Financial Statements

Covenant House Toronto

June 30, 2013 and 2012

Ernst & Young
Quality In Everything We Do

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Covenant House Toronto

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Covenant House Toronto**, which comprise the balance sheets as at June 30, 2013 and 2012, and July 1, 2011, and the statements of operations, changes in net assets and cash flows for the years ended June 30, 2013 and 2012, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 auditors' 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 auditors consider 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of **Covenant House Toronto** as at June 30, 2013 and 2012, and July 1, 2011, and the results of its operations and its cash flows for the years ended June 30, 2013 and 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP

Toronto, Canada,
September 24, 2013.

Chartered Accountants
Licensed Public Accountants

Covenant House Toronto

STATEMENTS OF FINANCIAL POSITION

As at

	June 30, 2013 $	June 30, 2012 $	July 1, 2011 $
ASSETS			
Current			
Cash and cash equivalents *[note 3]*	**3,128,927**	2,995,833	3,210,115
Accounts receivable *[note 9]*	**433,651**	269,247	209,370
Due from Toronto Hostel Services	**186,714**	205,270	396,924
Prepaid expenses	**87,183**	82,957	87,810
Total current assets	**3,836,475**	3,553,307	3,904,219
Investments *[note 3]*	**7,593,964**	8,039,278	7,695,035
Capital assets, net *[note 4]*	**16,400,856**	16,579,033	16,604,315
	27,831,295	28,171,618	28,203,569
LIABILITIES AND NET ASSETS			
Current			
Accounts payable and accrued liabilities *[note 9]*	**1,841,788**	1,543,529	1,925,555
Deferred revenue	**98,411**	85,150	146,933
Total current liabilities	**1,940,199**	1,628,679	2,072,488
Deferred capital contributions *[note 5]*	**11,443,362**	11,949,899	12,173,478
Total liabilities	**13,383,561**	13,578,578	14,245,966
Contingencies and commitments *[notes 4[c] and 7]*			
Net assets			
Undesignated	**1,896,276**	1,924,629	1,831,729
Internally designated *[note 6]*	**12,551,458**	12,668,411	12,125,874
Total net assets	**14,447,734**	14,593,040	13,957,603
	27,831,295	28,171,618	28,203,569

See accompanying notes

Covenant House Toronto

STATEMENTS OF OPERATIONS

Years ended June 30

	2013 $	2012 $
REVENUE		
Contributions		
Donations and bequests	**14,722,570**	15,240,392
Catholic Charities	**643,568**	642,254
Service revenue		
Toronto Hostel Services	**2,470,193**	2,429,886
Investment income	**267,885**	64,630
Amortization of deferred capital contributions *[note 5]*	**506,537**	507,190
Other	**348,510**	140,232
	18,959,263	19,024,584
EXPENSES *[note 8]*		
Salaries and benefits	**12,109,825**	11,412,151
Postage and printing	**3,468,512**	3,583,554
Purchased services, food and other supplies *[note 9]*	**1,686,201**	1,532,779
Occupancy	**848,949**	855,122
Amortization of capital assets	**645,924**	662,933
Other	**345,158**	342,608
	19,104,569	18,389,147
Excess (deficiency) of revenue over expenses for the year	**(145,306)**	635,437

See accompanying notes

Covenant House Toronto

STATEMENTS OF CHANGES IN NET ASSETS

Years ended June 30

	2013		
	Undesignated $	**Internally designated** $	**Total** $
Balance, beginning of year	**1,924,629**	**12,668,411**	**14,593,040**
Deficiency of revenue over expenses for the year	**(145,306)**	**—**	**(145,306)**
Net transfer from internally designated net assets *[note 6[b]]*	**116,953**	**(116,953)**	**—**
Balance, end of year	**1,896,276**	**12,551,458**	**14,447,734**

	2012		
	Undesignated $	**Internally designated** $	**Total** $
Balance, beginning of year	1,831,729	12,125,874	13,957,603
Excess of revenue over expenses for the year	635,437	—	635,437
Net transfer to internally designated net assets *[note 6[b]]*	(542,537)	542,537	—
Balance, end of year	1,924,629	12,668,411	14,593,040

See accompanying notes

Covenant House Toronto

STATEMENTS OF CASH FLOWS

Years ended June 30

	2013 $	2012 $
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	**(145,306)**	635,437
Add (deduct) items not involving cash		
Amortization of capital assets	**645,924**	662,933
Amortization of deferred capital contributions	**(506,537)**	(507,190)
Net loss on long-term investments	**—**	34,081
	(5,919)	825,261
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(164,404)**	(59,877)
Due from Toronto Hostel Services	**18,556**	191,654
Prepaid expenses	**(4,226)**	4,853
Accounts payable and accrued liabilities	**298,259**	(382,026)
Deferred revenue	**13,261**	(61,783)
Cash provided by operating activities	**155,527**	518,082
INVESTING ACTIVITIES		
Purchase of capital assets	**(467,747)**	(637,651)
Addition to long-term investments	**—**	(2,000,000)
Reinvestment of income earned on long-term investments	**(197,014)**	—
Net decrease in cash and cash equivalents classified as long-term	**642,328**	1,621,676
Cash used in investing activities	**(22,433)**	(1,015,975)
FINANCING ACTIVITIES		
Contributions received for capital asset purchases	**—**	283,611
Cash provided by financing activities	**—**	283,611
Net increase (decrease) in cash and cash equivalents during the year	**133,094**	(214,282)
Cash and cash equivalents, beginning of year	**2,995,833**	3,210,115
Cash and cash equivalents, end of year	**3,128,927**	2,995,833

See accompanying notes

1. NATURE OF OPERATIONS

Covenant House Toronto [the "Agency"] opens doors of opportunity and hope to homeless youth. More than just a place to stay, the Agency provides 24/7 crisis care and has a wide range of services under one roof, including education, counseling, health care and employment assistance.

Since 1982, the Agency has offered more than 88,000 youth help to move from a life on the street to a life with a future.

The Agency is incorporated without share capital under the Corporations Act (Ontario) and is a charitable organization registered under the Income Tax Act (Canada) and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements are prepared in accordance with Part III of the Canadian Institute of Chartered Accountants' ["CICA"] Handbook – Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

Cash and cash equivalents

Cash and cash equivalents include cash and any short-term investments with original maturity dates of 90 days or less. Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than liquidity purposes are classified as long-term investments.

Financial instruments

Investments reported at fair value consist of equity instruments that are quoted in an active market as well as investments in pooled funds and any investments in fixed income securities that the Agency designates upon purchase to be measured at fair value. Transaction costs are recognized in the statements of operations in the period during which they are incurred.

Investments in fixed income securities not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the straight-line method, less any provision for impairment.

Other financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on the straight-line basis over their estimated useful lives as follows:

Buildings and building improvements	40 years
Furniture and equipment	3 - 7 years

Revenue recognition

The Agency follows the deferral method of accounting for contributions, which include grants and donations. Grants and bequests are recognized in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received, since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized.

Service revenue is recorded as revenue when the services are provided.

Investment income (loss), which is comprised of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, is recorded in the statements of operations.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the date of the statement of financial position. Non-monetary assets and liabilities are translated at the historic rate. Exchange gains and losses are recorded in the statements of operations.

Contributed materials and services

Contributed materials and services are not recorded in these financial statements.

3. INVESTMENTS

Investments consist of the following:

	Carrying value $	June 30, 2013 $	June 30, 2012 $	July 1, 2011 $
Cash and cash equivalents held by investment managers	Fair value	**571,953**	696,935	268,292
Canadian fixed income	Amortized cost	**3,121,625**	3,026,224	2,003,998
Canadian bond fund	Fair value	**—**	153,041	—
TSX index funds	Fair value	**1,111,334**	971,158	765,358
US equity funds	Fair value	**395,669**	156,209	—
		5,200,581	5,003,567	3,037,648
Add amount of cash and cash equivalents classified as long-term	Fair value	**2,393,383**	3,035,711	4,657,387
		7,593,964	8,039,278	7,695,035

Cash and cash equivalents are classified as long-term investments to the extent required for the balance of these investments to equal the total of internally designated net assets, excluding the amounts related to capital assets internally funded *[note 6]*.

The weighted average term to maturity of the Canadian fixed income securities is 2.7 years and the weighted average rate of return is 2.53%.

4. CAPITAL ASSETS

[a] Capital assets consist of the following:

	June 30, 2013		
	Cost $	**Accumulated amortization** $	**Net book value** $
Land	**2,795,000**	**—**	**2,795,000**
Buildings and building improvements	**19,658,922**	**6,620,209**	**13,038,713**
Furniture and equipment	**2,494,129**	**1,926,986**	**567,143**
	24,948,051	**8,547,195**	**16,400,856**

	June 30, 2012		
	Cost $	**Accumulated amortization** $	**Net book value** $
Land	2,795,000	—	2,795,000
Buildings and building improvements	19,453,829	6,080,074	13,373,755
Furniture and equipment	2,231,475	1,821,197	410,278
	24,480,304	7,901,271	16,579,033

	July 1, 2011		
	Cost $	**Accumulated amortization** $	**Net book value** $
Land	2,795,000	—	2,795,000
Buildings and building improvements	19,184,739	5,547,520	13,637,219
Furniture and equipment	1,862,914	1,690,818	172,096
	23,842,653	7,238,338	16,604,315

[b] The Agency's primary capital assets are facilities at 20 Gerrard Street and 21 McGill Street. Both facilities are used to provide services to youth.

[c] In prior years, the acquisition, renovation and furnishing costs of the Agency's facility at 20 Gerrard Street were in part funded by the Province of Ontario and the City of Toronto in the amounts of $5,400,000 and $1,400,000, respectively. The funding of $5,400,000 from the Province of Ontario is secured by a registered agreement constituting a first charge against title to the facility; it is non-interest bearing, with no principal payments due unless the building is sold or there is a change in use without prior agreement. The $1,400,000 advanced by the City of Toronto is secured by a mortgage. The mortgage is non-interest bearing and there are no principal payments due unless the building is sold or there is a change in use without prior agreement. These amounts have not been recorded as liabilities since the Agency is using this property as provided for in the funding agreements.

5. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of contributions for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statements of operations. The changes in the deferred capital contributions balance are as follows:

	2013 $	**2012** $
Balance, beginning of year	**11,949,899**	12,173,478
Add contributions received for capital asset purchases	**—**	283,611
Deduct amortization of deferred capital contributions	**506,537**	507,190
Balance, end of year	**11,443,362**	11,949,899

6. INTERNALLY DESIGNATED NET ASSETS

[a] Internally designated net assets include the following:

	June 30, 2013 $	**June 30, 2012** $	**July 1, 2011** $
Capital assets internally funded	**4,957,494**	4,629,133	4,430,839
Other *[note 3]*	**7,593,964**	8,039,278	7,695,035
	12,551,458	12,668,411	12,125,874

Other represents reserve funds set aside by the Board of Directors for use at its discretion. This could include funding future growth or emergency cash flow requirements, as well as funding repairs and replacement of major building systems.

[b] The interfund transfers between undesignated and internally designated net assets consist of the following:

	2013 $	**2012** $
Net change in capital assets internally funded	**328,361**	198,294
Net transfer for future (use of funds for) building renovations and/or capital replacement expenditures	**(445,314)**	65,542
Net transfer for future growth and/or cash flow requirements in accordance with Board policy	**—**	278,701
	(116,953)	542,537

7. LEASE COMMITMENTS

The Agency is committed under operating leases for office equipment expiring in 2016. The future minimum annual payments under these leases are as follows:

	$
2014	33,854
2015	4,448
2016	2,433
	40,735

8. EXPENSES

The expenses incurred during the year by the Agency by program services and other functional areas are as follows:

	2013 $	2012 $
Program services		
Shelter and Crisis Care	**8,111,201**	7,852,650
Long-term Transitional Housing	**1,759,207**	1,560,823
Community Support Services and Outreach	**2,047,212**	1,752,465
Health Care	**570,659**	577,365
Public Education [including Runaway Prevention Program]	**643,725**	678,410
Total program services	**13,132,004**	12,421,713
Fundraising and development	**4,777,185**	4,780,128
Management and administration	**1,195,380**	1,187,306
	19,104,569	18,389,147

9. RELATED PARTY TRANSACTIONS

Covenant House International is a founding member of the Agency.

During the year ended June 30, 2013, the Agency expensed amounts paid or payable to Covenant House International totaling $82,667 [2012 - $5,237] primarily attributable to activities in support of the Agency's programs. This amount is included in purchased services, food and other supplies in the statements of operations.

As at June 30, 2013, accounts payable and accrued liabilities included $19,231 due to Covenant House International [June 30, 2012 - accounts payable and accrued liabilities included $5,237 due to Covenant House International; July 1, 2011 - accounts receivable included $7,910 due from Covenant House International]. The amount is non-interest bearing and due within the next 12 months.

10. LINE OF CREDIT

The Agency has a $500,000 unsecured line of credit with interest payable at the bank's prime rate. As at June 30, 2013, there were no drawings against this line of credit.

11. FINANCIAL INSTRUMENTS

The Agency is exposed to various financial risks through transactions in financial instruments.

Currency risk

The Agency is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

Credit risk

The Agency is exposed to credit risk in connection with its accounts receivable and its fixed income securities because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation.

Interest rate risk

The Agency is exposed to interest rate risk with respect to its investments in fixed income securities because the fair value will fluctuate due to changes in market interest rates.

Other price risk

The Agency is exposed to other price risk through changes in market prices [other than changes arising from interest rate or currency risks] in connection with its investments in pooled funds.

12. FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

These financial statements are the first financial statements which the Agency has prepared in accordance with Part III of the CICA Handbook – Accounting, which constitutes generally accepted accounting principles for not-for-profit organizations in Canada. First-time adoption of this new basis of accounting had no impact on excess of revenue over expenses for the year ended June 30, 2012, or net assets as at July 1, 2011, the date of transition.