Financial Statements

Covenant House Toronto

June 30, 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 statement of financial position as at June 30, 2012, and the statements of revenue and expenses, 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 generally accepted accounting principles, 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, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
October 2, 2012.

Covenant House Toronto

STATEMENT OF FINANCIAL POSITION

As at June 30

	2012 $	2011 $
ASSETS		
Current		
Cash and cash equivalents *[note 3]*	**2,995,833**	3,210,115
Accounts receivable *[note 9]*	**269,247**	209,370
Due from Toronto Hostel Services	**205,270**	396,924
Prepaid expenses	**82,957**	87,810
Total current assets	**3,553,307**	3,904,219
Investments *[note 3]*	**8,039,278**	7,695,035
Capital assets, net *[note 4]*	**16,579,033**	16,604,315
	28,171,618	28,203,569
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities *[note 9]*	**1,543,529**	1,925,555
Deferred revenue	**85,150**	146,933
Total current liabilities	**1,628,679**	2,072,488
Deferred capital contributions *[note 5]*	**11,949,899**	12,173,478
Total liabilities	**13,578,578**	14,245,966
Commitments and contingencies *[notes 4[c] and 7]*		
Net assets		
Undesignated	**1,924,629**	1,831,729
Internally designated *[note 6]*	**12,668,411**	12,125,874
Total net assets	**14,593,040**	13,957,603
	28,171,618	28,203,569

See accompanying notes

Covenant House Toronto

STATEMENT OF REVENUE AND EXPENSES

Year ended June 30

	2012 $	2011 $
REVENUE		
Contributions		
Catholic Charities	**642,254**	633,960
Service revenue		
Toronto Hostel Services	**2,429,886**	2,434,852
Donations and bequests	**15,240,392**	15,443,644
Investment income	**64,630**	304,837
Amortization of deferred capital contributions *[note 5]*	**507,190**	493,436
Other	**140,232**	37,284
	19,024,584	19,348,013
EXPENSES *[note 8]*		
Salaries and benefits	**11,412,151**	10,782,302
Postage and printing	**3,583,554**	3,554,776
Purchased services, food and other supplies	**1,532,779**	1,827,268
Occupancy	**855,122**	751,682
Amortization of capital assets	**662,933**	621,997
Other	**342,608**	278,707
	18,389,147	17,816,732
Excess of revenue over expenses for the year	**635,437**	1,531,281

See accompanying notes

Covenant House Toronto

STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30

	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**

	2011		
	Undesignated $	**Internally designated** $	**Total** $
Balance, beginning of year	1,532,638	10,893,684	12,426,322
Excess of revenue over expenses for the year	1,531,281	—	1,531,281
Net transfer to internally designated net assets *[note 6[b]]*	(1,232,190)	1,232,190	—
Balance, end of year	1,831,729	12,125,874	13,957,603

See accompanying notes

Covenant House Toronto

STATEMENT OF CASH FLOWS

Year ended June 30

	2012 $	2011 $
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**635,437**	1,531,281
Add (deduct) items not involving cash		
Amortization of capital assets	**662,933**	621,997
Amortization of deferred capital contributions	**(507,190)**	(493,436)
Net loss on long-term investments	**34,081**	—
	825,261	1,659,842
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(59,877)**	(58,877)
Due from Toronto Hostel Services	**191,654**	(2,885)
Prepaid expenses	**4,853**	18,677
Accounts payable and accrued liabilities	**(382,026)**	437,771
Deferred revenue	**(61,783)**	(13,544)
Cash provided by operating activities	**518,082**	2,040,984
INVESTING ACTIVITIES		
Purchase of capital assets	**(637,651)**	(1,005,346)
Addition to long-term investments	**(2,000,000)**	—
Reinvestment of income earned on long-term investments	**—**	(211,805)
Funds withdrawn from investments managed by external manager	**—**	264,534
Net change in cash and cash equivalents classified as long-term	**1,621,676**	(941,469)
Cash used in investing activities	**(1,015,975)**	(1,894,086)
FINANCING ACTIVITIES		
Contributions received for capital asset purchases	**283,611**	533,335
Cash provided by financing activities	**283,611**	533,335
Net increase (decrease) in cash and cash equivalents during the year	**(214,282)**	680,233
Cash and cash equivalents, beginning of year	**3,210,115**	2,529,882
Cash and cash equivalents, end of year	**2,995,833**	3,210,115

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 85,000 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

The financial statements have been prepared in accordance with accounting standards recommended by The Canadian Institute of Chartered Accountants ["CICA"] for not-for-profit organizations.

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.

Investments and investment income (loss)

Publicly traded securities are valued based on the latest bid prices and pooled funds are valued based on reported unit values. Short-term securities are valued based on cost plus accrued income, which approximates fair value. Transactions are recorded on a settlement date basis and transaction costs are expensed as incurred.

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 statement of revenue and expenses.

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.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Donations are recognized on a cash basis since pledges are not legally enforceable claims. Restricted contributions are initially deferred and recognized as revenue in the year in which the related expenses are incurred.

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

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 statement of financial position date. Non-monetary assets and liabilities are translated at the historic rate. Exchange gains and losses are recorded in the statement of revenue and expenses.

Contributed materials and services

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

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial instruments

The Agency has chosen to apply CICA 3861, *Financial Instruments - Disclosure and Presentation,* in place of CICA 3862, *Financial Instruments - Disclosures,* and CICA 3863, *Financial Instruments - Presentation.*

Future changes in accounting policies

The Accounting Standards Board of CICA has issued Part III of the CICA Handbook that sets out the accounting standards for not-for-profit organizations that are effective for fiscal years beginning on or after January 1, 2012. The Agency will adopt the new standards in fiscal 2013 and is currently evaluating the impact of these standards.

3. INVESTMENTS

Investments consist of the following:

	2012 $	**2011** $
Cash and cash equivalents held by investment managers	**696,935**	268,292
Canadian fixed income	**3,026,224**	2,003,998
Canadian Bond Fund	**153,041**	—
TSX index funds	**1,050,157**	765,358
S & P 500 index fund	**77,210**	—
	5,003,567	3,037,648
Add amount of cash and cash equivalents classified as long-term	**3,035,711**	4,657,387
	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 2.4%.

4. CAPITAL ASSETS

[a] Capital assets consist of the following:

	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**

	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.

[d] In fiscal 2009 and 2010, the Agency received capital projects funding from the Homeless Partnership Initiative ["HPI"] totalling $50,014 under two separate funding agreements. Under the terms of these agreements, the total amount has been forgiven effective December 31, 2011. The HPI funding has been recorded in deferred capital contributions *[note 5]*.

[e] In February 2010, the Agency was awarded $627,500 in capital projects funding from the Department of Transport, Infrastructure and Communities [Infrastructure Canada Stimulus Funding Program] for projects totalling $1,255,000. Under the terms of the agreement, which expired on October 31, 2011, the Agency was required to match the funding provided through the stimulus program. In fiscal 2012, the Agency incurred the balance of the capital expenditures of $159,615 related to these capital projects. As at June 30, 2012, the full amount of $627,500 [2011 - $513,887] has been claimed and received from the Federal government under this initiative and this amount has been recorded in deferred capital contributions *[note 5]*.

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 statement of revenue and expenses. The changes in the deferred capital contributions balance are as follows:

	2012 $	**2011** $
Balance, beginning of year	**12,173,478**	12,133,579
Add contributions for capital asset purchases *[note 4]*	**283,611**	533,335
Deduct amortization of deferred capital contributions	**507,190**	493,436
Balance, end of year	**11,949,899**	12,173,478

6. INTERNALLY DESIGNATED NET ASSETS

[a] Internally designated net assets include the following:

	2012 $	**2011** $
Capital assets internally funded	**4,629,133**	4,430,839
Other *[note 3]*	**8,039,278**	7,695,035
	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:

	2012 $	**2011** $
Net change in capital assets internally funded	**198,294**	343,450
Net transfer for future (use of funds for) building renovations and/or capital replacement expenditures	**65,542**	(8,533)
Net transfer for future growth and/or cash flow requirements in accordance with Board policy	**278,701**	897,273
	542,537	1,232,190

7. LEASE COMMITMENTS

The Agency is committed under operating leases for office equipment expiring in 2015. The future minimum annual payments under these leases are as follows:

	$
2013	49,153
2014	33,292
2015	2,564
	85,009

8. EXPENSES

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

	2012 $	2011 $
Program services		
Shelter and Crisis Care	**7,852,650**	7,711,777
Long-term Transitional Housing	**1,560,823**	1,529,794
Community Support Services and Outreach	**1,752,465**	1,542,580
Health Care	**577,365**	591,424
Public Education (including Runaway Prevention Program)	**678,410**	434,369
Total program services	**12,421,713**	11,809,944
Fundraising and development	**4,780,128**	4,839,650
Management and administration	**1,187,306**	1,167,138
	18,389,147	17,816,732

9. RELATED PARTY TRANSACTIONS

As at June 30, 2012, accounts payable and accrued liabilities included $5,237 due to Covenant House International [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, 2012, there were no drawings against this line of credit.

11. FINANCIAL INSTRUMENTS

The Agency is subject to market risk and interest rate price risk with respect to its investment portfolio. To manage these risks, the Agency has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances.

12. CAPITAL MANAGEMENT

In managing capital, the Agency focuses on liquid resources available for operations. The Agency's objective is to have sufficient liquid resources to continue operating despite adverse events with financial consequences and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at June 30, 2012, the Agency has met its objective of having sufficient liquid resources to meet its current obligations.

13. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2012 financial statements.