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**SECOND HARVEST FOOD SUPPORT
COMMITTEE**

FINANCIAL STATEMENTS

AUGUST 31, 2014

INDEPENDENT AUDITOR'S REPORT

To the Members,
Second Harvest Food Support Committee

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Support Committee which comprise the statement of financial position as at August 31, 2014, 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 special event revenue, excess of revenue over expenses for the year, assets and net assets.

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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, 2014, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario

SECOND HARVEST FOOD SUPPORT COMMITTEE

STATEMENT OF FINANCIAL POSITION

AS AT AUGUST 31, 2014

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2014

2013

ASSETS

Current assets

Cash	\$ 316,982	\$ 446,349
Short-term investments (note 3)	483,709	475,540
Accounts receivable	102,984	60,993
Prepaid expenses	<u>36,931</u>	<u>34,096</u>
	940,606	1,016,978

Capital assets (note 4)

<u>411,244</u>	<u>439,361</u>
<u>\$ 1,351,850</u>	<u>\$ 1,456,339</u>

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable and accrued liabilities	\$ 149,978	\$ 156,779
Deferred revenue	<u>4,000</u>	<u> </u>
	153,978	156,779

Deferred capital asset contributions (note 5)

<u>466,546</u>	<u>499,431</u>
<u>620,524</u>	<u>656,210</u>

Net assets

Operations	<u>731,326</u>	<u>800,129</u>
	<u>\$ 1,351,850</u>	<u>\$ 1,456,339</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, 2014

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	2014	2013
REVENUE		
Food donations (note 1)	\$ 17,738,000	\$ 18,500,000
Non-food donations (note 6)	1,705,361	1,836,373
Special events (note 7)	1,042,019	1,249,974
Harvest kitchen grants	333,086	210,933
Capital assets grant amortization (note 5)	202,484	165,581
Gain on sale of trucks		43,000
Interest and other	<u>15,771</u>	<u>8,844</u>
	<u>21,036,721</u>	<u>22,014,705</u>
EXPENSES		
Food recovery and delivery		
Food donations delivered to agencies (note 1)	17,738,000	18,500,000
Other food delivery related costs	1,238,665	1,189,838
Communications and fundraising	1,003,769	1,069,401
Administration	614,254	606,783
Harvest kitchens	321,067	343,417
Amortization	<u>189,769</u>	<u>274,971</u>
	<u>21,105,524</u>	<u>21,984,410</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR	(68,803)	30,295
Net assets, beginning of year	<u>800,129</u>	<u>769,834</u>
NET ASSETS, END OF YEAR	<u>\$ 731,326</u>	<u>\$ 800,129</u>

see accompanying notes

SECOND HARVEST FOOD SUPPORT COMMITTEE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2014

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	2014	2013
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	\$ (68,803)	\$ 30,295
Adjust for non-cash items:		
Food donations	(17,738,000)	(18,500,000)
Food donations delivered to agencies	17,738,000	18,500,000
Capital assets grant amortization	(202,484)	(165,581)
Amortization expense	189,769	274,971
Net change in non-cash working capital items		
(Increase) decrease in accounts receivable	(41,991)	22,021
Increase in prepaid expenses	(2,835)	(10,759)
Increase (decrease) in accounts payable and accrued liabilities	(6,801)	52,486
Increase in deferred revenue	<u>4,000</u>	<u> </u>
Cash generated from (used in) operating activities	(129,145)	203,433
FINANCING ACTIVITIES		
Cash contributions received restricted for capital assets	169,599	649
INVESTING ACTIVITIES		
Cash used to purchase capital assets	<u>(161,652)</u>	<u>(266,861)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR	(121,198)	(62,779)
Cash and cash equivalents, beginning of year	<u>921,889</u>	<u>984,668</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 800,691</u>	<u>\$ 921,889</u>
 Cash and cash equivalents is composed of:		
Cash	\$ 316,982	\$ 446,349
Short-term investments	<u>483,709</u>	<u>475,540</u>
	<u>\$ 800,691</u>	<u>\$ 921,889</u>

see accompanying notes

SECOND HARVEST FOOD SUPPORT COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

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AUGUST 31, 2014

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 Kitchen 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

The organization follows the deferral method of revenue recognition. Its principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

- i) 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 Canadian Association of Food Banks of \$2.50 per pound. In 2014 management estimates that approximately 7.1 million pounds of food were recovered and delivered to agencies (7.4 million pounds at \$2.50 per pound in 2013).
- 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

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AUGUST 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense recognition

Expenses for goods or services are recorded when 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 12,633 hours in 2014 (11,910 hours in 2013).

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 for food delivery and fundraising activities.

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.

3. SHORT-TERM INVESTMENTS

Short-term investments comprise fixed rate guaranteed investment certificates with interest rates ranging from 1.29% to 1.50% issued by Canadian chartered bank and trust companies, which mature within 1 year.

SECOND HARVEST FOOD SUPPORT COMMITTEE

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AUGUST 31, 2014

4. CAPITAL ASSETS

Capital assets, recorded at cost, are as follows:

	Cost	Accumulated Amortization	2014 Net	2013 Net
Delivery trucks	\$ 911,608	\$ (573,172)	\$ 338,436	\$ 322,906
Freezer	160,373	(131,892)	28,481	44,518
Furniture and equipment	94,915	(63,213)	31,702	34,940
Leasehold improvements	<u>194,978</u>	<u>(182,353)</u>	<u>12,625</u>	<u>36,997</u>
	<u>\$ 1,361,874</u>	<u>\$ (950,630)</u>	<u>\$ 411,244</u>	<u>\$ 439,361</u>

5. DEFERRED CAPITAL ASSETS GRANTS

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

	2014	2013
Invested in capital assets	\$ 418,129	\$ 458,961
Unspent contributions restricted for capital purchases	<u>48,417</u>	<u>40,470</u>
	<u>\$ 466,546</u>	<u>\$ 499,431</u>

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

	2014	2013
Deferred capital assets grants, beginning of year	\$ 499,431	\$ 664,363
Add capital assets grants received	169,599	649
Less capital assets grants amortized to income	<u>(202,484)</u>	<u>(165,581)</u>
Deferred capital assets grants, end of year	<u>\$ 466,546</u>	<u>\$ 499,431</u>

6. NON-FOOD DONATION REVENUE

Non-food donation revenue recognized in the year was from the following sources:

	2014	2013
Foundations	563,181	609,629
Individuals	694,938	578,168
Corporate	447,242	308,124
One-time contribution under a third-party agreement	<u> </u>	<u>340,452</u>
	<u>\$ 1,705,361</u>	<u>\$ 1,836,373</u>

SECOND HARVEST FOOD SUPPORT COMMITTEE

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7. SPECIAL EVENTS REVENUE

Special events revenue recognized in the year was as follows:

	2014	2013
Toronto Taste event	\$ 692,178	\$ 620,958
Lunch Money Day	281,159	405,138
Other special events	<u>68,682</u>	<u>223,878</u>
	<u>\$ 1,042,019</u>	<u>\$ 1,249,974</u>

8. LEASE COMMITMENTS

The organization rents space under terms of a four year lease ending December 31, 2016. Minimum annual lease payments are as follows:

2015	\$ 109,250
2016	115,400
2017	39,018

9. COST ALLOCATIONS

Certain staff and occupancy-related costs pertain to more than one function and they have been allocated to food recovery and delivery, communications and fundraising, and Harvest Kitchen expenses 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	
	2014	2013	2014	2013
Communications and fundraising	\$ 570,283	\$ 637,532		
Food recovery and delivery	143,560	180,905	\$ 108,191	\$ 109,476
Harvest Kitchens	<u>69,307</u>	<u>82,861</u>	<u>79,840</u>	<u>90,137</u>
	<u>\$ 783,150</u>	<u>\$ 901,298</u>	<u>\$ 188,031</u>	<u>\$ 199,613</u>

10. 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.