FURNITURE BANK

FINANCIAL STATEMENTS

DECEMBER 31, 2018

MacGillivray
Chartered Accountants & Business Advisors

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Furniture Bank

Qualified Opinion
We have audited the financial statements of Furniture Bank ("the Organization"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets 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 paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018, 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 Qualified Opinion
In common with many charitable organizations, the Organization derives part of its revenue from donations and fundraising events, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our examination of these revenues was limited to the amounts recorded in the records of the Organization. Therefore we were unable to determine whether, as at and for years ended December 31, 2018 and December 31, 2017, any adjustments that might be necessary to donation and event revenue, excess of revenue over expenditures reported in the statement of operations, excess of revenue over expenditures reported in the statements of cash flows and current assets and net assets reported in the statement of financial position. This caused us to qualify our audit opinion on the financial statements as at and for the year ended December 31, 2017.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' 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 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 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 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 the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the the Organization's financial reporting process.

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INDEPENDENT AUDITORS' REPORT, CONTINUED

Auditors' 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.

MacGillivray Brampton

Mississauga, Ontario
May 23, 2019

CHARTERED PROFESSIONAL ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

FURNITURE BANK

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

	2018	2017
ASSETS		
Current		
Cash	$ 332,573	$ 295,273
Accounts receivable (Note 3)	199,734	81,263
HST recoverable	68,256	45,823
Inventory (Note 4)	17,444	35,576
Prepaid expenses	33,851	45,717
	651,858	503,652
Investment (Note 5)	26,274	25,975
Capital assets (Note 6)	574,120	618,830
	$ 1,252,252	$ 1,148,457
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 168,188	$ 179,469
Government remittances payable	1,195	12,784
Deferred revenue (Note 8)	209,544	97,442
Current portion of capital lease obligation (Note 9)	44,029	41,295
Current portion of long-term debt (Note 10)	20,266	21,531
	443,222	352,521
Capital lease obligation (Note 9)	109,996	154,439
Long-term debt (Note 10)	7,817	27,971
Deferred capital contributions (Note 11)	370,354	356,379
	931,389	891,310
COMMITMENTS (Note 15)		
NET ASSETS		
Unrestricted	274,353	210,637
Internally restricted (Note 12)	46,510	46,510
	320,863	257,147
	$ 1,252,252	$ 1,148,457

Approved on behalf of the board

Director____________________ Director____________________

FURNITURE BANK

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
Revenue		
Grants		
Government	$ 741,274	$ 551,219
Foundations	691,615	401,522
Other	103,000	108,250
Employment subsidies	41,072	42,764
Social enterprise operations	1,941,789	1,842,167
Events	310,979	244,844
Donations	232,428	125,187
Amortization of deferred capital contributions	144,596	126,454
Interest and other	2,150	3,135
	4,208,903	3,445,542
Expenditures		
Salaries and benefits	2,521,617	2,101,095
Office, general and warehouse	439,022	290,117
Rent	181,922	185,152
Vehicle and travel	186,535	140,504
Amortization	212,068	201,031
Fundraising	276,496	174,227
Professional fees	186,814	190,009
Insurance	48,591	41,632
Bank and credit card processing fees	44,934	37,741
Utilities	35,288	27,807
Interest on term debt and capital lease obligation	13,503	17,070
Bad debts (recovery)	(1,603)	7,002
	4,145,187	3,413,387
Excess of revenue over expenditures	$ 63,716	$ 32,155

FURNITURE BANK

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Unrestricted	*Internally restricted (note 12)*	*2018 Total*	*2017 Total*
Net assets, beginning of year	$ 210,637	$ 46,510	$ 257,147	$ 224,992
Excess of revenue over expenditures	63,716	-	63,716	32,155
Net assets, ending of year	$ 274,353	$ 46,510	$ 320,863	$ 257,147

FURNITURE BANK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	*2017*
Cash flows from operating activities		
Excess of revenue over expenditures	$ 63,716	$ 32,155
Adjustments for items which do not affect cash		
Amortization of capital assets	212,068	201,031
Amortization of deferred capital contributions	(144,596)	(126,454)
	131,188	106,732
Change in non-cash working capital items		
Accounts receivable	(118,471)	(22,784)
HST recoverable	(22,433)	(3,743)
Inventory	18,132	33,016
Prepaid expenses	11,866	(11,847)
Accounts payable and accrued liabilities	(11,281)	48,703
Government remittances payable	(11,589)	12,069
Deferred revenue	112,102	(3,928)
	109,514	158,218
Cash flows from investing activities		
Purchase of capital assets	(167,358)	(197,209)
Purchase of investment	(299)	(346)
	(167,657)	(197,555)
Cash flows from financing activities		
Repayment of obligations under capital lease	(41,709)	(39,189)
Repayment of long-term debt	(21,419)	(20,371)
Deferred capital contributions	158,571	188,976
	95,443	129,416
Increase in cash	37,300	90,079
Cash, beginning of year	295,273	205,194
Cash, end of year	$ 332,573	$ 295,273

FURNITURE BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

1. DESCRIPTION

Furniture Bank (the "Organization') was incorporated without share capital under the Canada Corporations Act on January 28, 1988. The Organization is a registered charity and is exempt from income taxes.

The Organization's mission is to enable the effective transfer of gently used household furnishings from donors to families and individuals in need.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. Significant accounting policies adopted by the Organization are as follows:

(a) Revenue recognition

The Organization follows the deferral method of accounting for contributions. Contributions, including donations and grants from foundations are recognized as revenue when the amount can be reasonably estimated and collection is reasonably assured. Restricted contributions are initially recorded as deferred revenue and are recognized as revenue in the year in which the related expenses are incurred.

Government grants for non-specific uses are taken into revenue over the period to which they apply. Government grants pertaining to specific projects are recognized as revenue as related project expense are incurred. Grants received for the purchase of capital assets are reported on the balance sheet as deferred capital contributions and are being amortized into income at a rate equal to the annual amortization of the related asset.

Social enterprise revenue, which includes pick-up and delivery fees, furniture sales, agency appointment fees and volunteer fees, as well as interest and other income are recognized on an accrual basis when the amount can be reasonably estimated and collection is reasonably assured.

(b) Inventory

Inventory is measured at the lower of cost and net realizable value, with cost being determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs.

(c) Capital assets

Capital assets are stated at cost. Amortization is provided on the following basis and rates:

Vehicles	Declining balance	30%
Computer equipment	Declining balance	55%
Office equipment	Declining balance	20%
Warehouse equipment	Declining balance	20%
Leasehold improvements	Straight-line	term of lease
Computer software	Declining balance	100%
Vehicles under capital lease	Straight-line	term of lease

FURNITURE BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(d) Financial instruments

The Organization initially measures its financial assets and financial liabilities at fair value. It subsequently measures all its financial assets and financial liabilities at amortized cost. Financial assets subsequently measured at amortized cost include cash, term deposits, and accounts receivable. The financial liabilities measured at amortized cost include the bank loan and accounts payable and accrued liabilities.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment.

(e) Allocation of general expenses

The Organization classifies expenses on the Statement of Operations by object. The Organization does not allocate expenses between object on the Statement of Operations.

(f) Donated materials, services and household items

The Organization receives donated materials, services and household items in the course of its operations. Due to the difficulty of determining their fair value, these items have not been recognized in the financial statements.

Other donated items, where the fair value is readily available, are recorded at estimated fair value of the goods received or services rendered.

(g) Impairment of long-lived assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of a long-lived asset compared to the sum of the future undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

(h) Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the year. Actual results could differ from management's best estimates as additional information becomes available in the future, and adjustments, if any, are recorded as that information becomes known. Accounts specifically affected by estimates in these financial statements are accounts receivable, capital assets and accounts payable and accrued liabilities.

FURNITURE BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

3. ACCOUNTS RECEIVABLE

Accounts receivable is presented net of the allowance for doubtful accounts of $1,390 (2017 - $6,962).

4. INVENTORY

	2018	2017
Mattresses	$ 17,444	$ 35,576

The Organization offers mattresses for purchase as part of an initiative to increase the availability of affordable mattresses in the Greater Toronto area. Inventories recognized as expense during the year amounted to $18,132 (2017 - $33,976).

5. INVESTMENT

Investments consist of a guaranteed investment certificate which matures on September 17, 2019 and bears interest at 2.0% (2017 - 1.15%) per annum. The investment is required under the terms of the credit facility with the Organization's lender and is therefore not available for current operating requirements.

6. CAPITAL ASSETS

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Vehicles	$ 487,457	$ 321,304	$ 166,153	$ 80,229
Computer equipment	139,777	122,901	16,876	23,366
Office equipment	91,775	47,778	43,997	54,996
Warehouse equipment	142,735	67,391	75,344	64,374
Leasehold improvements	273,252	150,658	122,594	152,376
Computer software	103,211	103,211	-	52,909
Vehicles under capital lease	276,120	126,964	149,156	190,580
	$ 1,514,327	$ 940,207	$ 574,120	$ 618,830

7. BANK INDEBTEDNESS

The Organization has access to an operating line of credit, with a facility limit of $75,000, bearing interest at prime plus 4% per annum which is secured by a $25,000 term deposit in addition to a general security agreement. At December 31, 2018, the Organization had drawn $nil (2017 - $nil) against the facility.

FURNITURE BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

8. DEFERRED REVENUE

Deferred revenue reported in the Statement of Financial Position represents restricted operating funding received in the current period that is related to subsequent periods.

	December 31, 2017	Contributions received	Contributions expended	December 31, 2018
Contributions externally restricted for use toward leasehold improvements	$ 27,479	$ -	$ 5,293	$ 22,186
Contributions externally restricted toward certain programs and operating expenses	69,963	1,266,722	1,149,327	187,358
	$ 97,442	$ 1,266,722	$ 1,154,620	$ 209,544

9. CAPITAL LEASE OBLIGATION

Capital lease contracts for vehicles bearing implicit interest rates between 6.3% and 6.5% with maturity dates ranging from 2020 to 2021 and cumulative guaranteed residual value of $69,003 at maturity. All vehicle obligations are unsecured.

	2018
2019	$ 52,752
2020	69,454
2021	47,576
Total minimum lease payments	169,782
Less amount representing interest	(15,757)
	154,025
Less current portion	(44,029)
	$ 109,996

FURNITURE BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

10. LONG-TERM DEBT

The Organization has entered into term loans to finance the purchase of trucks. The loans are secured by the underlying trucks in addition to a general security agreement over the Organization's assets.

	2018	2017
Truck loan, bearing interest at prime plus 3% with monthly blended payments of $1,510 and maturing November 1, 2019, secured by trucks with a net book value of $16,667.	$ 15,112	$ 31,663
Truck loan, bearing interest at prime plus 3% with monthly blended payments of $480 and maturing May 1, 2021 secured by a truck with a net book value of $23,261.	12,971	17,839
	28,083	49,502
Less current portion	(20,266)	(21,531)
Due beyond one year	$ 7,817	$ 27,971

During the year interest expense on the above-noted debt amounted to $2,349 (2017 - $3,507).

Principal payments required for the term of the loan are as follows:

2019	$ 20,266
2020	5,456
2021	2,361
	$ 28,083

FURNITURE BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

11. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions are represented as follows:

	Grant	Amortized Amount	2018	2017
Trucks	$ 257,304	$ (126,286)	$ 131,018	$ 30,036
Equipment	345,775	(225,092)	120,683	126,153
Leasehold improvements	267,002	(148,349)	118,653	147,281
Computer software	103,198	(103,198)	-	52,909
	$ 973,279	$ (602,925)	$ 370,354	$ 356,379

	2018	2017
Balance, beginning of year	$ 356,379	$ 293,857
Additions to deferred contributions during the year	158,571	188,976
Amortization of deferred contributions related to capital assets	(144,596)	(126,454)
Balance, end of year	$ 370,354	$ 356,379

12. INTERNALLY RESTRICTED NET ASSETS

Internally restricted net assets represents amounts generated by the Organization in a capital building campaign in a prior year. These assets have been internally restricted for use toward the purchase or construction of a building. These assets may not be used for any other purpose without approval from the Board of Directors.

13. DONATED HOUSEHOLD FURNISHINGS

During the year, the Organization received donations of household furnishings of approximately $5,406,000 (2017 - $4,489,000). The value of these items have not been included in revenues or expenditures in the statement operations.

FURNITURE BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

14. FINANCIAL INSTRUMENTS

The Organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the risks at the reporting date.

(a) Credit risk

The Organization is exposed to credit risk with respect to the term deposit and accounts receivable. The Organization assesses, on a continuous basis, trade and other receivables on the basis of amounts it is virtually certain to receive. The credit risk with respect to term deposits is insignificant since it is held in a large financial institution.

(b) Interest rate risk

The Organization is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed rate instruments subject the Organization to risk of changes in fair value while the floating rate instruments subject it to a cash flow risk. The risk exposure on the fixed rate financial instruments is mitigated by the short term to maturity of the term deposit as at December 31, 2018.

(c) Liquidity risk

Liquidity risk is defined as the risk that the Organization may not be able to settle or meet its obligations as they become due. The Organization manages its liquidity risk by constantly monitoring forecasted and actual cash flows.

Management believes the exposure to the above risks has not changed from the prior year.

15. COMMITMENTS

The Organization is committed to minimum annual lease payments under various operating leases for office and warehouse premises, vehicles, office equipment and services. Premises lease costs include basic rent and a proportionate share of operating costs related to the leased premises. The future minimum payments under the various lease arrangements are as follows:

2019	$ 249,000
2020	223,000
2021	219,000
Thereafter	128,000
	$ 819,000