

**HAMILTON EAST KIWANIS BOYS
AND GIRLS CLUB INC.**

Financial Statements
for the Year Ended December 31, 2018
and Independent Auditor's Report to the Directors

**HAMILTON EAST KIWANIS BOYS
AND GIRLS CLUB INC.**
FINANCIAL STATEMENTS
DECEMBER 31, 2018

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CHARTERED
PROFESSIONAL
ACCOUNTANTS

DURWARD JONES BARKWELL
& COMPANY LLP

Big enough to know. SMALL ENOUGH TO CARE.

120 King Street West
Suite 780
Hamilton, ON L8P 4V2
T. 905.525.9520
TF. 866.358.8240
F. 905.522.3113

INDEPENDENT AUDITOR'S REPORT

**To the Directors of
Hamilton East Kiwanis Boys and Girls Club Inc.:**

Qualified Opinion

We have audited the accompanying financial statements of Hamilton East Kiwanis Boys and Girls Club Inc. (the Entity), which comprise the statement of financial position as at December 31, 2018 and the statements of operations and changes in net assets and of 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 financial statements present fairly, in all material respects, the financial position of the Entity as at December 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.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Entity derives revenue from activities, including donations and fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Entity. Therefore, we were not able to determine whether any adjustments might be necessary to revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 2018 and 2017, current assets as at December 31, 2018 and 2017, and net assets as at January 1 and December 31 for both the 2018 and 2017 years. Our audit opinion on the financial statements for the year ended December 31, 2017 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 Entity 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 in our audit is sufficient and appropriate to provide a basis for our qualified 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 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity 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.

Durward Jones Barkwell + Company LLP

Durward Jones Barkwell & Company LLP
Licensed Public Accountants

May 22, 2019

HAMILTON EAST KIWANIS BOYS AND GIRLS CLUB INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
REVENUE		
Grants		
Federal	\$ 45,035	\$ 51,970
Provincial	572,908	1,394,060
Municipal	1,860,114	1,010,828
United Way	67,151	74,611
Kiwans Club of Hamilton East	95,000	88,667
Other	554,702	484,313
Program fees	1,470,094	1,324,291
Donations	123,311	74,043
Fundraising	32,096	33,917
Rental income	43,911	39,508
Memberships	11,635	11,362
Other	165,391	150,975
	5,041,348	4,738,545
EXPENSES		
Program		
Wages and benefits	3,666,912	3,379,588
Supplies	435,836	515,589
Occupancy	216,945	214,970
Travel and training	71,664	85,747
Promotion	34,135	26,990
	4,425,492	4,222,884
Administration		
Wages and benefits	322,522	290,172
Office and general	107,337	74,441
Professional fees	44,638	52,110
Insurance	26,623	26,120
Depreciation	16,521	6,410
	517,641	449,253
	4,943,133	4,672,137
EXCESS OF REVENUE OVER EXPENSES	98,215	66,408
NET ASSETS, BEGINNING OF YEAR - Page 12	1,014,264	947,856
NET ASSETS, END OF YEAR - Page 12	\$ 1,112,479	\$ 1,014,264

HAMILTON EAST KIWANIS BOYS AND GIRLS CLUB INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash	\$ 875,808	\$ 247,128
Short-term investment (Note 2)	537,547	1,136,792
Accounts receivable	249,121	148,368
Sales tax recoverable	70,787	46,347
Prepaid expenses	13,474	33,988
	1,746,737	1,612,623
Capital assets (Note 3)	202,514	51,138
	\$ 1,949,251	\$ 1,663,761
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 174,798	\$ 165,275
Current portion of deferred contributions (Note 4)	508,626	463,002
	683,424	628,277
Deferred contributions (Note 4)	153,348	21,220
	836,772	649,497
NET ASSETS - Page 12		
Internally restricted		
Capital	254,835	254,835
On Top of the World for Kids	83,257	83,257
Outreach program	103,864	103,864
Nutrition program	27,255	27,255
NGen	60,837	60,837
Unrestricted	582,431	484,216
	1,112,479	1,014,264
	\$ 1,949,251	\$ 1,663,761

Approved by the Board:

..... Director

..... Director

HAMILTON EAST KIWANIS BOYS AND GIRLS CLUB INC.

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 98,215	\$ 66,408
Depreciation, an item not affecting cash	16,521	6,410
	114,736	72,818
Changes in non-cash operating assets and liabilities		
Accounts receivable	(100,753)	(35,261)
Sales tax recoverable	(24,440)	(1,486)
Prepaid expenses	20,514	(123)
Accounts payable and accrued liabilities	9,523	10,450
Deferred contributions	177,752	(143,966)
	197,332	(97,568)
INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	599,245	(13,962)
Purchase of capital assets		
Furniture and equipment	(10,202)	(44,452)
Computer equipment	(14,415)	(13,096)
Leasehold improvements	(79,918)	-
Leasehold improvements under construction	(63,362)	-
	431,348	(71,510)
INCREASE (DECREASE) IN CASH	628,680	(169,078)
CASH, BEGINNING OF YEAR	247,128	416,206
CASH, END OF YEAR	\$ 875,808	\$ 247,128

HAMILTON EAST KIWANIS BOYS AND GIRLS CLUB INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Nature of business

Hamilton East Kiwanis Boys' and Girls' Club Inc. (the "Club") was incorporated under the laws of the Province of Ontario on March 29, 1962. The Club became a registered charity on January 1, 1967 and qualifies for tax exempt status under paragraph 149(1)(f) of the Income Tax Act.

The Club provides a safe, supportive place where children and youth can experience new opportunities, overcome barriers, build positive relationships and develop confidence and skills for life. Programs and services are delivered within an environment that promotes inclusion and opportunity, respect and belonging, empowerment of children and youth, and collaboration with families, communities, funders and other program providers.

Basis of presentation

The Club follows the deferral method of accounting for contributions, with any restrictions placed on resources categorized as either external or internal restrictions. The Club's resources are subject to the following internal restrictions:

Capital

The Capital restriction was established to ensure resources are available to purchase major equipment and supplies required for programs.

On Top of the World for Kids

The On Top of the World for Kids restriction was established with proceeds from a fundraising event related to the participation of the Club's Executive Director in the 2011 North Pole Marathon. The restriction is to ensure children and youth have access to the Club's or third-party active living programs.

Outreach

The Outreach restriction was established with proceeds received from the net assets of "Community Skills Training for Children of Hamilton Wentworth" (operating as S.T.A.R. – Skills Through Activity and Recreation), a charitable organization which ceased operations in 2014. The balance is to be used for program delivery at the Club's outreach locations.

Nutrition

The Nutrition restriction was established to ensure that resources are available for the provision of healthy food and snacks during events and program delivery.

NGen

The NGen restriction was established with proceeds received from donors and is available for NGen Youth Centre programs.

Transfers to and from internally restricted net assets established by the Board of Directors are recognized in the statement of changes in net assets after all related revenues and expenses have been recorded in the statement of operations.

HAMILTON EAST KIWANIS BOYS AND GIRLS CLUB INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION - continued

Revenue recognition

Restricted contributions and grants received from government funders and specified contributions from others are recognized as revenue in the period in which the related activity occurs and expenses are incurred. Funding received from the Ontario Ministry of Health and Long Term Care (MOHLTC) in excess of approved expenses incurred during the year belongs to MOHLTC.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Program fees, rental income and other revenue are recognized as revenue when earned, upon completion of performance or activity, and in the same period in which the related expenses are incurred. Membership revenue is recognized based on the membership year to which it relates.

Capital assets

The Club occupies a 28,000 square foot building in Hamilton, Ontario, which is owned by the City of Hamilton and provided to the Club for the delivery of its programming. Major repairs, improvements and renovations are paid by the City of Hamilton and, as such, are not reported in these financial statements.

Regular maintenance and repairs of the building are the responsibility of the Club and charged to expense in the statement of operations.

Capital assets are stated at cost. Depreciation is calculated using the diminishing balance method over their estimated useful lives at the rates indicated in Note 3. In the year of acquisition, net additions are depreciated at one-half the normal rate.

Long-lived assets

Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of the long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Financial instruments

(a) Measurement of financial instruments

The Club initially measures its financial assets and financial liabilities at their fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributed to the instrument.

The Club subsequently measures all its financial assets and financial liabilities at amortized cost, except for equity securities quoted in an active market, which are subsequently measured at fair value. Changes in fair value are recorded in the statement of operations

Financial assets measured at amortized cost include cash, short-term investments and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

HAMILTON EAST KIWANIS BOYS AND GIRLS CLUB INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION - continued

(b) Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in net income. The write-down reflects the difference between the carrying amount and the higher of:

- (a) the present value of the cash flows expected to be generated by asset or group of assets;
- (b) the amount that could be realized by selling the asset or group of assets;
- (c) the net realizable value of any collateral held to secure repayment of the asset or group of assets.

When events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized in net income up to the amount of the previously recognized impairment.

Contributed services

The Club receives contributed materials and services which benefit the organization considerably. However, as a reasonable estimate of their amount and fair value cannot be made, these contributed materials and services are not recognized in the financial statements.

Use of estimates

The preparation of financial statements in accordance 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 at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates, as additional information becomes available in the future. Significant estimates and assumptions are used when accounting for items such as revenue recognition, allowances for accounts receivable, accrued liabilities and deferred contributions.

2. SHORT-TERM INVESTMENT

The short-term investment consists of an interest-bearing savings account, held by a Canadian financial institution, and primarily represents funds held for internally restricted net assets. The interest-bearing savings account bears interest at 1.60% (2017 - 1.60%).

HAMILTON EAST KIWANIS BOYS AND GIRLS CLUB INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

3. CAPITAL ASSETS

	Annual Depreciation Rates	<u>2018</u>		<u>2017</u>	
		Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Furniture and equipment	20%	\$ 54,654	\$ 13,467	\$ 44,452	\$ 4,445
Computer equipment	30%	27,511	7,467	13,096	1,965
Leasehold improvements	S/L - 20 years	79,918	1,997	-	-
Leasehold improvements under construction		63,362	-	-	-
		225,445	22,931	57,548	6,410
Net book value			\$ 202,514		\$ 51,138

HAMILTON EAST KIWANIS BOYS AND GIRLS CLUB INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. DEFERRED CONTRIBUTIONS

Deferred contributions pertain to specific grants related to operating activities and expenses expected to occur in 2019, as well as specific grants received and restricted for the purchase of capital assets. The deferred contributions related to capital assets are amortized into revenue on the same basis as the related capital assets purchased are depreciated at the rates indicated in Note 3. The change in the deferred contributions balance is as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 484,222	\$ 628,188
Add: grants received in the year	3,372,662	2,960,483
Less: amount amortized and included in revenue in the year	<u>(3,194,910)</u>	<u>(3,104,449)</u>
Balance, end of year	661,974	484,222
Less: current portion	<u>(508,626)</u>	<u>(463,002)</u>
Long-term portion	<u>\$ 153,348</u>	<u>\$ 21,220</u>
	<u>2018</u>	<u>2017</u>
Grants		
Provincial	\$ 88,220	\$ 26,525
Municipal	195,585	67,365
Foundations	221,987	235,938
Other	<u>80,393</u>	<u>84,598</u>
Unexpended Nevada/Bingo proceeds	586,185	414,426
	<u>75,789</u>	<u>69,796</u>
	<u>\$ 661,974</u>	<u>\$ 484,222</u>

At December 31, 2018, deferred contributions related to capital assets amounted to \$163,190 (2017 - \$26,524).

5. PENSION PLAN

The Club has a defined contribution pension plan which requires regular payments on behalf of all of its employees. During the year, the Club paid \$46,852 of employer pension contributions into the plan (2017 - \$50,755).

HAMILTON EAST KIWANIS BOYS AND GIRLS CLUB INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

6. COMMITMENTS

The Club has entered into equipment and facility lease agreements which expire at dates between August 2019 and December 2023, and require the following minimal annual payments over the next five years:

2019	\$ 64,520
2020	55,312
2021	18,000
2022	18,000
2023	<u>18,000</u>
	<u>\$ 173,832</u>

7. FINANCIAL RISK MANAGEMENT

The Club has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The risks that arise from transacting financial instruments include interest rate risk, market (other price) risk, currency risk, credit risk, and liquidity risk. Price risk arises from changes in interest rates, foreign currency exchange rates and market prices.

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's main credit risks relate to its accounts receivable. The Organization provides credit to entities and individuals in the normal course of operations.

It is management's opinion that the Club is not exposed to significant interest, market, currency or liquidity risks arising from its financial instruments.

8. ECONOMIC DEPENDENCE

The Club is economically dependent on government grant agreements, as it would be difficult to continue current operations without this annual funding. However, it is management's estimate that the funding will continue into the foreseeable future.

9. SUBSEQUENT EVENT

Subsequent to year end, on April 1, 2019, the Club entered into an amalgamation agreement whereby Hamilton Association for Residential and Recreational Redevelopment Programs (HARRRP) is to amalgamate with, and continue thereafter as, Hamilton East Kiwanis Boys and Girls Club Inc.

HAMILTON EAST KIWANIS BOYS AND GIRLS CLUB INC.

SCHEDULE OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2018

	<u>Internally restricted (Note 1)</u>						<u>2018 Total</u>	<u>2017 Total</u>
	<u>Unrestricted</u>	<u>Capital</u>	<u>On Top of the World for Kids</u>	<u>Outreach</u>	<u>Nutrition</u>	<u>NGen</u>		
Balance, beginning of year	\$ 484,216	\$ 254,835	\$ 83,257	\$ 103,864	\$ 27,255	\$ 60,837	\$ 1,014,264	\$ 947,856
Excess of revenue over expenses	98,215	-	-	-	-	-	98,215	66,408
Balance, end of year	\$ 582,431	\$ 254,835	\$ 83,257	\$ 103,864	\$ 27,255	\$ 60,837	\$ 1,112,479	\$ 1,014,264