
**SECOND BASE (SCARBOROUGH) YOUTH SHELTER
FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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AUDITORS' REPORT

To the Directors of the
Second Base (Scarborough) Youth Shelter
Ontario

We have audited the balance sheet of Second Base (Scarborough) Youth Shelter as at December 31, 2007 and the statements of revenues and expenditures and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

During the year the shelter obtained a legal judgement against a former employee who has admitted to defrauding the Shelter over several years. Our examination indicated some deficiencies in internal control over cash disbursements. As a consequence, we are unable to satisfy ourselves that all reported expenditures are proper. As a result, we were unable to determine whether adjustments were required in respect to the classification of expenditures on the statement of revenue and expenditures and net assets.

In our opinion, except or the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves with respect to certain expenditures described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



NORTON MCMULLEN & CO. LLP
Chartered Accountants, Licensed Public Accountants

MARKHAM, Canada
May 15, 2008

SECOND BASE (SCARBOROUGH) YOUTH SHELTER
STATEMENT OF REVENUE AND EXPENDITURES AND NET ASSETS
For the year ended December 31, 2007

	Operating Fund		Capital Fund		Total	
	2007	2006	2007	2006	2007	2006
REVENUES						
Subsidies	\$ 920,679	\$ 836,932	\$ -	\$ -	\$ 920,679	\$ 836,932
Grants	376,164	281,779	-	-	376,164	281,779
United Way	160,460	120,912	-	-	160,460	120,912
Fund-raising (Note 10)	55,860	25,039	-	-	55,860	25,039
Donations	31,569	67,417	-	-	31,569	67,417
Amortization of deferred contributions	-	-	21,687	14,089	21,687	14,089
	<u>\$ 1,544,732</u>	<u>\$ 1,332,079</u>	<u>\$ 21,687</u>	<u>\$ 14,089</u>	<u>\$ 1,566,419</u>	<u>\$ 1,346,168</u>
EXPENDITURES						
Salaries and benefits (Note 11)	\$ 1,049,999	\$ 850,440	\$ -	\$ -	\$ 1,049,999	\$ 850,440
Program costs	120,392	112,235	-	-	120,392	112,235
Repairs and maintenance	112,588	145,094	-	-	112,588	145,095
Amortization	-	-	100,159	86,496	100,159	86,496
Consultants	81,568	46,730	-	-	81,568	46,730
Utilities	76,226	71,623	-	-	76,226	71,622
Settlements and provisions	51,162	-	-	-	51,162	-
Insurance	28,838	23,301	-	-	28,838	23,301
Rent	25,214	25,214	-	-	25,214	25,214
Bank charges and interest	22,506	4,813	-	-	22,506	4,813
Office and general	21,633	15,520	-	-	21,633	15,520
Fund-raising (Note 10)	16,044	9,504	-	-	16,044	9,504
Telephone and cable	6,155	7,122	-	-	6,155	7,122
Staff development	2,482	12,164	-	-	2,482	12,164
Professional fees	2,021	6,906	-	-	2,021	6,906
	<u>\$ 1,616,828</u>	<u>\$ 1,330,666</u>	<u>\$ 100,159</u>	<u>\$ 86,496</u>	<u>\$ 1,716,987</u>	<u>\$ 1,417,162</u>
EXCESS (DEFICIENCY) of						
Revenues over Expenditures	\$ (72,096)	\$ 1,413	\$ (78,472)	\$ (72,407)	\$ (150,568)	\$ (70,994)
Inter-fund transfers (Note 9)	285,045	(83,153)	(285,045)	83,153	-	-
Net Assets (Deficit) –						
Beginning of year	<u>(129,718)</u>	<u>(47,978)</u>	<u>1,670,886</u>	<u>1,660,140</u>	<u>1,541,168</u>	<u>1,612,162</u>
Net Assets (Deficit) –						
End of year	<u>\$ 83,231</u>	<u>\$ (129,718)</u>	<u>\$ 1,307,369</u>	<u>\$ 1,670,886</u>	<u>\$ 1,390,600</u>	<u>\$ 1,541,168</u>

See accompanying notes

SECOND BASE (SCARBOROUGH) YOUTH SHELTER

STATEMENT OF CASH FLOWS

For the year ended December 31,

2007

2006

CASH WAS PROVIDED BY (USED IN)

Operating Activities

Deficiency of revenue over expenditures	\$ (150,568)	\$ (70,994)
Items not involving cash		
Amortization	<u>100,159</u>	<u>86,496</u>
	\$ (50,409)	\$ 15,502
Net changes in non-cash working capital balances		
Accounts receivable – City of Toronto	(473)	16,199
Accounts receivable – Other	(97,867)	2,104
Prepaid expenses	(1,186)	4,292
Accounts payable and accrued liabilities	<u>(2,098)</u>	<u>(9,495)</u>
	\$ (152,033)	\$ 28,602

Investing Activities

Purchase of capital assets	\$ (83,335)	\$ (77,265)
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Financing Activities

Line of credit	\$ (142,680)	\$ 142,680
Increase (decrease) in deferred contributions	5,642	(50,455)
Increase (decrease) in deferred capital contributions	82,522	(19,972)
Mortgage	<u>264,167</u>	<u>-</u>
	\$ 209,651	\$ 72,253

Net Increase (Decrease) in cash

\$ (25,717) \$ 23,590

Cash – Beginning of year

44,011 20,421

Cash – End of year

\$ 18,294 \$ 44,011

See accompanying notes

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SECOND BASE (SCARBOROUGH) YOUTH SHELTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

1. ORGANIZATION AND OBJECTIVES

Second Base (Scarborough) Youth Shelter ("Shelter") is a not-for-profit organization incorporated without share capital under the laws of Ontario. It is a registered charitable organization under the Income Tax Act and as such, is exempt from income tax.

The objectives of the Shelter are to provide twenty-four hour crisis intervention, food, clothing and shelter for homeless youth aged sixteen to twenty-one.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Shelter follows Canadian generally accepted accounting principles in the preparation of its financial statements which requires that the statements be prepared using the accrual method of accounting. Under the accrual method of accounting revenues are recorded when earned and expenditures are recorded when incurred.

The operating fund accounts for day-to-day service activities.

The capital fund accounts for the Shelter's property and equipment and related revenue and expenditures. The fund is charged with amortization on the property and equipment.

(b) Capital Assets

Capital assets are recorded at cost and amortized over their estimated useful lives at the following annual rates:

Building	straight-line over the term of the lease
Office furniture	20% declining balance
Computer equipment and software	30% declining balance
Vehicles	30% declining balance

One-half of the above rates are used in the year of acquisition.

(c) Revenue Recognition

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

Operating grants are recorded as revenue 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 the grant relates to a future period, it is deferred and recognized in the appropriate subsequent period.

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.

Donations are recorded when received.

All other revenues are recognized when the income is earned.

SECOND BASE (SCARBOROUGH) YOUTH SHELTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES continued

(d) **Capital Contributions**

Deferred capital contributions represent grants received to help fund capital asset acquisitions. Amortization of these deferred capital contributions is taken at the same amortization rate of the related capital asset.

(e) **Donations-In-Kind and Pledges to Donate**

Recognition is given to donations-in-kind that are used in the normal course of business, when a reasonable estimate of value can be made. Donations-in-kind for fund-raising purposes are not recognized.

Pledges to donate funds are not recorded in the accounts until the funds have been received.

(f) **Contributed Services**

Volunteers contribute significant amounts of time to assist the Shelter in carrying out its mandate. Due to the difficulty of determining the fair value of contributed services, no amount is recognized in the financial statements.

(g) **Use of Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on currently available information. Such estimates and assumptions affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenditures during the year. Actual results could differ from the estimates used.

3. Property and Equipment

Property and equipment consist of the following:

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building	\$ 2,585,500	\$ 933,887	\$ 1,651,613	\$ 1,719,922
Office furniture	295,598	189,287	106,311	85,313
Computer equipment	54,524	37,539	16,985	10,538
Computer software	13,729	8,927	4,802	2,011
Vehicles	25,000	3,750	21,250	-
	<u>\$ 2,974,351</u>	<u>\$ 1,173,390</u>	<u>\$ 1,800,961</u>	<u>\$ 1,817,784</u>

SECOND BASE (SCARBOROUGH) YOUTH SHELTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

4. LINE OF CREDIT

The Shelter has arranged a line of credit in the amount of \$100,000. This line of credit is secured by a general security agreement over the Shelter's assets and a registered second mortgage for \$100,000 on the Shelter's building. The interest rate is variable, calculated at the lender's prime rate plus 2%. The line of credit is revolving, with interest only, payable monthly. In addition there are various covenants specified in the credit facility agreement which must be met.

At the year end, the outstanding amount of the line of credit was \$ Nil (2006 - \$142,680).

5. DEFERRED CONTRIBUTIONS

Deferred contributions represent restricted funding related to normal operations of a future period. At the end of the year, deferred contributions consisted of:

	2007	2006
Greater Toronto Apartment Association	\$ 500	\$ 18,000
Canadian Auto Workers Union	<u>23,142</u>	<u>-</u>
	<u>\$ 23,642</u>	<u>\$ 18,000</u>

6. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent grants and funding provided to help fund capital asset acquisitions. Changes in deferred capital contributions are as follows:

	2007	2006
Balance – beginning of year	\$ 154,291	\$ 174,266
Add: amounts received during the year	104,209	15,400
Less: amortization for the year	<u>(21,687)</u>	<u>(14,089)</u>
	\$ 236,813	\$ 175,577
Transfer to deferred contributions for amounts spent on repairs and maintenance	<u>-</u>	<u>(21,286)</u>
Balance – end of year	<u>\$ 236,813</u>	<u>\$ 154,291</u>

7. HOME PLATE TRANSITIONAL AND SOCIAL HOUSING/CMHC LOAN PAYABLE

The Shelter is investigating a project to construct and provide transitional and social housing. Canada Mortgage and Housing Corporation (CMHC) approved a maximum loan of \$50,000 and gave \$10,000 in the year 2004 as an interest free loan for transitional and social housing. The loan may be partially or wholly forgiven, at CMHC's sole discretion, if certain conditions are met as specified in the loan agreement.

The costs incurred for transitional and social housing prior to 2005 were \$17,388.

SECOND BASE (SCARBOROUGH) YOUTH SHELTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

8. MORTGAGE PAYABLE

Finnish Credit Union – 7.5% per annum, repayable in blended monthly payments of \$1,890, secured by the building	\$ 264,167
Less: Current portion	<u>(3,789)</u>
	<u>\$ 260,378</u>

Principal to be repaid over the next five years is as follows:

2008	\$ 3,789
2009	4,071
2010	4,374
2011	4,699
2012	5,049

9. CAPITAL FUND

The net assets invested in the Capital Fund consist of the following:

	2007	2006
Property and equipment, net (Note 3)	\$ 1,800,961	\$ 1,817,784
Home Plate transitional and social housing (Note 7)	17,388	17,388
Cash	-	5
Less: Mortgage payable (Note 8)	(264,167)	-
Less: Deferred capital contributions (Note 6)	(236,813)	(154,291)
Less: CMHC loan payable (Note 7)	<u>(10,000)</u>	<u>(10,000)</u>
	<u>\$ 1,307,369</u>	<u>\$ 1,670,886</u>

The change in the Capital Fund is calculated as follows:

Inter-fund transfers from (to) the Operating Fund for the following:

Purchase of property and equipment	\$ 83,335	\$ 77,267
Proceeds on mortgage payable	(265,000)	-
Repayment of mortgage payable	833	-
Increase in deferred capital contributions	(104,208)	(15,400)
Transfer to deferred contributions	-	21,286
Cash	<u>(5)</u>	<u>-</u>
	\$ (285,045)	\$ 83,153
Amortization of property and equipment	(100,159)	(86,496)
Amortization of deferred capital contributions	<u>21,687</u>	<u>14,089</u>
	<u>\$ (363,517)</u>	<u>\$ 10,746</u>

SECOND BASE (SCARBOROUGH) YOUTH SHELTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

10. FUND-RAISING

Fund-raising consists of the following:

	2007			2006
	Revenue	Expenses	Net	Net
Nevada	\$ 9,329	\$ 7,492	\$ 1,837	\$ 518
Other	<u>46,531</u>	<u>8,552</u>	<u>37,979</u>	<u>15,017</u>
	<u>\$ 55,860</u>	<u>\$ 16,044</u>	<u>\$ 39,816</u>	<u>\$ 15,535</u>

11. SALARIES AND BENEFITS

Salaries and benefits include one-time non-recurring amounts for certain programs for which specific subsidy and grant funding was received during the year.

12. COMMITMENTS

The Shelter is obligated for the rental of land under an operating lease until 2032 at \$25,214 per annum.

In addition, the Shelter is committed to future lease payments for certain equipment until June 2011. The minimum annual payments payable for the next four years are as follows:

2008	\$ 3,900
2009	3,900
2010	3,900
2011	1,000

13. FINANCIAL INSTRUMENTS

The Shelter's financial instruments consist of cash, accounts receivable, accounts payable and line of credit, the CMHC loan payable and the mortgage payable. It is management's opinion that the Shelter is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Management estimates that the fair market value of these financial instruments approximates their carrying values.

SECOND BASE (SCARBOROUGH) YOUTH SHELTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

14. GUARANTEES AND INDEMNIFICATION

The Shelter has indemnified its past, present and future directors, officers and volunteers against expenses (including legal expenses), judgments and any amount actually or reasonably incurred by them in connection with any action, suit or proceedings, subject to certain restrictions. The nature of the indemnity prevents the Shelter from reasonably estimating the maximum exposure. The Shelter has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits and actions.

In the normal course of business, the Shelter has entered into agreements that include indemnities in favour of third parties, either express or implied, such as in service contracts, leasing agreements or sales and purchase contracts. In these agreements, the Shelter agrees to indemnify the counterparties in certain circumstances against losses or liabilities arising from the acts or omissions of the Shelter. The maximum amount of any potential liability cannot be reasonably estimated.

15. LEGAL ACTION

The Shelter has obtained a legal judgement of \$61,000 against a former employee who has admitted to defrauding the shelter over several years. Subsequent to the year end, the Shelter received \$17,500 toward this judgement and efforts to collect the remaining balance are continuing. Included in the accounts receivable – other is an amount of \$42,000 with respect to this claim. Management estimates that this amount is collectible.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the statement presentation adopted for the current year. The comparative figures were audited by another auditor.