,482	654,476	724,958	1,310,170
Office supplies and miscellaneous	534,749	310,717	845,466	143,048	201,340	344,388	1,189,854
Total expenses before depreciation and amortization and donated services	103,640,808	4,312,767	107,953,575	989,711	6,693,062	7,682,773	115,636,348
Depreciation and amortization	701,091	49,165	750,256	40,681	57,042	97,723	847,979
Donated services	116,278	39,993	156,271	32,587	1,551,549	1,584,136	1,740,407
Total expenses	<u>\$ 104,458,177</u>	<u>\$ 4,401,925</u>	<u>\$ 108,860,102</u>	<u>\$ 1,062,979</u>	<u>\$ 8,301,653</u>	<u>\$ 9,364,632</u>	<u>\$ 118,224,734</u>

The accompanying notes are an integral part of this statement.

CITY HARVEST, INC.
Statements of Cash Flows
For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (661,240)	\$ (1,418,154)
Adjustments to reconcile changes in net assets to net cash		
Depreciation and amortization	882,026	847,979
Loss on disposal of property and equipment	34,093	-
Donated securities	(960,528)	(1,172,060)
Proceeds from the sale of donated securities	951,924	-
Net realized and unrealized (gain) loss on investments	(33,891)	54,557
Changes in assets and liabilities:		
Contributions receivable	789,714	(498,052)
Grants receivable	(33,071)	(536,228)
Prepaid and other current assets	(92,950)	(54,925)
Inventory	(127,068)	389,068
Security deposits	(3,136)	3,887
Accounts payable	(230,766)	146,726
Accrued expenses	41,316	(98,200)
Deferred revenue	1,858,383	(205,179)
Deferred rent	97,152	187,506
Net cash provided by (used in) operating activities	<u>2,511,958</u>	<u>(2,353,075)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(307,721)	(400,131)
Purchase of securities	(4,512,141)	-
Proceeds from sales of securities	<u>264,512</u>	<u>1,215,307</u>
Net cash (used in) provided by investing activities	<u>(4,555,350)</u>	<u>815,176</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments from capital leases	<u>(140,175)</u>	<u>(134,326)</u>
Net cash used in financing activities	<u>(140,175)</u>	<u>(134,326)</u>
Decrease in cash and cash equivalents	(2,183,567)	(1,672,225)
Cash and cash equivalents, beginning of year	<u>11,936,674</u>	<u>13,608,899</u>
Cash and cash equivalents, end of year	<u>\$ 9,753,107</u>	<u>\$ 11,936,674</u>

The accompanying notes are an integral part of these statements.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2016 and 2015

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 and a similar provision under New York State tax laws.

City Harvest is affiliated with Feeding America, the Nation’s Food Bank Network.

Nature of Activities

City Harvest is the world’s first food rescue organization, dedicated to feeding the city’s hungry men, women and children by collecting excess food that would otherwise go to waste and delivering it free of charge. Each year, we help to feed the nearly 1.4 million New Yorkers facing hunger. For many people that City Harvest serves, healthy food is unavailable and unaffordable. As an extension of our anti-hunger work, we developed *Healthy Neighborhoods* programs to respond to the need for emergency food, improve access to fruits and vegetables for residents in low-income communities and provide nutrition education.

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 and distribute food that would otherwise go to waste and deliver it free of charge to community programs that provide groceries and meals to hungry New Yorkers, tapping all segments of the food supply chain including grocers, wholesalers, corporate cafeterias, restaurants, manufacturers, and farms. Produce comprises over 50% of our deliveries and nutrient-rich food comprises 75% of our deliveries. Our food collection increasingly emphasizes excess fresh, local food from farm sources. In the more than 30 years since our founding, we have collected more than 500 million pounds of donated food and distributed it free of charge, enabling agencies across the city to provide groceries or prepared meals to the working poor, children and seniors.

Healthy Neighborhoods: Through our *Healthy Neighborhoods* initiative, City Harvest works to create communities where nutritious food like fresh produce is available, affordable and in high demand. To do so, we have developed programming and partnerships in low-income communities where residents suffer from high rates of hunger, poverty, and diet-related diseases and where healthy, affordable food has not been readily accessible.

City Harvest believes that addressing hunger and diet-related diseases requires an integrated approach. We seek to address hunger and a lack of access to healthy, affordable food, while at the same time inspiring positive changes to healthy eating, cooking and shopping behaviors. As a result, our *Healthy Neighborhoods* model combines a series of initiatives including emergency food distribution, nutrition education services and partnerships with local organizations and businesses to improve the local food landscape.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2016 and 2015

Anti-Hunger and Food System Advocacy: City Harvest is a respected voice in anti-hunger and food systems advocacy, with established relationships at all levels of government. City Harvest collaborates with government to examine food access and other environmental changes necessary to promote health, and also works to influence hunger and food systems policy at the city, state and federal levels in a way that is closely aligned with our program goals.

Green Fleet: In recent years, City Harvest has upgraded its fleet of refrigerated diesel trucks to utilize more environmentally friendly technology. City Harvest continues to employ multiple technologies to maintain our “green” fleet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of City Harvest have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America (“US GAAP”) as applicable to not-for-profit entities.

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. 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 unrestricted or restricted 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 statement of cash flows, donated securities and the proceeds generated from their sales are included as operating activities.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2016 and 2015

Inventory

Contributed food is valued on a first-in, first-out basis. Public donations are valued based on the weighted average price per pound as determined by the annual Product Valuation Survey provided by Feeding America. 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, 2016 and 2015.

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.

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, 2016 and 2015, this accrued vacation obligation was \$244,957 and \$269,639, respectively, and was reported in the accompanying statements of financial position as a component of accrued expenses.

Net Assets

The net assets of City Harvest and changes therein are classified and reported as follows:

Unrestricted net assets - represent expendable resources that are used to carry out City Harvest's operations and are not subject to donor imposed stipulations.

Temporarily restricted net assets - represent those resources the use of which has been restricted by donors to specific purposes or by a time restriction. Temporarily restricted contributions, the requirements of which are met in the same year of donation, are reported as unrestricted. Net assets are released from restrictions through the satisfaction of the restricted purposes specified by the donor or the passage of time. The interest income generated by temporarily restricted net assets is recorded in the unrestricted net asset class and is available to fulfill the charitable purposes of City Harvest unless specified otherwise by the donor.

Permanently restricted net assets - contain donor-imposed restrictions that stipulate that resources be maintained permanently. City Harvest had \$313,263 and \$304,757 of permanently restricted net assets at June 30, 2016 and 2015, respectively.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2016 and 2015

Public Support

Contributions and grants are reported as revenue upon the receipt of cash or unconditional pledges. Contributions and grants are considered available for unrestricted use unless specifically restricted by the donors. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved. Contributions of marketable securities are recorded at their fair values at the dates of donation.

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. 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.

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 unrestricted public support and shortly thereafter, as expense when granted to donors or other food banks. In fiscal year 2016 and 2015, the estimated fair value of donated food is based upon the 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 addition, a substantial number of unpaid volunteers have made significant contributions of their time to City Harvest. These contributed services do not meet the criteria for recognition required by US GAAP and are not reflected in the accompanying financial statements.

Income Taxes

City Harvest follows the provisions of in Accounting Standards Codification (“ASC”) 740. ASC 740-10 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 section provides that the tax effects from an uncertain tax position can be recognized in the financial statements only 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 taxation by virtue of being an organization described in Section 501(c)(3) of the Internal Revenue Code. Nevertheless, City Harvest may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Management determined that there are no uncertain tax positions within its financial statements.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2016 and 2015

Fair Value of Financial Instruments

The carrying amounts of cash, contributions receivable, prepaid expenses and other assets, and accounts payable and accrued expenses reported in the accompanying statements of financial position approximate fair value due to the short maturity of these financial instruments. The carrying value of amounts due from government agencies and other receivables is based on historical collection experience and is believed to approximate net realizable value.

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.

Concentrations of Credit Risk

Cash, cash equivalents, and investments are exposed to various risks, such as interest rate, market, and credit. 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.

3. CONTRIBUTIONS RECEIVABLE

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

	<u>2016</u>	<u>2015</u>
Gross amounts due in:		
One year	\$ 3,896,480	\$ 4,800,280
One to five years	601,543	480,043
More than five years	<u>49,000</u>	<u>56,000</u>
	4,547,023	5,336,323
Discount to present value (rates ranging from 0.61% to 4.88%)	<u>(37,444)</u>	<u>(37,030)</u>
	<u>\$ 4,509,579</u>	<u>\$ 5,299,293</u>

At June 30, 2016 and 2015, 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 in fiscal 2016 and fiscal 2015 were recorded at the present value of the expected future cash flows using a credited adjusted discount rate.

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4. INVESTMENTS

City Harvest’s investments are classified as follows within the fair value hierarchy of the standard. At June 30, 2016 and 2015, investments at fair value were comprised of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ -	\$ -	\$ 16,083	\$ 16,083
Equities	182,453	196,091	270,723	269,989
Government & corporate obligations	2,533,188	2,539,172	-	-
Debt securities	1,884,851	1,897,994	58,439	57,061
Total investments	\$ 4,600,492	\$ 4,633,257	\$ 345,245	\$ 343,133

City Harvest follows the Financial Accounting Standards Board (“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.

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 U.S. 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 U.S. 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.

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At June 30, 2016 and 2015, City Harvest's investments were classified as follows within the fair value hierarchy standard:

	2016			
	Level 1	Level 2	Level 3	Total
Equities	\$ 196,091	\$ -	\$ -	\$ 196,091
Government and corporate obligations	-	2,539,172	-	2,539,172
Debt securities	39,770	1,858,224	-	1,897,994
Total investments	<u>\$ 235,861</u>	<u>\$ 4,397,396</u>	<u>\$ -</u>	<u>\$ 4,633,257</u>

	2015			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 16,083	\$ -	\$ -	\$ 16,083
Equities	269,989	-	-	269,989
Debt securities	57,061	-	-	57,061
Total investments	<u>\$ 343,133</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343,133</u>

The following schedules summarize the investment return and its classification in the accompanying statements of activities for the fiscal years ended June 30, 2016 and 2015:

<u>2016</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment income	\$ 27,506	\$ -	\$ 27,506
Net realized (losses)	(17,953)	(25,458)	(43,411)
Net unrealized (depreciation) appreciation	(653)	33,964	33,311
Total investment return	<u>\$ 8,900</u>	<u>\$ 8,506</u>	<u>\$ 17,406</u>

<u>2015</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment income	\$ 42,216	\$ -	\$ 42,216
Net realized (losses)	(28,417)	(5,259)	(33,676)
Net unrealized (depreciation)	(2,680)	(34,525)	(37,205)
Total investment return	<u>\$ 11,119</u>	<u>\$ (39,784)</u>	<u>\$ (28,665)</u>

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5. PROPERTY AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Transportation vehicles and equipment	\$ 2,662,880	\$ 2,444,248
Furniture and fixtures	578,705	591,614
Computer equipment	652,363	642,930
Office equipment	908,710	919,283
Leasehold improvements	<u>1,080,458</u>	<u>1,084,197</u>
	5,883,116	5,682,272
Less accumulated depreciation and amortization	<u>(3,308,434)</u>	<u>(2,499,192)</u>
	<u>\$ 2,574,682</u>	<u>\$ 3,183,080</u>

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 were \$882,026 and \$847,979, respectively.

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 \$496,859 and \$354,321 at June 30, 2016 and 2015, respectively. Amortization expense under capital leases totaled approximately \$142,539 and \$146,917 at June 30, 2016 and 2015, respectively. Amounts outstanding under this capital lease included in the accompanying statements of financial position totaled approximately \$408,750 and \$568,695 at June 30, 2016 and 2015, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year end, temporarily restricted net assets were available for the following purposes:

	<u>2016</u>	<u>2015</u>
Restricted as to purpose:		
Emergency food	\$ 270,452	\$ 790,000
Healthy neighborhoods	230,000	623,768
Nutrition education	100,122	-
Capital	269,456	-
Harvest Works	250,000	-
Leadership Summit ¹	-	270,000
Green fleet fund	<u>2,849,348</u>	<u>2,849,348</u>
	3,969,378	4,533,116
Time restricted	<u>1,323,803</u>	<u>1,125,957</u>
	<u>\$ 5,293,181</u>	<u>\$ 5,659,073</u>

¹ The purpose of restriction was modified with donor approval during the fiscal year ended June 30, 2016.

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During each fiscal year, temporarily restricted net assets were released from restrictions in fulfillment of the following purposes:

	<u>2016</u>	<u>2015</u>
Emergency food	\$ 540,000	\$ 220,000
Healthy neighborhoods	463,619	632,775
Leadership Summit	270,000	-
Nutrition education	<u>-</u>	<u>31,618</u>
	1,273,619	884,393
Time restricted	<u>902,263</u>	<u>999,813</u>
	<u>\$ 2,175,882</u>	<u>\$ 1,884,206</u>

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 nearly 500 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. All donated food has been valued based on the wholesale value of the donated product at the national level, as determined by an independent study, which has been calculated by City Harvest at \$1.70 per pound and \$1.72 per pound for fiscal year 2016 and 2015, respectively. Had the fiscal year 2015 per pound valuation been consistent for fiscal year 2016, the value of donated food would have been approximately \$1,117,400 higher. During fiscal years 2016 and 2015, the total pounds and value of food distributed consisted of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Pounds</u>	<u>Value</u>	<u>Pounds</u>	<u>Value</u>
Donated food	55,871,409	\$ 95,163,775	51,002,191	\$ 87,746,112
Purchased food	<u>329,425</u>	<u>347,098</u>	<u>306,440</u>	<u>368,736</u>
Total food contributed	56,200,834	95,510,873	51,308,631	88,114,848
(Increase) decrease in inventory	<u>(74,746)</u>	<u>(127,068)</u>	<u>226,202</u>	<u>389,068</u>
Total food distributed	<u>56,126,088</u>	<u>\$ 95,383,805</u>	<u>51,534,833</u>	<u>\$ 88,503,916</u>

City Harvest also recognized donated legal services in connection with its program and administrative operations, the estimated fair value of which was \$214,546 and \$237,738 for each of the fiscal years 2016 and 2015, respectively. Additionally, City Harvest recorded donated advertising services for public service announcements, the fair value of which was \$1,734,979 and \$1,502,669 for fiscal years 2016 and 2015, respectively.

In connection with City Harvest's special event auction and gala during the fiscal years 2016 and 2015, City Harvest recorded the value of donated items and services, the fair value of which was approximately \$420,682 and \$420,033, 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 Financial Accounting Standards Board 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 permanently restricted net assets as temporarily restricted net assets 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 New York Prudent Management of Institutional Funds Act (“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 permanently restricted net assets (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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Donor-restricted endowment funds	\$ 313,263	\$ 304,757
Total	<u>\$ 313,263</u>	<u>\$ 304,757</u>
Endowment net assets, beginning of year	<u>\$ 304,757</u>	<u>\$ 344,541</u>
Investment return:		
Net realized and unrealized (depreciation) appreciation	<u>8,506</u>	<u>(39,784)</u>
Total investment return	<u>8,506</u>	<u>(39,784)</u>
Endowment net assets, end of year	<u>\$ 313,263</u>	<u>\$ 304,757</u>

9. RETIREMENT PLAN

City Harvest offers a defined contribution plan, as defined in U.S. Internal Revenue Code (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

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each employee who has completed one year of service. City Harvest also makes an additional matching contribution of up to 2% of annual salaries for those employees that contribute to the plan. City Harvest's contribution for fiscal years 2016 and 2015 was approximately \$456,000 and \$377,000, 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, 2016, are as follows:

Year Ending June 30,	<u>Commitment</u>
2017	\$ 1,926,208
2018	1,971,848
2019	1,993,715
2020	1,909,012
2021	1,894,141
Thereafter	<u>4,465,739</u>
	<u>\$ 14,160,663</u>

Rental expense under operating leases (which includes payments for rentals of additional trucks on an as-needed basis) for fiscal years 2016 and 2015 was approximately \$1,746,816 and \$1,763,159, respectively.

Government-supported projects are subject to audit by the applicable government granting agencies. At June 30, 2016 and 2015, 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 \$2,500,000 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, 2016 and 2015, City Harvest had no outstanding balances due, and there were no borrowings in either year. The line of credit agreement expires February 28, 2017.

11. SUBSEQUENT EVENTS

City Harvest evaluated its June 30, 2016 financial statements for subsequent events through November 15, 2016, 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.