

# Covenant House Vancouver

**Financial statements**

**June 30, 2018**



## 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, 2018, 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, 2018, 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 *Societies 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  
November 8, 2018

*Ernst & Young LLP*

Chartered Professional Accountants



A member firm of Ernst & Young Global Limited

## Covenant House Vancouver

Incorporated under the British Columbia *Society Act*

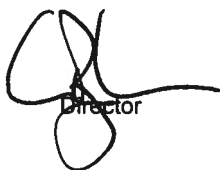
### Statement of financial position

As at June 30

	2018	2017
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents <i>[note 4]</i>	1,914,215	2,015,024
Short-term investments <i>[note 4]</i>	20,166,844	8,182,443
Accounts receivable <i>[note 5]</i>	110,951	50,994
Prepaid expenses	149,237	166,326
<b>Total current assets</b>	<b>22,341,247</b>	<b>10,414,787</b>
Property and equipment, net <i>[notes 6, 7 and 8]</i>	9,280,544	6,562,616
	<b>31,621,791</b>	<b>16,977,403</b>
<b>Liabilities and net assets</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	1,241,539	1,151,485
Proposal development funding and promissory note <i>[note 7]</i>	—	1,189,232
<b>Total current liabilities</b>	<b>1,241,539</b>	<b>2,340,717</b>
Deferred contributions <i>[note 9]</i>	14,615	9,615
Deferred contributions related to the expansion project <i>[notes 6 and 11]</i>	15,592,942	5,905,912
Deferred contributions related to property and equipment <i>[note 10]</i>	2,561,820	3,191,271
Long-term portion of forgivable mortgage <i>[note 8]</i>	3,579,378	—
<b>Total liabilities</b>	<b>22,990,294</b>	<b>11,447,515</b>
Commitments <i>[note 13]</i>		
<b>Net assets</b>		
Internally restricted – property and equipment	1,425,320	2,182,113
Internally restricted – sustainability <i>[note 4]</i>	2,726,141	1,616,071
Unrestricted	4,480,036	1,731,704
<b>Total net assets</b>	<b>8,631,497</b>	<b>5,529,888</b>
	<b>31,621,791</b>	<b>16,977,403</b>

See accompanying notes

On behalf of the Board:

  
Director

  
Director

## Covenant House Vancouver

### Statement of operations

Year ended June 30

	2018	2017
	\$	\$
<b>Revenue</b>		
Donations and bequests	16,406,604	13,346,125
Government grants <i>[note 17]</i>	930,442	863,201
Gaming	129,249	155,939
Investment income	233,687	60,373
Other income	351,802	352,851
Amortization of deferred contributions related to property and equipment <i>[note 10]</i>	640,951	311,177
	<u>18,692,735</u>	<u>15,089,666</u>
<b>Expenses <i>[note 15]</i></b>		
Salaries and benefits <i>[note 12]</i>	10,753,801	10,028,593
Postage, printing and advertising	1,562,827	1,428,823
Occupancy	545,454	558,657
Purchased services	1,107,759	1,058,686
Other	694,014	585,239
Amortization of property and equipment	927,271	355,545
	<u>15,591,126</u>	<u>14,015,543</u>
<b>Excess of revenue over expenses for the year</b>	<u>3,101,609</u>	<u>1,074,123</u>

See accompanying notes

## Covenant House Vancouver

### Statement of changes in net assets

Year ended June 30

	2018			2017	
	Internally restricted – property and equipment \$	Internally restricted – sustainability [note 4] \$	Unrestricted \$	Total \$	Total \$
<b>Balance, beginning of year</b>	<b>2,182,113</b>	<b>1,616,071</b>	<b>1,731,704</b>	<b>5,529,888</b>	<b>4,455,765</b>
Excess of revenue over expenses for the year	—	35,947	3,065,662	3,101,609	1,074,123
Transfer to increase sustainability from the net operating surplus in fiscal 2017	—	1,074,123	(1,074,123)	—	—
Transfer to unrestricted related to amortization of deferred contributions related to property and equipment	640,951	—	(640,951)	—	—
Transfer from unrestricted related to amortization of property and equipment	(927,271)	—	927,271	—	—
Purchase of property and equipment	3,645,199	—	(3,645,199)	—	—
Deferred contributions received related to property and equipment	(11,500)	—	11,500	—	—
Proposal development funding and promissory note received	(420,261)	—	420,261	—	—
Forgivable mortgage received	(1,969,885)	—	1,969,885	—	—
Increase in expansion project contributions	(9,687,030)	—	9,687,030	—	—
Increase in expansion project cash	7,973,004	—	(7,973,004)	—	—
<b>Balance, end of year</b>	<b>1,425,320</b>	<b>2,726,141</b>	<b>4,480,036</b>	<b>8,631,497</b>	<b>5,529,888</b>

See accompanying notes

## Covenant House Vancouver

### Statement of cash flows

Year ended June 30

	2018	2017
	\$	\$
<b>Operating activities</b>		
Excess of revenue over expenses for the year	3,101,609	1,074,123
Add (deduct) items not affecting cash		
Amortization of property and equipment	927,271	355,545
Amortization of deferred contributions related to property and equipment	(640,951)	(311,177)
	<u>3,387,929</u>	<u>1,118,491</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable	(59,957)	21,796
Prepaid expenses	17,089	(78,574)
Accounts payable and accrued liabilities	90,054	150,853
Deferred contributions	5,000	(264,296)
<b>Cash provided by operating activities</b>	<u>3,440,115</u>	<u>948,270</u>
<b>Investing activities</b>		
Purchase of property and equipment	(3,645,199)	(1,146,891)
<b>Cash used in investing activities</b>	<u>(3,645,199)</u>	<u>(1,146,891)</u>
<b>Financing activities</b>		
Receipts of deferred contributions related to property and equipment	11,500	40,075
Receipts of deferred contributions related to expansion project	9,687,030	4,388,634
Increase in proposal development funding and promissory note	420,261	641,851
Increase in short-term investments	(11,984,401)	(8,182,443)
Increase in forgivable mortgage	1,969,885	—
<b>Cash provided by (used in) financing activities</b>	<u>104,275</u>	<u>(3,111,883)</u>
<b>Net increase (decrease) in cash during the year</b>	<u>(100,809)</u>	<u>(3,310,504)</u>
Cash and cash equivalents, beginning of year	2,015,024	5,325,528
<b>Cash and cash equivalents, end of year</b>	<u>1,914,215</u>	<u>2,015,024</u>
<b>Non-cash transactions</b>		
Reduction of proposal development funding and promissory note	(1,609,493)	—
Increase of forgivable mortgage	1,609,493	—

See accompanying notes

## Covenant House Vancouver

### Notes to financial statements

June 30, 2018

#### 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 which was incorporated under the British Columbia *Society Act* transitioned to the new *Societies Act* in April 2018 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 that 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, 2018

#### **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 accrued liabilities, 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, 2018 amounted to \$197,824 [US\$149,542] [2017 – \$101,383 [US\$74,201]].



## Covenant House Vancouver

### Notes to financial statements

June 30, 2018

#### 4. Cash and cash equivalents including short-term investments

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

	2018	2017
	\$	\$
Cash – operating	5,277,893	2,967,201
Cash – gaming	147,910	152,203
Cash – Rights of Passage youth deposits	50,199	50,095
Internally restricted – expansion project	13,878,916	5,411,897
Internally restricted – sustainability	2,726,141	1,616,071
	<u>22,081,059</u>	<u>10,197,467</u>
Short-term investment portion	20,166,844	8,182,443
<b>Cash and cash equivalents</b>	<u><b>1,914,215</b></u>	<u><b>2,015,024</b></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, 2018 and 2017, the funds are comprised of cash as noted above.

Short-term investments are invested in one year Flexible GIC's bearing interest at rates ranging from 1.75% per annum to 1.94% per annum through CIBC Wood Gundy.

#### 5. Government receivables

Government receivables of \$110,951 [2017 – \$50,958] are included in accounts receivable.

## Covenant House Vancouver

### Notes to financial statements

June 30, 2018

#### 6. Property and equipment

	Amortization period	Cost \$	Accumulated amortization \$	2018 Net book value \$	2017 Net book value \$
<b>Tangible</b>					
Land – Drake Street	nil	1,000,000	—	1,000,000	1,000,000
Building – Drake Street	40 years	1,485,386	987,192	498,194	784,425
Building – West Pender Street	40 years	2,071,474	885,027	1,186,447	1,229,261
Building improvements	15 years	2,657,381	1,731,830	925,551	1,383,209
Furniture and equipment	10 years	922,328	776,739	145,589	163,437
Vehicles	10 years	60,750	35,727	25,023	31,099
Computer equipment	3 years	260,203	54,094	206,109	98,980
<b>Development in progress</b>					
		5,293,631	—	5,293,631	1,872,205
		<b>13,751,153</b>	<b>4,470,609</b>	<b>9,280,544</b>	<b>6,562,616</b>

#### Development in progress

Development in progress is not amortized until the property is placed into service, at which time the property will be transferred to its appropriate asset category and 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.

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.

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.

As at June 30, 2018, the Organization has incurred \$5,293,631 of professional, development and construction costs related to the project, which has been recorded as development in progress.

## Covenant House Vancouver

### Notes to financial statements

June 30, 2018

#### 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.

The Organization utilized \$1,609,493 [2017 – \$1,189,232] of the above noted PDF and promissory note, which was reduced to nil as at June 30, 2018 with balance of \$1,609,493 being added to the forgivable mortgage [note 8].

#### 8. Forgivable mortgage

The Organization was provided with financial assistance in the amount of \$5,000,000 in the form of a forgivable mortgage, registered on July 26, 2017. The Organization is required to continue developing and operating the land, described in note 6, for the specific purposes under the mortgage. As long as the Organization is using the mortgage for the specific purpose the mortgage will be forgiven equally over the term of the project in the 11<sup>th</sup> year following the project completion date of 2021.

	2018	2017
	\$	\$
Amounts advanced during 2018, including the \$1,609,493 transferred from the PDF and promissory note	<b>3,579,378</b>	—

#### 9. 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:

	2018	2017
	\$	\$
<b>Balance, beginning of year</b>	<b>9,615</b>	273,911
Add funds received during the year		
Youth Education	<b>19,206</b>	14,192
Less amounts recognized as revenue	<b>(14,206)</b>	(278,488)
<b>Balance, end of year</b>	<b>14,615</b>	9,615

## Covenant House Vancouver

### Notes to financial statements

June 30, 2018

#### 10. Deferred contributions related to property and equipment

Deferred contributions related to property and equipment include contributions that 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:

	2018	2017
	\$	\$
<b>Balance, beginning of year</b>	<b>3,191,271</b>	3,462,373
Add capital contributions received in the year	<b>11,500</b>	40,075
	<b>3,202,771</b>	3,502,448
Less amortization of deferred contributions related to property and equipment in the year	<b>(640,951)</b>	(311,177)
<b>Balance, end of year</b>	<b>2,561,820</b>	3,191,271

#### 11. Deferred contributions related to the expansion project

Deferred contributions related to the expansion project include contributions that 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:

	2018	2017
	\$	\$
<b>Balance, beginning of year</b>	<b>5,905,912</b>	1,517,278
Add capital contributions received in the year	<b>9,687,030</b>	4,388,634
<b>Balance, end of year</b>	<b>15,592,942</b>	5,905,912

#### 12. 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, 2018 amounted to \$246,946 [2017 – \$237,792].

## Covenant House Vancouver

### Notes to financial statements

June 30, 2018

#### 13. Commitments

The Organization is committed under operating leases for certain leased equipment at both its West Pender and Drake Street facilities expiring in 2022. 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 four years are as follows:

	\$
2019	178,000
2020	54,000
2021	52,000
2022	29,000
	<u>313,000</u>

#### 14. 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.

## Covenant House Vancouver

### Notes to financial statements

June 30, 2018

#### 15. Summary of program service expenses

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

<b>Programs</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Shelter and crisis care</b>		
Salaries and benefits	4,266,093	3,965,492
Postage, printing and advertising	127	450
Occupancy	219,019	228,955
Purchased services	142,188	124,126
Others	269,230	231,518
Amortization of property and equipment	433,832	153,251
	<b>5,330,489</b>	<b>4,703,792</b>
<b>Outreach/Community Support Services</b>		
Salaries and benefits	1,533,589	1,514,970
Postage, printing and advertising	127	501
Occupancy	85,072	81,582
Purchased services	81,948	61,828
Others	142,651	159,591
Amortization of property and equipment	224,198	61,381
	<b>2,067,585</b>	<b>1,879,853</b>
<b>Rights of Passage</b>		
Salaries and benefits	1,810,289	1,827,032
Postage, printing and advertising	70	332
Occupancy	148,984	133,612
Purchased services	71,264	56,116
Others	175,817	119,654
Amortization of property and equipment	80,227	69,545
	<b>2,286,651</b>	<b>2,206,291</b>
<b>Public education</b>	<b>469,495</b>	<b>488,925</b>
<b>Total programs</b>	<b>10,154,220</b>	<b>9,278,861</b>
<b>Finance and administration</b>	<b>1,440,808</b>	<b>1,303,628</b>
<b>Development</b>	<b>3,996,098</b>	<b>3,433,054</b>
<b>Total expenses</b>	<b>15,591,126</b>	<b>14,015,543</b>

## Covenant House Vancouver

### Notes to financial statements

June 30, 2018

#### **16. 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 \$1,416,807.

#### **17. Government grants**

Included in government grant revenues are funds received from Metro Vancouver Regional District ["Metro Vancouver"] for the Homelessness Partnering Strategy ["Program"] of \$201,186 [2017 – \$202,998]. 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 \$201,186 in connection with the Program during fiscal 2018.

#### **18. Related party transactions**

During the year, Covenant House International, the ultimate parent organization, charged the Organization for the use of certain software during the year totaling \$985 [2017 – Covenant House International charged the Organization nil]. As at June 30, 2018, the Organization owed Covenant House International \$985 [2017 – nil].