Covenant House Toronto

Financial statements
June 30, 2024

Building a better working world

Independent auditor's report

To the Board of Directors of
Covenant House Toronto

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Covenant House Toronto** [the "Agency"], which comprise the statement of financial position as at June 30, 2024, and the statement of operations, statement of changes in net assets 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 Agency as at June 30, 2024, 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 Agency 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.

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 Agency'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 Agency or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Agency'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 Agency'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 Agency'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 Agency 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 *Corporations Act* (Ontario), 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
Licensed Public Accountants

Toronto, Canada
September 19, 2024

Covenant House Toronto

Statement of financial position

As at June 30

	2024	2023
	$	$
Assets		
Current		
Cash and cash equivalents *[note 3]*	**1,289,753**	3,329,353
Accounts receivable	**827,186**	893,724
Prepaid expenses	**425,654**	307,174
Total current assets	**2,542,593**	4,530,251
Investments, at fair value *[note 3]*	**47,204,732**	42,820,913
Capital assets, net *[note 4]*	**14,543,150**	15,104,815
	64,290,475	62,455,979
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	**2,394,575**	2,855,885
Deferred revenue	**18,450**	31,963
Deferred contributions *[note 5]*	**2,649,317**	4,573,479
Total current liabilities	**5,062,342**	7,461,327
Deferred capital contributions *[note 6]*	**7,595,553**	8,054,794
Total liabilities	**12,657,895**	15,516,121
Commitments and contingencies *[notes 4[c], 8, 10 and 12]*		
Net assets		
Unrestricted	**12,632,580**	12,239,858
Internally restricted *[note 7]*	**39,000,000**	34,700,000
Total net assets	**51,632,580**	46,939,858
	64,290,475	62,455,979

See accompanying notes

On behalf of the Board:

Susan Paterson

Susan Paterson
Chair, Board of Directors

M Stewart

Mag Stewart
Chair, Finance/Property Committee

Covenant House Toronto

Statement of operations

Year ended June 30

	2024	2023
	$	$
Revenue		
Contributions		
Donations and bequests *[note 5]*	**34,085,723**	34,067,447
Catholic Charities	**555,204**	531,810
Service revenue		
Toronto Hostel Services	**3,240,098**	2,778,140
Other government	**4,309,232**	7,434,434
Investment income	**3,633,445**	2,868,148
Amortization of deferred capital contributions *[note 6]*	**564,041**	557,543
Other	**1,634,039**	1,330,692
	48,021,782	49,568,214
Expenses *[note 9]*		
Salaries and benefits	**26,574,058**	25,323,518
Postage and printing	**4,715,086**	5,138,886
Purchased services, food and other supplies *[note 10]*	**7,189,450**	7,214,851
Occupancy	**2,461,063**	2,397,725
Amortization of capital assets	**807,545**	847,869
Other	**1,581,858**	1,288,479
	43,329,060	42,211,328
Excess of revenue over expenses for the year	**4,692,722**	7,356,886

See accompanying notes

Covenant House Toronto

Statement of changes in net assets

Year ended June 30

	2024		
	Unrestricted $	Internally restricted $	Total net assets $
Balance, beginning of year	**12,239,858**	**34,700,000**	**46,939,858**
Excess of revenue over expenses for the year	**4,692,722**	**—**	**4,692,722**
Net transfer to internally restricted net assets *[note 7]*	**(4,300,000)**	**4,300,000**	**—**
Balance, end of year	**12,632,580**	**39,000,000**	**51,632,580**

	2023		
	Unrestricted $	Internally restricted $	Total net assets $
Balance, beginning of year	11,558,049	28,024,923	39,582,972
Excess of revenue over expenses for the year	7,356,886	—	7,356,886
Net transfer to internally restricted net assets *[note 7]*	(6,675,077)	6,675,077	—
Balance, end of year	12,239,858	34,700,000	46,939,858

See accompanying notes

Covenant House Toronto

Statement of cash flows

Year ended June 30

	2024	2023
	$	$
Operating activities		
Excess of revenue over expenses for the year	**4,692,722**	7,356,886
Add (deduct) items not involving cash		
Amortization of capital assets	**807,545**	847,869
Amortization of deferred capital contributions	**(564,041)**	(557,543)
	4,936,226	7,647,212
Changes in non-cash working capital balances related to operations		
Accounts receivable	**66,538**	1,023,424
Prepaid expenses	**(118,480)**	(70,483)
Accounts payable and accrued liabilities	**(461,310)**	93,385
Deferred revenue	**(13,513)**	(19,690)
Deferred contributions	**(1,924,162)**	450,012
Cash provided by operating activities	**2,485,299**	9,123,860
Investing activities		
Purchase of capital assets	**(245,880)**	(322,033)
Net change in investments	**(4,383,819)**	(6,695,990)
Cash used in investing activities	**(4,629,699)**	(7,018,023)
Financing activities		
Contributions received for capital asset purchases	**104,800**	83,100
Cash provided by financing activities	**104,800**	83,100
Net increase (decrease) in cash and cash equivalents during the year	**(2,039,600)**	2,188,937
Cash and cash equivalents, beginning of year	**3,329,353**	1,140,416
Cash and cash equivalents, end of year	**1,289,753**	3,329,353

See accompanying notes

Notes to financial statements

June 30, 2024

1. Nature of operations

Covenant House Toronto [the "Agency"] helps youth ignite their potential and reclaim their lives. As Canada's largest agency serving youth who are homeless, trafficked or at risk, the Agency offers the widest range of 24/7 services to about 350 young people every day.

More than a place to stay, the Agency provides life-changing care with unconditional love and respect. The Agency meets youth's immediate needs, and then they work together to achieve their future goals. The Agency offers housing options, health and well-being support, training and skill development, and ongoing care once youth move into the community.

Since 1982, the Agency has supported more than 100,000 young people.

The Agency is incorporated without share capital under the *Corporations Act* (Ontario), is a charitable organization registered under the *Income Tax Act* (Canada) and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes.

2. Summary of significant accounting policies

Basis of presentation

These financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

Cash and cash equivalents

Cash and cash equivalents include cash and any short-term investments with original maturity dates of 90 days or less. Cash and cash equivalents that are held for investing rather than liquidity purposes are classified within investments.

Financial instruments

Investments reported at fair value consist of equity instruments that are quoted in an active market as well as investments in pooled funds and any investments in fixed income securities that the Agency designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of operations in the period during which they are incurred.

Investments in fixed income securities not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the straight-line method, less any provision for impairment.

All transactions are recorded on a trade date basis.

Other financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on the straight-line basis over their estimated useful lives as follows:

Buildings and building improvements	15–40 years
Furniture and equipment	3–7 years

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not contribute to the Agency’s ability to provide goods and services. Any impairment results in a write-down of the asset and an expense in the statement of operations. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

Revenue recognition

The Agency follows the deferral method of accounting for contributions, which include grants and donations. Grants and bequests are recognized in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received, since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized.

Service revenue is recorded as revenue when the services are provided.

Investment income (loss), which comprises interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, is recorded as revenue when earned in the statement of operations.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect as at the date of the statement of financial position. Non-monetary assets and liabilities are translated at the historic rate. Exchange gains and losses are recorded in the statement of operations.

Contributed materials and services

Contributed materials and services are not recorded in these financial statements.

3. Investments

Investments, at fair value, consist of the following:

	2024 $	2023 $
Cash and cash equivalents	**15,710,430**	19,866,549
Units in pooled funds	**31,494,302**	22,954,364
	47,204,732	42,820,913

As at June 30, the units in pooled funds have been allocated to asset classes based on the underlying investments held in these funds as follows:

	2024 $	2023 $
Canadian Money Market Fund	**1,331,547**	661,329
New Canada Fund	**324,434**	204,138
Balanced Pooled Fund	**16,771,769**	13,184,697
Canadian Bonds Pooled Fund	**7,362,009**	5,217,757
Canadian Equity Pooled Fund	**1,539,028**	985,183
US Equity Funds	**1,753,959**	1,114,014
International Equity Pooled Funds	**1,757,447**	1,153,553
Global Small Cap Fund	**654,109**	433,693
	31,494,302	22,954,364

Cash and cash equivalents include amounts held in interest-bearing savings accounts with the bank. Interest is earned at the bank's prime rate less 1.8%, or 5.14% as at June 30, 2024 [2023 – 5.09%].

A significant portion of the Agency's investments have been restricted by the Agency's Board of Directors for various purposes *[note 7]*.

Notes to financial statements

June 30, 2024

4. Capital assets

[a] Capital assets consist of the following:

	2024		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	**3,795,000**	**—**	**3,795,000**
Buildings and building improvements	**24,315,352**	**13,791,554**	**10,523,798**
Furniture and equipment	**4,239,177**	**4,014,825**	**224,352**
	32,349,529	**17,806,379**	**14,543,150**

	2023		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	3,795,000	—	3,795,000
Buildings and building improvements	24,188,343	13,050,121	11,138,222
Furniture and equipment	4,120,306	3,948,713	171,593
	32,103,649	16,998,834	15,104,815

[b] The Agency's primary capital assets are facilities at 20 Gerrard Street, 21 McGill Street and a home purchased in 2018 for a transitional housing program. These facilities are used to provide services to youth.

[c] In prior years, the acquisition, renovation and furnishing costs of the Agency's facility at 20 Gerrard Street were in part funded by the Province of Ontario and the City of Toronto in the amounts of $5,400,000 and $1,400,000, respectively. The funding of $5,400,000 from the Province of Ontario is secured by a registered agreement constituting a first charge against title to the facility; it is non-interest bearing, with no principal payments due unless the building is sold or there is a change in use without prior agreement. The $1,400,000 advanced by the City of Toronto is secured by a mortgage. The mortgage is non-interest bearing and there are no principal payments due unless the building is sold or there is a change in use without prior agreement. These amounts have not been recorded as liabilities since the Agency is using this property as provided for in the funding agreements.

During 2019, the Agency received $885,000 in funding in the form of a forgivable loan from the City of Toronto towards costs of the aforementioned home purchased for a transitional housing program. This amount is secured by a mortgage, which is non-interest bearing, and there are no principal payments due unless the building is sold or there is a change in use without prior agreement. The mortgage will be reduced at a rate of 5% per year until fully forgiven in 20 years and has not been recorded as a liability since the Agency is using this property as provided for in the funding agreement.

Notes to financial statements

June 30, 2024

5. Deferred contributions

Deferred contributions represent unspent resources externally restricted for specific program costs in future years. The changes in the deferred contributions balance are as follows:

	2024	2023
	$	$
Balance, beginning of year	**4,573,479**	4,123,467
Contributions received during the year	**7,112,243**	12,282,850
Contributions recognized as revenue during the year	**(9,036,405)**	(11,832,838)
Balance, end of year	**2,649,317**	4,573,479

6. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The amortization of deferred capital contributions is recognized as revenue in the statement of operations. The changes in the deferred capital contributions balance are as follows:

	2024	2023
	$	$
Balance, beginning of year	**8,054,794**	8,529,237
Contributions received for capital asset purchases	**104,800**	83,100
Amortization of deferred capital contributions	**(564,041)**	(557,543)
Balance, end of year	**7,595,553**	8,054,794

7. Internally restricted net assets

Internally restricted net assets include the following:

	2024	2023
	$	$
Operating Sustainability Reserve	**23,300,000**	21,500,000
Strategic Initiatives Reserve	**12,700,000**	11,200,000
Capital Reserve	**3,000,000**	2,000,000
	39,000,000	34,700,000

Amounts restricted by the Board of Directors include an Operating Sustainability Reserve that may be accessed in emergency situations, which represents six months of annual operating costs given the Agency is primarily funded by donations, a Strategic Initiatives Reserve to fund strategic initiatives, and a Capital Reserve for major capital projects.

During the year, the Board of Directors approved an interfund transfer from unrestricted net assets to internally restricted net assets of $4,300,000 [2023 – $6,675,077].

8. Commitments

The Agency is committed under contracts and operating leases for office equipment expiring in fiscal 2028. The future minimum annual payments are as follows:

	$
2025	132,768
2026	132,642
2027	132,642
2028	5,683
	403,735

In addition to the commitments above, the Agency has signed a lease for a house with Toronto Community Housing Corporation. The term of the lease is for 21 years commencing August 13, 2016. The lease has one renewal period for a five-year term commencing August 13, 2037. The value of the lease is provided to the Agency as a contribution in kind and, as such, no amounts are recorded in the financial statements.

9. Expenses

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

	2024	**2023**
	$	$
Program services		
Shelter and crisis care	**12,504,070**	14,082,027
Long-term transitional housing	**8,657,357**	7,675,904
Community support services and outreach [including homelessness initiatives]	**7,469,927**	6,816,747
Health care	**855,027**	812,549
Public education and prevention programs	**1,548,830**	1,059,719
Research and evaluation	**775,840**	701,390
Total program services	**31,811,051**	31,148,336
Fundraising and development	**9,392,915**	8,962,680
Management and administration	**2,125,094**	2,100,312
	43,329,060	42,211,328

10. Related party transactions

Covenant House International is a founding member of the Agency and owns the Covenant House brand.

Effective December 5, 2013, the Agency entered into a three-year agreement with Covenant House International to pay an annual license fee for the use of the Covenant House brand and related program support services provided by Covenant House International. During 2019, an amendment was issued, effective February 13, 2019, increasing the annual license fee to Covenant House International, from $150,000 per the original agreement to $175,000. This agreement is renewed at the end of any renewal term for a successive three-year term, unless either party gives written notice of its intention not to renew.

During the year ended June 30, 2024, the Agency expensed amounts paid or payable to Covenant House International totalling $181,895 [2023 – $181,895], which are recorded in purchased services, food and other supplies in the statement of operations. These amounts are primarily attributable to the aforementioned license fee.

Related party transactions are measured at the exchange amount, which is the amount of consideration established by the parties.

As at June 30, 2024, accounts receivable include an amount of $21,566 [2023 – $14,009] due from Covenant House International. The amount is non-interest bearing and due within the next 12 months.

11. Line of credit

The Agency has a $3,000,000 unsecured line of credit with interest payable at the bank's prime rate. As at June 30, 2024 and 2023, no amounts were drawn against this line of credit.

12. Contingencies

In the normal course of operations, the Agency is subject to claims or potential claims. Management records its best estimate of the potential liability related to these claims where potential liability is likely and able to be estimated. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

13. Financial instruments and risk management

The Agency is exposed to various financial risks through transactions in financial instruments.

Currency risk

The Agency is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar. The Agency manages this risk through a strategic asset mix as set out in the Investment Policy Statement.

Credit risk

The Agency is exposed to credit risk in connection with its accounts receivable and its fixed income securities because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. The Agency believes the credit risk is minimal as the accounts receivable are mainly from various levels of government and the fixed income securities are covered through its diversification in its Investment Policy Statement.

Interest rate risk

The Agency is exposed to interest rate risk with respect to its investments in fixed income securities because the fair value will fluctuate due to changes in market interest rates. The Agency manages this risk through a strategic asset mix as set out in the Investment Policy Statement, which is designed to mitigate the risk of interest rate volatility.

Other price risk

The Agency is exposed to other price risk through changes in market prices [other than changes arising from interest rate risk or currency risk] in connection with its investments. The Agency manages other price risk through diversification as set out in its Investment Policy Statement. In addition, assets and markets are monitored regularly.

14. Comparative financial statements

The comparative financial statements have been reclassified from financial statements previously presented to confirm to the presentation of the 2024 financial statements.