

Financial Statements

**Covenant House Toronto**

June 30, 2014



# 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, 2014, 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, 2014, 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.

Toronto, Canada,  
September 29, 2014.

*Ernst + Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants

## Covenant House Toronto

### STATEMENT OF FINANCIAL POSITION

As at June 30

	2014	2013
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents <i>[note 3]</i>	3,116,965	3,128,927
Accounts receivable <i>[note 9]</i>	345,566	433,651
Due from Toronto Hostel Services	195,874	186,714
Prepaid expenses	114,805	87,183
<b>Total current assets</b>	<b>3,773,210</b>	<b>3,836,475</b>
Investments <i>[note 3]</i>	8,311,077	7,593,964
Capital assets, net <i>[note 4]</i>	16,124,420	16,400,856
	<b>28,208,707</b>	<b>27,831,295</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[note 9]</i>	1,654,045	1,841,788
Deferred revenue	87,810	98,411
<b>Total current liabilities</b>	<b>1,741,855</b>	<b>1,940,199</b>
Deferred capital contributions <i>[note 5]</i>	11,078,775	11,443,362
<b>Total liabilities</b>	<b>12,820,630</b>	<b>13,383,561</b>
Contingencies and commitments <i>[notes 4[c], 7 and 9]</i>		
<b>Net assets</b>		
Undesignated	2,031,355	1,896,276
Internally designated <i>[note 6]</i>	13,356,722	12,551,458
<b>Total net assets</b>	<b>15,388,077</b>	<b>14,447,734</b>
	<b>28,208,707</b>	<b>27,831,295</b>

*See accompanying notes*



## Covenant House Toronto

### STATEMENT OF OPERATIONS

Year ended June 30	2014	2013
	\$	\$
<b>REVENUE</b>		
Contributions		
Donations and bequests	16,644,155	14,722,570
Catholic Charities	695,155	643,568
Service revenue		
Toronto Hostel Services	2,499,178	2,470,193
Other government	517,201	300,012
Investment income	567,308	267,885
Amortization of deferred capital contributions <i>[note 5]</i>	505,136	506,537
Other	44,762	48,498
	<b>21,472,895</b>	<b>18,959,263</b>
<b>EXPENSES <i>[note 8]</i></b>		
Salaries and benefits	12,144,795	12,109,825
Postage and printing	4,087,507	3,373,520
Purchased services, food and other supplies <i>[note 9]</i>	2,190,547	1,781,193
Occupancy	995,266	848,949
Amortization of capital assets	723,162	645,924
Other	391,275	345,158
	<b>20,532,552</b>	<b>19,104,569</b>
<b>Excess (deficiency) of revenue over expenses for the year</b>	<b>940,343</b>	<b>(145,306)</b>

*See accompanying notes*



Covenant House Toronto

STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30

	<b>2014</b>		<b>Total</b>
	<b>Undesignated</b>	<b>Internally</b>	
	\$	\$	\$
<b>Balance, beginning of year</b>	<b>1,896,276</b>	<b>12,551,458</b>	<b>14,447,734</b>
Excess of revenue over expenses for the year	940,343	—	940,343
Net transfer to internally designated net assets [note 6[b]]	(805,264)	805,264	—
<b>Balance, end of year</b>	<b>2,031,355</b>	<b>13,356,722</b>	<b>15,388,077</b>
	<b>2013</b>		<b>Total</b>
	<b>Undesignated</b>	<b>Internally</b>	
	\$	\$	\$
<b>Balance, beginning of year</b>	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)	—
<b>Balance, end of year</b>	<b>1,896,276</b>	<b>12,551,458</b>	<b>14,447,734</b>

See accompanying notes



## Covenant House Toronto

### STATEMENT OF CASH FLOWS

Year ended June 30

	2014	2013
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Excess (deficiency) of revenue over expenses for the year	940,343	(145,306)
Add (deduct) items not involving cash		
Amortization of capital assets	723,162	645,924
Amortization of deferred capital contributions	(505,136)	(506,537)
	<b>1,158,369</b>	<b>(5,919)</b>
Changes in non-cash working capital balances related to operations		
Accounts receivable	88,085	(164,404)
Due from Toronto Hostel Services	(9,160)	18,556
Prepaid expenses	(27,622)	(4,226)
Accounts payable and accrued liabilities	(187,743)	298,259
Deferred revenue	(10,601)	13,261
<b>Cash provided by operating activities</b>	<b>1,011,328</b>	<b>155,527</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(446,726)	(467,747)
Reinvestment of income earned on long-term investments	(499,889)	(197,014)
Net decrease (increase) in cash and cash equivalents classified as long-term	(217,224)	642,328
<b>Cash used in investing activities</b>	<b>(1,163,839)</b>	<b>(22,433)</b>
<b>FINANCING ACTIVITIES</b>		
Contributions received for capital asset purchases	140,549	—
<b>Cash provided by financing activities</b>	<b>140,549</b>	<b>—</b>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>	<b>(11,962)</b>	<b>133,094</b>
Cash and cash equivalents, beginning of year	3,128,927	2,995,833
<b>Cash and cash equivalents, end of year</b>	<b>3,116,965</b>	<b>3,128,927</b>

See accompanying notes



## Covenant House Toronto

# NOTES TO FINANCIAL STATEMENTS

June 30, 2014

## 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 almost 90,000 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 Chartered Professional Accountants of Canada ["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 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 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.



## Covenant House Toronto

# NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Other financial instruments, including accounts receivable 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.

### 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 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 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, 2014

### 3. INVESTMENTS

Investments consist of the following:

	Carrying value \$	2014 \$	2013 \$
Cash and cash equivalents held by investment managers	Fair value	395,128	571,953
Canadian fixed income	Amortized cost	3,429,555	3,121,625
TSX index funds	Fair value	1,344,710	1,111,334
US equity funds	Fair value	531,077	395,669
		<b>5,700,470</b>	5,200,581
Add amount of cash and cash equivalents classified as long-term	Fair value	2,610,607	2,393,383
		<b>8,311,077</b>	7,593,964

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 2.8 years and the weighted average rate of return is 2.53%.

### 4. CAPITAL ASSETS

[a] Capital assets consist of the following:

	2014		Net book value
	Cost \$	Accumulated amortization \$	\$
Land	2,795,000	—	2,795,000
Buildings and building improvements	19,789,498	7,166,450	12,623,048
Furniture and equipment	2,810,279	2,103,907	706,372
	<b>25,394,777</b>	<b>9,270,357</b>	<b>16,124,420</b>

## Covenant House Toronto

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

	<b>2013</b>		<b>Net book value \$</b>
	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	
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
	<b>24,948,051</b>	<b>8,547,195</b>	<b>16,400,856</b>

[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 statement of operations. The changes in the deferred capital contributions balance are as follows:

	<b>2014 \$</b>	<b>2013 \$</b>
<b>Balance, beginning of year</b>	<b>11,443,362</b>	11,949,899
Add contributions received for capital asset purchases	<b>140,549</b>	—
Deduct amortization of deferred capital contributions	<b>505,136</b>	506,537
<b>Balance, end of year</b>	<b>11,078,775</b>	11,443,362

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

### 6. INTERNALLY DESIGNATED NET ASSETS

[a] Internally designated net assets include the following:

	2014	2013
	\$	\$
Capital assets internally funded	5,045,645	4,957,494
Other <i>[note 3]</i>	8,311,077	7,593,964
	<b>13,356,722</b>	<b>12,551,458</b>

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:

	2014	2013
	\$	\$
Net change in capital assets internally funded	88,151	328,361
Net transfer for future (use of funds for) building renovations and/or capital replacement expenditures	311,871	(445,314)
Net transfer for future growth and/or cash flow requirements in accordance with Board policy	405,242	—
	<b>805,264</b>	<b>(116,953)</b>

## Covenant House Toronto

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

#### 7. LEASE COMMITMENTS

The Agency is committed under operating leases for office equipment expiring in 2018. The future minimum annual payments under these leases are as follows:

	\$
2015	76,555
2016	70,337
2017	52,829
2018	20,765
	<u>220,486</u>

#### 8. EXPENSES

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

	2014	2013
	\$	\$
<b>Program services</b>		
Shelter and Crisis Care	7,917,817	8,111,201
Long-term Transitional Housing	1,761,934	1,759,207
Community Support Services and Outreach	2,462,099	2,047,212
Health Care	563,355	570,659
Public Education [including Runaway Prevention Program]	737,751	643,725
<b>Total program services</b>	<u>13,442,956</u>	13,132,004
Fundraising and development	5,807,786	4,777,185
Management and administration	1,281,810	1,195,380
	<u>20,532,552</u>	19,104,569

## Covenant House Toronto

# NOTES TO FINANCIAL STATEMENTS

June 30, 2014

## 9. 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 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 are payable to Covenant House International commencing with the fiscal year ended June 30, 2014, and in each of the two fiscal years thereafter. The fee amount was determined based on the underlying value of the brand and related services to be provided by Covenant House International.

During the year ended June 30, 2014, the Agency expensed amounts paid or payable to Covenant House International totaling \$151,010 [2013 - \$82,667] 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.

As at June 30, 2014, accounts receivable included an amount of \$5,167 due from Covenant House International [2013 - \$19,231 due to Covenant House]. The amount is non-interest bearing and due within the next 12 months.

As at June 30, 2014, accounts receivable also included an amount of \$4,800 [2013 - nil] due from Covenant House Vancouver. 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, 2014 and 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

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

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. COMPARATIVE FINANCIAL STATEMENTS**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2014 financial statements.

