Financial Statements of

# FOCUS ON THE FAMILY (CANADA) ASSOCIATION

Year ended September 30, 2016

KPMG LLP
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# INDEPENDENT AUDITORS' REPORT

To the Members of Focus on the Family (Canada) Association

We have audited the accompanying financial statements of Focus on the Family (Canada) Association (the "Association") which comprise the statement of financial position as at September 30, 2016, 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 misstatement, whether due to fraud or error.

*Auditors' 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 an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

KPMG



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider 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 audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Focus on the Family (Canada) Association as at September 30, 2016 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.

*Report on Other Legal and Regulatory Requirements*

As required by the Society Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Professional Accountants

November 25, 2016
Abbotsford, Canada

# FOCUS ON THE FAMILY (CANADA) ASSOCIATION

Statement of Financial Position

September 30, 2016, with comparative information for 2015

| | | 2016 | | 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash | $ | 2,199,994 | $ | 2,374,962 |
| Accounts receivable | | 32,654 | | 47,354 |
| Inventories | | 236,947 | | 234,025 |
| Prepaid expenses and deposits | | 224,532 | | 261,558 |
| | | 2,694,127 | | 2,917,899 |
| Capital assets (note 2) | | 17,320,426 | | 17,695,940 |
| Cash surrender value of life insurance | | 6,038 | | 5,565 |
| | $ | 20,020,591 | $ | 20,619,404 |
| **Liabilities and Net Assets** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities (note 3) | $ | 444,292 | $ | 596,117 |
| Deferred revenue | | 120,291 | | 105,592 |
| Deferred contributions (note 4) | | 888,866 | | 1,051,082 |
| Current portion of obligations under capital lease (note 5) | | 4,925 | | 4,691 |
| | | 1,458,374 | | 1,757,482 |
| Obligations under capital lease (note 5) | | 12,682 | | 17,842 |
| Deferred capital contributions (note 6) | | 11,701,529 | | 12,042,723 |
| | | 13,172,585 | | 13,818,047 |
| Net assets: | | | | |
| Invested in capital assets (note 7) | | 5,601,290 | | 5,630,684 |
| Unrestricted | | 1,246,716 | | 1,170,673 |
| | | 6,848,006 | | 6,801,357 |
| Commitments (note 9) | | | | |
| | $ | 20,020,591 | $ | 20,619,404 |

See accompanying notes to financial statements.

On behalf of the Board:

_________________ Director

R. Ainslie _________________ Director

# FOCUS ON THE FAMILY (CANADA) ASSOCIATION
Statement of Operations

Year ended September 30, 2016, with comparative information for 2015

| | 2016 | 2015 |
|---|---|---|
| Revenue: | | |
| Contributions | $ 7,925,240 | $ 7,982,641 |
| Sales, event registration fees and subscriptions | 1,034,042 | 972,362 |
| Other income | 167,246 | 344,561 |
| Amortization of deferred capital contributions | 368,072 | 365,735 |
| | 9,494,600 | 9,665,299 |
| Expenses (note 8): | | |
| Family concerns | 3,860,298 | 4,145,307 |
| Publications | 1,240,196 | 1,321,993 |
| Fundraising | 1,236,857 | 1,169,217 |
| Radio | 1,364,980 | 1,329,600 |
| Literature, resources and correspondence | 1,004,370 | 1,050,556 |
| Supporting services | 741,250 | 774,132 |
| | 9,447,951 | 9,790,805 |
| Excess (deficiency) of revenue over expenses | $ 46,649 | $ (125,506) |

See accompanying notes to financial statements.

# FOCUS ON THE FAMILY (CANADA) ASSOCIATION

Statement of Changes in Net Assets

Year ended September 30, 2016, with comparative information for 2015

| | Invested in capital assets | Unrestricted | 2016 Total | 2015 Total |
|---|---|---|---|---|
| Net assets, beginning of year | $ 5,630,684 | $ 1,170,673 | $ 6,801,357 | $ 6,926,863 |
| Excess (deficiency) of revenue over expenses (note 7(b)) | (106,541) | 153,190 | 46,649 | (125,506) |
| Net changes in invested in capital assets (note 7(c)) | 77,147 | (77,147) | - | - |
| Net assets, end of year | $ 5,601,290 | $ 1,246,716 | $ 6,848,006 | $ 6,801,357 |

See accompanying notes to financial statements.

# FOCUS ON THE FAMILY (CANADA) ASSOCIATION

Statement of Cash Flows

Year ended September 30, 2016, with comparative information for 2015

| | 2016 | 2015 |
|---|---|---|
| Cash provided by (used in): | | |
| Operations: | | |
| Excess (deficiency) of revenue over expenses | $ 46,649 | $ (125,506) |
| Items not involving cash: | | |
| Amortization of capital assets | 474,613 | 516,969 |
| Amortization of deferred capital contributions | (368,072) | (365,735) |
| Gain on sale of investments | - | (34,499) |
| Unrealized gain on life insurance | (473) | - |
| Changes in non-cash operating working capital: | | |
| Accounts receivable | 14,700 | 21,038 |
| Inventories | (2,922) | (55,192) |
| Prepaid expenses and deposits | 37,026 | (27,129) |
| Accounts payable and accrued liabilities | (151,825) | (67,997) |
| Deferred revenue | 14,699 | 10,051 |
| Deferred contributions | (162,216) | (174,365) |
| | (97,821) | (302,365) |
| Financing: | | |
| Deferred capital contributions received | 26,878 | 15,111 |
| Repayment of obligations under capital lease | (4,926) | (1,457) |
| | 21,952 | 13,654 |
| Investments: | | |
| Purchase of capital assets | (99,099) | (58,534) |
| Proceeds on disposal of investments | - | 1,579,443 |
| | (99,099) | 1,520,909 |
| Increase (decrease) in cash | (174,968) | 1,232,198 |
| Cash, beginning of year | 2,374,962 | 1,142,764 |
| Cash, end of year | $ 2,199,994 | $ 2,374,962 |
| Supplemental cash flow information: | | |
| Capital assets acquired by way of capital lease | $ - | $ 23,990 |

See accompanying notes to financial statements.

**General**

Focus on the Family (Canada) Association (the "Association") was incorporated on December 31, 1982, in British Columbia, Canada, under the Society Act (British Columbia), as a non-profit religious and educational organization dedicated to the preservation of the family. The Association is a registered charitable organization under the Canadian Income Tax Act and, accordingly, is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

On July 19, 2007, the Association was registered as an extra-provincial corporation in Alberta, Canada.

**1. Significant accounting policies:**

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations. The significant accounting policies are as follows:

(a) Revenue recognition:

The Association follows the deferral method of accounting for donations. This method recognizes unrestricted donations as revenue when received and externally restricted donations as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the same basis as the amortization period for the related capital assets. Pledges are not recognized as revenue until received. Contributions for land are recognized as a direct increase in net assets.

A substantial number of volunteers contribute a significant amount of their time each year. Contributed services are not recognized in the financial statements, because of the difficulty of determining the fair value.

Gifts-in-kind are valued at their estimated fair value at their time of contribution when a fair value can be determined and the Association would otherwise have purchased the items.

(b) Inventories:

Inventories are valued at the lower of cost, the original purchase price and net realizable value, the expected proceeds less costs to sell, and consists of books, videos and other multimedia resources held for sale.

(c) Prepaid expenses and deposits:

Prepaid expenses and deposits consist of prepaid insurance, rent, property taxes, charges for periodical mailings, and other items.

**1. Significant accounting policies (continued):**

(d) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments that extend the estimated life or service potential of an asset are capitalized. When a capital asset no longer contributes to the Association's ability to provide services, its carrying amount is written-down to its residual value, if any. Capital assets are amortized on a straight-line basis as follows:

| | |
|---|---|
| Building | 40 years |
| Computer equipment | 3 years |
| Computer software | 10 years |
| Furniture and equipment | 3 - 5 years |
| Leasehold improvements | 10 years |
| Vehicles | 5 years |

(e) Cash surrender value of life insurance:

The cash surrender value of life insurance is the cash value of the policies less any surrender charges that would apply if the policies were surrendered.

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Association has elected to carry investments 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.

## 1. Significant accounting policies (continued):

(f) Financial instruments (continued):

Financial assets carried at cost or amortized cost 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 Association 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 Association 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.

(g) Foreign exchange:

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at year-end exchange rates. Transactions denominated in a foreign currency are translated at the exchange rate in effect at the time of the transaction. Exchange gains and losses resulting from translation are included in the excess (deficiency) of revenue over expenses.

(h) Use of estimates:

The preparation of the financial statements 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 expenses during the year. Significant items subject to such estimates include the estimated useful lives of capital assets for purposes of amortization and related revenue recognition for deferred capital contributions. Actual results could differ from those estimates.

(i) Allocation of expenses:

The Association incurs a number of expenses that are common to the administration of the Association and each of its programs. The Association allocates these expenses by identifying the appropriate basis of allocation as disclosed in note 8.

## 2. Capital assets:

| | | | 2016 | 2015 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | $ 4,906,035 | $ - | $ 4,906,035 | $ 4,906,035 |
| Building | 13,582,942 | 1,779,434 | 11,803,508 | 12,109,627 |
| Computer equipment | 160,951 | 141,194 | 19,757 | 15,478 |
| Computer software | 558,314 | 148,502 | 409,812 | 462,984 |
| Furniture and equipment | 505,302 | 398,318 | 106,984 | 109,407 |
| Leasehold improvements | 206,347 | 160,787 | 45,560 | 55,187 |
| Vehicles | 48,891 | 20,121 | 28,770 | 37,222 |
| | $ 19,968,782 | $ 2,648,356 | $ 17,320,426 | $ 17,695,940 |

Amortization charged to expenses for the year was $474,613 (2015 - $516,969).

Assets under capital lease with a cost of $23,990 (2015 - $23,990) and accumulated amortization of $6,797 (2015 - $1,999) are included in vehicles.

## 3. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances for PST totalling $2,911 (2015 - $2,919).

## 4. Deferred contributions:

| | 2016 Total | 2015 Total |
|---|---|---|
| Balance, beginning of year | $ 1,051,082 | $ 1,225,447 |
| Contributions received | 834,731 | 1,019,260 |
| Contributions recognized | (996,947) | (1,193,625) |
| Balance, end of year | $ 888,866 | $ 1,051,082 |

## 5. Obligations under capital lease:

The Association has financed certain vehicles by entering into capital lease agreements. Capital lease repayments are due approximately as follows:

| | |
|---|---|
| 2017 | $ 4,925 |
| 2018 | 4,925 |
| 2019 | 4,925 |
| 2020 | 2,832 |
| Total minimum lease payments | 17,607 |
| Current portion of obligations under capital lease | 4,925 |
| | $ 12,682 |

## 6. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount used to purchase capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations.

| | 2016 | 2015 |
|---|---|---|
| Balance, beginning of year | $ 12,042,723 | $ 12,393,347 |
| Contributions received | 26,878 | 15,111 |
| Amortization of deferred capital contributions | (368,072) | (365,735) |
| Balance, end of year | $ 11,701,529 | $ 12,042,723 |

## 7. Invested in capital assets:

(a) Net assets invested in capital assets are calculated as follows:

| | 2016 | 2015 |
|---|---|---|
| Capital assets | $ 17,320,426 | $ 17,695,940 |
| Amounts financed by: | | |
| Unamortized deferred capital contributions (note 6) | (11,701,529) | (12,042,723) |
| Obligations under capital lease (note 5) | (17,607) | (22,533) |
| | $ 5,601,290 | $ 5,630,684 |

(b) Deficiency of revenue over expenses relating to invested in capital assets:

| | 2016 | 2015 |
|---|---|---|
| Amortization of deferred capital contributions (note 6) | $ 368,072 | $ 365,735 |
| Less amortization of capital assets (note 2) | (474,613) | (516,969) |
| | $ (106,541) | $ (151,234) |

(c) Net changes in invested in capital assets:

| | 2016 | 2015 |
|---|---|---|
| Additions of capital assets | $ 99,099 | $ 82,524 |
| Amounts funded by deferred contributions | (26,878) | (15,111) |
| Amounts financed by capital lease | - | (23,990) |
| Repayment of obligations under capital lease | 4,926 | 1,457 |
| Increase in invested in capital assets | $ 77,147 | $ 44,880 |

## 8. Allocation of expenses:

Expenses are allocated by program and include direct expenses incurred by each program. In addition, indirect expenses including amortization, bank charges, property taxes, information technology, and repairs & maintenance are allocated to ministry activities as disclosed in the statement of operations as follows:

| | 2016 | 2015 |
|---|---|---|
| Family concerns | $ 549,569 | $ 560,277 |
| Publications | 95,487 | 97,347 |
| Fundraising | 173,762 | 177,147 |
| Radio | 1,316 | 1,341 |
| Literature, resources and correspondence | 107,765 | 109,865 |
| Supporting services | 168,390 | 171,671 |
| | $ 1,096,289 | $ 1,117,648 |

## 9. Commitments:

The Association has entered into operating leases for office equipment. Minimum annual lease payments are approximately as follows:

| | |
|---|---|
| 2017 | $ 8,000 |
| 2018 | 8,000 |
| 2019 | 8,000 |
| 2020 | 8,000 |
| 2021 | 2,000 |
| | $ 34,000 |

## 10. Common purpose:

The Association promotes the preservation of family, primarily through radio broadcasts, periodicals, literature, websites, seminars, and emails provided in cooperation with Focus on the Family, Inc. With common purpose, the two associations work closely in their dedication to strengthening of the family. During the year, the Association purchased $183,662 ($138,644 USD) (2015 - $218,686 ($177,924 USD)) of literature and resources from Focus on the Family, Inc.

Included in accounts payable and accrued liabilities is $1,834 (2015 - $13,482) payable to Focus on the Family, Inc.

All transactions occurred in the normal course of operations.

## 11. Financial risk:

(a) Currency risk:

The Association is exposed to currency risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Association incurs expenses and holds cash in US dollars. The Association does not currently enter into forward contracts to mitigate this risk. There has been no change to the risk exposure from 2015.

(b) Liquidity risk:

Liquidity risk is the risk that the Association will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Association manages its liquidity risk by monitoring its operating requirements. There has been no change to the risk exposures from 2015.

## 12. Comparative figures:

Certain of the prior year's information have been reclassified to conform with the presentation adopted for the current year.