

Financial Statements and Report of
Independent Certified Public
Accountants

City Harvest, Inc.

June 30, 2020 and 2019

Contents

	Page
Report of Independent Certified Public Accountants	3
Financial Statements	
Statements of financial position as of June 30, 2020 and 2019	5
Statements of activities for the years ended June 30, 2020 and 2019	6
Statement of functional expenses for the year ended June 30, 2020, with comparative information for 2019	7
Statement of functional expenses for the year ended June 30, 2019	8
Statements of cash flows for the years ended June 30, 2020 and 2019	9
Notes to financial statements	10

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of the
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, 2020 and 2019, 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, 2020 and 2019, and the changes in 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 10, 2020

City Harvest, Inc.

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 47,145,803	\$ 3,432,812
Contributions receivable - current portion	6,245,246	5,665,171
Grants and awards receivable	1,075,040	768,818
Prepaid expenses and other current assets	657,816	454,490
Total current assets	55,123,905	10,321,291
Investments	5,071,246	8,293,172
Inventory	1,533,842	1,510,025
Security deposits	1,907,756	322,962
Contributions receivable, net - long-term portion	2,081,279	2,264,561
Property and equipment, net	3,063,990	1,480,867
Total assets	\$ 68,782,018	\$ 24,192,878
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 5,026,516	\$ 2,587,279
Deferred revenue	6,589,750	378,973
Total current liabilities	11,616,266	2,966,252
Deferred rent	1,094,457	1,300,381
Total long-term liabilities	1,094,457	1,300,381
Total liabilities	12,710,723	4,266,633
Commitments and contingencies (Note 10)		
NET ASSETS		
Without donor restrictions		
Undesignated	30,403,393	6,048,825
Board designated	16,904,878	9,155,000
Total net assets without donor restrictions	47,308,271	15,203,825
With donor restrictions		
Time restricted	2,342,639	1,512,267
Purpose restricted	6,420,385	3,210,153
Total net assets with donor restrictions	8,763,024	4,722,420
Total net assets	56,071,295	19,926,245
Total liabilities and net assets	\$ 68,782,018	\$ 24,192,878

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

City Harvest, Inc.

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2020 and 2019

	2020			2019		
	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)	\$ 131,989,473	\$ -	\$ 131,989,473	\$ 107,614,463	\$ -	\$ 107,614,463
Corporations	24,687,617	216,589	24,904,206	3,597,265	820,000	4,417,265
Foundations	16,817,650	1,887,024	18,704,674	9,940,679	3,274,763	13,215,442
Individuals	23,767,305	24,668	23,791,973	9,825,219	-	9,825,219
Organizations	933,848	-	933,848	562,372	-	562,372
Special events (net of direct benefits to donors of \$460,967 in 2020 and \$815,471 in 2019)	1,320,050	-	1,320,050	5,443,228	-	5,443,228
Total public support	<u>199,515,943</u>	<u>2,128,281</u>	<u>201,644,224</u>	<u>136,983,226</u>	<u>4,094,763</u>	<u>141,077,989</u>
Revenues:						
Government grants and awards	1,013,658	-	1,013,658	843,077	7,556	850,633
Investment income (loss)	320,750	(39,710)	281,040	302,900	7,069	309,969
Other income	117,025	-	117,025	211,720	-	211,720
Total revenues	<u>1,451,433</u>	<u>(39,710)</u>	<u>1,411,723</u>	<u>1,357,697</u>	<u>14,625</u>	<u>1,372,322</u>
Net assets released from restrictions	1,985,798	(1,985,798)	-	1,680,241	(1,680,241)	-
Total public support, revenues and net assets released from restrictions	<u>202,953,174</u>	<u>102,773</u>	<u>203,055,947</u>	<u>140,021,164</u>	<u>2,429,147</u>	<u>142,450,311</u>
Expenses						
Program services:						
Emergency food operations	158,590,653	-	158,590,653	128,610,147	-	128,610,147
Healthy neighborhoods and other programming	4,592,534	-	4,592,534	4,325,825	-	4,325,825
Total program services	<u>163,183,187</u>	<u>-</u>	<u>163,183,187</u>	<u>132,935,972</u>	<u>-</u>	<u>132,935,972</u>
Supporting services:						
Management and general	963,629	-	963,629	858,738	-	858,738
Development	9,215,790	-	9,215,790	8,340,691	-	8,340,691
Total supporting services	<u>10,179,419</u>	<u>-</u>	<u>10,179,419</u>	<u>9,199,429</u>	<u>-</u>	<u>9,199,429</u>
Total expenses	<u>173,362,606</u>	<u>-</u>	<u>173,362,606</u>	<u>142,135,401</u>	<u>-</u>	<u>142,135,401</u>
Change in net assets before effect of non-operating activity and donated services	29,590,568	102,773	29,693,341	(2,114,237)	2,429,147	314,910
Non-operating activity						
Capital campaign revenue (Note 1)	2,513,878	3,937,831	6,451,709	-	-	-
Total non-operating activity	<u>2,513,878</u>	<u>3,937,831</u>	<u>6,451,709</u>	<u>-</u>	<u>-</u>	<u>-</u>
Donated services - revenue	2,522,626	-	2,522,626	2,110,343	-	2,110,343
Donated services - expenses	(2,522,626)	-	(2,522,626)	(2,110,343)	-	(2,110,343)
Change in net assets	32,104,446	4,040,604	36,145,050	(2,114,237)	2,429,147	314,910
Net assets, beginning of year	15,203,825	4,722,420	19,926,245	17,318,062	2,293,273	19,611,335
Net assets, end of year	<u>\$ 47,308,271</u>	<u>\$ 8,763,024</u>	<u>\$ 56,071,295</u>	<u>\$ 15,203,825</u>	<u>\$ 4,722,420</u>	<u>\$ 19,926,245</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, 2020, with comparative information for 2019

	Program Services			Supporting Services			Total Expenses	
	Emergency Food Operations	Other Programming	Total	Management and General	Development	Total	2020	2019
Salaries	\$ 8,206,930	\$ 2,565,936	\$ 10,772,866	\$ 342,270	\$ 3,861,354	\$ 4,203,624	\$ 14,976,490	\$ 13,568,672
Employee benefits and payroll taxes	2,611,510	769,935	3,381,445	45,965	883,921	929,886	4,311,331	3,810,514
Food distributed	135,533,999	-	135,533,999	-	-	-	135,533,999	107,938,597
Food transportation and distribution	8,467,952	125	8,468,077	-	-	-	8,468,077	7,243,577
Food packaging supplies	297,932	1,665	299,597	-	-	-	299,597	108,057
Communication, printing and postage	120,719	44,311	165,030	22,963	971,139	994,102	1,159,132	1,186,907
Rent, utilities and cleaning	1,054,197	202,448	1,256,645	204,440	325,212	529,652	1,786,297	1,937,652
Promotion	12,242	7,156	19,398	1,168	698,664	699,832	719,230	713,657
Computer support	375,448	92,819	468,267	101,884	152,823	254,707	722,974	493,215
Professional fees	722,346	267,310	989,656	94,215	1,924,028	2,018,243	3,007,899	2,756,299
Grant expense	464	330,105	330,569	-	-	-	330,569	564,751
Office supplies and miscellaneous	635,318	261,060	896,378	103,792	326,228	430,020	1,326,398	1,285,284
Provision for bad debt	186,212	41,898	228,110	40,346	62,071	102,417	330,527	-
Total expenses before depreciation and amortization and donated services	<u>158,225,269</u>	<u>4,584,768</u>	<u>162,810,037</u>	<u>957,043</u>	<u>9,205,440</u>	<u>10,162,483</u>	<u>172,972,520</u>	<u>141,607,182</u>
Depreciation and amortization	365,384	7,766	373,150	6,586	10,350	16,936	390,086	528,219
Donated services	103,817	23,359	127,176	22,492	2,372,958	2,395,450	2,522,626	2,110,343
Total expenses	<u>\$ 158,694,470</u>	<u>\$ 4,615,893</u>	<u>\$ 163,310,363</u>	<u>\$ 986,121</u>	<u>\$ 11,588,748</u>	<u>\$ 12,574,869</u>	<u>\$ 175,885,232</u>	<u>\$ 144,245,744</u>

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

City Harvest, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2019

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

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

City Harvest, Inc.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 36,145,050	\$ 314,910
Adjustments to reconcile changes in net assets to net cash		
Depreciation and amortization	390,086	528,219
Loss on disposal of property and equipment	6,723	-
Donated securities	(1,019,142)	(901,751)
Proceeds from the sale of donated securities	1,044,564	874,565
Net realized and unrealized gain on investments	(78,404)	(73,224)
Changes in assets and liabilities:		
Contributions receivable	(396,793)	(2,570,820)
Grants receivable	(306,222)	(4,119)
Prepaid and other current assets	(203,326)	(282,793)
Inventory	(23,817)	(8,840)
Security deposits	(1,584,794)	154,405
Accounts payable and accrued expenses	2,439,237	(442,259)
Deferred revenue	6,210,777	(1,002,078)
Deferred rent	(205,924)	(141,269)
Net cash provided by (used in) operating activities	42,418,015	(3,555,054)
Cash flows from investing activities		
Purchases of property and equipment	(1,979,932)	(158,488)
Purchase of securities	(3,199,068)	(4,265,527)
Proceeds from sales of securities	6,473,976	7,138,420
Net cash provided by investing activities	1,294,976	2,714,405
Cash flows from financing activities		
Net payments from capital leases	-	(87,646)
Net cash used in financing activities	-	(87,646)
Increase (decrease) in cash and cash equivalents	43,712,991	(928,295)
Cash and cash equivalents, beginning of year	3,432,812	4,361,107
Cash and cash equivalents, end of year	\$ 47,145,803	\$ 3,432,812

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

City Harvest, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 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 nearly 1.2 million New Yorkers who are struggling to put meals on their tables. This year, City Harvest rescued 78.5 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. City Harvest's programs empower individuals through nutrition education, increase its partners' capacity, and strengthen the local food system, helping New Yorkers who are experiencing food insecurity to access, afford, and consume nutritious 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, City Harvest rescues food that would otherwise go to waste and delivers it free of charge to community programs that provide nutritious food to New Yorkers in need. City Harvest rescues food from more than 2,200 donors across the city and country, including farms, grocers, restaurants, and manufacturers. City Harvest focuses on sourcing fresh, local food, and more than 50% of the food we deliver is produce. Since it was founded in 1982, City Harvest has collected more than 850 million pounds of food and distributed it to New Yorkers in need across the five boroughs.

Other Programming: 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 New Yorkers experiencing food insecurity to acquire and prepare food that is desired, usable, and nutritious, ensure that there are policies and systems that protect and strengthen local food systems for all New Yorkers, and increase the capacity among individuals and local organizations. City Harvest's community-tailored programming reaches some 400,000 New Yorkers annually across the five boroughs through its 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 City Harvest advocates for equity and inclusion in the decision making process that shapes the local food system. In addition, City Harvest engages elected officials at the city, state and federal levels to help shape policies that address hunger and food insecurity.

City Harvest, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Between March 9 and June 30, City Harvest scaled up its operations in accordance with Centers for Disease Control (“CDC”) guidelines to respond as growing unemployment caused the need for food assistance in New York City to surge. Over that time, City Harvest rescued over 35 million pounds of food, a 73% increase over the same period in 2019. City Harvest’s fleet of trucks delivered this food, free of charge, to the food pantries and soup kitchens it serves (29.4 million pounds of food), City Harvest’s nine Mobile Markets (1.2 million pounds and a 27% increase over 2019), and 14 Community Partner Distributions (more than 715,000 pounds, a 97% increase over 2019). City Harvest also partnered to open 27 Emergency Food Distribution Sites in neighborhoods where existing food pantries and soup kitchens may have had to close as a precautionary measure or due to lack of staffing. Over 3.8 million pounds of food were delivered to these sites.

This year, City Harvest has launched a \$60 million capital campaign to fund the renovation of and move to City Harvest’s new headquarters in Sunset Park, Brooklyn. This new location will allow City Harvest to unite its operational, programmatic and administrative staffs in one space. It will position City Harvest to work more efficiently, and rescue and deliver, free of charge, a greater volume of food to meet the need for food assistance that existed in New York City before COVID-19 and has grown dramatically following the pandemic and resulting economic crisis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

City Harvest, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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. 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. 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, 2020 and 2019.

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.

City Harvest, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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, 2020 and 2019, this accrued vacation obligation was \$280,152 and \$307,682, respectively, and was reported in the accompanying statements of financial position as a component of accrued expenses.

Revenue Recognition

City Harvest recognizes revenue from contributions in accordance with Accounting Standards Update ("ASU") 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. In accordance with ASU 2018-08, City Harvest evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, City Harvest records the transactions as allowable costs are incurred in accordance with ASC 958-605. If the transfer of assets is determined to be a contribution, City Harvest evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before City Harvest is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

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 (barriers) as to their use. Revenues from grants and awards are recognized when costs are incurred or services have been performed and entitlement to revenue is earned. 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.

Capital campaign - Contributions related to the capital campaign are recognized as both with and without donor restrictions based on whether the funds are internally designated (without donor restrictions) or raised from donors (with donor restrictions).

City Harvest, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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. 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).

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 Section 501(c)(3) of the Code, 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.

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.

City Harvest, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

New Accounting Standards

During February 2016, the Financial Accounting Standards Board (“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 plans to implement this standard in the next fiscal year.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

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

	2020	2019
Gross amounts due in:		
One year	\$ 6,245,246	\$ 5,665,171
One to five years	2,462,500	2,352,524
	8,707,746	8,017,695
Allowance for uncollectible amounts	(330,527)	-
Discount to present value (rate of 0.24% - 2.68%)	(50,694)	(87,963)
	\$ 8,326,525	\$ 7,929,732

Due to an increase in pledges and an aging outstanding receivable balance, an allowance for uncollectible amounts has been provided starting in fiscal year 2020. 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. At June 30, 2020, pledge receivables included \$2,853,837 related to capital campaign.

NOTE 4 - INVESTMENTS

City Harvest’s investments are classified as follows within the fair value hierarchy of the standard. At June 30, 2020 and 2019, investments at fair value were comprised of the following:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Equities	\$ 176,549	\$ 168,016	\$ 210,419	\$ 226,767
Government and corporate obligations	19,227	17,412	660,184	661,971
Debt securities	4,727,228	4,885,818	7,383,398	7,404,434
Total investments	\$ 4,923,004	\$ 5,071,246	\$ 8,254,001	\$ 8,293,172

City Harvest, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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.

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, 2020 and 2019, City Harvest's investments were classified as follows within the fair value hierarchy standard:

	2020			
	Level 1	Level 2	Level 3	Total
Equities	\$ 147,910	\$ 20,106	\$ -	\$ 168,016
Government and corporate obligations	-	17,412	-	17,412
Debt securities	15,395	4,870,423	-	4,885,818
Total investments	<u>\$ 163,305</u>	<u>\$ 4,907,941</u>	<u>\$ -</u>	<u>\$ 5,071,246</u>
	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	26,333	7,378,101	-	7,404,434
Total investments	<u>\$ 233,946</u>	<u>\$ 8,059,226</u>	<u>\$ -</u>	<u>\$ 8,293,172</u>

City Harvest, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 5 - PROPERTY AND EQUIPMENT

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

	2020	2019
Transportation vehicles and equipment	\$ 2,439,965	\$ 2,304,409
Furniture and fixtures	578,705	578,705
Computer equipment	463,836	550,680
Office equipment	1,043,901	1,043,901
Leasehold improvements	1,135,571	1,166,969
Construction in progress	2,035,101	190,732
	7,697,079	5,835,396
Less accumulated depreciation and amortization	(4,633,089)	(4,354,529)
	\$ 3,063,990	\$ 1,480,867

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 were \$390,086 and \$528,219, respectively.

Included in construction in progress are the costs committed to the purchase of software and equipment to be utilized in the installation of a warehouse management system as well as \$1,839,597 of costs incurred related to the renovation of a new warehouse space to be occupied in fiscal year 2021.

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Restricted as to purpose:		
Emergency food	\$ 2,226,814	\$ 2,542,763
Food access	255,740	659,834
Capital	-	7,556
Capital campaign	3,937,831	-
	6,420,385	3,210,153
Time restricted	2,342,639	1,512,267
	\$ 8,763,024	\$ 4,722,420

At June 30, 2020, \$1,423,439 of the balance of net assets with donor restrictions as to purpose is also time restricted.

City Harvest, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

	2020	2019
Emergency food	\$ 600,000	\$ 11,580
Food access	573,324	738,844
Capital	7,556	338,000
Strategic plan	-	250,000
	1,180,880	1,338,424
Time restricted	804,918	341,817
	\$ 1,985,798	\$ 1,680,241

NOTE 7 - IN-KIND CONTRIBUTIONS

Food products are donated to City Harvest by restaurants, corporations and individuals. These food products are subsequently distributed, free of charge, 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 pantries or directly to agencies. In addition to donations of food products, City Harvest also accepts donations of prepared food and meals. For the years ended June 30, 2020 and 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 \$1.68 and \$1.70 per pound, respectively. During fiscal years 2020 and 2019, the total pounds and value of food distributed consisted of the following:

	2020		2019	
	Pounds	Value	Pounds	Value
Donated food	78,511,514	\$ 131,989,473	63,096,871	\$ 107,614,463
Purchased food	3,813,814	3,568,343	349,218	316,578
Total food contributed	82,325,328	135,557,816	63,446,089	107,931,041
Decrease in inventory	(220,685)	(23,817)	(17,398)	(8,840)
Total food distributed	82,104,643	\$ 135,533,999	63,428,691	\$ 107,922,201

City Harvest also recognized donated legal services in connection with its program and administrative operations, the estimated fair value of which was \$184,273 and \$305,877 for the years ended June 30, 2020 and 2019, respectively. Additionally, City Harvest recorded donated advertising services for public service announcements, the fair value of which was \$2,238,379 and \$1,804,466 for the years ended June 30, 2020 and 2019, respectively. City Harvest received \$99,974 of donation supplies during the year ended June 30, 2020.

In connection with City Harvest's special event auction and gala during the fiscal years 2020 and 2019, City Harvest recorded the value of donated items and services, the fair value of which was \$77,703 and \$121,925, respectively.

City Harvest, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 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, 2020 and 2019:

	2020	2019
Endowment net assets, beginning of year	\$ 312,267	\$ 305,198
Investment return:		
Net realized and unrealized (depreciation) appreciation	(39,710)	7,069
Total investment return	(39,710)	7,069
Prior year release of endowment funds	(44,951)	-
Endowment net assets, end of year	\$ 227,606	\$ 312,267

Distributions of \$15,979 and \$15,679 were received by City Harvest during the years ended June 30, 2020 and 2019, respectively.

NOTE 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 2020 and 2019 was approximately \$668,000 and \$595,000, respectively.

City Harvest, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 10 - COMMITMENTS AND CONTINGENCIES

In April 2011, City Harvest entered into a lease for a 45,000 square foot 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 12-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, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Commitment</u>
2021	\$ 1,601,022
2022	1,326,592
2023	1,375,117
2024	1,409,495
2025	354,535
	<u>\$ 6,066,761</u>

Rental expense under operating leases (which includes payments for rentals of additional trucks on an as-needed basis) for fiscal years 2020 and 2019 was approximately \$1,860,000 and \$1,816,000, respectively.

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, 2020 and 2019, City Harvest had no outstanding balances due. There were borrowings in fiscal year 2020 in the amount of \$3,000,000, which were paid back by June 30, 2020. There were no borrowings in fiscal year 2019. The line of credit agreement expires February 28, 2021.

City Harvest entered into a 31 year lease related to a new warehouse space in Brooklyn. The lease goes into effect in fiscal year 2021 and the future payments are not reflected in the table above.

NOTE 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 12 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, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

<u>Financial assets as of June 30:</u>	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 47,145,803	\$ 3,432,812
Contributions receivable - current portion	6,245,246	5,665,171
Grants and awards receivable	1,075,040	768,818
Investments	5,071,246	8,293,172
Total financial assets available within one year	<u>59,537,335</u>	<u>18,159,973</u>
Less:		
Contractual, legal or donor-imposed restrictions:		
Capital campaign pledge receivables	2,853,837	-
Cash held for capital campaign	1,098,518	-
Amounts subject to expenditure after one year	1,923,439	2,000,000
Endowment funds maintained in perpetuity	227,639	312,267
Total amounts unavailable to management for general expenditures within one year	<u>6,103,433</u>	<u>2,312,267</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 53,433,902</u>	<u>\$ 15,847,706</u>

NOTE 12 - SUBSEQUENT EVENTS

City Harvest evaluated its June 30, 2020 financial statements for subsequent events through November 10, 2020, 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, other than those already described in Note 10 and other than what has been disclosed below.

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The extent of the impact of COVID-19 on City Harvest's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on its donors, employees and vendors, all of which at present cannot be determined. Accordingly, the extent to which COVID-19 may impact City Harvest's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.