
**SECOND HARVEST FOOD SUPPORT
COMMITTEE**

FINANCIAL STATEMENTS

AUGUST 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Members,
Second Harvest Food Support Committee

We have audited the accompanying financial statements of Second Harvest Food Support Committee which comprise the statement of financial position as at August 31, 2017, and the statements of operations and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the organization derives revenue from donation and fundraising revenue, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of the organization, and we were not able to determine whether any adjustments might be necessary to donation and fundraising revenue and excess of revenue over expenses for the year for the years ended August 31, 2017 and 2016, current assets as at August 31, 2017 and 2016, and net assets as at September 1, 2016 and 2015 and August 31, 2017 and 2016.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Second Harvest Food Support Committee as at August 31, 2017, and the results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Cowperthwaite Mehta

Chartered Accountants
Licensed Chartered Public Accountants

November 7, 2017
Toronto, Ontario

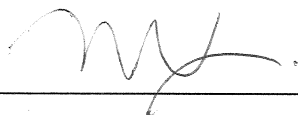
SECOND HARVEST FOOD SUPPORT COMMITTEE

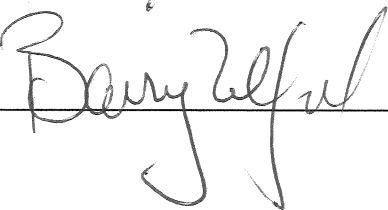
STATEMENT OF FINANCIAL POSITION

AS AT AUGUST 31, 2017

	2017	2016
ASSETS		
Current assets		
Cash (note 3)	\$ 1,809,740	\$ 804,253
Short-term investments (note 3 and 4)	1,046,355	34,093
Accounts receivable	100,893	169,179
Prepaid expenses	<u>33,355</u>	<u>38,930</u>
	2,990,343	1,046,455
Capital assets (note 5)	<u>611,151</u>	<u>653,130</u>
	<u>\$ 3,601,494</u>	<u>\$ 1,699,585</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 230,227	\$ 136,773
Deferred contributions (note 3 and 6)	<u>1,836,544</u>	<u>-</u>
	2,066,771	136,773
Deferred capital asset contributions (note 7)	<u>686,771</u>	<u>843,922</u>
	<u>2,753,542</u>	<u>980,695</u>
Net assets		
Operations	<u>847,952</u>	<u>718,890</u>
	<u>\$ 3,601,494</u>	<u>\$ 1,699,585</u>

Approved on behalf of the Board:


_____, Director


_____, Director

see accompanying notes

SECOND HARVEST FOOD SUPPORT COMMITTEE

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED AUGUST 31, 2017

	2017	2016
REVENUE		
Food donations (note 1)	\$ 26,875,000	\$ 23,696,000
Fundraising (note 8)	3,984,890	3,291,946
Harvest kitchens grants	284,734	229,000
Capital assets grant amortization (note 7)	251,151	216,600
Grant	190,888	-
Gain on sale of trucks	-	11,500
Interest and other	24,877	21,105
	<u>31,611,540</u>	<u>27,466,151</u>
EXPENSES		
Food recovery and delivery		
Food donations delivered to agencies (note 1)	26,875,000	23,696,000
Other food delivery related costs	1,706,597	1,442,334
Communications and fundraising	1,286,843	1,155,917
Administration	753,283	660,147
Harvest kitchens	418,664	381,021
Distribution platform	190,888	-
Amortization	251,203	197,385
	<u>31,482,478</u>	<u>27,532,804</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR	129,062	(66,653)
Net assets, beginning of year	<u>718,890</u>	<u>785,543</u>
NET ASSETS, END OF YEAR	<u>\$ 847,952</u>	<u>\$ 718,890</u>

see accompanying notes

SECOND HARVEST FOOD SUPPORT COMMITTEE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2017

	2017	2016
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	\$ 129,062	\$ (66,653)
Adjust for non-cash items:		
Food donations	(26,875,000)	(23,696,000)
Food donations delivered to agencies	26,875,000	23,696,000
Capital assets grant amortization	(251,151)	(216,600)
Amortization expense	251,203	197,385
Gain on sale of capital assets	<u>-</u>	<u>(11,500)</u>
	129,114	(97,368)
Net change in non-cash working capital items:		
(Increase) decrease in accounts receivable	68,286	(24,677)
(Increase) decrease in prepaid expenses	5,575	(7,686)
Increase (decrease) in accounts payable and accrued liabilities	93,454	(48,319)
Increase (decrease) in deferred contributions	<u>1,836,544</u>	<u>(25,000)</u>
Cash generated from (used in) operating activities	<u>2,132,973</u>	<u>(203,050)</u>
FINANCING ACTIVITIES		
Proceeds on sale of capital assets	-	11,500
Cash contributions received restricted for capital asset purchases	<u>94,000</u>	<u>347,270</u>
Cash generated from financing activities	<u>94,000</u>	<u>358,770</u>
INVESTING ACTIVITIES		
Cash used to purchase capital assets	(209,224)	(347,868)
(Increase) decrease in short-term investments	<u>(1,012,262)</u>	<u>7,896</u>
Cash used in investing activities	<u>(1,221,486)</u>	<u>(339,972)</u>
NET INCREASE (DECREASE) IN CASH FOR THE YEAR	1,005,487	(184,252)
Cash, beginning of year	<u>804,253</u>	<u>988,505</u>
CASH, END OF YEAR	<u>\$ 1,809,740</u>	<u>\$ 804,253</u>

see accompanying notes

SECOND HARVEST FOOD SUPPORT COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2017

Second Harvest Food Support Committee is incorporated as a not-for-profit organization in the Province of Ontario without share capital. The primary purpose of the organization is to redistribute to other not-for-profit service groups perishable food collected from donors.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the preparation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations. Outlined below are those policies considered particularly significant:

Financial instruments

Financial instruments include cash, short-term investments, accounts receivable and accounts payable and accrued liabilities. All financial instruments are recorded at cost.

Capital assets

Capital assets are recorded at cost. Amortization is provided annually at rates calculated to write-off the assets over their estimated useful lives as follows:

Delivery trucks	- 5 years straight line
Harvest kitchens equipment	- 5 years straight line
Freezer	- 10 years straight line
Furniture and equipment	- 3 years straight line
Leasehold improvements	- 8 years straight line

Revenue recognition

Its principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

- i) The organization follows the deferral method of revenue recognition. Restricted contributions related to expenses in future periods are deferred and recognized as revenue in the period in which the related expenses are incurred.
- ii) Revenue from grants, donations and all other fundraising sources are recorded in the period they are received unless the contribution has special restrictions on its use imposed by the donors. Revenue received for specific events is recorded in the period in which the event takes place.
- iii) Food donations are recognized when delivered to an agency. The food is valued at the average price per pound of food established by the Nielsen MarketTrack of \$2.50 per pound. In 2017 management estimates that approximately 10.75 million pounds of food were recovered and delivered to agencies (9.5 million pounds at \$2.50 per pound in 2016).
- iv) Revenue on short-term investments is recorded when earned. Realized and unrealized gains and losses are recognized as investment income when they arise. Related transaction costs are expensed as incurred.
- v) Contributions designated for the purchase of capital assets are recorded as revenue in the same period the related assets are charged to operations.

SECOND HARVEST FOOD SUPPORT COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense recognition

Expenses for goods or services are recorded when incurred. Research undertaken with the prospect of developing a new distribution platform is recognized as an expense when it is incurred.

Donated goods and services

These financial statements do not reflect the substantial value of services contributed by companies, sponsors, volunteers and other interested parties. Except for food, donated materials and services which are normally purchased by the organization are not recorded in the accounts. Management estimates that administrative and fundraising support provided by volunteers to the organization amounted to approximately 12,665 hours in 2017 (12,525 hours in 2016).

Use of estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. Specifically, significant assumptions have been made in arriving at the amortization rates to be applied for capital assets and deferred revenue and the valuation of food donations. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

Allocation of salaries and benefits and occupancy expenses

The organization allocates salaries and benefits and occupancy costs by financial statement expense category based on the percentage of time spent and space used in a given year.

2. FINANCIAL RISKS

Financial instruments expose the organization to risks which may affect the cash flows of the organization. The following are those financial instruments considered particularly significant and their related financial risks:

- i) Accounts receivable are regularly monitored to minimize credit risks resulting from uncollected revenue. The organization's losses from uncollected revenue have been minimal.
- ii) Fluctuations in market interest rates do not result in significant interest rate risks affecting future cash flows from fixed rate guaranteed investment certificates.
- iii) The organization expects to meet its financial obligations for accounts payable and accrued liabilities through cash flows from operations.

It is management's opinion that the organization's financial instruments are not exposed to significant financial risks.

SECOND HARVEST FOOD SUPPORT COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2017

3. CASH AND SHORT-TERM INVESTMENTS

A portion of cash and short-term investments are restricted due to external restrictions imposed by funding agencies.

	2017	2016
Unrestricted cash and short-term investments	\$ 1,019,551	\$ 838,346
Restricted funds		
- Distribution platform	1,764,544	-
- Food delivery programs	<u>72,000</u>	<u>-</u>
Total cash and short-term investments	<u>\$ 2,856,095</u>	<u>\$ 838,346</u>

Distribution platform - restrictions require cash to be used for the creation of an online system that will facilitate the exchange of food between registered businesses and non-profit or charitable organizations.

Contributions for food delivery programs restricted for specific purposes by the contributor that are unspent at the end of the fiscal year are recorded in deferred revenue.

4. SHORT-TERM INVESTMENTS

Short-term investments are comprised of fixed rate guaranteed investment certificates with interest rates of 1.07% to 1.50% issued by Canadian chartered bank and trust companies, which mature within 1 year.

5. CAPITAL ASSETS

Capital assets, recorded at cost, are as follows:

	Cost	Accumulated Amortization	2017 Net	2016 Net
Delivery trucks	\$ 1,327,592	\$ (834,533)	\$ 493,059	\$ 533,076
Furniture and equipment	<u>262,446</u>	<u>(144,354)</u>	<u>118,092</u>	<u>120,054</u>
	<u>\$ 1,590,038</u>	<u>\$ (978,887)</u>	<u>\$ 611,151</u>	<u>\$ 653,130</u>

SECOND HARVEST FOOD SUPPORT COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2017

6. DEFERRED CONTRIBUTIONS

Deferred contributions are restricted for development of the distribution platform and food delivery programs. Continuity of deferred contributions for the year was as follows:

	Distribution Platform	Food Delivery	2017 Total	2016 Total
Deferred contributions, beginning of year	\$ -	\$ -	\$ -	\$ 25,000
Contributions received in the year	1,955,432	105,000	2,060,432	-
Contributions taken into revenue	<u>(190,888)</u>	<u>(33,000)</u>	<u>(223,888)</u>	<u>(25,000)</u>
Deferred contributions, end of year	<u>\$ 1,764,544</u>	<u>\$ 72,000</u>	<u>\$ 1,836,544</u>	<u>\$ -</u>

7. DEFERRED CAPITAL ASSETS CONTRIBUTIONS

Deferred capital assets contributions include restricted funds received for trucks, the warehouse equipment and freezer, and leasehold improvements.

	2017	2016
Invested in capital assets	\$ 526,031	\$ 601,158
Unspent contributions restricted for capital purchases	<u>160,740</u>	<u>242,764</u>
	<u>\$ 686,771</u>	<u>\$ 843,922</u>

Continuity of deferred capital assets contributions for the year is as follows:

	2017	2016
Deferred capital assets contributions, beginning of year	\$ 843,922	\$ 713,252
Add capital assets contributions received	94,000	347,270
Less capital assets contributions amortized to income	<u>(251,151)</u>	<u>(216,600)</u>
Deferred capital assets contributions, end of year	<u>\$ 686,771</u>	<u>\$ 843,922</u>

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NOTES TO THE FINANCIAL STATEMENTS

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8. FUNDRAISING

Fundraising revenue recognized in the year was from the following sources:

	2017	2016
Donations		
Individuals	\$ 885,784	\$ 807,780
Foundations	1,337,406	686,580
Corporate	354,877	371,512
Campaigns	362,333	373,589
Third-party fundraising events	144,150	161,587
Toronto Taste event	<u>900,340</u>	<u>890,898</u>
	<u>\$ 3,984,890</u>	<u>\$ 3,291,946</u>

Campaign donations are collected during the Turkey and Hero Day drives. Third party events are events run by local organizations where the designated recipient of the funds raised is Second Harvest.

9. COST ALLOCATIONS

Certain staff and occupancy-related costs pertain to more than one function and they have been allocated to communications and fundraising, food recovery and delivery, distribution platform and Harvest kitchens in the statement of operations. Staff time is allocated based on the time devoted to each of these functions. Occupancy-related costs are allocated based on the proportionate use of space or the activities of the staff in the department. These expenses have been allocated as follows:

	Salaries and benefits		General expenses	
	2017	2016	2017	2016
Communications and fundraising	\$ 778,731	\$ 674,255	-	-
Food recovery and delivery	131,447	183,750	\$ 93,979	\$ 95,847
Distribution platform	34,344	-	15,940	-
Harvest kitchens	<u>111,892</u>	<u>100,981</u>	<u>123,501</u>	<u>99,651</u>
	<u>\$1,056,414</u>	<u>\$ 958,986</u>	<u>\$ 233,420</u>	<u>\$ 195,498</u>

10. LEASE COMMITMENTS

The organization rents space under terms of a five year lease ending December 31, 2021. Minimum annual lease payments are as follows:

2018	\$ 150,960
2019	157,250
2020	162,911
2021	162,911

SECOND HARVEST FOOD SUPPORT COMMITTEE

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11. INCOME TAX STATUS

The organization is a charitable organization under the Income Tax Act (Canada) and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes. In order to maintain its status as an organization registered under the Income Tax Act, the organization must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

12. SUBSEQUENT EVENT

In September 2017, the organization established a wholly owned subsidiary, Food Rescue Inc., incorporated as a not-for-profit organization in the Province of Ontario without share capital. The primary purpose of the subsidiary is to expand the distribution platform pilot to other communities in Ontario.