



JOHN HOWARD SOCIETY OF ONTARIO

FINANCIAL STATEMENTS

DECEMBER 31, 2017

JOHN HOWARD SOCIETY OF ONTARIO

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INDEPENDENT AUDITORS' REPORT

To the Members of John Howard Society of Ontario

We have audited the accompanying financial statements of John Howard Society of Ontario, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, changes in net assets, and cash flows for the year then ended, and notes, comprising 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 misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion of 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 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 entity's preparation and fair presentation of the financial statements 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. 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, John Howard Society of Ontario derives revenue from fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of John Howard Society of Ontario.

Therefore, we were not able to determine whether, as at and for the year ended December 31, 2017, any adjustments might be necessary to fundraising revenue, excess (deficiency) of revenue over expenses reported in the statements of operations, cash flows from operations, and current assets and net assets reported in the statement of financial position.

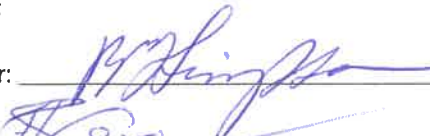

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of John Howard Society of Ontario as at December 31, 2017, and its financial performance and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

April 7, 2018

Sloan Partners LLP
Chartered Professional Accountants
Licensed Public Accountants

**JOHN HOWARD SOCIETY OF ONTARIO
STATEMENT OF FINANCIAL POSITION**

As at December 31	2017	2016
ASSETS		
Current		
Cash	\$ 102,493	\$ 199,468
Short-term investments (note 4)	187,895	178,333
Accounts receivable	234,826	148,769
HST receivable	17,878	71,331
Prepaid expenses and other current assets	8,234	20,436
Due from affiliates (note 2)	358,000	358,000
	909,326	976,337
Capital assets (note 3)	2,332,940	2,398,114
	\$ 3,242,266	\$ 3,374,451
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 6)	\$ 104,713	\$ 93,201
Current portion of long-term debt (note 7)	453,336	32,646
Deferred revenue	30,487	2,800
Affiliate benefit deposits held	233,493	233,493
	822,029	362,140
Due to affiliates (note 2)	342,788	400,000
Long-term debt (note 7)	377,306	830,901
Deferred Capital Contributions (note 8)	164,250	173,375
Deferred contributions (note 9)	16,486	17,486
	1,722,859	1,783,902
NET ASSETS		
Unrestricted	449,147	554,357
Invested in capital assets (note 10)	995,260	961,192
Internally restricted (note 11)	75,000	75,000
	1,519,407	1,590,549
Approved by:	\$ 3,242,266	\$ 3,374,451
Director: 		
Director: 		

See accompanying notes to the financial statements

**JOHN HOWARD SOCIETY OF ONTARIO
STATEMENT OF OPERATIONS**

Year ended December 31	2017	2016
REVENUE		
Affiliate contributions	\$ 487,023	\$ 484,289
Miscellaneous (note 12)	463,920	408,693
Conference registration fees	130,915	-
John Howard Society of Canada - National Grant	121,849	121,949
Fundraising	111,196	98,331
Cost recovery (note 13)	15,656	16,871
Investment	12,010	14,970
Amortization of deferred capital contribution	9,125	9,125
	<u>1,351,694</u>	<u>1,154,228</u>
EXPENSES		
Salaries and benefits	795,004	718,909
JHSO conference	119,837	431
Travel and meeting (note 13)	89,039	79,918
Fundraising	56,256	51,208
Office and postage	51,131	62,845
Interest on long-term debt	50,035	49,916
Affiliate direct services	47,307	47,307
Purchased services	45,418	19,912
Professional fees	26,790	25,582
Building occupancy	21,620	35,101
Skills development	14,509	1,859
Insurance	7,587	5,398
	<u>1,324,533</u>	<u>1,098,386</u>
REVENUE OVER EXPENSES BEFORE THE UNDERNOTED	27,161	55,842
Unrealized gain on investment	7,327	18,958
Amortization of capital assets (note 3)	<u>(105,630)</u>	<u>(99,295)</u>
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	\$ (71,142)	\$ (24,495)

See accompanying notes to the financial statements

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**JOHN HOWARD SOCIETY OF ONTARIO
STATEMENT OF CHANGES IN NET ASSETS**

Year ended December 31, 2017

	Internally restricted				Total
	Unrestricted	Invested in capital assets (note 10)	Capital Reserve (note 11)	Operating Reserve (note 11)	
Net assets, beginning of the year	\$ 554,357	\$ 961,192	\$ 50,000	\$ 25,000	\$1,590,549
Excess of revenue over expenses (expenses over revenue)	25,363	(96,505)	-	-	(71,142)
Internally financed investment in capital assets	(40,456)	40,456	-	-	-
Payment of debt related to investment in capital assets	(90,117)	90,117	-	-	-
Net assets, end of the year	<u>\$ 449,147</u>	<u>\$ 995,260</u>	<u>\$ 50,000</u>	<u>\$ 25,000</u>	<u>\$1,519,407</u>

Year ended December 31, 2016

	Internally restricted				Total
	Unrestricted	Invested in capital assets (note 10)	Capital Reserve (note 11)	Operating Reserve (note 11)	
Net assets, beginning of the year	\$ 589,049	\$ 975,995	\$ 25,000	\$ 25,000	\$1,615,044
Excess of revenue over expenses (expenses over revenue)	65,675	(90,170)	-	-	(24,495)
Internally financed investment in capital assets	(49,678)	49,678	-	-	-
Payment of debt related to investment in capital assets	(25,689)	25,689	-	-	-
Transfer funds to Capital Reserve	(25,000)		25,000		-
Net assets, end of the year	<u>\$ 554,357</u>	<u>\$ 961,192</u>	<u>\$ 50,000</u>	<u>\$ 25,000</u>	<u>\$1,590,549</u>

**JOHN HOWARD SOCIETY OF ONTARIO
STATEMENT OF CASH FLOWS**

Year ending December 31	2017	2016
CASH PROVIDED BY (USED IN) THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of expenses over revenue	\$ (71,142)	\$ (24,495)
Items not affecting cash:		
Amortization of capital assets (note 3)	105,630	99,295
Amortization of deferred capital contributions	(9,125)	(9,125)
Unrealized gain on investments	(7,327)	(18,958)
Changes in deferred contributions (note 9)	(1,000)	-
Changes in non-cash working capital:		
Accounts receivable	(86,057)	157,101
HST receivable	53,453	25,732
Prepaid expenses and other current assets	12,202	1,086
Accounts payable and accrued liabilities	11,512	(110,658)
Deferred revenue	27,687	2,800
	<u>35,833</u>	<u>122,778</u>
INVESTING		
Net change in short-term investments	(2,235)	125,581
Due from affiliates	(57,212)	5,500
Purchase of capital assets (note 3)	(40,456)	(569,811)
	<u>(99,903)</u>	<u>(438,730)</u>
FINANCING		
Proceeds from long-term debt	-	414,999
Repayment of long-term debt	(32,905)	(25,689)
	<u>(32,905)</u>	<u>389,310</u>
NET (DECREASE) INCREASE IN CASH	(96,975)	73,358
CASH, beginning of the year	<u>199,468</u>	<u>126,110</u>
CASH, end of the year	<u>\$ 102,493</u>	<u>\$ 199,468</u>

See accompanying notes to the financial statements

**JOHN HOWARD SOCIETY OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

PURPOSE AND NATURE OF THE ORGANIZATION

The John Howard Society of Ontario (the "JHSO") and its 19 affiliates provide direct services to individuals, families, and groups at all stages in the youth and criminal justice system from prevention education in public schools to post-institutional counselling for persons released from prison.

The JHSO is also involved in reform of the justice system through justice policy analysis and submission of briefs to various levels of government. As well, the Society provides community education conferences and presentations on critical issues in the justice system.

The JHSO, through its Centre of Research, Policy and Program Development, engages in research and program development initiatives to reflect and further the JHSO's mission.

The mandate of the JHSO is effective, just, and humane responses to crime and its causes.

The JHSO is a registered charity and therefore exempt from income taxes under the Income Tax Act (Canada), provided certain disbursement quotas are met.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policy selection

The organization believes that the deferral method is preferable for them as it presents information in a manner that is more easily understood by most users of the financial statements. The deferral method results in less volatility in revenue and resultant surpluses and deficits by closely synchronizing the recognition of revenue and related expenses. This is also the method favoured by other organizations within the Society's sector, thereby making the financial statements more comparable overall.

Basis of Presentation

These financial statements have been prepared in accordance with Part III of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies set out below. These financial statements include only the assets, liabilities, revenue, and expenses relating to the organization which operated as John Howard Society of Ontario Provincial Office. They do not include the revenue, expenses, assets, or liabilities of the individual branches/affiliates of the JHSO.

**JOHN HOWARD SOCIETY OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At December 31, 2017, the JHSO had 19 incorporated affiliates: Belleville, Durham, Hamilton-Burlington and area, Kawartha Lakes-Haliburton, Kingston, London, Niagara, Ottawa, Peel-Halton-Dufferin, Peterborough, Sarnia-Lambton, Sault Ste. Marie, Simcoe-Muskoka, Sudbury, Thunder Bay, Toronto, Waterloo-Wellington, Windsor-Essex, and York Region. Separate financial statements are prepared for each of the affiliates.

Capital Assets

Capital assets acquired and constructed by the JHSO are recorded at cost. Capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

	<u>Rate</u>	<u>Method</u>
Building	20 years	Straight-line
Computer equipment	3 years	Straight-line
Furniture and equipment	5 years	Straight-line

Revenue Recognition

The JHSO follows the deferral method of accounting for contributions, which includes donations and government grants. 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. Contributions externally restricted are recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for amortizable capital assets are deferred and amortized over the lives of the related capital assets.

Financial Instruments

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The JHSO has elected to carry its bonds, mutual funds, and fixed income securities at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

**JOHN HOWARD SOCIETY OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Society determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Society expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement not exceeding the initial carrying value.

Contributed services and materials

Volunteers contribute an indeterminable number of hours per year. Because of the difficulty of determining their fair value, contributed services and materials are not recognized in the financial statements.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

**JOHN HOWARD SOCIETY OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. DUE FROM (TO) AFFILIATES

Included in the balance of due from affiliates are advances made to JHS Simcoe/Muskoka, JHS Belleville, and JHS Toronto, as well as an amount owing to JHS Ottawa.

The advance of \$8,000 to JHS Belleville does not have fixed repayment terms. This balance is included in the current portion of the due from affiliates balance.

The advance of \$350,000 to JHS Toronto has an initial term of five years at 3% interest per annum and is renewable for a further term of five years at an interest rate to be agreed upon. The advance is due on demand and therefore this balance is included in the current portion of the due from affiliates balance.

The advances to JHS Belleville are unsecured and non-interest bearing. The advances to JHS Toronto are secured by a mortgage on 1669 Eglinton Avenue West.

The advance of \$400,000 from JHS Ottawa has an initial term of 5 years at 4% interest per annum. During 2017, principal payments of \$57,212 were made on this advance.

3. CAPITAL ASSETS

	Cost	Accumulated Amortization	2017 Net Book Value	2016 Net Book Value
Land	\$ 578,000	\$ -	\$ 578,000	\$ 578,000
Building	1,927,629	191,544	1,736,085	1,808,088
Computer equipment	21,012	9,256	11,756	4,504
Furniture and equipment	11,225	4,126	7,099	7,522
	<u>\$ 2,537,866</u>	<u>\$ 204,926</u>	<u>\$ 2,332,940</u>	<u>\$ 2,398,114</u>

**JOHN HOWARD SOCIETY OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. CAPITAL ASSETS (CONTINUED)

The change in net book value of capital assets is due to the following:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 2,398,114	\$ 1,927,598
Purchase of capital assets financed by debt	-	414,999
Purchase of capital assets internally financed (note 10)	40,456	49,678
Purchase of capital assets funded by deferred capital contributions (note 8)	-	105,134
Less amortization of capital assets (note 10)	<u>(105,630)</u>	<u>(99,295)</u>
Balance, end of year	<u>\$ 2,332,940</u>	<u>\$ 2,398,114</u>

4. SHORT-TERM INVESTMENTS

The JHSO invests in high interest savings accounts, equity instruments, and mutual funds. Short-term investments are comprised of the following:

	<u>2017</u>	<u>2016</u>
Equities	<u>\$ 187,895</u>	<u>\$ 178,333</u>

The JHSO holds securities which are subject to market risk, and interest rate risk. These risks will also impact future cash flow streams, including dividends, gains and losses, and interest income.

The value of equities changes with stock market conditions, which are affected by general economic and market conditions. The value of securities will vary with developments within specific governments and corporations which issue the securities.

The value of fixed income securities will generally rise if interest rates fall and fall if interest rates rise. Changes in interest rates may also affect the value of equity securities.

The JHSO does not enter into any derivative instrument arrangements for hedging or speculative purposes.

5. BANK OVERDRAFT

The JHSO has a line of credit with the Royal Bank of Canada, due on demand, with a limit of \$250,000 bearing interest at bank prime plus 1.25% per annum and is secured by a general security agreement. As at December 31, 2017, the JHSO has drawn \$nil (2016 - \$nil) of the total line of credit available.

**JOHN HOWARD SOCIETY OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31, 2017, there are no government remittances payable outstanding (2016 - \$nil).

7. LONG-TERM DEBT

	2017	2016
Royal Bank of Canada term loan, payable in monthly blended principal and interest payments of \$3,208 bearing interest at 4.5% per annum. Loan matures December 11, 2018 and is secured by a general security agreement and a mortgage on 342 Queen Street East. The credit facility agreement also requires the JHSO to comply with certain financial covenants.	\$ 438,473	\$ 456,844
Royal Bank of Canada term loan, payable in monthly blended principal and interest payments of \$2,451 bearing interest at 3.71% per annum. Loan matures June 2, 2019 and is secured by a general security agreement and a mortgage on 342 Queen Street East. The credit facility agreement also requires the JHSO to comply with certain financial covenants.	392,169	406,703
Total long-term debt	830,642	863,547
Less: Current portion	453,336	32,646
Long-term portion	\$ 377,306	\$ 830,901
Future minimum annual principal payments are as follows:		
2018	453,336	
2019	377,306	
	\$ 830,642	

**JOHN HOWARD SOCIETY OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

8. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represents the unamortized and unspent amounts of grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations over the useful lives of the capital assets. The changes in the deferred capital contributions balance for the year are as follows:

	2017	2016
Balance, beginning of year	\$ 173,375	\$ 182,500
Amortization of deferred capital contributions	(9,125)	(9,125)
Balance, end of year	\$ 164,250	\$ 173,375

The balance of deferred capital contributions consists of the following:

	2017	2016
Unamortized deferred capital contributions used to purchase capital assets (note 10)	\$ 164,250	\$ 173,375

9. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants and donations. There were no changes in the deferred contributions balance for the year.

The balance of deferred contributions consists of the following:

	2017	2016
MacFarlane Scholarship	\$ 16,486	\$ 17,486

Earnings generated from the MacFarlane Scholarship funds are used to provide the first year's tuition for a student undertaking any Master of Social Work program.

**JOHN HOWARD SOCIETY OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

10. INVESTED IN CAPITAL ASSETS

Investment in capital assets, which represents the unamortized value of capital assets funded using internal unrestricted resources, net of outstanding debt, is calculated as follows:

	<u>2017</u>	<u>2016</u>
Capital assets, net (note 3)	\$ 2,332,940	\$ 2,398,114
Less due to affiliates (note 2)	(342,788)	(400,000)
Less long-term debt (note 7)	(830,642)	(863,547)
Less unamortized deferred capital contributions used to purchase capital assets (note 8)	(164,250)	(173,375)
	<u>\$ 995,260</u>	<u>\$ 961,192</u>

The net change in net assets invested in capital assets is calculated as follows:

	<u>2017</u>	<u>2016</u>
Purchase of capital assets internally financed (note 3)	\$ 40,456	\$ 49,678
Repayment of long-term debt principal	90,117	25,689
Proceeds of long-term debt	-	(414,999)
Purchase of capital assets financed by debt	-	414,999
	<u>130,573</u>	<u>75,367</u>
Less amortization of capital assets (note 3)	(105,630)	(99,295)
Amortization of deferred capital contributions	9,125	9,125
	<u>\$ 34,068</u>	<u>\$ (14,803)</u>

**JOHN HOWARD SOCIETY OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

11. INTERNALLY RESTRICTED NET ASSETS

Internally restricted net assets are funds set aside that reflect the application of the Board of Directors policy as follows:

	2017	2016
Capital Reserve	\$ 50,000	\$ 50,000
Operating Reserve	25,000	25,000
	\$ 75,000	\$ 75,000

The capital reserve represents funds internally restricted to be used for the purpose of paying for the major repairs and replacements of the building.

The operating reserve represents funds internally restricted to be maintained as a fiscally prudent operating reserve to provide funds for continuity of operations and operational contingencies.

The Board of Directors has determined that the Benefaction Fund and L.W. Skye Fund have fulfilled their purpose and are no longer necessary. The funds have been transferred to unrestricted net assets.

The Trillium Stabilization Fund was designated for major capital expenditures. A building was purchased with the funds and it has fulfilled its purpose.

Expenditures from these internally restricted net assets require Board approval.

12. MISCELLANEOUS

	2017	2016
Pension plan administration cost recovery	\$ 187,426	\$ 176,776
Research	216,165	213,744
Property tax rebate	27,623	-
Other	32,706	18,173
	\$ 463,920	\$ 408,693

13. TRAVEL AND MEETINGS EXPENSES

Included in travel and meetings expenses are \$15,656 (2016 - \$16,871) worth of costs for accommodation, travel, and food which have been recovered from the affiliates and pension committee.

**JOHN HOWARD SOCIETY OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

14. PENSION PLAN

The JHSO has one pension plan with defined benefit plan and defined contribution plan components. The majority of the employees are in the defined contribution plan, which is funded directly by the affiliate offices for their qualifying employees. The employees are required to contribute to the defined contribution component of the pension plan. The defined benefit plan is funded by the affiliate and branch offices for their qualifying employees through the JHSO. The JHSO follows defined contribution accounting for its portion of both plan components. The employer portion of pension contribution for the year was \$43,398 (2016 - \$36,099).

15. BREAK-OPEN TICKET LOTTERIES

The JHSO was licensed by the Alcohol and Gaming Commission of the Province of Ontario, license numbers 4029 and 8153 to engage in break-open ticket lotteries during the year. The following is a summary of the financial details related to the lotteries:

	BN 1	BN 14	BN 26	Total
Number of boxes undistributed as at January 1, 2017	14	4	1	19
Number of boxes ordered	32	7	2	41
Number of boxes available for sale	46	11	3	60
Number of boxes distributed	35	8	3	46
Number of undistributed boxes at year end	11	3	-	14
Number of boxes available for sale in the year	46	11	3	60
Disbursed proceeds to the charity	\$ 44,649	\$ -	\$ -	\$ 44,649
Expenses other than license fees	10,184	10,259	8,281	28,724
License fees	3,468	3,352	2,185	9,005
Cash as at December 31, 2017	55,611	-	-	55,611
Gross proceeds	58,800	59,360	50,400	168,560

16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments approximate their carrying values unless otherwise noted.