Financial statements

Covenant House Vancouver

June 30, 2017

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, 2017, 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, 2017, 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.

Ernst & Young LLP

Chartered Professional Accountants

Vancouver, Canada
October 5, 2017

Covenant House Vancouver
Incorporated under the British Columbia *Society Act*

Statement of financial position

As at June 30

	2017	2016
	$	$
Assets		
Current		
Cash and cash equivalents *[note 4]*	**2,015,024**	5,325,528
Short-term investments [note 4]	**8,182,443**	—
Accounts receivable *[note 5]*	**50,994**	72,790
Prepaid expenses	**166,326**	87,751
Total current assets	**10,414,787**	5,486,069
Property and equipment, net *[notes 6 and 7]*	**6,562,616**	5,771,270
	16,977,403	11,257,339
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	**1,151,485**	1,000,632
Proposal development funding and promissory note *[note 7]*	**1,189,232**	547,380
Total current liabilities	**2,340,717**	1,548,012
Deferred contributions *[note 8]*	**9,615**	273,911
Deferred contributions related to the expansion project *[notes 6 and 10]*	**5,905,912**	1,517,278
Deferred contributions related to property and equipment *[note 9]*	**3,191,271**	3,462,373
Total liabilities	**11,447,515**	6,801,574
Commitments *[note 12]*		
Net assets		
Internally restricted – property and equipment	**2,182,113**	1,761,517
Internally restricted – sustainability *[note 4]*	**1,616,071**	1,317,513
Unrestricted	**1,731,704**	1,376,735
Total net assets	**5,529,888**	4,455,765
	16,977,403	11,257,339

See accompanying notes

On behalf of the Board:

Director

Director

Covenant House Vancouver

Statement of operations

Year ended June 30

	2017	2016
	$	$
Revenue		
Donations and bequests	**13,346,125**	13,096,856
Government grants *[note 16]*	**863,201**	1,003,764
Gaming	**155,939**	131,647
Investment income	**60,373**	14,619
Other income	**352,851**	167,956
Amortization of deferred contributions related to property and equipment *[note 9]*	**311,177**	304,260
	15,089,666	14,719,102
Expenses *[note 14]*		
Salaries and benefits *[note 11]*	**10,028,593**	9,606,557
Postage, printing and advertising	**1,428,823**	1,992,963
Occupancy	**558,657**	572,854
Purchased services	**1,084,731**	1,117,466
Other	**559,194**	436,705
Amortization of property and equipment	**355,545**	351,968
	14,015,543	14,078,513
Excess of revenue over expenses for the year	**1,074,123**	640,589

See accompanying notes

Covenant House Vancouver

Statement of changes in net assets

Year ended June 30

	2017				2016
	Internally restricted – property and equipment	Internally restricted – sustainability *[note 4]*	Unrestricted	Total	Total
	$	$	$	$	$
Balance, beginning of year	**1,761,517**	**1,317,513**	**1,376,735**	**4,455,765**	3,815,176
Excess of revenue over expenses for the year	**—**	**16,071**	**1,058,052**	**1,074,123**	640,589
Transfer to increase sustainability from the net operating surplus in fiscal 2016	**—**	**282,487**	**(282,487)**	**—**	—
Transfer to unrestricted related to amortization of deferred contributions related to property and equipment	**311,177**	**—**	**(311,177)**	**—**	—
Transfer from unrestricted related to amortization of property and equipment	**(355,545)**	**—**	**355,545**	**—**	—
Purchase of property and equipment	**1,146,891**	**—**	**(1,146,891)**	**—**	—
Deferred contributions received related to property and equipment	**(40,075)**	**—**	**40,075**	**—**	—
Proposal development funding and promissory note received	**(641,852)**	**—**	**641,852**	**—**	—
Balance, end of year	**2,182,113**	**1,616,071**	**1,731,704**	**5,529,888**	4,455,765

See accompanying notes

Covenant House Vancouver

Statement of cash flows

Year ended June 30

	2017	2016
	$	$
Operating activities		
Excess of revenue over expenses for the year	**1,074,123**	640,589
Add (deduct) items not affecting cash		
Amortization of property and equipment	**355,545**	351,968
Amortization of deferred contributions related to property and equipment	**(311,177)**	(304,260)
	1,118,491	688,297
Changes in non-cash working capital balances related to operations		
Accounts receivable	**21,796**	437,729
Prepaid expenses	**(78,574)**	(33,203)
Accounts payable and accrued liabilities	**150,853**	228,657
Deferred contributions	**(264,296)**	(451,173)
Cash provided by operating activities	**948,270**	870,307
Investing activities		
Purchase of property and equipment	**(1,146,891)**	(925,130)
Deposit on property refunded	**—**	550,000
Cash used in investing activities	**(1,146,891)**	(375,130)
Financing activities		
Receipts of deferred contributions related to property and equipment	**40,075**	40,000
Receipts of deferred contributions related to expansion project	**4,388,634**	1,517,278
Increase in proposal development funding and promissory note	**641,851**	547,380
Increase in short-term investments	**(8,182,443)**	—
Cash provided by (used in) financing activities	**(3,111,883)**	2,104,658
Net increase (decrease) in cash and cash equivalents during the year	**(3,310,504)**	2,599,835
Cash and cash equivalents, beginning of year	**5,325,528**	2,725,693
Cash and cash equivalents, end of year	**2,015,024**	5,325,528

See accompanying notes

Notes to financial statements

June 30, 2017

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.

A new *Societies Act* came into effect on November 28, 2016, requiting transition by the Organization over the next two years. The Organization is in the process of transitioning to the new *Societies Act*, which will be approved in the following year.

2. Summary of significant accounting policies

These financial statements were prepared in accordance with Part III of the *CPA Canada Handbook – Accounting:* "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 6.

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.

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 measured at the year-end exchange rate. Any resulting foreign exchange gain or loss is reported in the statement of operations.

3. Financial instruments

Cash and cash equivalents and 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, accounts payable and proposal development funding and promissory note, are recorded at amortized cost, net of any provisions.

Interest rate risk

Interest rate 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 risk or credit risk.

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, 2017 amounted to $101,383 [US$74,201] [2016 – $94,543 [US$73,286].

4. Cash and cash equivalents including short-term investments

Cash and cash equivalents including short-term investments consist of the following:

	2017	2016
	$	$
Cash – operating	**2,967,201**	2,310,175
Cash – gaming	**152,203**	132,546
Cash – Rights of Passage youth deposits	**50,095**	48,294
Internally restricted – expansion project	**5,411,897**	1,517,000
Internally restricted – sustainability	**1,616,071**	1,317,513
	10,197,467	5,325,528
Short-term investment portion	**8,182,443**	—
Cash and cash equivalents	**2,015,024**	5,325,528

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, 2017 and 2016, the funds are comprised of cash as noted above.

Short-terms investments are invested in one year Flexible GIC’s bearing interest at rates ranging from 0.95% per annum to 1.15% per annum through CIBC Wood Gundy.

5. Government receivables

Government receivables of $13,769 [2016 – $31,105] are included in accounts receivable.

Notes to financial statements

June 30, 2017

6. Properties and equipment

	Amortization period	Cost $	Accumulated amortization $	2017 Net book value $	2016 Net book value $
Tangible					
Land – Drake Street	**—**	**1,000,000**	**—**	**1,000,000**	1,000,000
Building – Drake Street	**40 years**	**1,485,386**	**700,961**	**784,425**	821,560
Building – West Pender Street	**40 years**	**2,071,474**	**842,213**	**1,229,261**	1,286,868
Building improvements	**15 years**	**2,704,860**	**1,321,651**	**1,383,209**	1,449,993
Furniture and equipment	**10 years**	**1,435,063**	**1,271,626**	**163,437**	215,710
Vehicles	**10 years**	**81,441**	**50,342**	**31,099**	8,500
Computer equipment	**3 years**	**491,125**	**392,145**	**98,980**	11,038
Development in progress	**—**	**1,872,205**	**—**	**1,872,205**	977,601
		11,141,554	**4,578,938**	**6,562,616**	5,771,270

Development in progress

Development in progress is not amortized until the property is placed into service at which time amortization will commence.

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 was expected to be in February 2016.

In February 2016, the Organization simultaneously entered into an assignment agreement, a lease agreement and an option to purchase the Property agreement with a third party whereby the third party acquired the Property and will lease it to the Organization for a period of 10 years from substantial completion of the development of the Property.

In addition, the third party has provided the Organization with an option to purchase the Property for the original purchase price of $5,500,000. The option to purchase will expire 10 years after substantial completion of the development of the Property.

To date the Organization has incurred $1,872,205 of professional, development and rezoning costs related to the development of the project, which has been recorded as development in progress.

The original deposit of $550,000 was refunded to the Organization in February 2016, in accordance with the terms of the assignment agreement entered into in February 2016.

7. Proposal development funding and promissory note

In June 2015 and updated in April 2016, the Organization entered into a Proposal Development Funding ["PDF"], whereby a loan up to $1,533,200 will be made available to further the development of the Property described in note 6. The loan amount to be advanced will be due and payable on demand. In the event that the development of the Property located at 530 Drake Street is not completed the third party has agreed to forgive the loan.

In June 2015 and updated in April 2016, the Organization entered into a promissory note agreement with a third party for an amount of $38,330 [representing GST of 5% on the PDF loan]. The promissory note bears no interest, and is due and payable on demand.

As at June 30, 2017, the Organization utilized $1,189,232 [2016 – $547,380] of the above noted PDF and promissory note.

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:

	2017	**2016**
	$	$
Balance, beginning of year	**273,911**	725,084
Add funds received during the year		
Youth Education	**14,192**	13,814
Other organizations		—
Less amounts recognized as revenue	**(278,788)**	(464,987)
Balance, end of year	**9,615**	273,911

9. Deferred contributions related to property and equipment

Deferred contributions related to property and equipment includes contributions which are restricted 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:

	2017	2016
	$	$
Balance, beginning of year	**3,462,373**	3,726,633
Add capital contributions received in the year	**40,075**	40,000
	3,502,448	3,766,633
Less amortization of deferred contributions related to property and equipment in the year	**(311,177)**	(304,260)
Balance, end of year	**3,191,271**	3,462,373

10. Deferred contributions related to the expansion project

Deferred contributions related to the expansion project includes contributions which are to be used for the expansion project. Amortization of the deferred contributions which is expected to commence in 2019 will be recorded as income in a manner that matches the amortization of the project.

The changes in the deferred contributions related to the expansion project for the year are as follows:

	2017	2016
	$	$
Balance, beginning of year	**1,517,278**	—
Add capital contributions received in the year	**4,388,634**	1,517,278
Balance, end of year	**5,905,912**	1,517,278

11. 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.

Funding contributions are made by employees and are matched by the Organization with the amounts equal to percentages of their compensation based on the number of completed years of service. The pension expense for the year ended June 30, 2017 amounted to $237,792 [2016 – $227,656].

Notes to financial statements

June 30, 2017

12. Commitments

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 on 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:

	$
2018	25,724
2019	21,585
2020	9,583
2021	7,003
2022	7,003
	70,898

13. 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 totaling $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.

Notes to financial statements

June 30, 2017

14. 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	2017 $	2016 $
Shelter and crisis care		
Salaries and benefits	**3,965,492**	3,892,889
Postage, printing and advertising	**450**	1,751
Occupancy	**228,955**	219,656
Purchased services	**124,126**	131,233
Others	**231,518**	177,074
Amortization of property and equipment	**153,251**	151,823
	4,703,792	4,574,426
Outreach/Community Support Services		
Salaries and benefits	**1,514,970**	1,460,630
Postage, printing and advertising	**501**	750
Occupancy	**81,582**	77,080
Purchased services	**61,828**	73,825
Others	**159,591**	128,042
Amortization of property and equipment	**61,381**	61,118
	1,879,853	1,801,445
Rights of Passage		
Salaries and benefits	**1,827,032**	1,797,642
Postage, printing and advertising	**332**	780
Occupancy	**133,612**	140,310
Purchased services	**56,116**	75,543
Others	**119,654**	85,360
Amortization of property and equipment	**69,545**	67,736
	2,206,291	2,167,371
Public education	**488,925**	375,347
Total programs	**9,278,860**	8,918,589
Finance and administration	**1,303,629**	1,203,386
Development	**3,433,054**	3,956,538
Total expenses	**14,015,543**	14,078,513

Notes to financial statements

June 30, 2017

15. British Columbia Societies Act disclosures

In accordance with the new Societies Act of British Columbia and its accompanying regulations, which were effective November 28, 2016, the following disclosures are required:

Remuneration paid to directors

The directors of the Society receive no compensation as a result of their board position.

Remuneration paid to employees and contractors

The employees or contractors of the Society with the highest remuneration greater than $75,000 include the Executive Director of the Society. The total remuneration paid to the top ten employees who earned more than $75,000 in the year was $1,286,166.

16. Government grants

Included in government grant revenues are funds received from Metro Vancouver Regional District ["Metro Vancouver"] for the Homelessness Partnering Strategy ["Program"] of $202,998 [2016 – $307,846]. The funding was received under the Agreement entered into in October 2016 covering a funding period from October 2016 to March 2019. In accordance with the terms and conditions of the Agreement with Metro Vancouver, the Organization has incurred corresponding expenditures in the amount of $202,998 in connection with the Program during fiscal 2017.

17. Related party transactions

During the year, Covenant House New York, the ultimate parent organization, waived its right to charge the Organization for the use of certain software during the year [2016 – Covenant House New York charged the Organization US$20,000].