

Financial Statements of

**JOHN HOWARD SOCIETY
OF ONTARIO**
PROVINCIAL OFFICE

Year ended December 31, 2012



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INDEPENDENT AUDITORS' REPORT

To the Members of John Howard Society of
Ontario Provincial Office

We have audited the accompanying financial statements of John Howard Society of Ontario Provincial Office, which comprise the balance sheet as at December 31, 2012, the statements of operations - general fund, changes in general fund balances, changes in externally restricted fund balances 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 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 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 in our audit is sufficient and appropriate to provide a basis for our qualified audit opinion.



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Basis for Qualified Opinion

In common with many not-for-profit organizations, John Howard Society of Ontario Provincial Office 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 Provincial Office.

Therefore, we were not able to determine whether, as at and for the years ended December 31, 2012 and 2011, any adjustments might be necessary to fundraising revenue, excess (deficiency) of revenue over expenses reported in the statements of operations - general fund, excess (deficiency) of revenue over expenses reported in the statements of cash flows and current assets and fund balances reported in the balance sheets. This caused us to qualify our audit opinion on the financial statements as at and for the year ended December 31, 2011.

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 John Howard Society of Ontario Provincial Office as at December 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Accountants, Licensed Public Accountants

March 23, 2013
Toronto, Canada

JOHN HOWARD SOCIETY OF ONTARIO

PROVINCIAL OFFICE

(Incorporated under the laws of Ontario)

Balance Sheet

December 31, 2012, with comparative figures for 2011

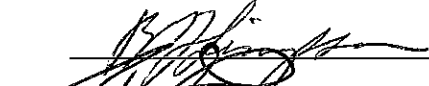
	2012	2011
Assets		
Current assets:		
Cash	\$ 154,638	\$ 163,092
Short-term investments (note 4)	465,570	944,289
Accounts and grants receivable	441,941	165,579
Due from affiliates (note 2)	14,000	53,499
	<u>1,076,149</u>	<u>1,326,459</u>
Capital assets (note 3)	2,370	5,011
Due from affiliates (note 2)	40,000	46,000
Investments (note 4)	509,766	307,581
	<u>\$ 1,628,285</u>	<u>\$ 1,685,051</u>

Liabilities and Fund Balances


Current liabilities:		
Bank overdraft (note 6)	\$ -	\$ 98,806
Branch benefit deposits held	127,383	127,383
Accounts payable and accrued charges	100,377	35,589
	<u>227,760</u>	<u>261,778</u>
Fund balances:		
General	1,324,722	1,347,605
Externally restricted	75,803	75,668
	<u>1,400,525</u>	<u>1,423,273</u>
Commitments (note 11)		
	<u>\$ 1,628,285</u>	<u>\$ 1,685,051</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

JOHN HOWARD SOCIETY OF ONTARIO

PROVINCIAL OFFICE

Statement of Operations - General Fund

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Ministry of Solicitor General grant	\$ 121,849	\$ 121,945
HRDC grant	2,081	2,080
Other grants	30,050	—
	<u>153,980</u>	<u>124,025</u>
Fundraising	136,132	177,356
Affiliate contributions	412,240	404,775
Investment	27,968	25,203
Miscellaneous (note 7)	240,474	187,119
Cost recovery (note 8)	76,152	46,852
Conference registration fees	—	96,959
	<u>1,046,946</u>	<u>1,062,289</u>
Expenses:		
Salaries and benefits	617,709	544,315
Transportation services	16,800	7,940
Institutional services	48,762	52,634
Fundraising	54,388	68,570
Building occupancy	61,214	58,267
Office and postage	65,802	43,137
Travel and meetings (note 8)	162,188	117,901
JHSO conference	—	81,966
Professional fees	45,663	33,335
Branch allocation of Break-Open Fund	6,183	11,614
Subscriptions and publications	1,092	1,038
Skills development	834	2,664
	<u>1,080,635</u>	<u>1,023,381</u>
Excess (deficiency) of revenue over expenses before the undernoted	(33,689)	38,908
Unrealized gain (loss) on investments	13,447	(17,656)
Amortization of capital assets	(2,641)	(3,123)
Excess (deficiency) of revenue over expenses	<u>\$ (22,883)</u>	<u>\$ 18,129</u>

See accompanying notes to financial statements.

JOHN HOWARD SOCIETY OF ONTARIO
PROVINCIAL OFFICE

Statement of Changes in General Fund Balances

Year ended December 31, 2012, with comparative figures for 2011

	2012					2011	
	General Draper Reserve Invested in capital assets	Benefaction Fund	L.W. Skey Fund	Trillium Stabilization Fund	Total	Total	Total
Fund balances, beginning of year	\$ (80,185)	\$ 5,011	\$ 900,048	\$ 22,731	\$ 500,000	\$ 1,347,605	\$ 1,329,476
Excess (deficiency) of revenue over expenses	(20,583)	(2,641)	-	341	-	(22,883)	18,129
Fund balances, end of year	\$ (100,768)	\$ 2,370	\$ 900,048	\$ 23,072	\$ 500,000	\$ 1,324,722	\$ 1,347,605

See accompanying notes to financial statements.

JOHN HOWARD SOCIETY OF ONTARIO

PROVINCIAL OFFICE

Statement of Changes in Externally Restricted Fund Balances

Year ended December 31, 2012, with comparative figures for 2011

			2012	2011
	A.M. Kirkpatrick Award Fund	JHS Ontario/ MacFarlane Scholarship Fund	Total	Total
Fund balances, beginning of year	\$ 57,030	\$ 18,638	\$ 75,668	\$ 74,435
Interest income	856	279	1,135	2,233
Scholarships	-	(1,000)	(1,000)	(1,000)
Fund balances, end of year	\$ 57,886	\$ 17,917	\$ 75,803	\$ 75,668

See accompanying notes to financial statements.

JOHN HOWARD SOCIETY OF ONTARIO

PROVINCIAL OFFICE

Statement of Cash Flows

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses - general fund	\$ (22,883)	\$ 18,129
Other funds:		
Interest	1,135	2,233
Scholarships	(1,000)	(1,000)
	<u>(22,748)</u>	<u>19,362</u>
Items not involving cash:		
Unrealized loss (gain) on investments	(13,447)	17,656
Amortization of capital assets	2,641	3,123
Change in non-cash operating working capital	<u>(211,574)</u>	<u>(56,788)</u>
	<u>(245,128)</u>	<u>(16,647)</u>
Financing activities:		
Bank overdraft	(98,806)	9,858
Investing activities:		
Purchase of capital assets	-	(3,832)
Due from affiliates	45,499	25,717
Net change in investments	<u>289,981</u>	<u>(205,007)</u>
	<u>335,480</u>	<u>(183,122)</u>
Decrease in cash	(8,454)	(189,911)
Cash, beginning of year	163,092	353,003
Cash, end of year	<u>\$ 154,638</u>	<u>\$ 163,092</u>

See accompanying notes to financial statements.

JOHN HOWARD SOCIETY OF ONTARIO

PROVINCIAL OFFICE

Notes to Financial Statements

Year ended December 31, 2012

The John Howard Society of Ontario (the "Society") 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 Society 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 Society, through its Centre of Research and Program Development, engages in research and program development initiatives to reflect and further the Society's mission.

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

The Society is a registered charity and, while registered, is exempt from income taxes, provided certain disbursement quotas are met.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. These financial statements include only the assets, liabilities, revenue and expenses relating to the organization which operated as John Howard Society of Ontario. They do not include the revenue, expenses, assets or liabilities of the individual branches/affiliates of the Society.

At December 31, 2012, the Society 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 branches/affiliates.

JOHN HOWARD SOCIETY OF ONTARIO

PROVINCIAL OFFICE

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(b) Description of funds:

The financial statements have been classified into two main funds, the general fund and externally restricted funds, that reflect the various activities, projects and fundraising initiatives undertaken by the Society.

The general fund includes the General Draper Reserve (which encompasses operations, the Break-Open Fund, the Bingo Fund and invested in capital assets), the L.W. Skey Fund, the Trillium Stabilization Fund and the Benefaction Fund.

The L.W. Skey Fund reflects the funds raised to offset specific future accommodation costs, as approved by the Board of Directors.

The Trillium Stabilization Fund is designated for capital expenditures by the Society. The interest earned is used to finance ongoing operations.

The externally restricted funds include the A.M. Kirkpatrick Award Fund and the JHS Ontario/MacFarlane Scholarship Fund.

The A.M. Kirkpatrick Award Fund was established to honour the work of A.M. Kirkpatrick and to provide recognition and incentive to men and women prisoners who take advantage of educational opportunities.

The JHS Ontario/MacFarlane Scholarship was established in 1986 through an appropriation from general fund operations. Earnings generated from the fund are used to provide the first year's tuition for a student undertaking any Master of Social Work program.

(c) Capital assets:

Capital assets are carried at their net book value and are amortized on the straight-line basis over their estimated useful lives as follows:

Furniture and equipment	5 years
Computer hardware	3 years

JOHN HOWARD SOCIETY OF ONTARIO

PROVINCIAL OFFICE

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(d) Revenue recognition:

The Society follows the restricted fund method of reporting contributions.

Restricted contributions related to general operations are recognized as revenue of the general fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

Unrestricted contributions and bequests are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income earned on other fund balances is recognized as revenue of the other funds. Other investment income is recognized as revenue of the general fund when earned.

Pledges are recognized as revenue of the general fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(e) 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 Society 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

PROVINCIAL OFFICE

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. 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.

(f) 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 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.

2. Due from affiliates:

Included in the long-term balance of due from affiliates are advances made to JHS Simcoe/Muskoka, JHS of York Region and JHS Belleville.

The advance of \$48,000 to JHS Simcoe/Muskoka is repayable in monthly instalments of \$500. At December 31, 2012, \$30,000 is included in the long-term due from affiliates balance and \$6,000 is included in the current balance.

The advance of \$10,000 to JHS of York Region is due prior to or on March 31, 2015. This balance is included in the long-term due from affiliates balance.

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.

All of the advances are unsecured and non-interest bearing.

JOHN HOWARD SOCIETY OF ONTARIO

PROVINCIAL OFFICE

Notes to Financial Statements (continued)

Year ended December 31, 2012

3. Capital assets:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and equipment	\$ 27,239	\$ 27,239	\$ –	\$ –
Computer hardware	112,390	110,020	2,370	5,011
	\$ 139,629	\$ 137,259	\$ 2,370	\$ 5,011

4. Investments:

The Society has investments in bonds and other government secured certificates with varying dates of maturity ranging in the month of January 2014. These long-term fixed income investments yield interest at rates ranging from 2.12% to 2.13%. In 2011, the Society invested in short-term fixed income investments yielding interest ranging from 1.20% to 1.40% per annum. The Society also invests in index-linked notes, as well as investments in equity instruments and mutual funds. The short-term and long-term investments comprise the following:

	2012	2011
Short-term:		
Fixed income	\$ –	\$ 845,192
Mutual funds and segregated funds	465,570	99,097
	\$ 465,570	\$ 944,289

	2012	2011
Long-term:		
Fixed income	\$ 262,375	\$ –
Equities	166,940	231,633
Mutual funds and segregated funds	80,451	75,948
	\$ 509,766	\$ 307,581

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

JOHN HOWARD SOCIETY OF ONTARIO

PROVINCIAL OFFICE

Notes to Financial Statements (continued)

Year ended December 31, 2012

4. Investments (continued):

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 Society is exposed to financial risks as a result of exchange rate fluctuations through the ownership of U.S. dollar equities.

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

5. Accounts payable and accrued charges:

As at December 31, 2012, there are no government remittances payable outstanding (2011 - \$457).

6. Bank overdraft:

The Society has a line of credit with a chartered bank for \$250,000, of which nil was drawn at December 31, 2012 (2011 - nil).

7. Miscellaneous income:

	2012	2011
Other	\$ 44,630	\$ 30,416
Pension plan administration cost recovery	125,759	108,853
Research	70,085	47,850
	<u>\$ 240,474</u>	<u>\$ 187,119</u>

JOHN HOWARD SOCIETY OF ONTARIO

PROVINCIAL OFFICE

Notes to Financial Statements (continued)

Year ended December 31, 2012

8. Travel and meetings expenses:

Included in travel and meetings expenses are \$33,608 (2011 - \$46,852) worth of costs for accommodation, travel and food which have been recovered from the affiliates and pension committee.

9. Pension plan:

The Society 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 not required to contribute to the pension plan. The defined benefit plan is funded by the affiliate and branch offices for their qualifying employees through the Society. The Society follows defined contribution accounting for its portion of both plan components. The employer portion of pension contribution for the year was \$35,410 (2011 - \$30,309).

10. Break-open ticket lotteries:

The Society was licensed by the Alcohol and Gaming Commission of the Province of Ontario, license number 4029, 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	Total
Number of boxes undistributed as at January 1, 2012	11	3	14
Number of boxes ordered	47	9	56
Number of boxes available for sale	58	12	70
Number of boxes distributed	51	8	59
Number of undistributed boxes at year end	7	4	11
Number of boxes available for sale in the year	58	12	70

JOHN HOWARD SOCIETY OF ONTARIO

PROVINCIAL OFFICE

Notes to Financial Statements (continued)

Year ended December 31, 2012

10. Break-open ticket lotteries (continued):

	BN 1	BN 14	Total
Disbursed proceeds to the charity	\$ 22,388	\$ 15,787	\$ 38,175
Expenses other than license fees	14,170	9,633	23,803
License fees	4,877	5,267	10,144
Cash as at December 31, 2012	13,722	–	13,722
Gross proceeds	85,680	59,360	145,040

11. Commitments:

(a) Lease commitments:

The Society leases its current premises under an operating lease, which expires November 30, 2013. The Society also leases office equipment with an expiry date in fiscal 2013. The annual payments are approximately as follows:

2013	\$ 22,000
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(b) Loan commitment:

On December 1, 2012, the board has authorized the executive committee of the board to approve a loan to John Howard Society of Toronto for their purchase of a property of up to \$350,000 at a rate of interest of at least 3% per annum for an initial term of five years, renewable for a further term of five years at an interest rate to be negotiated.

12. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.