
**SECOND HARVEST FOOD SUPPORT
COMMITTEE**

FINANCIAL STATEMENTS

AUGUST 31, 2018

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, 2018, 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, 2018 and 2017, current assets as at August 31, 2018 and 2017, and net assets as at September 1, 2017 and 2016 and August 31, 2018 and 2017.

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, 2018, 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 Professional Accountants
Licensed Chartered Public Accountants

November 12, 2018
Toronto, Ontario

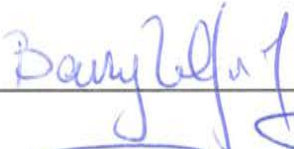
SECOND HARVEST FOOD SUPPORT COMMITTEE

STATEMENT OF FINANCIAL POSITION

AS AT AUGUST 31, 2018

	2018	2017
ASSETS		
Current assets		
Cash (note 3)	\$ 4,256,804	\$ 1,809,740
Short-term investments (note 3 and 4)	234,118	1,046,355
Accounts receivable	178,342	100,893
Prepaid expenses	<u>73,743</u>	<u>33,355</u>
	4,743,007	2,990,343
Capital assets (note 5)		
Deposit on purchase of real property (note 6)	547,752	611,151
	<u>350,000</u>	<u>-</u>
	<u>\$ 5,640,759</u>	<u>\$ 3,601,494</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 466,695	\$ 230,227
Deferred contributions (note 3 and 7)	<u>994,819</u>	<u>1,836,544</u>
	1,461,514	2,066,771
Deferred capital asset contributions (note 8)		
	<u>2,751,600</u>	<u>686,771</u>
	<u>4,213,114</u>	<u>2,753,542</u>
Net assets		
Operations	<u>1,427,645</u>	<u>847,952</u>
	<u>\$ 5,640,759</u>	<u>\$ 3,601,494</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, 2018

	2018	2017
REVENUE		
Food donations (note 1)	\$ 31,980,000	\$ 26,875,000
Fundraising (note 9)	5,181,976	3,984,890
Grants	2,291,725	190,888
Harvest kitchens grants	284,858	284,734
Capital assets grant amortization (note 8)	269,671	251,151
Interest and other	<u>47,088</u>	<u>22,030</u>
	<u>40,055,318</u>	<u>31,608,693</u>
EXPENSES		
Food recovery and delivery		
Food donations delivered to agencies (note 1)	31,980,000	26,875,000
Other food delivery related costs	1,931,015	1,706,597
Communications and fundraising	1,529,325	1,286,843
Distribution platform development and pilot tests	1,717,896	188,042
Administration	951,495	753,282
Food waste reduction research	594,271	-
Harvest kitchens	487,422	418,664
Amortization	<u>284,201</u>	<u>251,203</u>
	<u>39,475,625</u>	<u>31,479,631</u>
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	579,693	129,062
Net assets, beginning of year	<u>847,952</u>	<u>718,890</u>
NET ASSETS, END OF YEAR	<u>\$ 1,427,645</u>	<u>\$ 847,952</u>

see accompanying notes

SECOND HARVEST FOOD SUPPORT COMMITTEE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2018

	2018	2017
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	\$ 579,693	\$ 129,062
Adjust for non-cash items:		
Food donations	(31,980,000)	(26,875,000)
Food donations delivered to agencies	31,980,000	26,875,000
Capital assets grant amortization	(269,671)	(251,151)
Amortization expense	<u>284,201</u>	<u>251,203</u>
	594,223	129,114
Net change in non-cash working capital items:		
(Increase) decrease in accounts receivable	(77,449)	68,286
(Increase) decrease in prepaid expenses	(40,388)	5,575
Increase (decrease) in accounts payable and accrued liabilities	236,468	93,454
Increase (decrease) in deferred contributions	<u>(841,725)</u>	<u>1,836,544</u>
Cash generated from (used in) operating activities	<u>(128,871)</u>	<u>2,132,973</u>
FINANCING ACTIVITIES		
Cash contributions received for capital asset purchases	<u>2,334,500</u>	<u>94,000</u>
INVESTING ACTIVITIES		
(Increase) decrease in short-term investments	812,237	(778,262)
Purchase capital assets	(220,802)	(209,224)
Deposit to purchase real property	<u>(350,000)</u>	<u>-</u>
Cash generated from (used in) investing activities	<u>241,435</u>	<u>(987,486)</u>
NET INCREASE IN CASH FOR THE YEAR	2,447,064	1,239,487
Cash, beginning of year	<u>1,809,740</u>	<u>570,253</u>
CASH, END OF YEAR	<u>\$ 4,256,804</u>	<u>\$ 1,809,740</u>

see accompanying notes

SECOND HARVEST FOOD SUPPORT COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

Second Harvest Food Support Committee (the "organization" 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
Furniture and equipment	- 3 years straight line

Investments

The financial statements of Food Rescue, a not-for-profit organization controlled by the organization, have not been consolidated in the organization's financial statements and have been accounted for as an equity investment. See Note 13 for the summary of Food Rescue operations.

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 \$2.60 per pound. In 2018 management estimates that approximately 12.3 million pounds of food were recovered and delivered to agencies (10.75 million pounds at \$2.50 per pound in 2017).
- 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.

SECOND HARVEST FOOD SUPPORT COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

- v) Contributions designated for the purchase of capital assets are recorded as revenue in the same period the related assets are charged to operations.

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 11,547 hours in 2018 (12,665 hours in 2017).

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, 2018

3. CASH AND SHORT-TERM INVESTMENTS

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

	2018	2017
Unrestricted cash and short-term investments	\$ 1,172,854	\$ 858,811
Restricted funds		
- Distribution platform (note 7)	836,598	1,764,544
- Food delivery programs (note 7)	158,221	72,000
- Unspent capital contributions (note 8)	<u>2,323,249</u>	<u>160,740</u>
Total cash and short-term investments	<u>\$ 4,490,922</u>	<u>\$ 2,856,095</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.

Unspent capital contributions are funds designated for the purchase of trucks and real property.

4. SHORT-TERM INVESTMENTS

Short-term investments are comprised of fixed rate guaranteed investment certificates with interest rates of 0.85% 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	2018 Net	2017 Net
Delivery trucks	\$ 1,484,246	\$(1,057,199)	\$ 427,047	\$ 493,059
Furniture and equipment	<u>245,892</u>	<u>(125,187)</u>	<u>120,705</u>	<u>118,092</u>
	<u>\$ 1,730,138</u>	<u>\$(1,182,386)</u>	<u>\$ 547,752</u>	<u>\$ 611,151</u>

6. COMMITMENT TO PURCHASE LAND AND BUILDING

The organization has entered into an agreement to acquire the land and building at 120 The East Mall, Toronto ON for the purchase price of \$7,200,000. The organization intends to finance the purchase with contributions from donors.

SECOND HARVEST FOOD SUPPORT COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

7. 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	2018 Total	2017 Total
Deferred contributions, beginning of year	\$ 1,764,544	\$ 72,000	\$ 1,836,544	\$ -
Contributions received in the year	797,887	676,640	1,474,527	2,060,432
Contributions taken into revenue	<u>(1,725,833)</u>	<u>(518,419)</u>	<u>(2,244,252)</u>	<u>(223,888)</u>
Deferred contributions, end of year	<u>\$ 836,598</u>	<u>\$ 158,221</u>	<u>\$ 994,819</u>	<u>\$ 1,836,544</u>

8. DEFERRED CAPITAL ASSETS CONTRIBUTIONS

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

	2018	2017
Invested in capital assets	\$ 428,351	\$ 526,031
Unspent contributions restricted for capital purchases		
- operations and leasehold improvements	323,249	160,740
- purchase of real property	<u>2,000,000</u>	<u>-</u>
	<u>\$ 2,751,600</u>	<u>\$ 686,771</u>

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

	2018	2017
Deferred capital assets contributions, beginning of year	\$ 686,771	\$ 843,922
Add capital assets contributions received	2,334,500	94,000
Less capital assets contributions amortized to income	<u>(269,671)</u>	<u>(251,151)</u>
Deferred capital assets contributions, end of year	<u>\$ 2,751,600</u>	<u>\$ 686,771</u>

SECOND HARVEST FOOD SUPPORT COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

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9. FUNDRAISING

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

	2018	2017
Donations		
Individuals	\$ 1,140,160	\$ 885,784
Foundations	2,116,967	1,337,406
Corporate	481,180	354,877
Campaigns	346,798	362,333
Third-party fundraising events	167,006	144,150
Toronto Taste event	<u>929,865</u>	<u>900,340</u>
	<u>\$ 5,181,976</u>	<u>\$ 3,984,890</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.

10. 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	
	2018	2017	2018	2017
Communications and fundraising	\$ 803,903	\$ 778,731	-	-
Food recovery and delivery	151,637	131,447	\$ 87,769	\$ 93,979
Distribution platform	65,587	34,344	68,860	15,940
Harvest kitchens	<u>124,414</u>	<u>111,892</u>	<u>127,212</u>	<u>123,501</u>
	<u>\$1,145,541</u>	<u>\$1,056,414</u>	<u>\$ 283,841</u>	<u>\$ 233,420</u>

11. LEASE COMMITMENTS

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

2019	\$ 157,250
2020	162,911
2021	162,911

SECOND HARVEST FOOD SUPPORT COMMITTEE

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12. 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.

13. INVESTMENT IN ONTARIO RESCUE FOOD SYSTEMS INC.

On March 19, 2018, the organization incorporated a not-for-profit corporation without share capital, Ontario Rescue Food Systems Inc. ("Food Rescue"), in the Province of Ontario. The Officers and Directors of Food Rescue are appointed by the board of Second Harvest Food Support Committee.

The primary purpose of Food Rescue is to expand use of a web based distribution platform developed by the organization to match food donors with their social service organizations in their communities.

No operating activity was undertaken by the organization during in the fiscal year.