Covenant House Toronto

Financial statements
June 30, 2019

Building a better working world

Independent auditor's report

To the Board of Directors of
Covenant House Toronto

Opinion

We have audited the financial statements of **Covenant House Toronto** [the "Agency"], which comprise the statement of financial position as at June 30, 2019, and the statement of operations, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Agency as at June 30, 2019, 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.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Agency in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Agency or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Agency's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Agency's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Agency to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 26, 2019

Covenant House Toronto

Statement of financial position

As at June 30

	2019	2018
	$	$
Assets		
Current		
Cash and cash equivalents *[note 3]*	**1,349,192**	8,479,205
Accounts receivable *[note 10]*	**761,838**	598,564
Prepaid expenses	**78,570**	135,237
Total current assets	**2,189,600**	9,213,006
Investments at fair value *[note 3]*	**18,504,106**	7,089,860
Investments at cost *[note 3]*	**2,200,000**	3,229,433
Capital assets, net *[note 4]*	**17,823,926**	17,398,197
	40,717,632	36,930,496
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	**3,317,327**	2,526,190
Deferred revenue	**6,232**	6,367
Deferred contributions *[note 5]*	**4,089,357**	3,987,277
Total current liabilities	**7,412,916**	6,519,834
Deferred capital contributions *[note 6]*	**10,106,058**	9,625,472
Total liabilities	**17,518,974**	16,145,306
Commitments and contingencies *[notes 4[c], 8, 10 and 12]*		
Net assets		
Undesignated	**2,876,685**	2,693,180
Internally designated *[note 7]*	**20,321,973**	18,092,010
Total net assets	**23,198,658**	20,785,190
	40,717,632	36,930,496

See accompanying notes

On behalf of the Board:

Kenneth C. Morell
Chair, Board of Directors

Bruce Shewfelt
Chair, Finance/Property Committee

Covenant House Toronto

Statement of operations

Year ended June 30

	2019	**2018**
	$	$
Revenue		
Contributions		
Donations and bequests *[note 5]*	**24,075,232**	23,458,895
Catholic Charities	**669,715**	704,721
Service revenue		
Toronto Hostel Services	**2,751,300**	2,674,598
Other government	**2,496,867**	1,584,710
Investment income	**1,235,813**	462,519
Amortization of deferred capital contributions *[note 6]*	**556,500**	543,297
Other	**614,043**	192,123
	32,399,470	29,620,863
Expenses *[note 9]*		
Salaries and benefits	**18,462,132**	16,434,769
Postage and printing	**4,944,119**	4,943,013
Purchased services, food and other supplies *[note 10]*	**3,633,098**	3,088,512
Occupancy	**1,427,535**	1,288,547
Amortization of capital assets	**913,382**	845,628
Other	**605,736**	574,194
	29,986,002	27,174,663
Excess of revenue over expenses for the year	**2,413,468**	2,446,200

See accompanying notes

Covenant House Toronto

Statement of changes in net assets

Year ended June 30

	2019		
	Undesignated	Internally designated	Total
	$	$	$
Balance, beginning of year	**2,693,180**	**18,092,010**	**20,785,190**
Excess of revenue over expenses for the year	**2,413,468**	**—**	**2,413,468**
Net transfer to internally designated net assets *[note 7[b]]*	**(2,229,963)**	**2,229,963**	**—**
Balance, end of year	**2,876,685**	**20,321,973**	**23,198,658**

	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

See accompanying notes

Covenant House Toronto

Statement of cash flows

Year ended June 30

	2019	2018
	$	$
Operating activities		
Excess of revenue over expenses for the year	**2,413,468**	2,446,200
Add (deduct) items not involving cash		
Amortization of capital assets	**913,382**	845,628
Amortization of deferred capital contributions	**(556,500)**	(543,297)
	2,770,350	2,748,531
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(163,274)**	7,731
Prepaid expenses	**56,667**	(18,272)
Accounts payable and accrued liabilities	**791,137**	212,694
Deferred revenue	**(135)**	435
Deferred contributions	**102,080**	845,098
Cash provided by operating activities	**3,556,825**	3,796,217
Investing activities		
Purchase of capital assets	**(1,339,111)**	(2,468,580)
Net change in investments	**(7,706,760)**	(279,882)
Net increase in cash and cash equivalents classified as investments	**(2,678,053)**	(104,601)
Cash used in investing activities	**(11,723,924)**	(2,853,063)
Financing activities		
Contributions received for capital asset purchases	**1,037,086**	211,044
Cash provided by financing activities	**1,037,086**	211,044
Net increase (decrease) in cash and cash equivalents during the year	**(7,130,013)**	1,154,198
Cash and cash equivalents, beginning of year	**8,479,205**	7,325,007
Cash and cash equivalents, end of year	**1,349,192**	8,479,205

See accompanying notes

Notes to financial statements

June 30, 2019

1. Nature of operations

Covenant House Toronto [the "Agency"] helps youth ignite their potential and reclaim their lives. As Canada's largest agency serving youth who are homeless, trafficked or at risk, the Agency offers the widest range of 24/7 services to about 350 young people every day.

More than a place to stay, the Agency provides life-changing care with unconditional love and respect. We meet youth's immediate needs and then we work together to achieve their future goals. The Agency offers housing options, health and well-being support, training and skill development, and ongoing care once youth move into the community.

Since 1982, the Agency has supported more than 95,000 young people.

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. Summary of 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 cash and cash equivalents, accounts receivable, 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 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.

3. Investments

Investments consist of the following:

	Carrying value	2019 $	2018 $
Amount of cash and cash equivalents classified as long-term	Fair value	**6,553,233**	3,875,180
Cash and cash equivalents held by investment managers	Fair value	**—**	1,432,205
Canadian fixed income	Amortized cost	**2,200,000**	3,229,433
US equity funds	Fair value	**—**	491,862
TSX index funds	Fair value	**—**	1,290,613
Units in Mawer pooled funds	Fair value	**11,950,873**	—
		14,150,873	6,444,113
		20,704,106	10,319,293

As at June 30, the fair values of the units in Mawer pooled funds are as follows:

	2019 $	2018 $
Canadian Money Market Fund	**59,542**	—
Canadian Bonds Pooled Fund	**4,638,801**	—
Canadian Equity Pooled Fund	**2,809,438**	—
US Equity Funds	**2,101,174**	—
International Equity Pooled Funds	**2,341,918**	—
	11,950,873	—

Cash and cash equivalents are classified as investments to the extent required for the investments balance to at least 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 1.5 years [2018 – 1.9 years] and the weighted average rate of return is 2.15% [2018 – 2.25%].

Notes to financial statements

June 30, 2019

4. Capital assets

[a] Capital assets consist of the following:

	2019		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	**3,795,000**	**—**	**3,795,000**
Buildings and building improvements	**23,418,319**	**10,193,927**	**13,224,392**
Furniture and equipment	**3,984,906**	**3,180,372**	**804,534**
	31,198,225	**13,374,299**	**17,823,926**

	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

[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.

During the year, the Agency received $885,000 in funding in the form of a forgivable loan from the City of Toronto towards costs of the building purchased in 2018 for a new housing program. This amount is secured by a mortgage, which 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. The mortgage will be reduced at a rate of 5% per year until fully forgiven in 20 years and has not been recorded as a liability since the Agency is using this property as provided for in the funding agreement.

Notes to financial statements

June 30, 2019

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:

	2019	2018
	$	$
Balance, beginning of year	**3,987,277**	3,142,179
Add contributions received during the year	**6,176,186**	5,426,792
Contributions recognized as revenue during the year	**(6,074,106)**	(4,581,694)
Balance, end of year	**4,089,357**	3,987,277

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:

	2019	2018
	$	$
Balance, beginning of year	**9,625,472**	9,957,725
Add contributions received for capital asset purchases	**1,037,086**	211,044
Amortization of deferred capital contributions	**(556,500)**	(543,297)
Balance, end of year	**10,106,058**	9,625,472

7. Internally designated net assets

[a] Internally designated net assets include the following:

	2019	2018
	$	$
Capital assets internally funded	**7,717,868**	7,772,717
Other *[note 3]*	**12,604,105**	10,319,293
	20,321,973	18,092,010

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.

Notes to financial statements

June 30, 2019

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

	2019	2018
	$	$
Net change in capital assets internally funded	**(54,849)**	1,955,197
Net transfer for future building renovations and/or capital replacement expenditures	**1,734,012**	64,933
Net transfer for future growth and/or cash flow requirements in accordance with Board of Directors policy	**550,800**	319,550
	2,229,963	2,339,680

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:

	$
2020	56,080
2021	46,684
2022	10,899
	113,663

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:

	2019	2018
	$	$
Program services		
Shelter and Crisis Care	**9,460,169**	8,800,274
Long-term Transitional Housing	**4,454,260**	3,127,826
Community Support Services and Outreach [including Homelessness initiatives]	**4,647,099**	3,950,004
Health Care	**801,397**	887,344
Public Education and Prevention Programs	**1,407,066**	1,195,454
Research and Evaluation	**596,610**	627,033
Total program services	**21,366,601**	18,587,935
Fundraising and development	**7,023,801**	6,878,610
Management and administration	**1,595,600**	1,708,118
	29,986,002	27,174,663

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 license fee 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 2019, an amendment was issued, effective February 13, 2019 increasing the annual license fee to $175,000.

During the year ended June 30, 2019, the Agency expensed amounts paid or payable to Covenant House International totalling $190,130 [2018 – $157,200] 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, 2019, accounts receivable included an amount of $82,829 [2018 – $33,789] 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 $3,000,000 unsecured line of credit with interest payable at the bank's prime rate. As at June 30, 2019 and 2018, 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.

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.

14. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2019 financial statements.