

Neighbour to Neighbour Centre (Hamilton)
Financial Statements
For the year ended March 31, 2019

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Independent Auditor's Report

To the Directors of Neighbour to Neighbour Centre (Hamilton)

Qualified Opinion

We have audited the financial statements of Neighbour to Neighbour Centre (Hamilton) (the "Organization"), which comprise the statement of financial position as at March 31, 2019, and the statement of changes in net assets, operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with the basis of accounting as described in Note 1, Basis of Accounting.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Organization derives revenue from donations, bequests and fundraising events, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Organization. Therefore, we were not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenses, and cash flows from operating activities for the years ended March 31, 2019 and 2018, current assets as at March 31, 2019 and 2018 and net assets as at April 1 and March 31 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended March 31, 2018 was modified accordingly because of the possible effects of this limitation in scope.

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 of our qualified audit opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting as described in Note 1, 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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Burlington, Ontario
June 6, 2019

Neighbour to Neighbour Centre (Hamilton) Statement of Financial Position

March 31 **2019** **2018**

Assets

Current

Cash	\$ 906,455	\$ 495,564
Accounts receivable	100,897	81,655
HST receivable	25,173	23,628
Prepaid expenses	23,266	27,162
	<u>1,055,791</u>	<u>628,009</u>

Capital assets (Note 2)

Restricted assets - cash	1,151,566	1,185,236
	<u>251,342</u>	<u>237,065</u>

\$ 2,458,699 \$ 2,050,310

Liabilities and Net Assets

Current

Accounts payable and accrued liabilities	\$ 115,533	\$ 66,706
Current portion of mortgage payable (Note 3)	5,099	5,099
Current portion of deferred revenue (Note 4)	202,921	249,207
	<u>323,553</u>	<u>321,012</u>

Mortgage payable (Note 3)

	33,138	38,237
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Deferred revenue (Note 4)

	248,323	100,000
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Deferred capital contributions (Note 5)

	607,027	614,230
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Deferred rent

	21,270	30,085
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1,233,311 1,103,564

Net Assets

General Fund	168,413	76,403
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Invested in Capital Assets	506,302	527,670
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Capital Reserve Fund	58,724	58,724
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Reserve Fund	250,000	250,000
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Bequest Fund	241,949	33,949
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1,225,388 946,746

\$ 2,458,699 \$ 2,050,310

On behalf of the Board:

Lopent 12/31/2 Director

1000-1000-1000 Director

The accompanying notes are an integral part of these financial statements.

Neighbour to Neighbour Centre (Hamilton) Statement of Changes in Net Assets

For the year ended March 31

2019 2018

	General Fund	Invested in Capital Assets (Note 6)	Capital Reserve Fund	Reserve Fund	Bequest Fund	Total	Total
Balance, beginning of year	\$ 76,403	\$ 527,670	\$ 58,724	\$ 250,000	\$ 33,949	\$ 946,746	\$ 793,367
Excess (deficiency) of revenue over expenses for the year	326,534	(47,892)	-	-	-	278,642	153,379
Fund transfers (Note 7)	(208,000)	-	-	-	208,000	-	-
Investment in capital assets	(26,524)	26,524	-	-	-	-	-
Balance, end of year	\$ 168,413	\$ 506,302	\$ 58,724	\$ 250,000	\$ 241,949	\$ 1,225,388	\$ 946,746

The accompanying notes are an integral part of these financial statements.

Neighbour to Neighbour Centre (Hamilton) Statement of Operations

For the year ended March 31	2019	2018
Revenue		
Bequests	\$ 208,000	\$ 10,000
Donations - unrestricted	438,589	368,500
Donations - restricted	381,305	459,890
Fundraising events	279,897	256,753
Gifts in kind	2,332,460	2,217,723
Grants - City of Hamilton	402,841	403,131
Grants - Federal	69,580	39,360
Grants - other	267,555	156,665
Interest and other income	10,588	3,466
Sale of books and cards	34,502	36,285
Utility subsidy program	40,048	39,836
	<u>4,465,365</u>	<u>3,991,609</u>
Expenses		
Administration	331,957	260,981
Building and grounds	103,681	91,080
Community food centre	579,293	560,463
Education	125,410	121,763
Emergency food	2,596,379	2,404,885
Family services	138,726	141,525
Marketing and development	206,086	155,726
Volunteer services	57,299	56,955
	<u>4,138,831</u>	<u>3,793,378</u>
Excess of revenue over expenses before other items	<u>326,534</u>	<u>198,231</u>
Other revenue (expenses)		
Amortization	(116,702)	(105,963)
Amortization of deferred capital contributions	68,810	61,111
	<u>(47,892)</u>	<u>(44,852)</u>
Excess of revenue over expenses for the year	<u>\$ 278,642</u>	<u>\$ 153,379</u>

The accompanying notes are an integral part of these financial statements.

Neighbour to Neighbour Centre (Hamilton)

Statement of Cash Flows

For the year ended March 31	2019	2018
Cash flows from operating activities		
Excess of revenue over expenses for the year	\$ 278,642	\$ 153,379
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Amortization	116,702	105,963
Amortization of deferred capital contributions	(68,810)	(61,111)
Changes in non-cash working capital balances		
Accounts receivable	(19,242)	61,933
HST receivable	(1,545)	48,567
Prepaid expenses	3,896	(2,180)
Accounts payable and accrued liabilities	48,827	(84,987)
Deferred revenue	102,037	5,629
Deferred rent	(8,815)	(3,797)
	<u>451,692</u>	<u>223,396</u>
Cash flows from investing activities		
Purchase of capital assets	(83,032)	(105,135)
Increase in restricted assets - cash	(14,277)	(15,326)
	<u>(97,309)</u>	<u>(120,461)</u>
Cash flows from financing activities		
Repayment of mortgage payable	(5,099)	(5,099)
Receipt of deferred capital contributions	61,607	65,000
	<u>56,508</u>	<u>59,901</u>
Increase in cash during the year	410,891	162,836
Cash, beginning of year	495,564	332,728
Cash, end of year	\$ 906,455	\$ 495,564

The accompanying notes are an integral part of these financial statements.

Neighbour to Neighbour Centre (Hamilton) Notes to Financial Statements

March 31, 2019

1. Significant Accounting Policies

Nature of Business

The Organization was founded in 1986 and was incorporated as a corporation without share capital by letters patent issued under the Ontario Corporation Act on June 26, 1997. The Organization is a registered Canadian charity and is therefore exempt from payment of income taxes as provided under the Income Tax Act.

Its purpose is to alleviate and prevent poverty by supporting neighbours at risk.

Basis of Accounting

These financial statements are prepared by management using Canadian accounting standards for not-for-profit organizations except that contributed food inventory held at year-end has not been recorded in the statement of financial position as required in Section 3032, Inventories held by not-for-profit organizations. Instead food inventory has been expensed as received.

Deferred Rent

The premises lease for the Organization is accounted for as an operating lease wherein rental payments are expensed on a straight-line basis. Deferred rent represents the difference between the rent paid and the straight-line value of the rental payments expensed since the commencement of the lease.

Revenue Recognition

The Organization follows the deferral method of accounting for donations. Grants, utility subsidy program revenue and donations restricted for programs are recognized as revenue in the year in which the related expenses are incurred. Unrestricted donations and fundraising events revenue are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Revenue from the sale of books and cards and interest and other income is recognized in the period in which they are earned.

Contributions related to building and equipment are recognized as revenue on the same basis as the amortization expense of the related asset.

Gifts in kind of contributed food is recognized as revenue when received.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of the contribution.

Amortization, based on the estimated useful life of the asset, is provided as follows:

Buildings	- 4 % straight-line basis
Furniture and equipment	- 20 % straight line basis
Computer equipment	- 33 % straight-line basis
Cooler	- 7 % straight-line basis
Leasehold improvements	- straight-line over lease term plus one renewal
Vehicle	- 20 - 50% straight-line basis

Neighbour to Neighbour Centre (Hamilton) Notes to Financial Statements

March 31, 2019

1. Significant Accounting Policies (Continued)

Contributed Goods and Services

Volunteers contribute extensive time each year to assist the Organization in carrying out its activities. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

Contributions of food have been estimated at an approximate fair value of \$2,329,600 (2018 - \$2,168,700), based on an average price per pound of \$2.60 (2018 - \$2.50) based on the Food Banks of Canada national valuation standard. In 2019, management estimates that approximately 896,000 (2018 - 879,000) pounds of food were received and distributed. These amounts are included in gift in kind revenue with an offsetting amount in emergency food expense.

Fund Accounting

Revenue and expenses related to program delivery and administrative activities are reported in the General Fund.

The Capital Reserve Fund reports allocations from the General Fund that are internally restricted for the purpose of funding future capital repairs and replacements.

The Reserve Fund has been established as an internally restricted working capital reserve.

The Bequest Fund reports allocations from the General Fund of bequests received that are internally restricted for purposes to be specified at a future date.

Invested in Capital Assets reports the assets, liabilities, revenue and expenses related to the Organization's capital assets. Invested in Capital Assets represents amounts invested in land, building, equipment and other capital assets net of accumulated amortization less deferred capital contributions and debt directly related to capital assets.

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are charged to the financial instrument for those measured at amortized cost.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimate. The amount recorded for gifts in kind is based on management's best estimate. This estimate is subject to measurement uncertainty, and the effect on the gift in kind revenue and emergency food expense could be significant.

Neighbour to Neighbour Centre (Hamilton)

Notes to Financial Statements

March 31, 2019

2. Capital Assets

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 167,412	\$ -	\$ 167,412	\$ -
Buildings	702,066	366,198	699,855	338,205
Furniture and equipment	151,485	130,310	149,615	123,971
Computer equipment	116,285	105,684	114,623	97,495
Cooler	22,741	21,910	22,741	21,806
Leasehold improvements	702,564	143,743	686,869	74,402
Vehicle	61,301	4,443	36,995	36,995
	\$ 1,923,854	\$ 772,288	\$ 1,878,110	\$ 692,874
Net book value		\$ 1,151,566		\$ 1,185,236

3. Mortgage Payable

	2019	2018
Mortgage payable, interest at prime plus 1.75%, payable in monthly instalments of \$425 principal plus interest, secured by land and building, due September 2026	\$ 38,237	\$ 43,336
Less: Current portion	5,099	5,099
	\$ 33,138	\$ 38,237

Principal repayments for the next five years and thereafter are as follows:

2020	\$ 5,099
2021	5,099
2022	5,099
2023	5,099
2024	5,099
Thereafter	12,742
	\$ 38,237

Neighbour to Neighbour Centre (Hamilton)

Notes to Financial Statements

March 31, 2019

4. Deferred Revenue

Deferred revenue represents the unspent amount of externally restricted funds from donations, grants and subsidies.

	2019	2018
Balance, beginning of the year	\$ 349,207	\$ 343,578
Amounts received	371,133	266,734
Amounts recognized in revenue in the current year	(207,489)	(202,605)
Amounts transferred to deferred capital contributions	(61,607)	(58,500)
Balance, end of the year	\$ 451,244	\$ 349,207

Deferred revenue amounts recognized in the current year are included in donations - restricted, fundraising events, grants - federal and grants - other on the statement of operations.

5. Deferred Capital Contributions

Deferred capital contributions represent the unamortized amount of restricted contributions received for the purchase of capital assets.

	2019	2018
Balance, beginning of year	\$ 614,230	\$ 610,341
Contributions received during the year	-	6,500
Amounts transferred from deferred revenue	61,607	58,500
Amount amortized in current year	(68,810)	(61,111)
Balance, end of year	\$ 607,027	\$ 614,230

6. Invested in Capital Assets

Invested in Capital Assets is calculated as follows:

	2019	2018
Capital assets, at cost	\$ 1,923,854	\$ 1,878,110
Accumulated amortization	(772,288)	(692,874)
Mortgage payable	(38,237)	(43,336)
Deferred capital contributions	(607,027)	(614,230)
Invested in capital assets	\$ 506,302	\$ 527,670

Neighbour to Neighbour Centre (Hamilton) Notes to Financial Statements

March 31, 2019

7. Fund Transfers

During the year, the Board approved a transfer of \$208,000 from the General Fund to the Bequest Fund.

8. Commitments

The Corporation has leased premises under an operating lease at annual base rental as follows:

2020	\$	72,240
2021		72,240
2022		<u>12,040</u>
	\$	<u>156,520</u>

9. Financial Instrument Risks

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 resulting from the possibility that a counterparty defaults on their financial obligation. The Organization's financial instruments that are exposed to credit risk relate primarily to accounts receivable.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization's exposure to this risk arises primarily from its mortgage payable. The Organization holds its mortgage payable with a variable interest rate, which involves risks of default on interest and principal and fair values changes due to, without limitation, such factors as interest rates and general economic conditions. This risk has not changed from the prior year.