

Financial Statements

Covenant House Vancouver

June 30, 2015



Building a better
working world

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, 2015, 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, 2015, 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 8, 2015

Ernst + Young LLP

Chartered Professional Accountants

Covenant House Vancouver
 Incorporated under the British Columbia Society Act

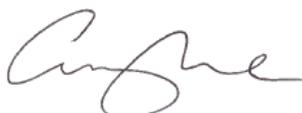
STATEMENT OF FINANCIAL POSITION

As at June 30

	2015	2014
	\$	\$
ASSETS		
Current		
Cash and cash equivalents <i>[note 4]</i>	2,725,693	3,019,818
Short-term investments <i>[note 5]</i>	—	13,092
Accounts receivable <i>[note 6]</i>	510,519	108,561
Prepaid expenses	54,548	90,379
Total current assets	3,290,760	3,231,850
Property and equipment, net <i>[notes 7 and 9]</i>	5,748,108	5,206,433
	9,038,868	8,438,283
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	771,975	752,336
Total current liabilities	771,975	752,336
Deferred contributions <i>[note 8]</i>	725,084	6,871
Deferred contributions related to property and equipment <i>[note 9]</i>	3,726,633	3,860,549
Total liabilities	5,223,692	4,619,756
Commitments and contingent liabilities <i>[note 11]</i>		
Net assets		
Internally restricted – Property and equipment	2,021,475	1,345,884
Internally restricted – Sustainability <i>[note 4]</i>	1,312,887	1,312,887
Unrestricted net assets	480,814	1,159,756
Total net assets	3,815,176	3,818,527
	9,038,868	8,438,283

See accompanying notes

On behalf of the Board:



Director



Director

Covenant House Vancouver

STATEMENT OF OPERATIONS

Year ended June 30

	2015	2014
	\$	\$
REVENUE		
Donations and bequests	11,882,176	11,110,792
Government grants <i>[note 14]</i>	775,942	658,752
Gaming	131,748	133,582
Investment income	9,455	12,296
Other income	105,642	106,943
Amortization of deferred contributions related to property and equipment <i>[note 9]</i>	291,416	290,676
	13,196,379	12,313,041
EXPENSES <i>[note 13]</i>		
Salaries and benefits <i>[note 10]</i>	8,857,652	8,426,080
Postage, printing and advertising	2,264,214	1,704,403
Occupancy	492,157	468,961
Purchased services	842,904	688,141
Others	398,963	346,136
Amortization of property and equipment	343,840	341,756
	13,199,730	11,975,477
Excess (deficiency) of revenue over expenses for the year	(3,351)	337,564

See accompanying notes

Covenant House Vancouver

STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30

	2015			2014	
	Internally restricted - property and equipment \$	Internally restricted - Sustainability [note 4] \$	Unrestricted \$	Total \$	Total \$
Balance, beginning of year	1,345,884	1,312,887	1,159,756	3,818,527	3,480,963
Excess (deficiency) of revenue over expenses for the year	(52,424)	—	49,073	(3,351)	337,564
Purchase of property and equipment, net	885,515	—	(885,515)	—	—
Deferred contributions related to property and equipment	(157,500)	—	157,500	—	—
Balance, end of year	2,021,475	1,312,887	480,814	3,815,176	3,818,527

See accompanying notes

Covenant House Vancouver

STATEMENT OF CASH FLOWS

Year ended June 30

	2015	2014
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	(3,351)	337,564
Add (deduct) items not affecting cash		
Short-term investments received as donations	13,092	(13,092)
Amortization of property and equipment	343,840	341,756
Amortization of deferred contributions related to property and equipment	(291,416)	(290,676)
	<u>62,165</u>	375,552
Changes in non-cash working capital balances related to operations		
Accounts receivable	(401,958)	447,303
Prepaid expenses	35,831	(35,446)
Accounts payable and accrued liabilities	19,639	137,394
Deferred contributions	718,213	1,071
Cash provided by operating activities	<u>433,890</u>	925,874
INVESTING ACTIVITIES		
Purchase of property and equipment	(885,515)	(121,975)
Cash used in investing activities	<u>(885,515)</u>	(121,975)
FINANCING ACTIVITIES		
Receipts of deferred contributions related to property and equipment	157,500	90,000
Cash provided by financing activities	<u>157,500</u>	90,000
Net increase (decrease) in cash and cash equivalents during the year	(294,125)	893,899
Cash and cash equivalents, beginning of year	3,019,818	2,125,919
Cash and cash equivalents, end of year [note 4]	<u>2,725,693</u>	3,019,818

See accompanying notes

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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.

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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, 2015

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, 2015 was \$43,118 [US\$39,746] [2014 – \$38,282 [US\$36,707]].

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2015	2014
	\$	\$
Cash – Operating	1,255,896	1,681,037
Cash – Gaming	127,169	1,923
Cash – Rights of Passage Youth Deposits	27,039	22,081
Internally restricted – Sustainability	1,315,589	1,314,777
	<u>2,725,693</u>	<u>3,019,818</u>

The funds designated as “internally restricted – Sustainability” are board restricted funds intended to be used in times of extraordinary and unforeseen needs. As at June 30, 2015 and 2014, the funds are comprised of cash as noted above.

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

5. SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

	2015 \$	2014 \$
Equities – not yet converted to cash	—	13,092

6. GOVERNMENT RECEIVABLES

Government receivables of \$22,972 [2014 – \$18,477] are included in accounts receivable.

7. PROPERTY AND EQUIPMENT

	2015			2014	
Amortization period	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	626,692	858,694	895,828
Building – West Pender Street	40 years	2,071,474	729,667	1,341,807	1,393,594
Building improvements	15 years	2,546,919	991,205	1,555,714	1,509,299
Furniture and equipment	10 years	1,399,321	1,106,767	292,554	367,722
Vehicles	10 years	52,843	39,059	13,784	19,068
Computer equipment	3 years	384,555	378,036	6,519	20,922
Intangible					
Computer software	1 year	112,510	112,510	—	—
Building purchase and upgrades in progress					
	—	679,036	—	679,036	—
		9,732,044	3,983,936	5,748,108	5,206,433

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Building purchase and upgrades in progress

In January 2015, the Organization entered into a purchase agreement to purchase land and buildings located at 530 Drake Street [the "Property"] for \$5,500,000. A deposit of \$550,000 was paid on the signing of the agreement with the balance of the purchase price to be paid on the closing date which is expected to be in February 2016.

As at June 30, 2015, the Organization has incurred additional capital costs of \$129,036 with respect to the Property [note 11].

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:

	2015	2014
	\$	\$
Balance, beginning of year	6,871	5,800
Add funds received during the year		
Minister of Health	250,000	—
Minister of Children and Family Development	315,000	—
British Columbia Housing Management Commission	100,000	100,000
Youth Education	44,309	29,923
Other organizations	150,000	—
Less amounts recognized as revenue	(141,096)	(128,852)
Balance, end of year	725,084	6,871

9. DEFERRED CONTRIBUTIONS RELATED TO PROPERTY AND EQUIPMENT

Deferred contributions related to property and equipment includes 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.

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

	2015	2014
	\$	\$
Balance, beginning of year	3,860,549	4,061,225
Add capital contributions	157,500	90,000
	4,018,049	4,151,225
Less amortization of deferred contributions related to property and equipment	(291,416)	(290,676)
Balance, end of year	3,726,633	3,860,549

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, 2015 was \$235,445 [2014 – \$241,945].

11. COMMITMENTS AND CONTINGENT LIABILITIES

The Organization is committed under operating leases for certain leased equipment at both its West Pender and Drake Street facilities expiring in 2021. 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.

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

	\$
2016	20,137
2017	13,080
2018	13,080
2019	10,214
2020	1,616
Thereafter	1,616
	<u>59,743</u>

Proposal Development Funding and Promissory Note

In June 2015, the Organization entered into a Proposal Development Funding [“PDF”], whereby an interest free loan up to \$182,608 will be made available to further the development of property. The loan amount to be advanced will be due and payable on demand and will be forgiven after three years.

In June 2015, the Organization entered into a promissory note agreement with BC Housing for an amount of \$9,130 [representing GST of 5% on the PDF loan]. The promissory note bears no interest, and is due and payable on demand.

Subsequent to June 30, 2015, the Organization received advances of \$102,094 and \$3,841 under the PDF loan and the promissory note, respectively.

In January 2015, the Organization signed an agreement to purchase a property for \$5,500,000. To date, \$550,000 has been paid and the remainder will be paid on closing which is expected to be in February 2016 [note 7].

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 \$325,031 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, 2015

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	2015	2014
	\$	\$
Shelter and crisis care		
Salaries and benefits	3,832,562	3,723,288
Postage, printing and advertising	4,414	4,688
Occupancy	198,317	182,768
Purchased services	86,934	98,045
Others	131,006	119,901
Amortization of property and equipment	147,651	146,609
	<u>4,400,884</u>	<u>4,275,299</u>
Outreach/Community Support Services		
Salaries and benefits	1,308,814	1,219,727
Postage, printing and advertising	2,183	2,088
Occupancy	76,403	69,529
Purchased services	48,415	61,649
Others	127,761	90,766
Amortization of property and equipment	59,669	59,044
	<u>1,623,245</u>	<u>1,502,803</u>
Rights of Passage		
Salaries and benefits	1,583,560	1,517,483
Postage, printing and advertising	2,096	2,181
Occupancy	129,944	122,311
Purchased services	47,719	58,361
Others	91,987	69,031
Amortization of property and equipment	67,080	67,080
	<u>1,922,386</u>	<u>1,836,447</u>
Public education	<u>331,857</u>	<u>323,691</u>
Total programs	<u>8,278,372</u>	<u>7,938,240</u>
Finance and administration	1,099,214	966,958
Development	3,822,144	3,070,279
Total expenses	<u>13,199,730</u>	<u>11,975,477</u>

Covenant House Vancouver

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

14. GOVERNMENT GRANTS

Included in Government grants are funds received from Greater Vancouver Regional District ["Metro Vancouver"] for the Homelessness Partnering Strategy ["Program"] of \$395,215 [2014 – \$441,191], of which \$149,337 was received under the Agreement entered into in January 2015 covering funding period from January 2015 to September 2016 and \$245,878 was received under the agreement covering the period to December 31, 2014. In accordance with the terms and conditions of the Agreement with Metro Vancouver, the Organization has incurred corresponding expenditures in the amount of \$395,215 in connection with the Program.

15. RELATED PARTY TRANSACTIONS

During the year, Covenant House New York, the ultimate parent organization, charged the Organization US\$20,000 for the use of certain software during the year [2014 – US\$20,000].

