

Financial statements

Covenant House Vancouver

June 30, 2016



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, 2016, 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, 2016, 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 7, 2016

Ernst & Young LLP

Chartered Professional Accountants



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

Statement of financial position

As at June 30

	2016	2015
	\$	\$
Assets		
Current		
Cash and cash equivalents <i>[note 4]</i>	6,325,528	2,725,693
Accounts receivable <i>[note 5]</i>	72,790	510,519
Prepaid expenses	87,751	54,548
Total current assets	6,486,069	3,290,760
Property and equipment, net <i>[notes 6 and 7]</i>	5,771,270	5,748,108
	11,257,339	9,038,868
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	1,000,632	771,975
Proposal development funding and promissory note <i>[note 7]</i>	547,380	—
Total current liabilities	1,548,012	771,975
Deferred contributions <i>[note 8]</i>	273,911	725,084
Deferred contributions related to the expansion project <i>[note 6]</i>	1,517,278	—
Deferred contributions related to property and equipment <i>[note 9]</i>	3,462,373	3,726,633
Total liabilities	6,801,574	5,223,692
Commitments and contingent liabilities <i>[note 11]</i>		
Net assets		
Internally restricted – Property and equipment	1,761,517	2,021,475
Internally restricted – Sustainability <i>[note 4]</i>	1,317,513	1,312,887
Unrestricted net assets	1,376,735	480,814
Total net assets	4,455,765	3,815,176
	11,257,339	9,038,868

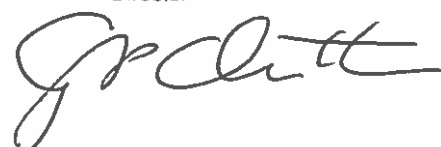
See accompanying notes

On behalf of the Board:

Director



Director



Covenant House Vancouver

Statement of operations

Year ended June 30

	2016	2015
	\$	\$
Revenue		
Donations and bequests	13,096,856	11,882,176
Government grants <i>[note 14]</i>	1,003,764	775,942
Gaming	131,647	131,748
Investment income	14,619	9,455
Other income	167,956	105,642
Amortization of deferred contributions related to property and equipment <i>[note 9]</i>	304,260	291,416
	14,719,102	13,196,379
Expenses <i>[note 13]</i>		
Salaries and benefits <i>[note 10]</i>	9,606,557	8,857,652
Postage, printing and advertising	1,992,963	2,264,214
Occupancy	572,854	492,157
Purchased services	1,117,466	842,904
Others	436,705	398,963
Amortization of property and equipment	351,968	343,840
	14,078,513	13,199,730
Excess (deficiency) of revenue over expenses for the year	640,589	(3,351)

See accompanying notes

Covenant House Vancouver

Statement of changes in net assets

Year ended June 30

	2016			2015	
	Internally restricted – property and equipment \$	Internally restricted – Sustainability [note 4] \$	Unrestricted \$	Total \$	Total \$
Balance, beginning of year	2,021,475	1,312,887	480,814	3,815,176	3,818,527
Excess (deficiency) of revenue over expenses for the year	—	4,626	635,963	640,589	(3,351)
Transfer to unrestricted related to amortization of deferred capital contributions	304,260	—	(304,260)	—	—
Transfer from unrestricted related to amortization of property and equipment	(351,968)	—	351,968	—	—
Purchase of property and equipment, net	925,130	—	(925,130)	—	—
Deposit on Property refunded	(550,000)	—	550,000	—	—
Deferred contributions received related to property and equipment	(40,000)	—	40,000	—	—
Proposal development funding and promissory note received	(547,380)	—	547,380	—	—
Balance, end of year	1,761,517	1,317,513	1,376,735	4,455,765	3,815,176

See accompanying notes

Covenant House Vancouver

Statement of cash flows

Year ended June 30

	2016	2015
	\$	\$
Operating activities		
Excess (deficiency) of revenue over expenses for the year	640,589	(3,351)
Add (deduct) items not affecting cash		
Short-term investments received as donations	—	13,092
Amortization of property and equipment	351,968	343,840
Amortization of deferred contributions related to property and equipment	(304,260)	(291,416)
	<u>688,297</u>	<u>62,165</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable	437,729	(401,958)
Prepaid expenses	(33,203)	35,831
Accounts payable and accrued liabilities	228,657	19,639
Deferred contributions	(451,173)	718,213
Cash provided by operating activities	<u>870,307</u>	<u>433,890</u>
Investing activities		
Purchase of property and equipment	(925,130)	(885,515)
Deposit on Property refunded	550,000	—
Cash used in investing activities	<u>(375,130)</u>	<u>(885,515)</u>
Financing activities		
Receipts of deferred contributions related to property and equipment	40,000	157,500
Receipts of deferred contributions related to expansion project	1,517,278	—
Increase in proposal development funding and promissory note	547,380	—
Cash provided by financing activities	<u>2,104,658</u>	<u>157,500</u>
Net increase (decrease) in cash and cash equivalents during the year	2,599,835	(294,125)
Cash and cash equivalents, beginning of year	2,725,693	3,019,818
Cash and cash equivalents, end of year [note 4]	<u>5,325,528</u>	<u>2,725,693</u>

See accompanying notes

Covenant House Vancouver

Notes to financial statements

June 30, 2016

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* "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.

Covenant House Vancouver

Notes to financial statements

June 30, 2016

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

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, 2016 amounted to \$94,543 [US\$73,286] [2015 – \$43,118 [US\$39,746]].

4. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2016	2015
	\$	\$
Cash – operating	2,310,175	1,255,896
Cash – gaming	132,546	127,169
Cash – Rights of Passage Youth Deposits	48,294	27,039
Internally restricted – expansion project	1,517,000	—
Internally restricted – sustainability	1,317,513	1,315,589
	5,325,528	2,725,693

Covenant House Vancouver

Notes to financial statements

June 30, 2016

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, 2016 and 2015, the funds are comprised of cash as noted above.

5. Government receivables

Government receivables of \$31,105 [2015 – \$22,972] are included in accounts receivable.

6. Property and equipment

			2016	2015
	Amortization period	Cost \$	Accumulated amortization \$	Net book value \$
			Net book value \$	Net book value \$
Tangible				
Land – Drake Street	—	1,000,000	—	1,000,000
Building – Drake Street	40 years	1,485,386	663,826	858,694
Building – West Pender Street	40 years	2,071,474	784,606	1,341,807
Building improvements	15 years	2,604,843	1,154,850	1,555,714
Furniture and equipment	10 years	1,404,492	1,188,782	292,554
Vehicles	10 years	52,843	44,343	13,784
Computer equipment	3 years	398,024	386,986	6,519
Development in progress				
	—	977,601	—	679,036
		9,994,663	4,223,393	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 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. The option to purchase will expire 10 years after substantial completion of the development of the Property.

Covenant House Vancouver

Notes to financial statements

June 30, 2016

To date the Organization has incurred \$977,601 of professional, development and rezoning costs related to the development of the Property, which has been recorded as development in progress.

The original deposit of \$550,000 was refunded to the Organization 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 Property. The loan amount to be advanced will be due and payable on demand and bears interest at a floating rate approximating 1% per annum. In the event that the development of the Property located at 530 Drake Street does not complete 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, 2016, the Organization has utilized \$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:

	2016	2015
	\$	\$
Balance, beginning of year	725,084	6,871
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
Youth Education	13,814	44,309
Other organizations	—	150,000
Less amounts recognized as revenue	(464,987)	(141,096)
Balance, end of year	273,911	725,084

Covenant House Vancouver

Notes to financial statements

June 30, 2016

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.

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

	2016	2015
	\$	\$
Balance, beginning of year	3,726,633	3,860,549
Add capital contributions received in the year	40,000	157,500
	3,766,633	4,018,049
Less amortization of deferred contributions related to property and equipment in the year	(304,260)	(291,416)
Balance, end of year	3,462,373	3,726,633

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, 2016 amounted to \$227,656 [2015 – \$235,445].

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.

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

	\$
2017	13,080
2018	13,080
2019	10,214
2020	1,616
2021	1,616
	39,606

Covenant House Vancouver

Notes to financial statements

June 30, 2016

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.

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	2016	2015
	\$	\$
Shelter and crisis care		
Salaries and benefits	3,892,889	3,832,562
Postage, printing and advertising	1,751	4,414
Occupancy	219,656	198,317
Purchased services	131,233	86,934
Others	177,074	131,006
Amortization of property and equipment	151,823	147,651
	4,574,426	4,400,884
Outreach/Community Support Services		
Salaries and benefits	1,460,630	1,308,814
Postage, printing and advertising	750	2,183
Occupancy	77,080	76,403
Purchased services	73,825	48,415
Others	128,042	127,761
Amortization of property and equipment	61,118	59,669
	1,801,445	1,623,245
Rights of Passage		
Salaries and benefits	1,797,642	1,583,560
Postage, printing and advertising	780	2,096
Occupancy	140,310	129,944
Purchased services	75,543	47,719
Others	85,360	91,987
Amortization of property and equipment	67,736	67,080
	2,167,371	1,922,386
Public education	375,347	331,857
Total programs	8,918,589	8,278,372
Finance and administration	1,203,386	1,099,214
Development	3,956,538	3,822,144
Total expenses	14,078,513	13,199,730

Covenant House Vancouver

Notes to financial statements

June 30, 2016

14. Government grants

Included in Government grant revenues are funds received from Greater Vancouver Regional District ["Metro Vancouver"] for the Homelessness Partnering Strategy ["Program"] of \$307,846 [2015 – \$395,215]. The funding was received under the Agreement entered into in January 2015 covering a funding period from January 2015 to September 2016. In accordance with the terms and conditions of the Agreement with Metro Vancouver, the Organization has incurred corresponding expenditures in the amount of \$307,846 in connection with the Program during fiscal 2016.

15. 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 [2015 – Covenant House New York charged the Organization US\$20,000].

