

Financial Statements Together with
Report of Independent Certified Public Accountants

CITY HARVEST, INC.

June 30, 2017 and 2016

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, 2017 and 2016, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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, as of June 30, 2017 and 2016, 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.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 15, 2017, on our consideration of City Harvest's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City Harvest's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York
November 15, 2017

CITY HARVEST, INC.
Statements of Financial Position
As of June 30, 2017 and 2016

ASSETS	2017	2016
Cash and cash equivalents	\$ 6,858,182	\$ 9,753,107
Contributions receivable - current portion	3,775,580	3,896,480
Grants and awards receivable	798,950	878,300
Prepaid expenses and other current assets	292,415	394,473
Total current assets	<u>11,725,127</u>	<u>14,922,360</u>
Investments	9,939,949	4,633,257
Inventory	1,650,201	996,653
Property and equipment, net	1,860,917	2,574,682
Contributions receivable, net - long-term portion	57,650	613,099
Security deposits	477,367	608,628
Total assets	<u>\$ 25,711,211</u>	<u>\$ 24,348,679</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 808,408	\$ 627,062
Accrued expenses	1,632,835	1,242,299
Deferred revenue	2,338,821	1,879,440
Leases payable, current portion	152,650	146,280
Total current liabilities	<u>4,932,714</u>	<u>3,895,081</u>
Deferred rent	1,489,965	1,492,639
Leases payable, long-term portion	87,646	240,296
Total long-term liabilities	<u>1,577,611</u>	<u>1,732,935</u>
Total liabilities	<u>6,510,325</u>	<u>5,628,016</u>
Commitments and contingencies		
NET ASSETS		
Unrestricted	17,250,035	13,114,219
Temporarily restricted	1,640,276	5,293,181
Permanently restricted	310,575	313,263
Total net assets	<u>19,200,886</u>	<u>18,720,663</u>
Total liabilities and net assets	<u>\$ 25,711,211</u>	<u>\$ 24,348,679</u>

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

CITY HARVEST, INC.
Statements of Activities
For the years ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently	Total	Unrestricted	Temporarily Restricted	Permanently	Total
PUBLIC SUPPORT AND REVENUES								
Public support:								
Contributions:								
Donated food (Note 7)	\$ 94,039,157	\$ -	\$ -	\$ 94,039,157	\$ 95,163,775	\$ -	\$ -	\$ 95,163,775
Corporations	3,909,498	575,000	-	4,484,498	3,462,305	115,260	-	3,577,565
Foundations	8,212,094	230,070	-	8,442,164	7,528,158	1,575,572	-	9,103,730
Individuals	10,974,228	216,214	-	11,190,442	9,981,036	102,658	-	10,083,694
Organizations	359,122	-	-	359,122	392,230	16,500	-	408,730
Special events (net of direct benefits to donors of \$1,022,053 in 2017 and \$1,160,427 in 2016)	3,589,934	-	-	3,589,934	2,894,819	-	-	2,894,819
Total public support	121,084,033	1,021,284	-	122,105,317	119,422,323	1,809,990	-	121,232,313
Revenues:								
Government grants and awards	1,309,899	-	-	1,309,899	1,503,996	-	-	1,503,996
Investment income (loss)	71,553	-	(2,688)	68,865	8,900	-	8,506	17,406
Other income	35,724	-	-	35,724	11,979	-	-	11,979
Total revenues	1,417,176	-	(2,688)	1,414,488	1,524,875	-	8,506	1,533,381
Net assets released from restrictions	4,674,189	(4,674,189)	-	-	2,175,882	(2,175,882)	-	-
Total public support, revenues and net assets released from restrictions	127,175,398	(3,652,905)	(2,688)	123,519,805	123,123,080	(365,892)	8,506	122,765,694
EXPENSES								
Program services:								
Emergency food operations	110,512,410	-	-	110,512,410	111,695,885	-	-	111,695,885
Healthy neighborhoods and other programming	4,483,079	-	-	4,483,079	3,858,504	-	-	3,858,504
Total program services	114,995,489	-	-	114,995,489	115,554,389	-	-	115,554,389
Supporting services:								
Management and general	1,044,762	-	-	1,044,762	1,049,934	-	-	1,049,934
Development	6,999,331	-	-	6,999,331	6,822,611	-	-	6,822,611
Total supporting services	8,044,093	-	-	8,044,093	7,872,545	-	-	7,872,545
Total expenses	123,039,582	-	-	123,039,582	123,426,934	-	-	123,426,934
Change in net assets before effect of donated services	4,135,816	(3,652,905)	(2,688)	480,223	(303,854)	(365,892)	8,506	(661,240)
Donated services - revenue	1,979,918	-	-	1,979,918	1,949,525	-	-	1,949,525
Donated services - expenses	(1,979,918)	-	-	(1,979,918)	(1,949,525)	-	-	(1,949,525)
Change in net assets	4,135,816	(3,652,905)	(2,688)	480,223	(303,854)	(365,892)	8,506	(661,240)
Net assets, beginning of year	13,114,219	5,293,181	313,263	18,720,663	13,418,073	5,659,073	304,757	19,381,903
Net assets, end of year	\$ 17,250,035	\$ 1,640,276	\$ 310,575	\$ 19,200,886	\$ 13,114,219	\$ 5,293,181	\$ 313,263	\$ 18,720,663

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

CITY HARVEST, INC.

Statement of Functional Expenses

For the year ended June 30, 2017, with comparative information for 2016

	Program Services			Supporting Services			Total Expenses	
	Emergency Food Operations	Healthy Neighborhoods and Other Programming	Total	Management and General	Development	Total	2017	2016
Salaries	\$ 5,678,196	\$ 2,520,083	\$ 8,198,279	\$ 402,106	\$ 2,892,041	\$ 3,294,147	\$ 11,492,426	\$ 11,047,556
Employee benefits and payroll taxes	1,931,714	713,373	2,645,087	80,685	837,354	918,039	3,563,126	3,489,425
Food distributed	93,779,164	-	93,779,164	-	-	-	93,779,164	95,383,805
Food transportation and distribution	5,361,561	-	5,361,561	-	-	-	5,361,561	5,182,686
Food packaging supplies	136,421	-	136,421	-	-	-	136,421	181,203
Communication, printing and postage	112,633	58,884	171,517	14,314	970,477	984,791	1,156,308	1,329,126
Rent, utilities and cleaning	1,058,732	259,169	1,317,901	240,792	304,195	544,987	1,862,888	1,811,926
Promotion	1,685	26,110	27,795	-	638,413	638,413	666,208	739,338
Computer support	233,225	85,440	318,665	84,113	89,733	173,846	492,511	574,122
Professional fees	784,387	563,942	1,348,329	85,319	1,021,204	1,106,523	2,454,852	1,615,854
Grant Expense	279,174	-	279,174	-	-	-	279,174	203,081
Office supplies and miscellaneous	434,207	228,565	662,772	111,532	213,396	324,928	987,700	986,786
Total expenses before depreciation and amortization and donated services	<u>109,791,099</u>	<u>4,455,566</u>	<u>114,246,665</u>	<u>1,018,861</u>	<u>6,966,813</u>	<u>7,985,674</u>	<u>122,232,339</u>	<u>122,544,908</u>
Depreciation and amortization	721,311	27,513	748,824	25,901	32,518	58,419	807,243	882,026
Donated services	<u>69,661</u>	<u>25,899</u>	<u>95,560</u>	<u>22,327</u>	<u>1,862,031</u>	<u>1,884,358</u>	<u>1,979,918</u>	<u>1,949,525</u>
Total expenses	<u>\$ 110,582,071</u>	<u>\$ 4,508,978</u>	<u>\$ 115,091,049</u>	<u>\$ 1,067,089</u>	<u>\$ 8,861,362</u>	<u>\$ 9,928,451</u>	<u>\$ 125,019,500</u>	<u>\$ 125,376,459</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, 2016

	Program Services			Supporting Services			Total Expenses
	Emergency Food Operations	Healthy Neighborhoods and Other Programming	Total	Management and General	Development	Total	2016
Salaries	\$ 5,733,036	\$ 2,225,643	\$ 7,958,679	\$ 374,811	\$ 2,714,066	\$ 3,088,877	\$ 11,047,556
Employee benefits and payroll taxes	2,117,583	577,281	2,694,864	96,172	698,389	794,561	3,489,425
Food distributed	95,383,805	-	95,383,805	-	-	-	95,383,805
Food transportation and distribution	5,182,626	60	5,182,686	-	-	-	5,182,686
Food packaging supplies	168,949	-	168,949	-	12,254	12,254	181,203
Communication, printing and postage	143,948	84,818	228,766	19,145	1,081,215	1,100,360	1,329,126
Rent, utilities and cleaning	1,055,121	234,330	1,289,451	232,005	290,470	522,475	1,811,926
Promotion	2,067	27,355	29,422	4,122	705,794	709,916	739,338
Computer support	290,624	96,615	387,239	85,829	101,054	186,883	574,122
Professional fees	320,809	226,308	547,117	89,418	979,319	1,068,737	1,615,854
Grant Expense	203,081	-	203,081	-	-	-	203,081
Office supplies and miscellaneous	343,581	345,547	689,128	107,886	189,772	297,658	986,786
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>
Depreciation and amortization	750,655	40,547	791,202	40,546	50,278	90,824	882,026
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>
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>

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

CITY HARVEST, INC.
Statements of Cash Flows
For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 480,223	\$ (661,240)
Adjustments to reconcile changes in net assets to net cash		
Depreciation and amortization	807,243	882,026
Loss on disposal of property and equipment	-	34,093
Donated securities	(491,311)	(960,528)
Proceeds from the sale of donated securities	494,340	951,924
Net realized and unrealized (gain) loss on investments	39,126	(33,891)
Changes in assets and liabilities:		
Contributions receivable	676,349	789,714
Grants receivable	79,350	(33,071)
Prepaid and other current assets	102,058	(92,950)
Inventory	(653,548)	(127,068)
Security deposits	131,261	(3,136)
Accounts payable	181,346	(230,766)
Accrued expenses	390,536	41,316
Deferred revenue	459,381	1,858,383
Deferred rent	(2,674)	97,152
Net cash provided by operating activities	<u>2,693,680</u>	<u>2,511,958</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(93,478)	(307,721)
Purchase of securities	(5,898,620)	(4,512,141)
Proceeds from sales of securities	<u>549,773</u>	<u>264,512</u>
Net cash used in investing activities	<u>(5,442,325)</u>	<u>(4,555,350)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments from capital leases	<u>(146,280)</u>	<u>(140,175)</u>
Net cash used in financing activities	<u>(146,280)</u>	<u>(140,175)</u>
Decrease in cash and cash equivalents	(2,894,925)	(2,183,567)
Cash and cash equivalents, beginning of year	<u>9,753,107</u>	<u>11,936,674</u>
Cash and cash equivalents, end of year	<u>\$ 6,858,182</u>	<u>\$ 9,753,107</u>

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

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2017 and 2016

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

Nature of Activities

City Harvest pioneered food rescue in 1982 and this year collected 56 million pounds of excess food to help feed the nearly 1.3 million New Yorkers struggling to put meals on their tables. Through relationships with farms, grocers, restaurants, and manufacturers, City Harvest collects nutritious food that would otherwise go to waste and delivers it free of charge to 500 soup kitchens, food pantries and other community food programs across the five boroughs. In addition, our *Healthy Neighborhoods* initiative addresses long-term food insecurity through community partnerships that work to increase access to affordable and wholesome food.

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 nutritious food to hungry New Yorkers. We rescue food from 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 600 million pounds of food and distributed it to New Yorkers in need across the five boroughs.

Healthy Neighborhoods and Other Programming: Through our *Healthy Neighborhoods* initiative, City Harvest addresses long-term food insecurity through community-based solutions. We developed partnerships in low-income neighborhoods 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 illnesses requires an integrated, holistic approach. We address hunger and a lack of access to healthy, affordable food while inspiring positive changes to healthy eating, cooking and shopping behaviors. Our *Healthy Neighborhoods* model combines a series of initiatives including free food distribution, nutrition education, and partnerships with local organizations and businesses to improve the local food landscape.

City Harvest is a respected voice in anti-hunger and food systems advocacy, with established relationships at the federal, state, and local levels. City Harvest collaborates with elected officials to examine food access and other environmental changes necessary to promote health, and also works to influence hunger and food systems policy in a way that is closely aligned with our program goals.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2017 and 2016

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.

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, 2017 and 2016.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016, this accrued vacation obligation was \$286,481 and \$244,957, 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 \$310,575 and \$313,263 of permanently restricted net assets at June 30, 2017 and 2016, respectively.

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.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2017 and 2016

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 2017 and 2016, 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.

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.

CITY HARVEST, INC.
Notes to the Financial Statements
June 30, 2017 and 2016

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>2017</u>	<u>2016</u>
Gross amounts due in:		
One year	\$ 3,775,580	\$ 3,896,480
One to five years	31,542	601,543
More than five years	<u>42,000</u>	<u>49,000</u>
	3,849,122	4,547,023
Discount to present value (rates ranging from 1.74% to 2.39%)	<u>(15,892)</u>	<u>(37,444)</u>
	<u>\$ 3,833,230</u>	<u>\$ 4,509,579</u>

At June 30, 2017 and 2016, 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 2017 and fiscal 2016 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, 2017 and 2016, investments at fair value were comprised of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equities	\$ 183,035	\$ 200,876	\$ 182,453	\$ 196,091
Government and corporate obligations	3,552,340	3,558,296	2,533,188	2,539,172
Debt securities	<u>6,206,944</u>	<u>6,180,777</u>	<u>1,884,851</u>	<u>1,897,994</u>
Total investments	<u>\$ 9,942,319</u>	<u>\$ 9,939,949</u>	<u>\$ 4,600,492</u>	<u>\$ 4,633,257</u>

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.

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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 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.

At June 30, 2017 and 2016, City Harvest's investments were classified as follows within the fair value hierarchy standard:

	2017			
	Level 1	Level 2	Level 3	Total
Equities	\$ 200,867	\$ -	\$ -	\$ 200,876
Government and corporate obligations	-	3,558,296	-	3,558,296
Debt securities	<u>39,400</u>	<u>6,141,377</u>	-	<u>6,180,777</u>
Total investments	<u>\$ 240,267</u>	<u>\$ 9,699,673</u>	<u>\$ -</u>	<u>\$ 9,939,949</u>
	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	<u>39,770</u>	<u>1,858,224</u>	-	<u>1,897,994</u>
Total investments	<u>\$ 235,861</u>	<u>\$ 4,397,396</u>	<u>\$ -</u>	<u>\$ 4,633,257</u>

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The following schedules summarize the investment return and its classification in the accompanying statements of activities for the fiscal years ended June 30, 2017 and 2016:

<u>2017</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment income	\$ 115,751	\$ -	\$ 115,751
Net realized (losses)	(7,871)	(814)	(8,685)
Net unrealized (depreciation)	<u>(36,327)</u>	<u>(1,874)</u>	<u>(38,201)</u>
Total investment return	<u>\$ 71,553</u>	<u>\$ (2,688)</u>	<u>\$ 68,865</u>

<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	<u>(653)</u>	<u>33,964</u>	<u>33,311</u>
Total investment return	<u>\$ 8,900</u>	<u>\$ 8,506</u>	<u>\$ 17,406</u>

5. PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Transportation vehicles and equipment	\$ 2,662,880	\$ 2,662,880
Furniture and fixtures	578,705	578,705
Computer equipment	671,788	652,363
Office equipment	930,702	908,710
Leasehold improvements	1,113,340	1,080,458
Construction in progress	<u>19,179</u>	<u>-</u>
	5,976,594	5,883,116
Less accumulated depreciation and amortization	<u>(4,115,677)</u>	<u>(3,308,434)</u>
	<u>\$ 1,860,917</u>	<u>\$ 2,574,682</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 were \$807,243 and \$882,026, 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 \$639,398 and \$496,859 at June 30, 2017 and 2016, respectively. Amortization expense under capital leases totaled approximately \$146,280 and \$142,539 at June 30, 2017 and 2016, respectively. Amounts outstanding

CITY HARVEST, INC.
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under this capital lease included in the accompanying statements of financial position totaled approximately \$248,804 and \$408,750 at June 30, 2017 and 2016, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Restricted as to purpose:		
Emergency food	\$ -	\$ 270,452
Healthy neighborhoods	120,103	230,000
Nutrition education	15,000	100,122
Capital	-	269,456
Harvest Works	-	250,000
Green fleet fund	-	2,849,348
	<u>135,103</u>	<u>3,969,378</u>
Time restricted	<u>1,505,173</u>	<u>1,323,803</u>
	<u>\$ 1,640,276</u>	<u>\$ 5,293,181</u>

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

	<u>2017</u>	<u>2016</u>
Emergency food	\$ 270,452	\$ 540,000
Healthy neighborhoods	210,000	463,619
Leadership Summit	-	270,000
Nutrition education	85,122	-
Capital	269,456	-
Green Fleet*	2,849,348	-
Harvest works	250,000	-
	<u>3,934,378</u>	<u>1,273,619</u>
Time restricted	<u>739,811</u>	<u>902,263</u>
	<u>\$ 4,674,189</u>	<u>\$ 2,175,882</u>

* The Green Fleet Fund was established in 2008 to support the acquisition, operation and maintenance of a green fleet of trucks. This fund was fully released from restriction during 2017 as it was determined that expenditures in fulfillment of the funds purpose had been incurred.

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

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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 \$1.67 per pound and \$1.70 per pound for fiscal year 2017 and 2016, respectively. Had the fiscal year 2017 per pound valuation been consistent for fiscal year 2016, the value of donated food would have been approximately \$1,684,000 higher. During fiscal years 2017 and 2016, the total pounds and value of food distributed consisted of the following:

	2017		2016	
	Pounds	Value	Pounds	Value
Donated food	56,149,028	\$ 94,039,157	55,871,409	\$ 95,163,775
Purchased food	287,434	393,555	329,425	347,098
Total food contributed	56,436,462	94,432,712	56,200,834	95,510,873
(Increase) in inventory	(407,591)	(653,548)	(74,746)	(127,068)
Total food distributed	56,028,871	\$ 93,779,164	56,126,088	\$ 95,383,805

City Harvest also recognized donated legal services in connection with its program and administrative operations, the estimated fair value of which was \$146,467 and \$214,546 for each of the fiscal years 2017 and 2016, respectively. Additionally, City Harvest recorded donated advertising services for public service announcements, the fair value of which was \$1,833,451 and \$1,734,979 for fiscal years 2017 and 2016, respectively.

In connection with City Harvest’s special event auction and gala during the fiscal years 2017 and 2016, City Harvest recorded the value of donated items and services, the fair value of which was approximately \$342,754 and \$420,682, respectively.

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 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 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

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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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Donor-restricted endowment funds	\$ 313,263	\$ 313,263
Total	<u>\$ 313,263</u>	<u>\$ 313,263</u>
Endowment net assets, beginning of year	<u>\$ 313,263</u>	<u>\$ 304,757</u>
Investment return:		
Net realized and unrealized (depreciation) appreciation	<u>(2,688)</u>	<u>8,506</u>
Total investment return	<u>(2,688)</u>	<u>8,506</u>
Endowment net assets, end of year	<u>\$ 310,575</u>	<u>\$ 313,263</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 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 changed from a maximum of 2% of eligible compensation to a maximum of 3%. City Harvest’s contribution for fiscal years 2017 and 2016 was approximately \$460,000 and \$456,000, 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.

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Future minimum rent obligations under all of the lease agreements as of June 30, 2017, are as follows:

Year Ending June 30,	<u>Commitment</u>
2018	\$ 1,971,848
2019	1,993,715
2020	1,909,012
2021	1,894,141
2022	1,326,592
Thereafter	<u>3,139,147</u>
	<u>\$ 12,234,455</u>

Rental expense under operating leases (which includes payments for rentals of additional trucks on an as-needed basis) for fiscal years 2017 and 2016 was approximately \$1,708,550 and \$1,746,816, respectively.

Government-supported projects are subject to audit by the applicable government granting agencies. At June 30, 2017 and 2016, 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, 2017 and 2016, City Harvest had no outstanding balances due, and there were no borrowings in either year. The line of credit agreement expires February 28, 2018.

11. SUBSEQUENT EVENTS

City Harvest evaluated its June 30, 2017 financial statements for subsequent events through November 15, 2017, 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.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors:
City Harvest Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of City Harvest, Inc. (“City Harvest”), which comprise the statement of financial position as of June 30, 2017 and 2016 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2017.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered City Harvest’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of City Harvest’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of City Harvest’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in City Harvest's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether City Harvest's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City Harvest's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City Harvest's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York
November 15, 2017