TRANSITION HOUSE INCORPORATED

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2018

HILBORN LLP

INDEPENDENT AUDITOR'S REPORT

To the Members of
Transition House Incorporated

We have audited the accompanying financial statements of Transition House Incorporated, which comprise the balance sheet as at March 31, 2018, and the statements of revenues, expenses and 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.

Auditor's 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 auditor's 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 auditor considers 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, these financial statements present fairly, in all material respects, the financial position of Transition House Incorporated as at March 31, 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.

Hilborn LLP

Toronto, Ontario
June 11, 2018

Chartered Professional Accountants
Licensed Public Accountants

TRANSITION HOUSE INCORPORATED

BALANCE SHEET

AS AT MARCH 31, 2018

		2018		2017
ASSETS				
Current assets				
Cash	$	**108,143**	$	25,215
Accrued interest and other receivables		**15,581**		6,430
		123,724		31,645
Long term assets				
Cash and term deposits held for reserves *(note 2)*		**252,800**		239,000
Capital assets *(note 3)*		**310,743**		218,927
		563,543		457,927
		687,267		489,572
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		**110,727**		52,484
Due to Toronto Central Local Health Integration Network *(note 4)*		**61,958**		10,522
Current portion of mortgage payable *(note 6)*		**7,267**		6,718
		179,952		69,724
Long term liabilities				
Deferred capital contributions *(note 5)*		**181,816**		101,044
Mortgage payable *(note 6)*		**72,650**		79,917
		254,466		180,961
		434,418		250,685
NET ASSETS				
Unappropriated deficit		**49**		(113)
Contingency reserve fund		**177,050**		170,750
Capital assets reserve fund		**75,750**		68,250
		252,849		238,887
	$	**687,267**	$	489,572

The accompanying notes are an integral part of these financial statements

Approved on behalf of the Board:

S M Morton, Director , Director

TRANSITION HOUSE INCORPORATED

STATEMENT OF REVENUES, EXPENSES AND NET ASSETS

YEAR ENDED MARCH 31, 2018

	2018	2017
Revenues		
Toronto Central Local Health Integration Network		
- Substance abuse program - base funding *(note 4)*	$ 449,797	$ 449,797
- Substance abuse program - one-time funding *(note 4)*	1,513	-
- Other programs *(note 7)*	11,651	13,418
	462,961	463,215
Residents' fees	15,179	10,955
United Way	57,653	57,653
Interest	2,529	1,070
Donations - general	2,721	3,983
	78,082	73,661
Amortization of deferred capital contributions *(note 5)*		
- Toronto Central Local Health Integration Network	20,064	9,574
- Ontario Trillium Foundation	7,929	7,929
	27,993	17,503
	569,036	554,379
Expenses		
Salaries, wages and benefits	389,803	387,859
Training	1,540	3,156
Food	35,938	37,431
Mortgage interest	6,579	7,086
Utilities	13,617	15,982
Maintenance and repairs	19,040	22,402
Professional fees and audit	9,944	15,980
Insurance	9,215	8,087
Telephone	4,893	5,814
Office supplies and sundry administrative	21,499	18,244
Recreation	1,250	2,250
Toronto Central Local Health Integration Network - other programs *(note 7)*	11,651	13,418
Depreciation	30,105	17,503
	555,074	555,212
Excess (deficiency) of revenues over expenses for the year	13,962	(833)
Unappropriated net assets (deficit) - at beginning of year	(113)	720
Transfer to contingency reserve fund	(6,300)	-
Transfer to capital assets reserve fund	(7,500)	-
Unappropriated deficit - at end of year	49	(113)
Contingency reserve fund - at beginning of year	170,750	170,750
Transfer from unappropriated net assets	6,300	-
Contingency reserve fund - at end of year	177,050	170,750
Capital assets reserve fund - at beginning of year	68,250	68,250
Transfer from unappropriated net assets	7,500	-
Capital assets reserve fund - at end of year	$ 75,750	$ 68,250

The accompanying notes are an integral part of these financial statements

TRANSITION HOUSE INCORPORATED

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2018

		2018		2017
Cash flows from operating activities				
Cash received from Toronto Central Local Health Integration Network	$	**464,894**	$	458,695
Cash received from other contributors		**75,553**		73,661
Cash paid to employees and suppliers		**(467,623)**		(534,558)
Interest received		**2,365**		1,344
Mortgage interest paid		**(6,579)**		(7,086)
Repayment of 2000/2001 surplus to Toronto Central Local Health Integration Network		**(7,119)**		-
		61,491		(7,944)
Cash flows from investing activities				
Purchase of capital assets		**(121,921)**		(42,742)
Capital grant received		**175,000**		50,000
Repayment of capital grant received in prior year		**(11,124)**		-
Transfer to cash and term deposits held for reserves		**(13,800)**		-
		28,155		7,258
Cash flows from financing activity				
Mortgage principal repayments		**(6,718)**		(6,212)
Change in cash during the year		**82,928**		(6,898)
Cash - at beginning of year		**25,215**		32,113
Cash - at end of year	$	**108,143**	$	25,215

The accompanying notes are an integral part of these financial statements

NATURE OF OPERATION

Transition House Incorporated (the "Corporation") is a registered charitable organization incorporated without share capital under the laws of the Province of Ontario. The Corporation provides short term accommodation in a supportive environment for men sixteen years of age and over.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

Reserve Funds

The Board of Directors has created two reserve funds. The contingency reserve fund was established to offset any unforeseen and unbudgeted expenses the Corporation may incur with respect to the provision of services to its clients. The capital assets reserve fund is to accumulate funds for the replacement of furniture, fixtures and equipment and major repairs (excluding purchases funded by the Ministry of Health and others).

Toronto Central Local Health Integration Network ("LHIN") - Financial Support

The major portion of the Corporation's funding is provided under the terms of the service accountability agreement dated April 1, 2014 with the LHIN. This agreement extends to March 31, 2018. This financial support is provided on the basis of an approved detailed operating budget for the year. These financial statements reflect approved funding arrangements with the LHIN, together with estimated adjustments, if any, on year end settlement.

Revenue Recognition

The Corporation follows the deferral method of accounting for contributions which include government grants, donations and other contributions.

Operating grants are recorded in the year to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

Unrestricted contributions are recorded when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Residents' fees are recognized as revenue when the accommodation services are delivered to the residents and collection of the fees is reasonably assured.

Interest income is recorded as earned.

Financial Instruments

The Corporation initially measures its financial assets and financial liabilities at fair value. The Corporation subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets and financial liabilities measured at amortized cost include cash, accrued interest and other receivables, cash and term deposits held for reserves, accounts payable and accrued liabilities, due to Toronto Central Local Health Integration Network and mortgage payable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets are recorded at cost and depreciated over their estimated useful lives on a straight line basis at the following annual rates:

Building	- 4%
Building improvements	- 10%
Furniture and equipment	- 20%

The above rates are reviewed annually to assess ongoing appropriateness. Any changes are adjusted on a prospective basis. If there is an indication that the assets may be impaired, an impairment test is performed that compares carrying amount to net recoverable amount. There were no impairment indicators in 2018.

Deferred Capital Contributions

Externally restricted contributions for the acquisition of capital assets are deferred and amortized over the life of the assets. Externally restricted contributions that have not been expended are recorded as part of deferred capital contributions on the balance sheet.

Contributed Goods and Services

Volunteers contribute significant amounts of time to assist the Corporation in carrying out its service delivery activities. In addition, the Corporation solicits and receives significant contributions of food and recreation services. Because of the difficulty of determining the fair value of contributed goods and services, these goods and services are not recognized in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year.

Key areas where management has made difficult, complex or subjective judgements, include useful lives of capital assets and accrued liabilities. Actual results could differ from these and other estimates, the impact of which could be recorded in future affected periods.

2. CASH AND TERM DEPOSITS HELD FOR RESERVES

		2018		*2017*
CIBC Flexible GIC, redeemable, 2-year and 6 months term, due August 20, 2020, interest at 2.2% per annum	$	**182,752**	$	-
CIBC Flexible GIC, redeemable, 1-year term, due February 20, 2018, interest at 1.3% per annum		**-**		180,387
Cash held at bank		**70,048**		58,613
	$	**252,800**	$	239,000

Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the Corporation's activities and operations. The Corporation has invested its funds in guaranteed investment certificates to avoid unexpected market price fluctuations.

3. CAPITAL ASSETS

Details of capital assets are as follows:

2018		***Cost***		***Accumulated Depreciation***		***Net Book Value***
Land	$	**117,883**	$	**-**	$	**117,883**
Building		**74,644**		**74,644**		**-**
Building improvements		**270,662**		**83,297**		**187,365**
Furniture and equipment		**34,711**		**29,216**		**5,495**
	$	**497,900**	$	**187,157**	$	**310,743**

2017		*Cost*		*Accumulated Depreciation*		*Net Book Value*
Land	$	117,883	$	-	$	117,883
Building		74,644		74,644		-
Building improvements		152,835		56,231		96,604
Furniture and equipment		30,617		26,177		4,440
	$	375,979	$	157,052	$	218,927

Total depreciation of $30,105 ($17,503 - 2017) has been included in the Statement of Revenues, Expenses and Net Assets. There are no disposals during the year.

4. TORONTO CENTRAL LOCAL HEALTH INTEGRATION NETWORK

Details of funding approved, received and spent during the year and balances owing at the end of the year are as follows:

		2018		*2017*
Substance abuse program funding				
Balance repayable - at beginning of year	$	**(14,377)**	$	(7,119)
Base funding approved for the year		**449,797**		449,797
One-time funding - Fair Workplaces, Better Jobs Act 2017		**1,513**		-
Funding received and spent during the year		**(451,310)**		(449,797)
One-time funding - infrastructure project		**(175,000)**		(50,000)
Funding spent on capital assets		**112,631**		42,742
Repayment of 2000/2001 surplus		**7,119**		-
Repayment of prior year surplus - infrastructure project		**11,124**		-
Adjustment of 2017 one-time funding - infrastructure		**(3,866)**		-
Balance repayable - at end of year		**(62,369)**		(14,377)
Basic needs allowance				
Balance receivable - at beginning of year		**2,846**		(673)
Funding received during the year		**(13,993)**		(8,048)
Funding spent during the year		**11,589**		11,567
Balance receivable - at end of year		**442**		2,846
Prescription drug and dental costs				
Balance receivable - at beginning of year		**1,009**		8
Costs incurred during the year		**62**		1,851
Costs recovered during the year		**(1,102)**		(850)
Balance receivable (payable) - at end of year		**(31)**		1,009
Total due to Toronto Central Local Health Integration Network	$	**(61,958)**	$	(10,522)

5. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The changes in deferred capital contributions are as follows:

		2018		*2017*
Balance - at beginning of year	$	**101,044**	$	75,805
Capital asset contributions received and spent		**112,631**		42,742
Adjustment of 2017 one-time funding - infrastructure		**(3,866)**		-
Amortization of deferred capital contributions		**(27,993)**		(17,503)
Balance - at end of year	$	**181,816**	$	101,044

6. MORTGAGE PAYABLE

		2018		2017
8% Canada Mortgage and Housing Corporation mortgage on land and building - repayable in blended monthly instalments of $1,108 to maturity on May 1, 2026	$	**79,917**	$	86,635
Less principal payments due within twelve months, shown as a current liability		**7,267**		6,718
	$	**72,650**	$	79,917

Principal payments due in each of the five fiscal years following March 31, 2018 are as follows:

Fiscal year	2019	$	7,267
	2020		7,890
	2021		8,501
	2022		9,195
	2023		9,945
	thereafter		37,119

During 2018, Transition House Incorporated made blended principal and interest payments totalling $13,298 ($13,298 - 2017).

7. TORONTO CENTRAL LOCAL HEALTH INTEGRATION NETWORK - OTHER PROGRAMS

		2018		2017
Revenues				
Basic Needs Allowance	$	**11,589**	$	11,567
Prescription drug and dental costs		**62**		1,851
		11,651		13,418
Expenses				
Basic Needs Allowance		**11,589**		11,567
Prescription drug and dental costs		**62**		1,851
	$	**11,651**	$	13,418

8. FINANCIAL INSTRUMENTS AND RISK EXPOSURE

The Corporation is exposed to various risks through its financial instruments. The following analysis provides a measure of the Corporation's risk exposure at the balance sheet date.

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 Corporation's main credit risk relates to cash held in bank, CIBC Flexible GIC and interest and other receivable.

Credit risk with respect to cash held in banks, CIBC Flexible GIC and interest receivable is minimized by maintaining cash and the investments in reputable financial institutions with high quality of credit ratings. Other receivables include those amounts to be collected from funders for approved grants and Canada Revenue Agency for HST rebate that are both reliable and financially secure. The Organization is not exposed to significant credit risk.

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to this risk mainly in respect of its accounts payable and accrued liabilities and mortgage payable. The Corporation expects to meet these obligations as they come due from the operating grant it receives from LHIN and by generating sufficient cash flow from operations.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Corporation is not exposed to currency risk or price risk and is not exposed to significant interest rate risk. Details of interest bearing financial instruments are disclosed in note 2.

9. COMPARATIVE FIGURES

Certain comparative figures in the statement of revenues, expenses and net assets have been reclassified in conformity with the presentation adopted during the year.