

Financial Statements

Covenant House Vancouver

June 30, 2014



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Covenant House Vancouver

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Covenant House Vancouver**, 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 Vancouver** 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 Society Act of British Columbia, 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.

Vancouver, Canada,
October 2, 2014.

Ernst + Young LLP

Chartered Accountants

Covenant House Vancouver
 Incorporated under the British Columbia Society Act

STATEMENT OF FINANCIAL POSITION

As at June 30

| | 2014 | 2013 |
|---|------------------|------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents <i>[note 4]</i> | 3,019,818 | 2,125,919 |
| Short-term investments <i>[note 5]</i> | 13,092 | — |
| Accounts receivable <i>[note 6]</i> | 108,561 | 555,864 |
| Prepaid expenses | 90,379 | 54,933 |
| Total current assets | 3,231,850 | 2,736,716 |
| Property and equipment, net <i>[notes 7 and 9]</i> | 5,206,433 | 5,426,214 |
| | 8,438,283 | 8,162,930 |
| LIABILITIES AND NET ASSETS | | |
| Current | | |
| Accounts payable and accrued liabilities | 752,336 | 614,942 |
| Total current liabilities | 752,336 | 614,942 |
| Deferred contributions <i>[note 8]</i> | 6,871 | 5,800 |
| Deferred contributions related to property and equipment <i>[note 9]</i> | 3,860,549 | 4,061,225 |
| Total liabilities | 4,619,756 | 4,681,967 |
| Commitments and contingent liabilities <i>[note 11]</i> | | |
| Net assets | | |
| Internally restricted - Property and equipment | 1,345,884 | 1,364,989 |
| Internally restricted - Sustainability <i>[notes 4]</i> | 1,312,887 | 1,312,887 |
| Unrestricted net assets | 1,159,756 | 803,087 |
| Total net assets | 3,818,527 | 3,480,963 |
| | 8,438,283 | 8,162,930 |

See accompanying notes

On behalf of the Board:



Director



Director

Covenant House Vancouver

STATEMENT OF OPERATIONS

Year ended June 30

| | 2014 | 2013 |
|---|-------------------|-------------------|
| | \$ | \$ |
| REVENUE | | |
| Donations and bequests | 11,110,792 | 10,695,091 |
| Government grants | 658,752 | 771,381 |
| Gaming | 133,582 | 136,658 |
| Investment income | 12,296 | 15,404 |
| Other income | 106,943 | 84,016 |
| Amortization of deferred contributions related to property and equipment <i>[note 9]</i> | 290,676 | 294,440 |
| | <u>12,313,041</u> | <u>11,996,990</u> |
| EXPENSES <i>[note 13]</i> | | |
| Salaries and benefits <i>[note 10]</i> | 8,426,080 | 8,225,422 |
| Postage, printing and advertising | 1,704,403 | 2,121,185 |
| Occupancy | 468,961 | 464,860 |
| Purchased services | 688,141 | 631,443 |
| Others | 346,136 | 330,777 |
| Amortization of property and equipment | 341,756 | 325,896 |
| | <u>11,975,477</u> | <u>12,099,583</u> |
| Excess (deficiency) of revenue over expenses for the year | <u>337,564</u> | <u>(102,593)</u> |

See accompanying notes



Covenant House Vancouver

STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30

| | 2014 | | | 2013 | |
|--|---|---|--------------------|------------------|------------------|
| | Internally restricted - property and equipment \$ | Internally restricted - Sustainability [notes 4] \$ | Unrestricted \$ | Total \$ | Total \$ |
| Balance, beginning of year | 1,364,989 | 1,312,887 | 803,087 | 3,480,963 | 3,583,556 |
| Excess (deficiency) of revenue over expenses for the year | (51,080) | — | 388,644 | 337,564 | (102,593) |
| Purchase of property and equipment, net | 121,975 | — | (121,975) | — | — |
| Deferred contributions related to property and equipment | (90,000) | — | 90,000 | — | — |
| Balance, end of year | 1,345,884 | 1,312,887 | 1,159,756 | 3,818,527 | 3,480,963 |

See accompanying notes



Covenant House Vancouver

STATEMENT OF CASH FLOWS

Year ended June 30

| | 2014 | 2013 |
|--|------------------|------------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Excess (deficiency) of revenue over expenses for the year | 337,564 | (102,593) |
| Add (deduct) items not affecting cash | | |
| Short-term investments received as donations | (13,092) | — |
| Amortization of property and equipment | 341,756 | 325,896 |
| Amortization of deferred contributions related to property and equipment | (290,676) | (294,440) |
| | <u>375,552</u> | <u>(71,137)</u> |
| Changes in non-cash working capital balances related to operations | | |
| Accounts receivable | 447,303 | (289,293) |
| Prepaid expenses | (35,446) | 65,567 |
| Accounts payable and accrued liabilities | 137,394 | (122,806) |
| Deferred contributions | 1,071 | 606 |
| Cash provided by (used in) operating activities | <u>925,874</u> | <u>(417,063)</u> |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (121,975) | (28,092) |
| Cash used in investing activities | <u>(121,975)</u> | <u>(28,092)</u> |
| FINANCING ACTIVITIES | | |
| Receipts of deferred contributions related to property and equipment | 90,000 | — |
| Cash provided by financing activities | <u>90,000</u> | <u>—</u> |
| Net increase (decrease) in cash and cash equivalents during the year | 893,899 | (445,155) |
| Cash and cash equivalents, beginning of year | 2,125,919 | 2,571,074 |
| Cash and cash equivalents, end of year [note 4] | <u>3,019,818</u> | <u>2,125,919</u> |

See accompanying notes



Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. NATURE OF OPERATIONS

Covenant House Vancouver [the "Organization"] provides care and sanctuary for homeless youth. In operation since 1997, and incorporated on April 23, 1998, the Organization provides a continuum of care that includes street outreach, residential crisis intervention, assessment, referral, a transitional living program [Rights of Passage] and community support services and plays a role in advocacy for street youth.

The Organization is incorporated under the British Columbia Society Act and is a registered charity under the Income Tax Act (Canada) and, accordingly, is not subject to income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements were prepared in accordance with Part III of the CPA Canada Handbook – *Accounting Standards for Not-for-Profit Organizations* which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies described hereafter.

Cash and cash equivalents

The Organization considers all highly liquid financial instruments purchased with an original maturity of three months or less or that are redeemable on 30 days' notice to be cash equivalents.

Property and equipment

Property and equipment are recorded at cost and amortized on the straight-line basis over their estimated useful lives as disclosed in note 7.

Leases

Leases are classified as either capital or operating leases. Those leases that transfer substantially all the benefits and risks of ownership of the property to the Organization are accounted for as capital leases. Capital lease obligations reflect the present value of future lease payments discounted at appropriate interest rates. All other leases are accounted for as operating leases, wherein rental payments are charged to operations as incurred.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Revenue recognition

The Organization follows the deferral method of accounting for contributions. Restricted contributions are initially deferred and then recognized as revenue in the period in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received is reasonably assured. Funds from government sources are recognized as revenue as the services to which the funds relate are delivered or performed. Funds relating to property and equipment which are committed to specific purposes represent restricted contributions that are recognized as income on the same basis that the related assets are amortized.

Short-term interest income is recognized when earned.

Contributed goods and services

The Organization recognizes contributions of goods and services when a fair value can be reasonably estimated and the goods and services are used in the normal course of the Organization's operations and would otherwise have been purchased.

The fair value of volunteer hours and services is not recognized as they cannot be reasonably estimated.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the exchange rate in effect at the time of the transaction. Monetary assets and liabilities are re-measured at the year-end exchange rate. Any resulting foreign exchange gain or loss is reported in the statement of operations.

3. FINANCIAL INSTRUMENTS

Short-term investments include cashable guaranteed investment certificates, which are recorded at cost plus accrued interest, as well as donated investments not yet disposed of.

Other financial instruments, including accounts receivable and accounts payable, are recorded at amortized cost, net of any provisions.

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Financial risk

Financial risk is the risk to the Organization's results of operations that arises from fluctuations in interest rates and the degree of volatility of these rates. It is management's opinion that the Organization is not exposed to significant interest rate or credit risk arising from these financial instruments.

Currency risk

The Organization is exposed to foreign exchange rate fluctuations on its U.S. dollar cash accounts. The Canadian equivalent of the Organization's U.S. dollar cash accounts at June 30, 2014 was \$38,282 [US\$36,707] [2013 - \$28,394 [US\$26,996]].

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | 2014 | 2013 |
|---|------------------|------------------|
| | \$ | \$ |
| Cash - Operating | 1,681,037 | 765,112 |
| Cash - Gaming | 1,923 | 16,108 |
| Cash - Rights of Passage Youth Deposits | 22,081 | 31,197 |
| Internally restricted - Sustainability | 1,314,777 | 1,313,502 |
| | <u>3,019,818</u> | <u>2,125,919</u> |

The funds designated as internally restricted - Sustainability are board restricted funds intended to be used in times of extraordinary and unforeseen needs. At June 30, 2014 and 2013, the funds are comprised of cash as noted above.

5. SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

| | 2014 | 2013 |
|--------------------------------------|---------------|----------|
| | \$ | \$ |
| Equities - not yet converted to cash | <u>13,092</u> | <u>—</u> |

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

6. GOVERNMENT RECEIVABLES

Government receivables of \$18,477 [2013 - \$37,224] are included in accounts receivable.

7. PROPERTY AND EQUIPMENT

| | Amortization period | 2014 | | 2013 | |
|-------------------------------|------------------------|------------------|-----------------------------------|-------------------------|-------------------------|
| | | Cost \$ | Accumulated amortization \$ | Net book value \$ | Net book value \$ |
| Tangible | | | | | |
| Land - Drake Street | — | 1,000,000 | — | 1,000,000 | 1,000,000 |
| Building - Drake Street | 40 years | 1,485,386 | 589,558 | 895,828 | 932,963 |
| Building - West Pender Street | 40 years | 2,071,474 | 677,880 | 1,393,594 | 1,445,381 |
| Building improvements | 15 years | 2,346,691 | 837,392 | 1,509,299 | 1,550,865 |
| Furniture and equipment | 10 years | 1,393,071 | 1,025,349 | 367,722 | 449,138 |
| Vehicles | 10 years | 52,843 | 33,775 | 19,068 | 24,353 |
| Computer equipment | 3 years | 384,555 | 363,633 | 20,922 | 23,514 |
| Intangible | | | | | |
| Computer software | 1 year | 112,510 | 112,510 | — | — |
| | | <u>8,846,530</u> | <u>3,640,097</u> | <u>5,206,433</u> | <u>5,426,214</u> |

8. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent resources, externally restricted for the delivery of specified programs and received in advance of the Organization's obligation to perform.

Changes in the deferred contributions balance are as follows:

| | 2014 \$ | 2013 \$ |
|--|--------------|--------------|
| Balance, beginning of year | 5,800 | 5,194 |
| Add funds received during the year | | |
| British Columbia Housing Management Commission | 100,000 | 100,000 |
| Other organizations | 29,923 | 5,150 |
| Less amounts recognized as revenue | (128,852) | (104,544) |
| Balance, end of year | <u>6,871</u> | <u>5,800</u> |

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

9. DEFERRED CONTRIBUTIONS RELATED TO PROPERTY AND EQUIPMENT

Deferred contributions related to property and equipment include contributions which are restricted in use to the purchase of property and equipment and are recorded as income in a manner that matches the amortization of the underlying property and equipment. Contributions used to purchase non-depreciable assets are recorded as a direct increase in net assets invested in property and equipment.

The changes in the deferred contributions related to property and equipment for the year are as follows:

| | 2014 \$ | 2013 \$ |
|--|------------------|------------|
| Balance, beginning of year | 4,061,225 | 4,355,665 |
| Add capital contributions | 90,000 | — |
| | 4,151,225 | 4,355,665 |
| Less amortization of deferred contributions related to property and equipment | (290,676) | (294,440) |
| Balance, end of year | 3,860,549 | 4,061,225 |

10. PENSION PLAN

The Organization has a defined contribution pension plan that provides retirement benefits to its employees. Employees are eligible to join after one year of continuous service. Pension contributions vest with the employee after two years of participation in the plan.

Funding contributions are made by employees and are matched by the Organization in the amount of varying percentages of their compensation based on the number of completed years of service. The pension expense for the year ended June 30, 2014 was \$241,945 [2013 - \$203,759].

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

11. COMMITMENTS AND CONTINGENT LIABILITIES

The Organization is committed under operating leases for certain leased equipment at both the West Pender and Drake Street facilities expiring in 2019. The building at West Pender Street is situated on leased land which is subject to a lease from the City of Vancouver expiring June 25, 2057. The requirements under the lease agreement obligate the Organization to pay the annual property taxes on the property, but there are no lease payments owing.

The approximate annual minimum payments under the equipment leases for the next five years and thereafter are as follows:

| | <u>\$</u> |
|---------------------|---------------|
| 2015 | 21,654 |
| 2016 | 17,379 |
| 2017 | 10,323 |
| 2018 | 10,323 |
| 2019 and thereafter | <u>10,323</u> |
| | <u>70,002</u> |

12. FUNDS HELD BY THE VANCOUVER FOUNDATION

In April 2005, an agreement was entered into between the Organization and the Vancouver Foundation [the "VF"] whereby the VF holds certain endowment funds totalling \$312,712 on behalf of the Organization. These funds are not included as assets of the Organization as they are administered by the VF. The Organization is the beneficiary of all the income earned on these funds and records the revenue from these funds when received.

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

13. SUMMARY OF PROGRAM SERVICE EXPENSES

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

| Programs | 2014 \$ | 2013 \$ |
|--|-------------------|-------------------|
| Shelter and crisis care | | |
| Salaries and benefits | 3,723,288 | 3,658,296 |
| Postage, printing and advertising | 4,688 | 4,350 |
| Occupancy | 182,768 | 183,215 |
| Purchased services | 98,045 | 101,789 |
| Others | 119,901 | 146,221 |
| Amortization of property and equipment | 146,609 | 140,284 |
| | <u>4,275,299</u> | <u>4,234,155</u> |
| Outreach/Community Support Services | | |
| Salaries and benefits | 1,219,727 | 1,208,978 |
| Postage, printing and advertising | 2,088 | 1,831 |
| Occupancy | 69,529 | 74,572 |
| Purchased services | 61,649 | 57,079 |
| Others | 90,766 | 77,411 |
| Amortization of property and equipment | 59,044 | 57,412 |
| | <u>1,502,803</u> | <u>1,477,283</u> |
| Rights of Passage | | |
| Salaries and benefits | 1,517,483 | 1,557,335 |
| Postage, printing and advertising | 2,181 | 1,956 |
| Occupancy | 122,311 | 118,657 |
| Purchased services | 58,361 | 57,715 |
| Others | 69,031 | 63,518 |
| Amortization of property and equipment | 67,080 | 61,556 |
| | <u>1,836,447</u> | <u>1,860,737</u> |
| Public education | <u>323,691</u> | <u>293,236</u> |
| Total programs | <u>7,938,240</u> | <u>7,865,411</u> |
| Finance and administration | 966,958 | 910,198 |
| Development | 3,070,279 | 3,323,974 |
| Total expenses | <u>11,975,477</u> | <u>12,099,583</u> |