Covenant House Toronto

Financial statements
June 30, 2018

Building a better working world

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 statement of financial position as at June 30, 2018, and the statements of operations, 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.

Auditors' 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 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 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, 2018, and the results of its operations and its cash flows for the year then ended 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

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
September 27, 2018

Covenant House Toronto

Statement of financial position

As at June 30

	2018	2017
	$	$
Assets		
Current		
Cash and cash equivalents *[note 3]*	**8,479,205**	7,325,007
Accounts receivable *[note 10]*	**598,564**	606,295
Prepaid expenses	**135,237**	116,965
Total current assets	**9,213,006**	8,048,267
Investments *[note 3]*	**10,319,293**	9,934,810
Capital assets, net *[note 4]*	**17,398,197**	15,775,245
	36,930,496	33,758,322
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	**2,526,190**	2,313,496
Deferred revenue	**6,367**	5,932
Deferred contributions *[note 5]*	**3,987,277**	3,142,179
Total current liabilities	**6,519,834**	5,461,607
Deferred capital contributions *[note 6]*	**9,625,472**	9,957,725
Total liabilities	**16,145,306**	15,419,332
Contingencies and commitments *[notes 4[c], 8, 10 and 12]*		
Net assets		
Undesignated	**2,693,180**	2,586,660
Internally designated *[note 7]*	**18,092,010**	15,752,330
Total net assets	**20,785,190**	18,338,990
	36,930,496	33,758,322

See accompanying notes

On behalf of the Board:

Kevin Patterson
Chair, Board of Directors

Kenneth C. Morell
Chair, Finance/Property Committee

Covenant House Toronto

Statement of operations

Year ended June 30

	2018	2017
	$	$
Revenue		
Contributions		
Donations and bequests *[note 5]*	**23,458,895**	21,609,205
Catholic Charities	**704,721**	691,440
Service revenue		
Toronto Hostel Services	**2,674,598**	2,710,520
Other government	**1,584,710**	1,017,565
Investment income	**462,519**	375,438
Amortization of deferred capital contributions *[note 6]*	**543,297**	523,744
Other	**192,123**	97,010
	29,620,863	27,024,922
Expenses *[note 9]*		
Salaries and benefits	**16,434,769**	14,720,556
Postage and printing	**4,943,013**	4,651,967
Purchased services, food and other supplies *[note 10]*	**3,088,512**	2,631,550
Occupancy	**1,288,547**	1,347,442
Amortization of capital assets	**845,628**	807,928
Other	**574,194**	434,468
	27,174,663	24,593,911
Excess of revenue over expenses for the year	**2,446,200**	2,431,011

See accompanying notes

Covenant House Toronto

Statement of changes in net assets

Year ended June 30

	2018		
	Undesignated	**Internally designated**	**Total**
	$	$	$
Balance, beginning of year	**2,586,660**	**15,752,330**	**18,338,990**
Excess of revenue over expenses for the year	**2,446,200**	**—**	**2,446,200**
Net transfer to internally designated net assets *[note 7[b]]*	**(2,339,680)**	**2,339,680**	**—**
Balance, end of year	**2,693,180**	**18,092,010**	**20,785,190**

	2017		
	Undesignated	**Internally designated**	**Total**
	$	$	$
Balance, beginning of year	2,160,244	13,747,735	15,907,979
Excess of revenue over expenses for the year	2,431,011	—	2,431,011
Net transfer to internally designated net assets *[note 7[b]]*	(2,004,595)	2,004,595	—
Balance, end of year	2,586,660	15,752,330	18,338,990

See accompanying notes

Covenant House Toronto

Statement of cash flows

Year ended June 30

	2018	2017
	$	$
Operating activities		
Excess of revenue over expenses for the year	**2,446,200**	2,431,011
Add (deduct) items not involving cash		
Amortization of capital assets	**845,628**	807,928
Amortization of deferred capital contributions	**(543,297)**	(523,744)
	2,748,531	2,715,195
Changes in non-cash working capital balances related to operations		
Accounts receivable	**7,731**	(140,405)
Due from Toronto Hostel Services	**—**	206,009
Prepaid expenses	**(18,272)**	(44,014)
Accounts payable and accrued liabilities	**212,694**	(101,622)
Deferred revenue	**435**	(1,578)
Deferred contributions	**845,098**	1,581,144
Cash provided by operating activities	**3,796,217**	4,214,729
Investing activities		
Purchase of capital assets	**(2,468,580)**	(952,681)
Reinvestment of income earned on investments	**(279,882)**	(287,550)
Net increase in cash and cash equivalents classified as investments	**(104,601)**	(1,465,264)
Cash used in investing activities	**(2,853,063)**	(2,705,495)
Financing activities		
Contributions received for capital asset purchases	**211,044**	416,716
Cash provided by financing activities	**211,044**	416,716
Net increase in cash and cash equivalents during the year	**1,154,198**	1,925,950
Cash and cash equivalents, beginning of year	**7,325,007**	5,399,057
Cash and cash equivalents, end of year	**8,479,205**	7,325,007

See accompanying notes

Notes to financial statements

June 30, 2018

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, counselling, health care and employment assistance.

Since 1982, the Agency has offered more than 95,000 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 *CPA Canada 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 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 statement 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.

All transactions are recorded on a trade date basis.

Other financial instruments, including accounts receivable, due from Toronto Hostel Services and accounts payable and accrued liabilities, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Notes to financial statements

June 30, 2018

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 comprises interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, is recorded as revenue when earned in the statement 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 as 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 statement of operations.

Contributed materials and services

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

Notes to financial statements

June 30, 2018

3. Investments

Investments consist of the following:

	Carrying value	2018 $	2017 $
Amount of cash and cash equivalents classified as long-term	Fair value	**3,875,180**	3,770,579
Cash and cash equivalents held by investment managers	Fair value	**1,432,205**	727,557
Canadian fixed income	Amortized cost	**3,229,433**	3,796,373
TSX index funds	Fair value	**1,290,613**	1,200,640
US equity funds	Fair value	**491,862**	439,661
		6,444,113	6,164,231
		10,319,293	9,934,810

Cash and cash equivalents are classified as investments to the extent required for the investments balance to equal the total of internally designated net assets, excluding the amounts related to capital assets internally funded *[note 7[a]]*.

The weighted average term to maturity of the Canadian fixed income securities is 1.9 years [2017 – 2.5 years] and the weighted average rate of return is 2.25% [2017 – 2.31%].

4. Capital assets

[a] Capital assets consist of the following:

	2018		
	Cost $	Accumulated amortization $	Net book value $
Land	**3,795,000**	**—**	**3,795,000**
Buildings and building improvements	**22,195,088**	**9,537,385**	**12,657,702**
Furniture and equipment	**3,869,026**	**2,923,532**	**945,495**
	29,859,114	**12,460,917**	**17,398,197**

	2017		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Land	2,795,000	—	2,795,000
Buildings and building improvements	21,254,957	8,914,642	12,340,315
Furniture and equipment	3,340,577	2,700,647	639,930
	27,390,534	11,615,289	15,775,245

[b] The Agency's primary capital assets are facilities at 20 Gerrard Street, 21 McGill Street and a home purchased in 2018 for a new housing program. These 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 contributions

Deferred contributions represent unspent resources externally restricted for specific program costs in future years. The changes in the deferred contributions balance are as follows:

	2018	**2017**
	$	$
Balance, beginning of year	**3,142,179**	1,561,035
Add contributions received during the year	**5,426,792**	4,888,689
Contributions recognized as revenue during the year	**(4,581,694)**	(3,307,545)
Balance, end of year	**3,987,277**	3,142,179

6. Deferred capital contributions

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

	2018	2017
	$	$
Balance, beginning of year	**9,957,725**	10,064,753
Add contributions received for capital asset purchases	**211,044**	416,716
Amortization of deferred capital contributions	**(543,297)**	(523,744)
Balance, end of year	**9,625,472**	9,957,725

7. Internally designated net assets

[a] Internally designated net assets include the following:

	2018	2017
	$	$
Capital assets internally funded	**7,772,717**	5,817,520
Other *[note 3]*	**10,319,293**	9,934,810
	18,092,010	15,752,330

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 inter-fund transfers between undesignated and internally designated net assets consist of the following:

	2018	2017
	$	$
Net change in capital assets internally funded	**1,955,197**	251,781
Net transfer for future building renovations and/or capital replacement expenditures	**64,933**	473,567
Net transfer for future growth and/or cash flow requirements in accordance with Board of Directors policy	**319,550**	1,279,247
	2,339,680	2,004,595

8. Commitments

The Agency is committed under contracts and operating leases for office equipment expiring in fiscal 2022. The future minimum annual payments are as follows:

	$
2019	53,965
2020	41,550
2021	31,380
2022	6,728
	133,623

In addition to the commitments above, the Agency has signed a lease for a house with Toronto Community Housing Corporation. The term of the lease is for 21 years commencing August 13, 2016. The lease has one renewal period for a five-year term commencing August 13, 2037. The value of the lease is provided to the Agency as a contribution in kind and as such, no amounts are recorded in the financial statements.

9. Expenses

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

	2018	**2017**
	$	$
Program services		
Shelter and Crisis Care	**8,800,274**	8,559,679
Long-term Transitional Housing	**3,127,826**	2,736,980
Community Support Services and Outreach [including Homelessness initiatives]	**3,950,004**	2,791,884
Health Care	**887,344**	823,077
Public Education [including Runaway Prevention Program]	**1,195,454**	949,249
Research and Evaluation	**627,033**	475,196
Total program services	**18,587,935**	16,336,065
Fundraising and development	**6,878,610**	6,704,814
Management and administration	**1,708,118**	1,553,032
	27,174,663	24,593,911

10. Related party transactions

Covenant House International is a founding member of the Agency and owns the Covenant House brand.

Effective December 5, 2013, the Agency entered into a three-year agreement with Covenant House International to pay an annual license fee for the use of the Covenant House brand and related program support services provided by Covenant House International. Under the terms of the agreement, annual royalty payments of $150,000 were payable to Covenant House International for the fiscal year ended June 30, 2014, and in each of the two years thereafter. This agreement has been renewed for another three-year term commencing with the fiscal year ending June 30, 2017.

During the year ended June 30, 2018, the Agency expensed amounts paid or payable to Covenant House International totalling $157,200 [2017 – $157,300] primarily attributable to the aforementioned license fee and activities in support of the Agency's programs. This amount is included in purchased services, food and other supplies in the statement of operations.

Related party transactions are measured at the exchange amount, which is the amount of consideration established by the parties.

As at June 30, 2018, accounts receivable included an amount of $33,789 [2017 – nil] due from Covenant House International. The amount is non-interest bearing and due within the next 12 months.

11. 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, 2018 and 2017, there were no drawings against this line of credit.

12. Contingencies

In the normal course of operations, the Agency is subject to claims or potential claims. Management records its best estimate of the potential liability related to these claims where potential liability is likely and able to be estimated. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

13. 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.

Notes to financial statements

June 30, 2018

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 risk or currency risk] in connection with its investments.