Financial Statements of

FOCUS ON THE FAMILY (CANADA) ASSOCIATION

Year ended September 30, 2014

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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, 2014, 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.

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, 2014 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 olicies applied in preparing and presenting the financial statements in accordance with Canadian ccounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

December 5, 2014
Abbotsford, British Columbia

FOCUS ON THE FAMILY (CANADA) ASSOCIATION

Statement of Financial Position

September 30, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash	$ 1,142,764	$ 991,358
Investments (note 2)	1,550,509	3,207,174
Accounts receivable	68,392	62,782
Inventories	178,833	125,254
Prepaid expenses and deposits	234,429	269,057
	3,174,927	4,655,625
Capital assets (note 3)	18,130,385	16,252,387
	$ 21,305,312	$ 20,908,012
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	$ 664,114	$ 1,117,653
Deferred revenue	95,541	102,985
Current portion of obligations under capital lease	-	13,776
	759,655	1,234,414
Deferred contributions (note 5)	1,225,447	2,044,158
Deferred capital contributions (note 6)	12,393,347	10,587,241
Net assets:		
Invested in capital assets (note 7)	5,737,038	5,651,370
Unrestricted	1,189,825	1,390,829
	6,926,863	7,042,199
Commitments (note 9)		
	$ 21,305,312	$ 20,908,012

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

FOCUS ON THE FAMILY (CANADA) ASSOCIATION

Statement of Operations

Year ended September 30, 2014, with comparative information for 2013

		2014		2013
Revenue:				
Contributions	$	7,969,839	$	8,119,310
Sales, event registration fees and subscriptions		958,191		970,714
Other income		455,446		67,912
Amortization of deferred capital contributions		325,654		309,650
		9,709,130		9,467,586
Expenses (note 8):				
Family concerns		3,903,883		3,880,935
Publications		1,596,038		1,582,154
Fundraising		1,223,346		1,222,401
Radio		1,339,933		1,082,238
Literature, resources and correspondence		983,644		979,962
Supporting services		777,622		839,281
		9,824,466		9,586,971
Deficiency of revenue over expenses	$	(115,336)	$	(119,385)

See accompanying notes to financial statements.

FOCUS ON THE FAMILY (CANADA) ASSOCIATION

Statement of Changes in Net Assets

Year ended September 30, 2014, with comparative information for 2013

	Invested in capital assets	Unrestricted	2014 Total	2013 Total
Net assets, beginning of year	$ 5,651,370	$ 1,390,829	$ 7,042,199	$ 6,501,584
(Deficiency) excess of revenue over expenses (note 7(b))	(124,086)	8,750	(115,336)	(119,385)
Net changes in invested in capital assets (note 7(c))	209,754	(209,754)	-	-
Contributed land	-	-	-	660,000
Net assets, end of year	$ 5,737,038	$ 1,189,825	$ 6,926,863	$ 7,042,199

See accompanying notes to financial statements.

FOCUS ON THE FAMILY (CANADA) ASSOCIATION

Statement of Cash Flows

Year ended September 30, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	$ (115,336)	$ (119,385)
Items not involving cash:		
Amortization of capital assets	449,740	367,390
Amortization of deferred capital contributions	(325,654)	(309,650)
Gain on sale of investments	(28,090)	(537)
Deferred contributions recognized in statement of operations	(971,902)	(1,050,279)
Unrealized (gain) loss on investments	(3,315)	63,830
Change in non-cash operating working capital:		
Accounts receivable	(5,610)	(37,040)
Inventories	(53,579)	(14,344)
Prepaid expenses and deposits	34,628	(20,839)
Accounts payable and accrued liabilities	(453,539)	303,640
Deferred revenue	(7,444)	22,722
	(1,480,101)	(794,492)
Financing:		
Deferred contributions received	2,284,951	3,065,900
Repayment of obligations under capital lease	(13,776)	(29,632)
	2,271,175	3,036,268
Investments:		
Purchase of capital assets	(2,327,738)	(1,512,642)
Proceeds on disposal of investments	1,785,358	204,902
Purchase of investments	(97,288)	(1,148,186)
	(639,668)	(2,455,926)
Increase (decrease) in cash	151,406	(214,150)
Cash, beginning of year	991,358	1,205,508
Cash, end of year	$ 1,142,764	$ 991,358

See accompanying notes to financial statements.

FOCUS ON THE FAMILY (CANADA) ASSOCIATION

Notes to Financial Statements

Year ended September 30, 2014

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 ("GIK") 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) Inventory:

Inventory is valued at the lower of the original purchase price and net realizable value and consists of books, videos and other multimedia resources held for sale.

(c) Prepaid expenses and deposits:

Prepaid expenses 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. Capital assets are amortized on a basis as follows:

Building	Straight-line	40 years
Computer equipment	Straight-line	3 years
Computer software	Straight-line	5 years
Furniture and equipment	Straight-line	3 - 5 years
Leasehold improvements	Straight-line	10 years
Vehicles	Declining balance	30%

(e) 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.

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.

1. Significant accounting policies (continued):

(f) 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.

(g) 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. Investments:

Investments consist of:

	2014	2013
Bonds	$ 1,526,785	$ 2,838,087
Money market funds	23,724	349,912
Other	-	19,175
	$ 1,550,509	$ 3,207,174

Occasionally, the Association receives contributions in the form of equity investments. It is the Association's policy to sell these investments at the first available opportunity, to dispose of them on an orderly basis, and to reinvest the proceeds in investments within its standard investment portfolio.

3. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 4,906,035	$ -	$ 4,906,035	$ 4,906,035
Building	13,545,868	1,105,773	12,440,095	10,587,415
Computer equipment	131,460	113,347	18,113	33,536
Computer software	548,661	40,805	507,856	486,518
Furniture and equipment	436,699	247,993	188,706	163,954
Leasehold improvements	206,347	141,532	64,815	70,886
Vehicles	12,089	7,324	4,765	4,043
	$ 19,787,159	$ 1,656,774	$ 18,130,385	$ 16,252,387

Amortization charged to expenses for the year was $449,740 (2013 - $367,390).

During the year, $2,008,682 (2013 - $nil) of fully depreciated capital assets were written off as they were no longer in use.

4. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances for PST totalling $3,630 (2013 - $4,507).

5. Deferred contributions:

	Operating and Alberta Building	Langley Building	Manitoba Project	2014 Total	2013 Total
Balance, beginning of year	$ 1,018,182	$ 7,723	$ 1,018,253	$ 2,044,158	$ 1,434,384
Contributions received	1,121,388	2,170	1,161,393	2,284,951	3,073,400
Contributions recognized	(833,681)	(9,893)	(128,328)	(971,902)	(1,050,279)
Contributions transferred to deferred capital contributions	(80,442)	-	(2,051,318)	(2,131,760)	(1,413,347)
Balance, end of year	$ 1,225,447	$ -	$ -	$ 1,225,447	$ 2,044,158

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.

	2014	2013
Balance, beginning of year	$ 10,587,241	$ 9,483,544
Contributions received (note 5)	2,131,760	1,413,347
Amortization of deferred capital contributions	(325,654)	(309,650)
	$ 12,393,347	$ 10,587,241

7. Invested in capital assets:

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

	2014	2013
Capital assets	$ 18,130,385	$ 16,252,387
Amounts financed by:		
Unamortized deferred capital contributions (note 6)	(12,393,347)	(10,587,241)
Obligations under capital lease	-	(13,776)
	$ 5,737,038	$ 5,651,370

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

	2014	2013
Amortization of deferred capital contributions (note 6)	$ 325,654	$ 309,650
Less amortization of capital assets (note 3)	(449,740)	(367,390)
	$ (124,086)	$ (57,740)

7. Invested in capital assets (continued):

(c) Net changes in invested in capital assets:

	2014	2013
Purchase of capital assets	$ 2,327,738	$ 1,512,642
Amounts funded by deferred contributions	(2,131,760)	(1,413,347)
Repayment of obligations under capital lease	13,776	29,632
	209,754	128,927
Contributed land	-	660,000
Increase in invested in capital assets	$ 209,754	$ 788,927

8. Allocation of expenses:

Other expenses that includes amortization, bank charges, property taxes, information technology, and repairs & maintenance are allocated to ministry activities as disclosed in the statement of operations as follows:

	2014	2013
Family Concerns	$ 601,188	$ 562,447
Publications	104,455	97,724
Fundraising	190,082	177,833
Radio	1,439	1,346
Literature, resources and correspondence	117,887	110,290
Supporting Services	184,206	172,336
	$ 1,199,257	$ 1,121,976

9. Commitments:

The Association is committed to the following operating lease payments for premises and office equipment:

2015	$ 75,093
2016	$ 55,897

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 US$180,352 (2013 - US$202,911) of literature and resources from Focus on the Family, Inc.

Included in prepaid expenses and deposits is a prepayment of $nil (2013 - $40,943) to Focus on the Family, Inc. Included in accounts payable and accrued liabilities is $7,906 (2013 - $10,340) 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 holds cash in US funds. The Association does not currently enter into forward contracts to mitigate this risk. There has been no change to the risk exposure from 2013.

(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. The Association prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2013.

(c) 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. Investments in bonds are subject to risks arising from changes in market conditions. There has been no change to the risk exposure from 2013.