Covenant House Vancouver

Financial statements
June 30, 2019

Independent auditor's report

To the Board of Directors of
Covenant House Vancouver

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Covenant House Vancouver** [the "Organization"], which comprise the statement of financial position as at June 30, 2019, and the statement of changes in net assets, statement of operations and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at June 30, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Impact Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Impact Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

As required by the British Columbia *Societies Act*, we report that, in our opinion, the accounting principles in 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
November 14, 2019

Covenant House Vancouver

Statement of financial position

As at June 30

	2019	2018
	$	$
Assets		
Current		
Cash	**2,187,298**	1,869,511
Short-term investments and restricted cash *[note 4]*	**19,031,140**	20,211,548
Amounts receivable	**304,288**	110,951
Prepaid expenses	**258,814**	149,237
Total current assets	**21,781,540**	22,341,247
Property and equipment, net *[note 5]*	**24,132,452**	9,280,544
	45,913,992	31,621,791
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	**1,309,148**	1,241,539
Mortgage *[note 6]*	**5,633,675**	—
Total current liabilities	**6,942,823**	1,241,539
Deferred contributions related to youth education funding *[note 7]*	**18,470**	14,615
Deferred contributions related to property and equipment and expansion project *[note 8]*	**23,437,059**	21,734,140
Total liabilities	**30,398,352**	22,990,294
Commitments *[notes 5 and 10]*		
Net assets		
Property and equipment	**7,319,593**	1,425,320
Internally restricted *[note 4]*	**5,584,753**	2,726,142
Unrestricted	**2,611,294**	4,480,035
Total net assets	**15,515,640**	8,631,497
	45,913,992	31,621,791

See accompanying notes

On behalf of the Board:

Director

Director

Covenant House Vancouver

Statement of changes in net assets

Year ended June 30

	2019				2018
	Property and equipment	Internally restricted	Unrestricted	Total	Total
	$	$	$	$	$
Balance, beginning of year	**1,425,320**	**2,726,142**	**4,480,035**	**8,631,497**	5,529,888
Excess of revenue over expenses for the year	**—**	**113,314**	**1,137,154**	**1,250,468**	3,101,609
Purchase of property and equipment	**16,407,616**	**—**	**(16,407,616)**	**—**	—
Amortization of property and equipment	**(986,939)**	**—**	**986,939**	**—**	—
Write-down of property and equipment	**(568,769)**	**—**	**568,769**	**—**	—
Expansion project contributions	**(3,038,472)**	**—**	**8,672,147**	**5,633,675**	—
Amortization of deferred contributions related to property and equipment	**1,335,553**	**—**	**(1,335,553)**	**—**	—
Mortgage	**(5,633,675)**	**—**	**5,633,675**	**—**	—
Restricted to strategic action fund	**—**	**1,701,609**	**(1,701,609)**	**—**	—
Restricted to sustainability fund	**—**	**1,400,000**	**(1,400,000)**	**—**	—
Strategic initiative	**—**	**(356,312)**	**356,312**	**—**	—
Cash and short-term investment for expansion project	**(1,621,041)**	**—**	**1,621,041**	**—**	—
Balance, end of year	**7,319,593**	**5,584,753**	**2,611,294**	**15,515,640**	8,631,497

See accompanying notes

Covenant House Vancouver

Statement of operations

Year ended June 30

	2019	2018
	$	$
Revenue		
Donations and bequests	**16,304,335**	16,406,604
Amortization of deferred contributions *[note 8]*	**1,335,553**	640,951
Government grants *[note 14]*	**774,122**	930,442
Investment income	**506,766**	233,687
Gaming	**145,440**	129,249
Other income	**125,145**	351,802
	19,191,361	18,692,735
Expenses *[note 12]*		
Salaries and benefits *[note 13]*	**12,414,909**	10,753,801
Amortization of property and equipment *[note 5]*	**986,939**	927,271
Write-down of property and equipment *[note 5]*	**568,769**	—
Postage, printing and advertising	**1,489,314**	1,562,827
Purchased services	**1,388,380**	1,107,759
Other	**578,560**	694,014
Occupancy	**514,022**	545,454
	17,940,893	15,591,126
Excess of revenue over expenses for the year	**1,250,468**	3,101,609

See accompanying notes

Covenant House Vancouver

Statement of cash flows

Year ended June 30

	2019	2018
	$	$
Operating activities		
Excess of revenue over expenses for the year	**1,250,468**	3,101,609
Add (deduct) items not affecting cash		
Amortization of deferred contributions	**(1,335,553)**	(640,951)
Amortization of property and equipment	**986,939**	927,271
Write-down of property and equipment	**568,769**	—
	1,470,623	3,387,929
Changes in non-cash working capital balances		
Amounts receivable	**(193,337)**	(59,957)
Prepaid expenses	**(109,577)**	17,089
Accounts payable and accrued liabilities	**67,609**	90,054
Deferred contributions related to youth education funding	**3,855**	5,000
Cash provided by operating activities	**1,239,173**	3,440,115
Investing activities		
Purchase of property and equipment	**(16,407,616)**	(3,645,199)
Increase (decrease) in short-term investments and restricted cash	**1,180,408**	(12,029,105)
Cash used in investing activities	**(15,227,208)**	(15,674,304)
Financing activities		
Contributions related to property and equipment	**8,672,147**	12,088,676
Proceeds from mortgage	**5,633,675**	—
Cash provided by financing activities	**14,305,822**	12,088,676
Net increase (decrease) in cash during the year	**317,787**	(145,513)
Cash, beginning of year	**1,869,511**	2,015,024
Cash, end of year	**2,187,298**	1,869,511

See accompanying notes

Notes to financial statements

June 30, 2019

1. Nature of operations

Covenant House Vancouver [the "Organization"] provides care and sanctuary for homeless youth. In operation since 1997 and incorporated under the British Columbia *Society Act* 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 transitioned to the new British Columbia *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

Basis of accounting

These financial statements were prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, "Accounting Standards for Not-for-Profit Organizations" ["ASNPO"].

Cash

Cash consists of cash on deposit with banks and, if applicable, highly liquid short-term investments with a term to maturity of three months or less at the purchase date.

Short-term investments

Short-term investments comprise highly liquid, interest-bearing investments with maturity at the purchase date of greater than three months but not more than one year.

Financial instruments

Financial instruments are initially measured at fair value, net of directly attributable costs of acquisition, and subsequently measured at cost or amortized cost. As at each reporting date, the Organization assesses whether there are any indications that a financial asset measured at cost or amortized cost may be impaired. The amount of any impairment provision is recognized in the statement of operations. A previously recognized impairment provision may be reversed to the extent of any improvements relating to events occurring after the impairment was recognized. The amount of reversal is recognized in the statement of operations in the period in which it is determined.

Property and equipment

Property and equipment is recorded at cost and amortized on the straight-line basis over the estimated useful lives as disclosed in note 5. When a property and equipment item no longer has any long-term service potential to the Organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Write-downs are not reversed.

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. Contributions are non-reciprocal transfers to the Organization of cash or other assets or a non-reciprocal settlement or cancellation of its liabilities. Government funding, which includes gaming, provided to the Organization is considered to be a contribution. Externally restricted contributions for which the related restriction is unfulfilled at the statement of financial position date, as well as contributions for expenses of one or more future periods, are deferred and recognized as revenue in the same period or periods in which the restriction is fulfilled or the related expenses are recognized. Restricted contributions for the purchase of property and equipment that will be amortized are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired property and equipment. Restricted contributions for the purchase of property and equipment that will not be amortized are recognized as direct increases in net assets. Restricted contributions for the repayment of debt that is incurred to fund the purchase of property and equipment that will not be amortized are recognized as a direct increase in net assets. Endowment contributions are recognized as direct increases in net assets in the current period.

Investment income, which comprises interest income, is recognized with the passage of time.

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

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at rates of exchange in effect when the assets are acquired or obligations incurred. Revenues and expenses are translated at the exchange rates prevailing at the time the transaction occurs. All exchange gains and losses are recognized in the statement of operations in the period in which they arise.

3. Financial instruments

Interest rate risk

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization's short-term investments earn interest at fixed interest rates and the Organization's mortgage is non-interest bearing.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Organization is exposed to credit risk in the event of non-performance by counterparties primarily in connection with its cash, restricted cash, short-term investments and amounts receivable. The Organization mitigates its credit risk with respect to cash, restricted cash, and short-term investments by dealing with Canadian financial institutions with no publicly known liquidity problems and, with respect to amounts receivable, by dealing only with what management believes to be financially sound counterparties.

Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with financial liabilities. The Organization is exposed to liquidity risk primarily from its accounts payable and accrued liabilities and mortgage. The Organization's ability to meet its obligations depends on generating cash flows from operations and the ability to obtain financing from other sources including its existing and other potential lenders.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Organization has a bank account denominated in US dollars [June 30, 2019 – US$40,716; June 30, 2018 – US$149,542] and thus the Organization is exposed to the risk of fluctuations in earnings and cash flows arising from changes in the exchange rate between the Canadian dollar and the US dollar and the degree of volatility in that rate.

4. Short-term investments and restricted cash

	2019 $	2018 $
Short-term investments		
Externally restricted – expansion project *[note 8]*	**12,217,271**	13,839,084
Internally restricted – sustainability fund	**4,210,702**	2,721,270
Internally restricted – strategic action fund	**1,369,085**	—
Unrestricted – operating	**1,188,512**	3,606,490
Total short-term investments	**18,985,570**	20,166,844
Restricted cash		
Externally restricted – expansion project *[note 8]*	**40,604**	39,832
Internally restricted – sustainability fund	**4,966**	4,872
Total restricted cash	**45,570**	44,704
Total short-term investments and restricted cash	**19,031,140**	20,211,548

Short-term investments comprise Flexible GIC's bearing interest at rates ranging from 2.45% per annum to 2.68% [2018 – 1.75% to 1.94%] per annum through CIBC Wood Gundy.

The funds designated as *internally restricted – sustainability fund* are board restricted funds to be used at the discretion of the board of directors in times of extraordinary and unforeseen needs.

The funds designated as *internally restricted – strategic action fund* are board restricted funds to be used at the discretion of the board of directors for strategic purposes and staff initiatives.

5. Property and equipment

	2019				2018
	Amortization period	**Cost**	**Accumulated amortization**	**Net book value**	**Net book value**
	years	$	$	$	$
Land					
1280 Seymour	—	**1,000,000**	—	**1,000,000**	1,000,000
1302 Seymour	—	**5,633,675**	—	**5,633,675**	—
Building					
1280 Seymour	**40**	—	—	—	498,194
1302 Seymour	**40**	**13,451,364**	**168,142**	**13,283,222**	—
West Pender Street	**40**	**2,071,474**	**940,400**	**1,131,074**	1,186,447
Building improvements	**15**	**892,675**	**470,883**	**421,792**	925,551
Furniture and equipment	**10**	**612,333**	**59,143**	**553,190**	145,589
Vehicles	**10**	**28,598**	**7,150**	**21,448**	25,023
Computer equipment	**3**	**666,766**	**205,506**	**461,260**	206,109
Development in progress	—	**1,626,791**	—	**1,626,791**	5,293,631
		25,983,676	**1,851,224**	**24,132,452**	9,280,544

Development in progress

The Organization is undertaking the redevelopment of 1302 and 1280 Seymour Street. During the year ended June 30, 2019, the Organization completed the redevelopment of the facility at 1302 Seymour Street for a total cost of $19,085,039, including land of $5,633,675.

The Organization is committed to a construction contract for 1280 Seymour Street. During the year ended June 30, 2019, the Organization wrote down the remaining net book value of the building and building improvements at 1280 Seymour Street for $568,769. As at June 30, 2019, the Organization has incurred $1,626,791 of professional, development and construction costs related to the redevelopment, which has been recorded as development in progress. At June 30, 2019, the Organization has contracted costs aggregating approximately $1,381,600 related to the redevelopment.

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.

Notes to financial statements

June 30, 2019

6. Mortgage

The mortgage is repayable on demand, is non-interest bearing prior to its maturity in April 2029, and a charge on the property at 1302 Seymour Street is provided as collateral. No principal repayments are required prior to maturity. Subsequent to April 2029, if the mortgage is not fully repaid, it bears interest at the prime interest rate plus 2% per annum.

7. Deferred contributions related to youth education funding

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

	2019 $	2018 $
Balance, beginning of year	**14,615**	9,615
Contributions	**34,760**	19,206
Revenue recognized	**(30,905)**	(14,206)
Balance, end of year	**18,470**	14,615

8. Deferred contributions related to property and equipment and expansion project

Deferred contributions related to property and equipment include contributions that are restricted for the purchase of property and equipment or the expansion project. The expansion project is the redevelopment, construction and fixturing of the Organization's three operating locations.

	2019 $	2018 $
Property and equipment		
Balance, beginning of year	**2,561,820**	3,191,271
Contributions	**—**	11,500
Amortization of deferred contributions	**(1,114,800)**	(640,951)
Balance, end of year	**1,447,020**	2,561,820
Expansion project		
Balance, beginning of year	**19,172,320**	5,905,912
Contributions [excluding $5,633,675 for mortgage repayment *[note 6]*]	**1,617,850**	9,687,030
Forgivable mortgage	**1,420,622**	3,579,378
Amortization of deferred contributions	**(220,753)**	—
Balance, end of year	**21,990,039**	19,172,320
	23,437,059	21,734,140

The Organization has a forgivable mortgage owing for $5,000,000 used for the construction of the property at 1302 Seymour Street. The mortgage is non-interest bearing, has a 35-year term that matures in August 2052, and a charge on the property at 1302 Seymour Street is provided as collateral. A portion of the mortgage is forgiven annually by the lender commencing in August 2027 and ending at the maturity date. In accordance with ASNPO, the Organization has initially recognized the mortgage as a deferred contribution and is subsequently recognizing it as revenue on a straight-line basis over 40 years, which is the same basis as the amortization expense related to the building at 1302 Seymour Street.

9. Pension plan

The Organization has a defined contribution pension plan. Employees are eligible to join the plan after one year of continuous service. Contributions made by the Organization to the plan are recognized as an expense in the period in which the contributions are made. For the year ended June 30, 2019, contributions made by the Organization amounted to $251,555 [2018 – $246,946].

10. Commitments

The Organization is committed under operating leases for certain leased equipment at both its West Pender and Seymour Street facilities expiring at various dates between 2020 and 2024. 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:

	$
2020	246,058
2021	131,658
2022	131,658
2023	125,255
	634,629

11. 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.

Notes to financial statements

June 30, 2019

12. Summary of program service expenses

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

	2019	2018
	$	$
Programs		
Shelter and Crisis Care		
Salaries and benefits	**4,935,835**	4,266,093
Postage, printing and advertising	**215**	127
Occupancy	**213,209**	219,019
Purchased services	**194,605**	142,188
Others	**205,739**	269,230
Amortization and write-down of property and equipment	**700,113**	433,832
	6,249,716	5,330,489
Outreach/Community Support Services		
Salaries and benefits	**1,802,111**	1,533,589
Postage, printing and advertising	**258**	127
Occupancy	**74,319**	85,072
Purchased services	**115,079**	81,948
Others	**128,147**	142,651
Amortization and write-down of property and equipment	**233,491**	224,198
	2,353,405	2,067,585
Rights of Passage		
Salaries and benefits	**1,990,834**	1,810,289
Postage, printing and advertising	**116**	70
Occupancy	**134,401**	148,984
Purchased services	**118,234**	71,264
Others	**140,879**	175,817
Amortization and write-down of property and equipment	**217,673**	80,227
	2,602,137	2,286,651
Public education	**556,005**	469,495
Total programs	**11,761,263**	10,154,220
Finance and administration	**1,595,991**	1,440,808
Development	**4,583,639**	3,996,098
Total expenses	**17,940,893**	15,591,126

Notes to financial statements

June 30, 2019

13. British Columbia *Societies Act* disclosures

The Directors of the Organization are not remunerated. The aggregate remuneration paid to the Organization's 10 employees and contractors with the highest individual remuneration in excess of $75,000 per annum is $1,538,381 [2018 – $1,416,807].

14. Government grants

Included in government grant revenues are funds received from Metro Vancouver Regional District ["Metro Vancouver"] for the Homelessness Partnering Strategy ["Program"] of $372,000 [2018 – $201,186]. The funding was received under the Agreement entered into in March 2019 covering a funding period from April 2019 to March 2020. In accordance with the terms and conditions of the Agreement with Metro Vancouver, the Organization has incurred corresponding expenditures in the amount of $372,000 in connection with the Program during fiscal 2019.

15. Related party transactions

During the year ended June 30, 2019, Covenant House International, the ultimate parent organization, charged the Organization $19,925 [2018 – $985] for the use of certain software. As at June 30, 2019, the Organization owed Covenant House International nil [2018 – $985].

16. Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.