

Financial Statements of

UNION GOSPEL MISSION

Year ended June 30, 2016



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INDEPENDENT AUDITORS' REPORT

To the Members of Union Gospel Mission

Report on the Financial Statements

We have audited the accompanying financial statements of Union Gospel Mission, which comprise the statement of financial position as at June 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.

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 Union Gospel Mission as at June 30, 2016 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.

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

October 27, 2016
Burnaby, Canada

UNION GOSPEL MISSION

Statement of Financial Position

June 30, 2016, with comparative information for 2015

	General Fund	Designated Funds	Capital Asset Fund	2016	2015
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,147,126	\$ 78,232	\$ -	\$ 1,225,358	\$ 2,071,535
Accounts receivable	44,647	-	-	44,647	290,459
Due from related parties (note 4)	1,409,460	-	-	1,409,460	1,781,211
Prepaid expenses	163,093	-	-	163,093	157,980
	<u>2,764,326</u>	<u>78,232</u>	<u>-</u>	<u>2,842,558</u>	<u>4,301,185</u>
Capital assets (note 3)	-	-	1,915,590	1,915,590	2,127,932
Due from related parties (note 4)	104,066	-	-	104,066	136,177
	<u>\$ 2,868,392</u>	<u>\$ 78,232</u>	<u>\$ 1,915,590</u>	<u>\$ 4,862,214</u>	<u>\$ 6,565,294</u>

Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued liabilities (note 5)	\$ 864,503	\$ -	\$ -	\$ 864,503	\$ 945,106
Due to related parties (note 4)	6,448	-	-	6,448	1,319,255
	<u>870,951</u>	<u>-</u>	<u>-</u>	<u>870,951</u>	<u>2,264,361</u>

Net assets:

Unrestricted	1,997,441	-	-	1,997,441	2,173,001
Externally restricted	-	78,232	-	78,232	-
Invested in capital assets	-	-	1,915,590	1,915,590	2,127,932
	<u>1,997,441</u>	<u>78,232</u>	<u>1,915,590</u>	<u>3,991,263</u>	<u>4,300,933</u>

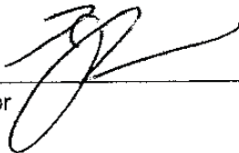
Contingent liability (note 8)

	<u>\$ 2,868,392</u>	<u>\$ 78,232</u>	<u>\$ 1,915,590</u>	<u>\$ 4,862,214</u>	<u>\$ 6,565,294</u>
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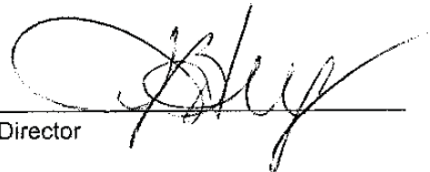
See accompanying notes to financial statements.

Approved on behalf of the Board:

Director



Director



UNION GOSPEL MISSION

Statement of Operations

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

	General Fund	Designated Funds	Capital Asset Fund	2016	2015
Revenue:					
General donations	\$ 13,074,567	\$ 42,500	\$ -	\$ 13,117,067	\$ 12,728,607
Legacy and estate gifts	4,514,943	-	-	4,514,943	502,231
Other donations (note 6)	968,285	60,732	-	1,029,017	4,083,809
Residential rental income	193,949	-	-	193,949	152,734
Commercial rental income	136,422	-	-	136,422	136,422
Thrift store sales	307,953	-	-	307,953	265,643
Other sales and services	81,241	-	-	81,241	75,928
Interest and investment income	81,330	-	-	81,330	91,106
Miscellaneous revenues	27,013	-	-	27,013	22,642
	19,385,703	103,232	-	19,488,935	18,059,122
Expenses (Schedule A):					
Programs:					
Outreach and community engagement	2,195,558	-	-	2,195,558	2,158,242
Addiction recovery	1,080,865	-	-	1,080,865	1,052,556
Women and children	1,823,383	-	-	1,823,383	1,757,535
Food services	1,760,527	-	-	1,760,527	1,699,347
Thrift store operations	158,550	-	-	158,550	154,902
Other program costs	1,371,511	-	-	1,371,511	1,069,178
Properties and infrastructure (note 3):					
Building operations	1,117,360	-	130,140	1,247,500	1,135,812
Infrastructure and other	608,038	-	263,334	871,372	930,867
Other operating costs:					
Public education and fundraising	3,969,918	-	-	3,969,918	3,930,573
General administration	1,362,194	-	-	1,362,194	1,224,317
	15,447,904	-	393,474	15,841,378	15,113,329
Excess (deficiency) of revenue over expenses before gifts to qualified donees	3,937,799	103,232	(393,474)	3,647,557	2,945,793
Gifts to qualified donees (note 6(b))	(3,957,227)	-	-	(3,957,227)	(1,338,327)
Excess (deficiency) of revenue over expenses	\$ (19,428)	\$ 103,232	\$ (393,474)	\$ (309,670)	\$ 1,607,466

See accompanying notes to financial statements.

UNION GOSPEL MISSION

Statement of Changes in Net Assets

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

	General Fund	Designated Funds	Capital Asset Fund	2016	2015
Balance, beginning of year	\$ 2,173,001	\$ -	\$ 2,127,932	\$ 4,300,933	\$ 2,693,467
Excess (deficiency) of revenue over expenses	(19,428)	103,232	(393,474)	(309,670)	1,607,466
Fund transfers during the year	(156,132)	(25,000)	181,132	-	-
Balance, end of year	\$ 1,997,441	\$ 78,232	\$ 1,915,590	\$ 3,991,263	\$ 4,300,933

See accompanying notes to financial statements.

UNION GOSPEL MISSION

Statement of Cash Flows

Year ended June 30, 2016 with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating:		
Excess (deficiency) of revenue over expenses	\$ (309,670)	\$ 1,607,466
Items not involving cash:		
Amortization	393,474	308,860
Gain on disposition of capital assets	-	(16,386)
	<u>83,804</u>	<u>1,899,940</u>
Changes in non-cash operating working capital:		
Accounts receivable	245,812	(1,475)
Prepaid expenses	(5,113)	9,357
Accounts payable and accrued liabilities	(80,603)	(43,583)
Amounts due to/from related parties	(941,056)	(2,308,308)
	<u>(780,960)</u>	<u>(2,344,009)</u>
	(697,156)	(444,069)
Investments:		
Acquisition of capital assets	(181,132)	(122,409)
Proceeds from disposition of capital assets	-	22,000
Decrease in advances to related parties	32,111	120,866
	<u>(149,021)</u>	<u>20,457</u>
Decrease in cash and cash equivalents	(846,177)	(423,612)
Cash and cash equivalents, beginning of year	2,071,535	2,495,147
Cash and cash equivalents, end of year	<u>\$ 1,225,358</u>	<u>\$ 2,071,535</u>

See accompanying notes to financial statements.

UNION GOSPEL MISSION

Notes to Financial Statements

Year ended June 30, 2016

1. Operations:

The purpose of the Union Gospel Mission ("Mission") is to demonstrate the love of Christ by feeding hope and changing lives through a faith-based continuum of care. The Mission offers a comprehensive range of life-changing programs and services which include outreach, meals, chaplaincy, drop-ins, emergency shelter, family services, alcohol and drug recovery, aftercare, employment services, and housing. The Mission is a not-for-profit organization incorporated under the Society Act (British Columbia) and is a registered charity under the Income Tax Act.

2. Significant accounting policies:

Basis of presentation:

The financial statements have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations. The significant accounting policies are as follows:

(a) Non-Consolidated financial statements:

The Union Gospel Mission ("Mission"), the Union Gospel Mission Foundation ("Foundation"), the Union Gospel Housing Society ("Society") and the Union Gospel Heatley Housing Society ("Heatley") have a common Board of Directors. Consolidated financial statements have not been prepared. These financial statements have been prepared on a non-consolidated basis to reflect the operations of the Mission only (note 7).

(b) Fund accounting:

The resources and operations of the Mission have been segregated for accounting purposes into the following funds:

- (i) The General Fund accounts for revenue and expenses relating to the operations of the Mission including its program delivery and other operating expenses.
- (ii) The Designated Fund accounts for approved, special-purpose gifts and their related costs when incurred.
- (iii) The Capital Asset Fund accounts for the Mission's assets, liabilities, revenue and amortization related to the Mission's capital assets. Interfund transfers represent the investment in capital assets funded by the General Fund.

(c) Cash and cash equivalents:

Cash includes cash and cash equivalents. Cash equivalents consist of highly liquid investments with maturities of three months or less at date of purchase.

The Mission's investment activities are governed by investment policies set by the Board of Directors. These policies include guidelines as to asset categories and mix in accordance with the risk and return objectives established by the Board of Directors and management. The funds are managed by professional investment advisors independent of the Board.

UNION GOSPEL MISSION

Notes to Financial Statements (continued)

Year ended June 30, 2016

2. Significant accounting policies (continued):

(d) 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 Mission has not made this election.

Transaction costs are expensed when incurred. Net gain and loss arising from changes in fair value are recognized in the statement of operations.

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 Mission 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 Mission 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.

(e) Capital assets:

Capital assets are stated at historical cost less accumulated amortization. Capital assets are amortized over their estimated useful lives at the following rates and methods:

Asset		Rate
Automobile	declining balance method	30%
Buildings	straight-line method	20 years
Computer software	declining balance method	30%
Equipment	declining balance method	20 - 30%
Furniture and fixtures	declining balance method	30%
Leasehold improvements	straight-line method	15 years

Capital assets acquired during the year are amortized starting when they are placed into service.

The Mission reviews its capital assets, including land and buildings to be held and used, for impairment whenever events or changes in circumstances indicate that the asset no longer has long-term service potential to the organization. If such conditions exist, an impairment loss is measured at the amount by which the carrying amount of the asset exceeds its residual value.

UNION GOSPEL MISSION

Notes to Financial Statements (continued)

Year ended June 30, 2016

2. Significant accounting policies (continued):

(f) Revenue recognition:

The Mission follows the restricted fund method of accounting for contributions.

Restricted contributions related to general operations are recognized as revenue in the General Fund in the year in which the related expenses are incurred. Restricted contributions designated for other specified purposes and related to capital assets are recorded in the Designated Fund and Capital Asset Fund, respectively, when received.

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

Investment income is recognized as revenue in the year it is earned.

Other income is recognized as revenue when due or earned.

(g) Employee future benefits:

The Mission and its employees contribute to a defined contribution group RRSP plan. Contributions made by the Mission to the plan are expensed as incurred.

(h) Donated materials and services:

Donated materials are recorded at fair value when fair value can be reasonably estimated.

A substantial number of volunteers contribute a significant amount of time to the Mission each year. Because of the difficulty in determining their fair value, these contributed services are not recognized in the financial statements.

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. A significant area requiring the use of management estimates includes the determination of useful lives of capital assets for purposes of amortization. Actual results could differ from these estimates.

UNION GOSPEL MISSION

Notes to Financial Statements (continued)

Year ended June 30, 2016

3. Capital assets:

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Land	\$ 85,400	\$ -	\$ 85,400	\$ 85,400
Buildings	244,367	196,884	47,483	59,701
Equipment	2,574,937	2,151,093	423,844	411,904
Automobile	808,128	749,967	58,161	57,600
Computer software	69,185	40,369	28,816	41,165
Furniture and fixtures	1,236,843	1,037,018	199,825	285,464
Leasehold improvements	4,164,391	3,106,093	1,058,298	1,176,220
Renovations in progress	13,763	-	13,763	10,478
	\$ 9,197,014	\$ 7,281,424	\$ 1,915,590	\$ 2,127,932

Amortization of \$393,474 (2015 - \$308,860) is included in properties and infrastructure in the statement of operations.

4. Due from / to related parties:

	2016	2015
Due from related parties - current:		
Union Gospel Heatley Housing Society - Hastings Division	\$ 342,871	\$ 756,734
Union Gospel Heatley Housing Society - Maurice McElrea Place Division	38,908	137,755
Union Gospel Housing Society – Orchard Division	1,005,262	886,722
Union Gospel Mission Foundation	22,419	-
	\$ 1,409,460	\$ 1,781,211
Due from related parties - long-term:		
Union Gospel Housing Society - Cordova Division	\$ 104,066	\$ 78,066
Union Gospel Heatley Housing Society - Hastings Division	-	58,111
	\$ 104,066	\$ 136,177
Due to related parties - current:		
Union Gospel Mission Foundation	\$ -	\$ 1,298,631
Union Gospel Housing Society - Cordova Division	6,448	20,624
	\$ 6,448	\$ 1,319,255

The current amounts due to or from related parties have no set terms for repayment and are payable on demand. Amounts due to or from the Foundation are non-interest bearing. All other amounts bear interest at the Vancity prime rate plus 0.75% (2015 - Vancity prime rate plus 0.75%).

UNION GOSPEL MISSION

Notes to Financial Statements (continued)

Year ended June 30, 2016

4. Due from/ to related parties (continued):

The long term amounts due to or from related parties have no set terms for repayment and are payable on demand. As the parties have agreed that these amounts will not be demanded in the subsequent year they have been classified as long term in these financial statements. The amounts due from the housing societies bear interest at the Vancity prime rate plus 0.75% (2015 - Vancity prime rate plus 0.75%).

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances of nil (2015 - \$18,855) which include amounts payable for payroll related withholdings.

Included in accounts payable and accrued liabilities as at June 30, 2016 is a loss of \$203,090 related to a service agreement.

6. Related party transactions:

During the year, the Mission had the following related party transactions:

(a)	2016 Received (paid)	2015 Received (paid)
<u>Union Gospel Heatley Housing Society (Hastings Division):</u>		
• Administration services	\$ 30,000	\$ 30,000
• Interest on related party balances (note 4)	19,632	30,277
<u>Union Gospel Heatley Housing Society (Maurice McElrea Place Division):</u>		
• Administration services	30,000	30,000
• Interest on related party balances (note 4)	2,996	7,338
• Tenant services	54,000	54,000
• Thrift store rental	(83,488)	(88,932)
• Thrift store property tax adjustment	-	(55,302)
<u>Union Gospel Housing Society (Cordova Division):</u>		
• Administration services	5,000	10,000
• Interest on related party balances (note 4)	2,686	2,866
• Rent for the use of the building located at 616 East Cordova Street	(65,446)	(63,833)
<u>Union Gospel Housing Society (Orchard Division):</u>		
• Administration services	30,000	30,000
• Interest on related party balances (note 4)	32,083	26,836
<u>Union Gospel Foundation:</u>		
• Rent for the use of the Hastings street building	(603,258)	(608,487)

UNION GOSPEL MISSION

Notes to Financial Statements (continued)

Year ended June 30, 2016

6. Related party transactions (continued):

(a) (continued):

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(b) During the year the Mission made the following donations to the Foundation:

	2016	2015
Unrestricted donations:		
Legacy and estate gifts	\$ 3,564,942	\$ 502,231
Restricted donations:		
Women and family seed fund	389,285	749,092
Women and family recovery & housing project	3,000	-
Hastings capital project	-	87,004
	392,285	836,096
	\$ 3,957,227	\$ 1,338,327

In support of the Mission's operations, the Mission received \$580,866 (2015 - \$3,247,713) in donations from the Foundation which are included in other donations.

(c) Certain expenses incurred by the Mission are shared services costs and are allocated and charged to each of the related entities on a pro-rata share basis. The amounts recovered from affiliated entities totaled \$1,020,172 (2015 - \$1,091,385) and are recorded as recovery against the relevant expenses incurred.

7. Non-consolidated entities:

Union Gospel Mission (the "Mission"), the Union Gospel Housing Society (the "Society"), the Union Gospel Heatley Housing Society ("Heatley"), and the Union Gospel Mission Foundation (the "Foundation") all have a common Board of Directors. The Society operates two social housing projects, Cordova and Orchard. Heatley also operates two social housing projects, Maurice McElrea Place and Hastings. The Foundation, a registered charity under the Income Tax Act, was established in October 2001 to raise, distribute and administer funding and support for the programs and activities of the Mission.

The Society and Heatley are incorporated as under the Society Act (British Columbia) and are not-for-profit organizations under the Income Tax Act.

UNION GOSPEL MISSION

Notes to Financial Statements (continued)

Year ended June 30, 2016

7. Non-consolidated entities (continued):

The Society, Heatley, and the Foundation have not been consolidated in the Mission's financial statements. Financial summaries of these non-consolidated entities are as follows as at June 30:

	2016	2015
Assets:		
Total assets	\$ 36,955,981	\$ 34,469,227
Liabilities and net assets:		
Total liabilities	\$ 19,274,430	\$ 20,374,289
Total net assets	17,681,551	14,094,938
	\$ 36,955,981	\$ 34,469,227
Results of operations:		
Total revenue	\$ 7,283,312	\$ 4,585,124
Total expenses	(3,815,601)	(7,321,446)
	\$ 3,467,711	\$ (2,736,322)
Cash flow balance:		
Total cash from operating activities	\$ 5,298,476	\$ 1,292,314
Total cash used for investing activities	(118,217)	601,783
Total cash used financing activities	(619,165)	(1,475,108)
Increase in cash flow	4,561,094	418,989
Total cash, beginning of year	1,864,732	1,445,743
	\$ 6,425,826	\$ 1,864,732

8. Bank credit facility and contingent liability:

The Mission is included as a co-borrower, together with the Union Gospel Mission Foundation in respect of a \$1.5 million operating credit facility arranged with Vancouver City Savings Credit Union ("Vancity"). The credit facility is with interest rates at Vancity prime plus 0.75% per annum. As at June 30, 2016 there was no outstanding balance under this facility.

The Mission and the Foundation together arranged credit facilities with the BC Housing Management Commission ("BCHMC"), the Royal Bank of Canada and Vancity for construction of the Hastings building, which is owned by the Foundation. The building was completed in 2011 and the Vancity line of credit was repaid. However, the Mission remains contingently liable for the BCHMC and Royal Bank loans which together totaled \$11,596,042 (2015 - \$11,701,350) as at year end.

UNION GOSPEL MISSION

Notes to Financial Statements (continued)

Year ended June 30, 2016

9. Financial risks:

(a) Liquidity risk:

Liquidity risk is the risk that the Mission will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Mission manages its liquidity risk by monitoring its operating requirements. The Mission 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 2015.

(b) Credit risk:

Credit risk is the risk of economic loss arising from a party's failure to repay or service debt according to contractual terms. Financial instruments that potentially subject the Mission to concentrations of credit risk consist of cash and cash equivalents and receivables. The Mission has deposited cash and cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote. Management does not believe the Mission is subject to any significant credit risks related to its accounts receivables or amounts due from related parties.

10. Comparative information:

Certain comparative information has been reclassified to conform to the current year's financial statement presentation.

UNION GOSPEL MISSION

Schedule of Expenses

Schedule A

Year ended June 30, 2016

	2016	2015
Salaries	\$ 7,970,116	\$ 7,821,660
Newsletters and campaign appeals	1,500,957	1,550,014
Food and kitchen supplies and services	1,001,511	956,141
Extended employee benefits	943,596	940,213
Rental of facilities	756,042	761,402
Gifts-in-kind used	439,690	381,539
Property taxes, utilities, and insurance	542,561	514,585
Office supplies and services	523,741	517,335
Payroll taxes	500,244	497,669
Programs and events	473,514	486,775
Building maintenance and repairs supplies and services	397,262	411,367
Amortization	393,474	308,860
Fundraising and marketing costs	314,998	258,940
Staff training, development, and other costs	296,810	251,814
Professional and consulting services	247,877	233,834
Bad debt and other losses (note 5)	232,871	-
Bank charges and interest	144,200	136,502
Non-recovered GST	96,482	99,339
Miscellaneous expenses	85,604	76,725
Total expenses	16,861,550	16,204,714
Less recoveries from affiliated entities (note 6(c))	(1,020,172)	(1,091,385)
	\$ 15,841,378	\$ 15,113,329