Financial statements of

Association of Neighbourhood Houses of British Columbia

March 31, 2014

Association of Neighbourhood Houses of British Columbia

March 31, 2014

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Deloitte.

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Independent Auditor's Report

To the Board of Directors of
the Association of Neighbourhood Houses of British Columbia

We have audited the accompanying financial statements of the Association of Neighbourhood Houses of British Columbia (the "Association"), which comprise the statement of financial position as at March 31, 2014 and the statements of operations, changes in net assets and cash flows for the year then ended and notes to the financial statements.

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 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 beiieve that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for **Qualified Opinion**

In common with many charitable organizations, the Association derives revenues from donations and fund raising activities, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Association and we were not able to determine whether any adjustments might be necessary to revenues, excess of revenues over expenses, net assets and assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of the Association as at March 31, 2014 and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

As required by the Society Act (British Columbia), we report that in our opinion, these financial statements are prepared on a basis consistent with that of the previous year.

Deloitte LLP

Chartered Accountants
July 9, 2014
Vancouver, British Columbia

Association of Neighbourhood Houses of British Columbia

Statement of operations

year ended March 31, 2014

	2014	2013
	$	$
Revenue (Schedule 1)		
Province of British Columbia	7,021,838	6,612,563
Earned income	6,040,891	5,677,947
Other contributions and miscellaneous income	1,247,092	1,008,027
United Way	1,036,577	987,798
City of Vancouver	1,018,780	796,707
Gaming	775,300	731,800
Federal government	760,226	1,296,358
Donations and fund raising	312,350	376,520
Investment income (Note 10)	267,489	245,699
	18,480,543	17,733,419
Expenses (Schedule 1)		
Salaries and benefits	12,460,158	11,931,555
Purchased services and subcontracts	2,098,575	2,098,736
Program, food and transportation	1,668,688	1,422,460
Building occupancy	958,552	1,020,384
Other expenses	413,120	488,669
Office expenses	340,135	331,995
	17,939,228	17,293,799
Excess of revenues over expenses from operations (Schedule 1)	541,315	439,620
Amortization of deferred capital contributions	301,272	300,155
Amortization of property and equipment	(512,371)	(520,665)
Unrealized gain on investments	315,274	100,302
Excess of revenues over expenses	645,490	319,412

The accompanying notes to the financial statements are an integral part of this financial statement.

Association of Neighbourhood Houses of British Columbia

Statement of changes in net assets
year ended March 31, 2014

	Invested in property and equipment	Internally restricted (Note 8)	Unrestricted	2014 Total	2013 Total
	$	$	$	$	$
Balance, beginning of year	754,325	3,323,327	1,299,588	5,377,240	5,057,828
Excess of revenues over expenses	(211,099) *		856,589	645,490	319,412
Purchase of property and equipment	6,435,017		(6,435,017)		
Deferred property and equipment contributions received (Note 7)	(197,143)		197,143		
BC Housing loan (Note 13)	(6,168,857)		6,168,857		
Internally restricted funds		211,072	(211,072)		
Balance, end of year	612,243	3,534,399	1,876,088	6,022,730	5,377,240

* Comprised of amortization expense of $512,371 less amortization of deferred contributions of $301,272.

The accompanying notes to the financial statements are an integral part of this financial statement.

Association of Neighbourhood Houses of British Columbia

Statement of financial position
as at March 31, 2014

	2014	2013
	$	$
Assets		
Current assets		
Cash (Note 9)	1,889,951	1,368,932
Investments (Note 3)	6,653,490	5,739,353
Accounts receivable	2,097,169	931,484
Prepaid expenses and other assets	151,050	114,142
	10,791,660	8,153,911
Funds held for development project (Note 7)	800,000	800,000
Property and equipment (Note 4)	10,616,583	4,693,937
	22 208 243	13 647 848
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,612,519	998,678
Deferred contributions (Note 5)	2,726,803	2,512,070
	5,339,322	3,510,748
Deferred contributions for property and equipment (Note 7)	2,629,529	2,733,655
Replacement reserve (Note 6)	41,850	20,250
BCHMC Loan (Note 13)	8,174,812	2,005,955
	16,185,513	8,270,608
Commitments (Note 14)		
Net assets		
Invested in property and equipment	612,243	754,325
Internally restricted (Note 8)	3,534,399	3,323,327
Unrestricted	1,876,088	1,299,588
	6,022,730	5,377,240
	22 208 243	13 647,848

Approved by the Board

Director

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The accompanying notes to the financial statements are an integral part of this financial statement.

Association of Neighbourhood Houses of British Columbia

Statement of cash flows
as at **March 31, 2014**

	2014	2013
	$	$
Operating activities		
Excess of revenues over expenses	**645,490**	319,412
Items not affecting cash		
Amortization of deferred capital contributions	**(301,272)**	(300,155)
Amortization of property and equipment	**512,371**	520,665
Unrealized gain on investments	**(315,274)**	(100,302)
	541,315	439,620
Changes in non-cash working capital		
Accounts receivable	**(1,165,685)**	(73,028)
Prepaid expenses and other assets	**(36,908)**	40,001
Accounts payable and accrued liabilities	**1,613,841**	(89,008)
Deferred contributions	**214,733**	(18,924)
	625,981	(140,959)
	1,167,296	298,661
Investing activities		
Purchase of property and equipment	**(6,435,017)**	(756,133)
Purchase of investments, net	**(598,863)**	(1,275,554)
Funds held for development project		(800,000)
	(7,033,880)	(2,831,687)
Financing activities		
BC Housing loan (Note 13)	**6,168,857**	653,780
Replacement reserve (Note 6)	**21,600**	20,250
Contributions for property and equipment (Note 7)	**197,146**	905,709
	6,387,603	1,579,739
Increase (decrease) in cash	**521,019**	(953,287)
Cash, beginning of year	**1,368,932**	2,322,219
Cash, end of year (Note 9)	**1,889,951**	1,368,932

The accompanying notes to the financial statements are an integral part of this financial statement.

1. Description of operations

The Association of Neighbourhood Houses of British Columbia (the "Association") is a not-for-profit organization incorporated under the Society Act of B.C. As a registered charity under the Income Tax Act of Canada, the Association is not subject to income taxes. The Association is a community based organization devoted to the enhancement of neighbourhoods. The Association operates seven neighbourhood houses, the Sasamat Outdoor Centre, and other metropolitan services. The seven neighbourhood houses of the Association are as follows: Kitsilano, Cedar Cottage, Gordon, Alexandra, South Vancouver, Mount Pleasant and Frog Hollow (collectively the "Houses").

The Association exercises control over ANHBC Neighbourhood Houses Foundation (incorporated in April 2013), a not-for-profit organization which was created to hold part of the land and building currently owned by the Association.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) and reflect the following policies:

(a) *Basis of presentation*

These financial statements do not include the accounts of the controlled not-for-profit organization ANHBC Neighbourhood Houses Foundation as it is currently inactive.

(a) *Revenue recognition*

The Association follows the deferral method of accounting for contributions.

Under this method, unrestricted contributions and unrestricted investment income are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions and restricted investment income are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of property and equipment are deferred and amortized into revenue at the amortization rate of the related property and equipment.

Earned income represents user fees for services rendered in child care programs by the Association. These fees are recognized as revenue when earned.

Endowment contributions are recognized as direct increases in net assets when received.

(b) *Property and equipment*

Purchased property and equipment are recorded at cost less accumulated amortization. Contributed property and equipment are recorded at fair market value at the date of contribution. Amortization is recorded over the estimated useful life of the assets on a straight line basis as follows:

Buildings	20 years
Electronic equipment	4 years
Furniture and fixtures	5 years
Leaseholds	20 years
Software	3 years
Vehicles	5 years

For property under construction, no amortization is recorded until the asset is substantially complete.

Management reviews property and equipment for impairment when events or changes in circumstances indicate that the asset no longer has any long-term service potential to the Association. When an asset no longer has future value to the Association, an impairment loss is recorded for the excess of the carrying value *over* the residual value.

2. Significant accounting policies (continued)

(c) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Association becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost except for the following instruments:

i) Investments in unlisted shares, which are measured at cost less any reduction for impairment;

ii) Investments in mutual funds, which are measured at fair value.

Changes in unrealized gains and losses on investments and realized gains and losses on sale of investments are included in the statement of operations in the period incurred.

The financial instruments subsequently measured at amortized cost include investments in term deposits, accounts receivable, accounts payable and accrued liabilities, and BC Housing loan. Interest related to loans on property under construction is capitalized.

Transaction costs related to financial instruments measured subsequent to initial recognition at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statement of operations as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Association recognizes in the statement of operations an impairment loss, if any, when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed in the statement of operations in the period the reversal occurs.

(d) Donated materials and services

The Association does not record the value of donated materials and seNices as the fair value is not readily determinable.

(e) Deferred contributions

Grants and contributions received which relate to programs and events to be carried out in future fiscal years are reflected as deferred contributions.

Grants and contributions received to fund property and equipment acquisitions are reflected as deferred contributions for property and equipment and are amortized in the statement of operations over the life of the related item of property and equipment.

(f) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-rrofit organizations rquires management to make estimates and ai:;sumptions that affect the reported amounts of assets, particularly the recoverability of accounts receivable, the estimated useful life of property and equipment and accrued liabilities at the date of the financial statements. Actual results could differ from the estimates.

2. Significant accounting policies (continued)

(g) *Allocation of common expenses*

The Association follows a fee for service principle for allocating certain common administration and financial services expenses amongst the Houses.

Central office administration expenses of $144,000 (2013 - $144,000) are allocated equally among all the Houses.

Financial services expenses of $531,682 (2013 - $522,252) are allocated proportionate to the budgets of the Houses.

(h) *Pension plan*

The Association maintains a defined benefit pension plan for its employees, which provides pension benefits based on length of service and the average of the best five consecutive years of earnings. As the pension plan is a multi-employer pension plan, the Association accounts for it using defined contribution plan accounting.

3. Investments

	2014	2013
	$	$
Mutual funds	4,391,882	3,416,959
Term deposits	2,251,558	2,312,344
Unlisted shares	10 050	10,050
	6 653 490	5,739,353

4. Property and equipment

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land	337,472		337,472	337,472
Buildings	5,466,052	4,045,938	1,420,114	1,503,725
Electronic equipment	1,255,793	1,165,251	90,542	60,761
Furniture and fixtures	576,350	537,760	38,590	19,359
Leaseholds	5,105,085	4,398,785	706,300	800,116
Software	85,663	74,448	11,215	12,353
Vehicles	725,717	583,512	142,205	136,228
Construction in 12rogress*	7,870,145		7,870,145	1,823,923
	21,422,277	1018051694	10,616,583	416931937

- Construction in progress relates to redevelopment of Kitsilano Neighbourhood House building along with 15 residential units for low income seniors. The cost of the project is approximately $13 million and the construction is expected to be complete in September 2014.

5. Deferred contributions

	2014	2013
	$	$
Beginning balance	2,512,070	2,530,994
Add: contributions received during the year	2,556,526	2,370,902
Less: amount recognized as revenue during the year	(2,341,793)	(2,389,826)
Ending balance	2,726,803	2,512,070

Deferred contributions represent contributions designated for future projects being administered across the various neighbourhood houses.

6. Replacement reserve

In fiscal year 2013, the Association entered into an operator agreement with British Columbia Housing Management Commission (BCHMC) to manage a seniors' housing complex consisting of 30 units at ath Avenue and Vine Street in Vancouver. The operator agreement requires the Association to maintain a replacement reserve fund designated for capital repairs, replacements and improvements on the building. The changes in replacement reserve balance are as follows:

	2014	2013
	$	$
Balance, beginning of year	20,250	
Add: contributions for the year	21,600	20,250
Less: expenditure for the year		
Balance, end of year	41,850	20,250

7. Deferred contributions related to property and equipment

Deferred contributions related to property and equipment represent contributions received where the donor has restricted their usage to property and equipment purchased or constructed by the Association. The changes in the deferred contributions balance for the year are as follows:

	2014	2013
	$	$
Balance, beginning of year	2,733,655	2,128,101
Add: contributions received during the year	197,146	905,709
Less: amounts amortized to operations	(301,272)	(300,155)
Balance, end of year	2,629,529	2,733,655

During the year ended March 31, 2013, the City of Vancouver advanced $800,000 of a $1,600,000 grant for the purpose of the Kitsilano Neighbourhood House development project. These funds can only be used for capital costs related to the development project. As at March 31, 2014, $Nil of this amount has been used. The amount is included in the balance of deferred contributions for property and equipment. The Association anticipate spending these funds in the next fiscal year.

8. Net assets internally restricted

As at March 31, 2014, the Association's Board of Directors has internally restricted net assets of $3,534,399 (2013 - $3,323,327) to be used for a variety of purposes. Of this amount $2,400,000 (2013 - $2,188,928) has been restricted for property and equipment, $1,034,399 (2013 - $1,034,399) for working capital and contingencies and $100,000 (2013 - $100,000) for other purposes. These internally restricted amounts are not available for other uses or programs without approval of the Board of Directors.

9. Restricted cash

Of the cash balance at March 31, 2014, $786,344 (2013 - $782,999) relates to unspent gaming funds. The use of gaming funds is restricted under the Gaming Control Act of B.C. An equivalent amount is included in the balance of deferred contributions (Note 5). Management expects to spend these funds within the next fiscal year.

10. Vancouver Foundation endowment fund

The Association has established a permanent endowment fund with the Vancouver Foundation. The Association has contributed $460,000, which has been partially matched by a contribution by the Vancouver Foundation of $450,000, for a total endowment fund of $910,000. The fund is administered by the Vancouver Foundation, which distributes the earnings of the fund quarterly to the Association. Income from the Vancouver Foundation in the amount of $47,900 (2013 - $46,687) has been included in investment income for the year.

11. Operating line of credit

The Association has an unsecured operating line of credit of up to $150,000 bearing interest at the bank prime rate plus 1% per annum. As at March 31, 2014, this facility was unused (2013 - unused).

12. Pension plan

The Association is a member of a multi-employer defined benefit pension plan administered by the United Way of the Lower Mainland. An actuarial valuation is performed at least every three years. The actuarial valuation for funding purposed as at December 31, 2013 is being prepared and is expected to be available in September 2014. The last valuation as at December 31, 2010 estimates that the accrued liability for pension benefits exceeds the assets under administration by $2,326,200 for the entire plan. The actuary does not attribute a portion of the unfunded liability to individual employees.

The employer contribution rate to the plan is 175% of employee contributions. During the year, the Association contributed $678,184 (2013 - $630,918) toward the pension plan. Contributions to the pension plan are included in salaries and benefits expense in the statement of operations.

13. BCHMC loan

In connection with the redevelopment of Kitsilano Neighbourhood House building located at 2325 West 7th Avenue in Vancouver, the Association had initially arranged an unsecured non-interest bearing project development funding loan from BCHMC. This loan was repaid in full from the initial advance of the first mortgage (as mentioned below) of the project from BCHMC in June 2014. The balance of this loan as at March 31, 2013 was $2,005,955.

On June 10, 2013, the Association signed loan agreements with BCHMC for $11,263,498 for the redevelopment of Kitsilano Neighbourhood House. The loan agreements consisted of:

(i) $4,530,000 interest free forgivable loan secured by a first mortgage over the Association's property located at 2325 West 7th Avenue in Vancouver. The loan is forgivable if certain non-financial covenants are met in equal installments over 25 years commencing 10 years after the completion of the project. The balance as at March 31, 2014 was $2,990,240 (2013 - $Nil).

(ii) $5,189,800 demand loan bearing a variable interest rate at the lower of the Royal Bank of Canada prime plus 1% or the BCHMC cost of funds from Ministry of Finance plus 9/16%. The loan is secured by second mortgage over the Association's property located at 2325 West 7th Avenue in Vancouver. As part of an agreement with BCHMC the entire loan will be repaid from proceeds of pre-paid rent received from the Provincial Rental Housing Corporation ("PRHC") for a lease of a portion of the completed project. The balance as March 31st 2014 was $4,195,356 (2013 - $Nil).

(iii) $1,543,698 loan bearing a variable interest rate similar to the $5,189,800 demand loan, and secured by a "Promise to Pay". The loan is payable on demand. The balance as at March 31st 2014 was $989,216 (2013 - $Nil).

Interest of $6,188 (2013-$Nil) incurred on the facilities described in (ii) and (iii) was capitalized to construction in progress.

14. Commitments

The Association leases several business premises under operating lease agreements. Minimum annual payments are as follows:

	$
2015	76,335
2016	68,842
2017	59,265
2018	
2019	
	204 442

15. Financial instruments and risk management

(a) Credit risk

Credit risk is the risk that a counterparty will fail to perform its obliqations as they come due. The Association is exposed to credit risk on its accounts receivable, cash balances and term deposits held as investments. However, the credit risk rising from accounts receivable is mitigated as the Association has a number of donors and funders and does not have significant exposure to any individual counterparty. Additionally, the majority of cash balances and term deposits are held at credit unions and are guaranteed by the Credit Union Deposit Insurance Corporations.

15. Financial instruments and risk management (continued)

(b) *Interest rate risk*

The Association is exposed to interest rate risk through its investments and its loan from BCHMC as the risk that the value of a financial instrument will fluctuate due to changes in interest rates and the degree of volatility of those rates. The Association does not use derivative instruments to reduce its exposure to interest rate risk.

(c) *Liquidity risk*

The Association's objective is to have sufficient liquidity to meet its liabilities when due. The Association monitors its cash balances and cash flows generated from operations to meet its requirements. As at March 31, 2014, the most significant financial liabilities are accounts payable and accrued liabilities.

(d) *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Association is exposed to market risk as the investments in mutual funds are subject to fluctuations due to price changes on the market. The prices can also be affected by changes in interest rates and foreign currency exchange rates.

Association of Neighbourhood Houses of British Columbia

Schedule of operating revenues and expenses - Schedule 1
year ended March 31, 2014

	Central Office	Kitsilano N.H.	Cedar Cottage N.H.	Gordon N.H.	Alexandra N.H.	South Vancouver N.H.	Mt. Pleasant N.H.	Frog Hollow N.H.	Sasamat Outdoor Centre	Recoveries	2014 Total	2013 Total
	$	$	$	$	$	$	$	$	$	$	$	$
Revenue												
Province of British Columbia	62,400	219,957	976,598	165,967	582,479	3,501,308	524,622	988,507			7,021,838	6,612,563
Earned income	851,482	420,013	1,213,030	133,669	1,244,748	469,247	577,787	911,104	895,493	(675,682)	6,040,891	5,677,947
Other contributions and miscellaneous income	68,902	136,005	151,567	115,977	39,938	249,947	260,324	218,771	5,661		1,247,092	1,008,027
United Way	49,997	105,673	78,905	99,681	147,818	186,378	132,446	168,784	66,895		1,036,577	987,798
City of Vancouver		116,098	135,064	84,493		312,363	167,020	203,742		-	1,018,780	796,707
Gaming	85,000	72,000	94,000	80,000	100,000	100,000	82,000	82,300	80,000		775,300	731,800
Federal government	412		61,697	48,586	49,614	18,429	87,233	434,805	59,450	-	760,226	1,296,358
Donations and fund raising	9,680	23,533	24,830	97,979	41,580	44,185	37,068	21,379	12,116		312,350	376,520
Investment income (Note 8)	91,433	33,246	55,567	10,695	3,899	21,218	9,936	18,374	23,121	-	267,489	245,699
	1,219,306	1,126,525	2,791,258	837,047	2,210,076	4,903,075	1,878,436	3,047,766	1,142,736	Б75,682!	18,480,543	17,733,419
Expenses												
Salaries and benefits	816,157	692,402	2,068,223	583,648	1,675,712	2,502,392	1,340,229	2,119,965	661,430		12,460,158	11,931,555
Purchased services and subcontracts	100,512	109,680	155,867	63,890	211,396	1,711,086	146,524	220,429	54,873	(675,682)	2,098,575	2,098,736
Program, food and transportation	3,628	103,199	240,496	91,852	130,558	317,340	201,358	370,959	209,298		1,668,688	1,422,460
Building occupancy	55,440	192,773	114,179	49,301	112,994	140,223	86,283	152,120	55,239		958,552	1,020,384
Other expenses	112,396	36,850	29,446	9,584	29,505	53,358	19,691	90,602	31,688		413,120	488,669
Office expenses	49,805	31,496	21,374	23,399	51,864	40,778	50,873	48,136	22,410	-	340,135	331,995
	1,137,938	1,166,400	2,629,585	821,674	2,212,029	4,765,177	1,844,958	3,002,211	1,034,938	Б75,682)	17,939,228	17,293,799
Excess (deficiency) of revenues over exeenses	811368	!391875!	1611673	151373	!11953!	1371898	331478	451555	1071798	-	5411315	4391620
Prior year excess (deficiency) of revenue over exenses	37,124	(B5,5W _	189,46	(39,831)	14,223	3,682	70,287	145,054	105,192			439,620

The accompanying notes to the financial statements are an integral part of this financial statement.