John Howard Society of the Central and South Okanagan
Financial Statements
For the year ended March 31, 2016

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Independent Auditor's Report

To the Board of Directors of the John Howard Society of the Central and South Okanagan

We have audited the accompanying financial statements of the John Howard Society of the Central and South Okanagan, which comprise the statement of financial position as at March 31, 2016, and the statements of operations, changes in net assets (debt) 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 Society's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of the Society'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, the financial statements present fairly, in all material respects, the financial position of the John Howard Society of the Central and South Okanagan as at March 31, 2016, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other Matter

The financial statements of the John Howard Society of the Central and South Okanagan for the year ended March 31, 2015, were audited by another auditor who expressed an unmodified opinion on those financial statements on August 4, 2015. We draw attention to Note 4 which describes the prior period adjustment related to the overstated accumulated amortization.

BDO Canada LLP

Chartered Professional Accountants

Kelowna, British Columbia
September 13, 2016

March 31, 2016

14. Financial instrument risk (continued)

Liquidity Risk

Liquidity risk is the risk that the Society encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Society will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and accrued liabilities and long term debt and a demand loan. The following table summarizes financial obligations which provides an indication of possible liquidity risk:

	Current	30 to 364 days	Over 1 year	2016 Total
Accounts payable and accrued liabilities	$ 130,345	$ -	$ -	$ 130,345
Long term debt and demand loan	18,506	203,569	10,401,383	10,623,458
	$ 148,851	$ 203,569	$ 10,401,383	$ 10,753,803

	Current	30 to 364 days	Over 1 year	2015 Total
Accounts payable and accrued liabilities	$ 121,296	$ -	$ -	$ 121,296
Long term debt	17,744	188,319	10,292,807	10,498,870
	$ 139,040	$ 188,319	$ 10,292,807	$ 10,620,166

See Note 12 for further information on possible liquidity risk arising from the Society's commitments and contingencies.

Management has determined that the Society is not significantly exposed to liquidity risk given its strong operating cash flows and secured funding sources. There have been no changes from the previous year of policies, procedures and methods to measure the risk.

15. Comparative figures

Certain comparative figures have been revised to conform with the financial statement formatting changes adopted in the current year.

13. Economic dependence

During the current year, the Society received subsidy payments for the Cardington Apartments and New Gate Apartments housing projects totaling $518,138 (2015 - $532,098) and $575,353 (2015 - $571,897), respectively, from the provincial government. The Society also receives government funding for several other short and long term programs. The Society is dependent on these funds to operate Cardington Apartments, New Gate Apartments and its other government funded projects in their present manner.

Funding from BC Housing represents 42% (2015 - 44%) of the Society's total revenue for the year. The remainder of the funding received is from foundations and private sources. If these sources substantially curtail their funding, it would be of detriment to some programs which the Society operates.

14. Financial instrument risk

The Society holds various forms of financial instruments. The nature of these instruments and the Society's operations expose the Society to interest, credit and liquidity risks. The Society manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

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 Society is exposed to this risk through certain variable rate long term debt and a demand loan that it holds. The following table summarizes the Society's net exposure to variable interest rates:

	2016	2015
Long term debt	$ 10,623,458	$ 10,498,870

Management believes that changes in the market rate of interest will have an immaterial effect on the Society as a change in interest rate of 1% in either direction will increase or decrease interest by $106,235 (2015 - $104,989). There have been no changes from the previous year of policies, procedures and methods to measure this risk.

12. Commitments and contingencies

(a) Cardington Apartments

The Society has a 60 year operating agreement with BC Housing to provide non-market residential accommodation at the Cardington Apartment residential complex for persons who are homeless, or at high risk of homelessness, because of physical, social or mental condition or disability. BC Housing agrees to provide subsidy to the Society for the difference between the tenant rent contribution and cost of operating the units, based on a budget approved by BC Housing. The Society's main responsibilities are to manage and maintain the building, prepare an annual operating budget for approval by BC Housing, ensure sound financial management, and enter into tenancy agreements with the tenants who meet the specifications contained in the agreement.

(b) New Gate Apartments

The Society has a 60 year operating agreement with BC Housing to provide non-market residential accommodation at the New Gate Apartment residential complex for persons who are homeless, or at high risk of homelessness. BC Housing agrees to provide subsidy to the Society for the difference between the tenant rent contribution and cost of operating the units, based on a budget approved by BC Housing. The Society's main responsibilities are to manage and maintain the building, prepare an annual operating budget for approval by BC Housing, ensure sound financial management, and enter into tenancy agreements with the tenants who meet the specifications contained in the agreement, and deliver support services to help tenants achieve and maintain stability in housing and access to other community-based supports and services.

(c) Operating Agreements

The Society has various commitments for leases or rent at various locations. The annual payment for the following six years is estimated as follows:

2017	$	54,664
2018		7,939
2019		5,520
2020		5,520
2021		5,520
	$	79,163

9. Replacement reserves

Under the terms of the agreement with BC Housing, the replacement reserve accounts are externally restricted by BC Housing and are to be credited in the amount determined by the budget provision per annum plus interest earned. These funds, along with accumulated interest must be held in a separate bank account and/or invested only in accounts or instruments insured by the Canadian Deposit Insurance Corporation or the Credit Union Deposit Insurance Corporation; in investments in accordance with the Society Act or Municipal act, in investments guaranteed by a Canadian government, or in other investment instruments as agreed upon with BC Housing.

There are two replacement reserves, one for New Gate and one for Cardington. The annual amounts that are transferred to the New Gate and Cardington replacement reserves are $35,280 and $25,920 respectively. Approval from British Columbia Housing must be acquired in order to use these restricted funds for any purpose. In the current year, expenditures of $33,478 (2015 - $24,174) were approved by British Columbia Housing as qualifying approved expenditures to be spent out of the replacement reserve.

	Cardington Apartments	New Gate Apartments	Total 2016	2015
Balance, beginning of year	$ 68,391	$ 86,721	$ 155,112	$ 122,330
Annual transfer	25,920	35,280	61,200	56,880
Interest income	20	11	31	76
Property and equipment transfer for asset replacement	(20,411)	(13,067)	(33,478)	(24,174)
Balance, end of year	73,920	108,945	182,865	155,112
Cash restricted for replacement reserves (Note 2)	71,560	90,574	162,134	162,053
Over (under) funded replacement reserve	$ (2,360)	$ (18,371)	$ (20,731)	$ 6,941

10. Budget figures

The budget figures are from the budget approved at the 2015 Annual General Meeting and are not subject to audit procedures.

11. Subsidy assistance adjustments

BC Housing conducts an annual review of the financial statements and may adjust for any operation surplus or deficit of the prior year related to Cardington Apartments and New Gate Apartments. These adjustments occur and are accounted for as changes in the opening fund balances in the year the adjustment is communicated to the Society. In the current year, there was a subsidy repayment of $57,989 (2015 - $257,445).

7. Long term debt

	2016	2015
Mortgage payable to RBC, interest at 2.990% per annum, with monthly principal and interest payments of $2,796, secured by specific land and building at 1043 Harvey Avenue, maturing April 25, 2018.	$ 541,649	$ 558,828
Mortgage payable to Peoples Trust, interest at 3.480% per annum, with monthly principal and interest payments of $16,194, secured by specific land and buildings at the Cardington Apartments, maturing May 1, 2024.	3,452,839	3,527,235
Mortgage payable to TD Bank Group, interest at 3.189% per annum, with monthly principal and interest payments of $26,590, secured by specific land and buildings at the New Gate Apartments, maturing March 1, 2022.	6,294,881	6,412,807
	10,289,369	10,498,870
Less: current portion	212,931	206,063
	$ 10,076,438	$ 10,292,807

Principal repayments on long term debt for the next five years and thereafter are as follows, assuming mortgages are renewed on similar terms:

2017	$ 212,931
2018	220,012
2019	227,328
2020	234,888
2021	242,701
Thereafter	9,151,509
	$ 10,289,369

8. Deferred revenue

Deferred revenue consists of contracts and grants received to pay for expenditures relating to different programs provided by the Society. Recognition of these amounts as revenue is deferred to periods when the specified expenditures are made, and the obligations of the funding agreements are met.

	2016	2015
BC Housing	$ 89,840	$ 105,911
Province of BC - Gaming	41,250	41,250
Other deferred revenue	29,659	1,875
	$ 160,749	$ 149,036

4. **Property and equipment**

	2016		2015 (restated)	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 493,524	$ -	$ 317,567	$ -
Leased land	2	-	2	-
Buildings	10,850,446	2,175,183	10,637,264	1,818,156
Computer equipment	20,777	16,153	20,777	12,370
Furniture and equipment	36,774	25,740	36,773	22,980
Leasehold improvements	1,965	1,965	1,965	1,965
	$ 11,403,488	$ 2,219,041	$ 11,014,348	$ 1,855,471
		$ 9,184,447		$ 9,158,877

The leased land consists of two parcels of land located at 1440 St. Paul Street and 189 Rutland Road North, both leased from the City of Kelowna since July, 2006 and August, 2010 respectively, for consideration of $1 for a 60 year term from the commencement of each lease.

During the year, management discovered that $317,567 of the 1043 Harvey Avenue building should have been classified as land when it was purchased in September, 2007. As a result the related accumulated amortization on this building was overstated by $65,433. This has been adjusted in the prior year totals for property and equipment and the investment in property and equipment on both the Statement of Financial Position and on the Statement of Changes in Net Assets (Debt).

5. **Accounts payable and accrued liabilities**

Included in accounts payable and accrued liabilities are government remittances payable of $297 (2015 - $2,353).

6. **Demand loan**

	2016	2015
Mortgage payable to RBC, interest at 3.270% per annum, with monthly principal and interest payments of $1,661, secured by specific land and building at 2817 Springfield Rd, due on demand.	$ 334,089	$ -

3. **Due from related organization** (continued)

The purpose of the Howard Fry Housing Society is to provide affordable and supportive living to qualified residents. The assets, liabilities, net assets, revenue, and expenditures from this controlled Not-for-profit Organization are summarized below.

	2016	2015
Assets	$ 102,755	$ 83,229
Liabilities	88,384	71,919
Net Assets	14,371	11,310
	$ 102,755	$ 83,229
Revenue	31,673	33,262
Expenses	28,612	23,569
Excess revenue over expenditures	$ 3,061	$ 9,693
Cash flows provided by (used for):		
Operating activities	$ 21,420	$ (7,000)
Financing activities	(2,861)	(2,732)

There is also a mortgage receivable from this related organization, which is repayable at $526 per month, including interest at 5% per annum.

	2016	2015
Mortgage receivable	$ 68,014	$ 70,077
Less: current portion	3,015	2,873
	$ 64,999	$ 67,204

Principal payments received on the mortgage for the next five years and thereafter are as follows, assuming the mortgage is renewed on similar terms:

2017	$ 3,015
2018	3,206
2019	3,047
2020	2,880
2021	2,704
Thereafter	50,147
	$ 64,999

2. Cash

The Society's cash holdings are held to fund the following:

		2016		2015
Unrestricted cash	$	247,575	$	201,778
Restricted cash for replacement reserves				
Gaming		39,291		43,163
Cardington Apartments		64,852		48,813
New Gate Apartments		39,194		88,113
Restricted cash for BC Housing (a)		358,638		355,107
Externally restricted for replacement reserves (Note 9)				
Cardington replacement reserve		71,560		71,509
New Gate replacement reserve		90,574		90,544
	$	911,684	$	899,027

(a) Restricted cash for BC Housing

		Cardington Apartments		New Gate Apartments		Total 2016		2015
Funds in trust	$	(180)	$	337,142	$	336,962	$	336,962
Accrued interest		180		21,496		21,676		18,145
	$	-	$	358,638	$	358,638	$	355,107

Funds for the Society's Cardington and New Gate apartments are being held by BC Housing in trust. Excess funds at the completion of a building project are held in trust for the future improvements or applied against the principle of the mortgage related to the property. The use of these funds are externally restricted by BC Housing.

3. Due from related organization

		2016		2015
Due from Howard Fry Housing Society	$	19,066	$	-

The Howard Fry Housing Society is a not for profit society controlled by the John Howard Society of the Central and South Okanagan. The balance, owing from the related organization is non-interest bearing, unsecured and has no fixed terms of repayment.

1. Summary of significant accounting policies (continued)

Contributed Materials and Services	Contributions of assets, supplies and services that would otherwise have been purchased are recorded at fair value at the date of contribution, provided a fair value can be reasonably determined.
Use of Estimates	The preparation of financial statements in accordance with generally accepted accounting principles 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.
Financial Instruments	Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial instruments are reported either 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.
Replacement Reserves	There are two replacement reserves, one for Cardington and one for New Gate. The reserves have been established to fund future capital expenditures to the facility and equipment. Appropriations to and from reserve funds must be approved by BC Housing.
Housing Fund	The Housing Fund reports the assets, liabilities, receipts and disbursements related to the Cardington and New Gate housing operations and its related restrictions as reserves for capital replacements and improvements.

March 31, 2016

1. Summary of significant accounting polices

Nature of Business

The Society is incorporated under the laws of the British Columbia Society Act and is a registered charity under the Income Tax Act. The Society is involved in providing programs, services and ongoing support to pro-socially integrate persons at the end of their sentence and prevent people from coming into conflict with the law. The Society also provides transitional housing and affordable, supportive living for those who have a proven financial need.

Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Revenue Recognition

The Society follows the restricted fund method of accounting for contributions. Contributions received from the British Columbia Housing Management Commission ("BC Housing") for the Cardington and New Gate housing operations are recorded in their funds, including those specified for replacement reserves. Contributions received from BC Housing for the acquisition of property and equipment are recognized as revenue in the investment in property and equipment. All other contributions are recognized as revenue if the appropriate fund in the year in which the related disbursements are incurred. Interest income earned is recognized as revenue in the appropriate fund in the period in which the investment income is earned. Restricted contributions for which no corresponding restricted fund is presented should be recognized in accordance with the deferral method where they are deferred and recognized in the period the related expenditures are incurred. Rental and other service related revenues are recognized in he appropriate fund as they are earned and collection is reasonably assured.

Property and Equipment

Property and equipment is recorded at cost. Amortization is provided on a straight-lined and declining basis over the assets' estimated lives as follows:

Land	- Nil
Buildings	- 4% diminishing balance basis
Computer equipment	- 45% diminishing balance basis
Furniture and equipment	- 20% diminishing balance basis
Leasehold improvements	- 5 years straight line

John Howard Society of the Central and South Okanagan
Statement of Cash Flows

For the year ended March 31	2016	2015
Cash flows from operating activities		
Cash received from core operating grants	$ 2,124,552	$ 2,066,221
Cash received from other revenue sources	567,197	449,700
Cash paid to employees and suppliers	(2,029,596)	(1,834,023)
Interest paid	(355,406)	(347,908)
Interest received	133	88
	306,880	334,078
Cash flows from investing activities		
Purchase of property and equipment	(389,139)	(40,739)
Sale (purchase) of temporary investments	45,320	(3,659)
Loans and advances with related organization	(17,003)	16,895
	(360,822)	(27,503)
Cash flows from financing activities		
Advance of demand loan	340,000	-
Principle repayment of long term debt	(215,412)	(281,878)
Repayment of BC Housing Subsidy	(57,989)	(257,445)
	66,599	(539,323)
Increase (decrease) in cash	12,657	(232,748)
Cash, beginning of year	899,027	1,131,775
Cash, end of year	$ 911,684	$ 899,027

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

John Howard Society of the Central and South Okanagan
Statement of Changes in Net Assets (Debt)

Net Assets	Investment in Property and Equipment	Housing Fund	Cardington Replacement Reserve	New Gate Replacement Reserve	Unrestricted Net Assets	Total 2016	2015 (restated)
Balance, beginning of year	$ (1,052,197)	$ (141,336)	$ 68,391	$ 86,721	$ 488,951	$ (549,470)	$ (244,625)
Prior period adjustment (Note 4)	65,433	-	-	-	-	65,433	65,433
Balance, beginning of year, as restated	(986,764)	(141,336)	68,391	86,721	488,951	(484,037)	(179,192)
Adjustment for BC Housing subsidy repayment (Note 11)	-	(57,989)	-	-	-	(57,989)	(257,445)
	(986,764)	(199,325)	68,391	86,721	488,951	(542,026)	(436,637)
Excess (deficiency) of revenues over expenses	(363,570)	-	20	11	240,945	(122,594)	(47,400)
Approved expenditures from replacement reserves	-	-	(20,411)	(13,067)	33,478	-	-
Investment in property and equipment							
- Purchase of capital assets	389,139	-	-	-	(389,139)	-	-
- Reduction of debt incurred to purchase capital assets	(124,589)	(192,321)	-	-	316,910	-	-
Interfund transfers	-	-	25,920	35,280	(61,200)	-	-
Balance, end of year	$ (1,085,784)	$ (391,646)	$ 73,920	$ 108,945	$ 629,945	$ (664,620)	$ (484,037)

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

John Howard Society of the Central and South Okanagan
Statement of Operations

For the year ended March 31	2016 Budget (Note 10)	2016	2015
Revenue			
Subsidies	$ 1,092,614	$ **1,093,491**	$ 1,103,995
Contract income	926,992	**953,861**	863,376
Rental income	400,640	**418,905**	387,919
Grants	77,200	**77,200**	85,550
One Cup Café	55,000	**57,416**	50,145
Other income	14,700	**27,548**	35,984
Interest income	117	**133**	88
	2,567,263	**2,628,554**	2,527,057
Expenses			
Advertising and promotion	1,000	**2,045**	468
Bank charges and interest	4,550	**8,235**	4,384
Bedford	13,920	**16,866**	16,469
Conferences and workshops	2,000	**897**	1,644
Insurance	43,250	**42,168**	40,283
Interest on long term debt	347,171	**347,171**	343,525
Licenses, dues and fees	750	**1,226**	179
Office	89,630	**57,274**	76,271
One Cup Cafe program	46,940	**50,334**	51,528
Other housing	16,100	**23,690**	24,346
Other programs	30,140	**25,497**	24,074
Professional fees	26,250	**19,514**	33,236
Property taxes	650	**425**	692
Rental	-	**14,029**	-
Repairs and maintenance	121,096	**124,764**	90,218
Service contracts	2,600	**3,510**	8,940
Telephone	21,500	**42,210**	8,864
Training	11,200	**8,925**	5,720
Travel	20,295	**23,598**	20,684
Utilities	116,275	**117,541**	114,982
Wages and benefits	1,440,400	**1,457,659**	1,324,638
	2,355,717	**2,387,578**	2,191,145
Excess of revenue over expenses before other item	211,546	**240,976**	335,912
Other item			
Amortization	-	**363,570**	383,312
Deficiencies of revenues over expenses	$ 211,546	$ **(122,594)**	$ (47,400)

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

John Howard Society of the Central and South Okanagan
Statement of Financial Position

March 31	2016	2015 (restated)
Assets		
Current Assets		
Cash (Note 2)	$ 911,684	$ 899,027
Temporary investments	-	45,320
Accounts receivable	46,698	98,312
Prepaid expenses	20,023	13,552
Due from related organization (Note 3)	19,066	-
Current portion of mortgage receivable (Note 3)	3,015	2,873
	1,000,486	1,059,084
Mortgage receivable (Note 3)	64,999	67,204
Property and equipment (Note 4)	9,184,447	9,158,877
	$ 10,249,932	$ 10,285,165
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities (Note 5)	$ 130,345	$ 121,296
Demand loan (Note 6)	334,089	-
Current portion of long term debt (Note 7)	212,931	206,063
Deferred revenue (Note 8)	160,749	149,036
	838,114	476,395
Long term debt (Note 7)	10,076,438	10,292,807
	10,914,552	10,769,202
Net Assets (Debt)		
Investment in property and equipment	(1,085,784)	(986,764)
Internally restricted net assets	(391,646)	(141,336)
Replacement reserves (Note 9)	182,865	155,112
Unrestricted net assets	629,945	488,951
	(664,620)	(484,037)
	$ 10,249,932	$ 10,285,165

Approved on behalf of the Board:

_______________________ Director

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