

ARRABON, INCORPORATED
FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2016

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF ARRABON, INCORPORATED

We have audited the accompanying financial statements of Arrabon, Incorporated (the "Organization"), which comprise the balance sheet as at March 31, 2016 and the statements of operations, changes in net assets and cash flows for the year then ended, and 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.

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

Basis for Qualified Opinion

In common with many charitable organizations, the Organization derives revenue from donations and fund-raising events, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded by the Organization and we were not able to determine whether any adjustments might be necessary to revenues and excess (deficiency) of revenues over expenses for the year ended March 31, 2016 and assets and net assets as at March 31, 2016 and 2015.

The Organization's accounting policies with respect to capital assets purchased, other than the land and building at the Lanthier location, are to expense them in the year of acquisition and to record capital contributions as revenue in the year the capital assets are acquired. Land and building at the Lanthier location are amortized in accordance with the principal repayment of the related mortgage payable. These policies are not in accordance with Canadian accounting standards for not-for-profit organizations. Canadian accounting standards for not-for-profit organizations require that capital assets be recorded at cost and depreciated over their estimated useful lives and the related capital contributions be deferred and amortized on the same basis as the related capital assets are depreciated. The effect of these departures from Canadian accounting standards for not-for-profit organizations is not determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, if any, the financial statements present fairly, in all material respects, the financial position of Arrabon, Incorporated as at March 31, 2016 and its financial performance 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

In accordance with the Corporations Act (Ontario), we report that the Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Clarke Henning LLP

Toronto, Ontario
September 12, 2016

CHARTERED ACCOUNTANTS
Licensed Public Accountants

ARRABON, INCORPORATED

BALANCE SHEET

AS AT MARCH 31, 2016

	2016	2015
		<i>(Note 10)</i>
ASSETS		
Current assets		
Cash <i>(note 6)</i>	\$ 152,323	\$ 140,490
Short term investments <i>(note 2)</i>	236,375	235,387
Accounts receivable	11,480	11,007
Government rebates receivable	6,998	26,752
Prepaid expenses	21,539	14,830
	428,715	428,466
Long term investments <i>(note 2)</i>	-	11,243
Capital assets <i>(note 3)</i>	272,426	289,340
	701,141	729,049
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	56,012	36,486
Deferred contributions pertaining to operations	-	1,083
Deferred contributions pertaining to general fund	3,408	3,575
Mortgages payable - current portion <i>(note 4)</i>	19,279	17,192
	78,699	58,336
Long term liabilities		
Mortgage payable <i>(note 4)</i>	253,147	272,426
	331,846	330,762
NET ASSETS		
Capital reserve fund - Lanthier Place <i>(note 6)</i>	20,720	17,030
Internally restricted fund		
General	129,086	162,417
Contingency <i>(note 7)</i>	219,489	218,840
	369,295	398,287
	\$ 701,141	\$ 729,049

Approved on behalf of the Board:

_____, Director _____, Director

ARRABON, INCORPORATED

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2016

	Operating Fund		Capital Reserve Fund	Internally Restricted Fund	Total	
	Wilson Park	Lanther Place	Lanther Place	Fund	2016	2015
<i>(Note 10)</i>						
Revenues						
Provincial subsidies <i>(note 5)</i>	\$ 482,159	\$ 53,141	\$ 2,152	\$ -	\$ 537,452	\$ 533,864
Minor capital grant	-	-	-	-	-	31,300
CYSIS	5,500	-	-	-	5,500	5,500
Children's special allowance	18,202	-	-	-	18,202	24,316
Other programme - Aftercare	-	135,000	-	-	135,000	130,666
Rental	-	17,618	-	-	17,618	17,305
Donations	-	-	-	24,361	24,361	30,821
Interest	-	-	-	1,131	1,131	2,467
Other	6,605	1,500	-	-	8,105	1,512
	512,466	207,259	2,152	25,492	747,369	777,751
Expenses						
Salaries	375,477	102,201	-	-	477,678	444,705
Benefits	61,882	9,363	-	-	71,245	67,369
Staff travel	5,486	5,484	-	-	10,970	9,771
Staff training	3,659	312	-	-	3,971	4,813
Group programme	777	-	-	-	777	1,036
Professional services	23,978	2,000	-	-	25,978	26,559
Professional services - clients	4,133	3,550	-	-	7,683	6,286
Food services	20,361	1,163	-	-	21,524	24,076
Clients' personal needs	11,139	14,389	-	-	25,528	24,600
Medical and related needs	833	-	-	-	833	750
Office administration	12,991	2,446	-	-	15,437	15,056
CYSIS	5,500	-	-	-	5,500	5,500
Communications	5,995	1,942	-	-	7,937	8,642
Amortization	-	16,914	-	-	16,914	16,767
Building and equipment	7,368	16,931	-	-	24,299	29,506
Insurance	14,583	563	-	-	15,146	15,297
Building occupancy	9,575	27,348	-	-	36,923	36,084
Mortgage interest	-	7,448	-	-	7,448	7,873
Minor capital	-	-	-	-	-	35,859
Miscellaneous	570	-	-	-	570	400
	564,307	212,054	-	-	776,361	780,949
Deficiency of revenues over expenses	\$ (51,841)	\$ (4,795)	\$ 2,152	\$ 25,492	\$ (28,992)	\$ (3,198)

ARRABON, INCORPORATED

STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED MARCH 31, 2016

	Operating Fund		Capital Reserve Fund	Internally Restricted Fund		Total	
	Wilson Park	Lanthier Place	Lanthier Place	General	Contingency	2016	2015
Balance - at beginning of year	\$ -	\$ -	\$ 17,030	\$ 162,417	\$ 218,840	\$ 398,287	\$ 401,485
Excess (deficiency) of revenues over expenses for the year	(51,841)	(4,795)	2,152	25,492	-	(28,992)	(3,198)
Interfund transfers							
Subsidies to operating fund	51,841	4,795	-	(56,636)	-	-	-
Transfer to capital reserve fund	-	-	1,538	(1,538)	-	-	-
Interest reallocation	-	-	-	(649)	649	-	-
Balance - at end of year	\$ -	\$ -	\$ 20,720	\$ 129,086	\$ 219,489	\$ 369,295	\$ 398,287

(note 10)

ARRABON, INCORPORATED

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2016

	2016	2015
		<i>(Note 10)</i>
Cash flow from operating activities		
Deficiency of revenues over expenses for the year	\$ (28,992)	\$ (3,198)
Add back items not affecting cash flow		
Increase (decrease) in deferred revenue	(1,250)	1,083
Amortization of capital assets	16,914	17,214
Changes in non-cash working capital items		
Accounts receivable and government rebates receivable	19,281	(21,522)
Prepaid expenses	(6,709)	(1,533)
Accounts payable and accrued liabilities	20,739	(10,742)
	19,983	(18,698)
Cash flow from financing and investing activities		
Disposal (purchase) of investments	10,254	(2,468)
Mortgage principal payments	(17,192)	(17,214)
	(6,938)	(19,682)
Change in cash during the year	13,045	(38,380)
Cash - at beginning of year	140,490	178,870
Cash - at end of year	\$ 153,535	\$ 140,490

ARRABON, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2016

Arrabon, Incorporated (the "Organization") was established to provide aid in the rehabilitation of girls who are spiritually, socially or culturally deprived and to establish, maintain and operate residences for such purposes.

The Organization operates two locations, Wilson Park (Arrabon) for individuals under the age of 18 and Lanthier Place for those who are between 16 and 24 years of age.

The Organization was incorporated without share capital under the laws of the Province of Ontario as a not-for-profit organization. It is also registered with Canada Revenue Agency as a charitable organization and, accordingly, is generally exempt from income taxes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using Canadian accounting standards for not-for-profit organizations except for the accounting for capital assets and deferred capital contributions, and include the following significant accounting policies:

Basis of Presentation

There are two segments of the Organization's operations - those funded by the Ministry of Community and Social Services ("MCSS"), Ministry of Children and Youth Services ("MCYS") and other government organizations, and those funded by the Organization itself.

Operating Fund

The operating fund, or unrestricted fund, accounts for the Organization's day-to-day program activities primarily funded by various government organizations.

Capital Reserve Fund

The capital reserve fund accounts for the funds received and spent on capital expenditures of the shelter component of the Lanthier Place. Its use is governed by the Ministry of Community and Social Services.

General Fund

The general fund, internally restricted by the Board of Directors, accounts for contributions and investment income earned by the Organization. The funds are primarily used to subsidize the shortfalls of the operating fund.

Contingency Reserve Fund

The contingency reserve fund has been created by the Board of Directors to set aside funds to be used for future unspecified projects.

Financial Assets and Liabilities

The Organization initially measures its financial assets and liabilities at fair value. The Organization subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets and liabilities measured at amortized cost include cash, investments, accounts receivable, accounts payable and accrued liabilities and mortgage payable.

ARRABON, INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are comprised of cashable guaranteed investment certificates (GICs) and are recorded at amortized cost which approximates fair value. Investments with a maturity date of 90 days or more but less than one year from the year end date are classified as short term investments. Investments that mature in one year or greater from the year end date are classified as long term investments.

Capital Assets

Capital assets, other than land and building at Lanthier Place, are expensed in the year of acquisition.

Land and building at Lanthier Place are recorded at cost and amortized at an amount equivalent to the principal repayments of the related mortgage. In accordance with the policies established by the Ministry of Municipal Affairs and Housing, the total unamortized cost of the land and building can not exceed the amount of the related mortgage payable.

If there is an indication that the assets may be impaired, an impairment test is performed that compares carrying amount to net recoverable amount. There were no impairment indicators in 2016.

Revenue Recognition

(a) Contributions

The Organization follows the deferral method of accounting for contributions which include donations, government grants and other contributions.

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

Capital reserve allowance approved by the Minister is recognized when received.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Externally restricted contributions for the acquisition of capital assets are recorded as revenue in the year in which the related capital assets are expensed. Externally restricted capital contributions that have not been expended are recorded as deferred capital contributions on the balance sheet.

(b) All Other Income

All other income which includes rent, interest income and fund-raising are recognized as revenue when the services are provided, earned or the event takes place.

Contributed Goods and Services

Donations of materials and services which are not normally purchased by the Organization are not recorded in the accounts. Donated goods normally purchased by the Organization are recorded at their fair market value at the time of the donation.

ARRABON, INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allocation of Expenses

The Organization receives grant funding for various programs. These grants provide funding for personnel, occupancy and other expenses directly related to providing the services in accordance with the funding agreements.

The Organization identifies the related general support expenses and allocates to the program based on hours of personnel and estimated usage for premises and other expenses. This basis of allocation is applied consistently each year.

Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 revenues and expenses during the year.

Key areas where management has made difficult, complex or subjective judgments, often as a result of matters that are uncertain, include, among others, valuation of assets and liabilities. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

2. INVESTMENTS

Investments consist of cashable Guaranteed Investment Certificates at TD Canada Trust. Details are as follows:

<i>2016</i>	<i>Interest Rate</i>	<i>Maturity</i>	<i>Principal</i>	<i>Fair Value</i>
Cashable GIC	0.70 %	August 6, 2016	\$ 26,833	\$ 26,956
Cashable GIC	0.40 %	August 5, 2016	131,226	131,570
Cashable GIC	0.30 %	February 21, 2017	35,700	35,711
Cashable GIC	0.40 %	March 10, 2017	21,064	21,069
Cashable GIC	0.40 %	March 10, 2017	21,064	21,069
Total cashable GICs due within one year			\$ 235,887	\$ 236,375
<i>2015</i>	<i>Interest Rate</i>	<i>Maturity</i>	<i>Principal</i>	<i>Fair Value</i>
Cashable GIC	0.70 %	August 7, 2015	\$ 26,647	\$ 27,112
Cashable GIC	0.90 %	August 6, 2015	130,184	130,862
Cashable GIC	0.70 %	February 20, 2016	35,451	35,477
Cashable GIC	0.50 %	March 10, 2016	20,959	20,968
Cashable GIC	0.50 %	March 10, 2016	20,959	20,968
Total cashable GICs due within one year			234,200	235,387
Cashable GIC due over a year	4.00 %	July 26, 2017	10,946	11,243
Total cashable GICs			\$ 245,146	\$ 246,630

ARRABON, INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2016

2. *INVESTMENTS (continued)*

Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the Organization's activities and operations. The Organization has invested its funds in cashable guaranteed investment certificates to avoid unexpected market price fluctuations, which is in accordance with the Organization's investment policy.

3. *CAPITAL ASSETS*

Details of capital assets are as follows:

	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>Net Book Value</i>	
			<i>2016</i>	<i>2015</i>
Land and building	\$ 492,122	\$ 219,696	\$ 272,426	\$ 289,340

4. *MORTGAGE PAYABLE*

	<i>2016</i>	<i>2015</i>
2.65% Canada Mortgage and Housing Corporation mortgage on land and building - repayable in blended monthly instalments of \$2,053 to maturity on April 1, 2016 and renewed upon maturity at 1.10%, repayable in blended monthly instalments of \$1,866 to mature on April 1, 2021	\$ 272,426	\$ 289,618
Less principal payments due within twelve months, shown as a current liability	19,279	17,192
	\$ 253,147	\$ 272,426

Principal payments due in each of the next five fiscal years are as follows:

Fiscal year ended	2017	\$ 19,279
	2018	19,687
	2019	19,907
	2020	20,128
	2021	20,352
	thereafter	173,051

During the 2016 fiscal year, the Organization made blended principal and interest payments totalling \$24,640 (\$24,640 - 2015).

ARRABON, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2016

5. MINISTRY OF CHILDREN AND YOUTH SERVICES FUNDING & MINISTRY OF COMMUNITY AND SOCIAL SERVICES FUNDING

The Organization received subsidies from the Province of Ontario. The purpose of these subsidies is to fund the operating costs of Wilson Park and Lanthier Place. Details of revenue from the subsidies are as follows:

	2016	2015
Wilson Park - Child & Family Intervention Services	\$ 482,159	\$ 476,495
Lanthier Place - Dedicated Supportive Housing -operating	53,141	57,369
Lanthier Place - Dedicated Supportive Housing - capital reserve allowance	2,152	-
	<u>\$ 537,452</u>	<u>\$ 533,864</u>

(a) The details of the Ministry of Children and Youth Services operating grants are as follows:

	2016	2015
Approved funding	\$ 487,659	\$ 481,995
Less: CYSIS	(5,500)	(5,500)
Total MCYS Program funding for operations	<u>\$ 482,159</u>	<u>\$ 476,495</u>

(b) The details of the Ministry of Community and Social Services operating grants are as follows:

	2016	2015
Approved funding	\$ 55,293	\$ 88,669
Less: Capital reserve allowance	(2,152)	-
Less: Capital assets funding	-	(31,300)
Total MCSS Program funding for operations	<u>\$ 53,141</u>	<u>\$ 57,369</u>

(c) The Organization has a number of contracts with the Ministry of Children and Youth Services and the Ministry of Community and Social Services for the funding of various programs.

The fiscal year funding balances due to the Ministry of Children and Youth Services and the Ministry of Community and Social Services were \$NIL as at March 31, 2016 and 2015.

The deficit for these programs is absorbed by the Organization funded by other revenues which include interest, rent and other income.

ARRABON, INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2016

6. CAPITAL RESERVE FUND

Details of the fund balance are as follows:

	<i>2016</i>	<i>2015</i>
Opening balance	\$ 17,030	\$ 17,030
Add: Transfer from operations	2,152	4,559
One-time capital grant	-	31,300
Additional contributions from the general fund	1,538	-
Less: Expenditures	-	(35,859)
	\$ 20,720	\$ 17,030

The capital reserve fund has been created in compliance with the capital reserve requirements specified by MCSS in relation to Lanthier Place.

The Organization is required to contribute to the fund an estimated amount of \$3,390 per year exclusive of interest earned by the fund for 15 years until the fund balance reaches 15% of the insured replacement value of the present structure. The current insured value of the building at Lanthier Place is \$750,000.

The fund is funded from the operating budget, any one-time payments from MCSS designated for the capital reserve fund and additional contributions up to 50% of any surplus.

The use of the funds is limited to pay for the cost of replacement of worn out capital items of the Lanthier Place and any other capital items approved by the Minister.

The funds must be held in allowable investments as defined in "The Guide For Dedicated Supportive Housing", which include deposit accounts, guaranteed investment certificates, government bonds and debentures, Canada treasury bills, Canadian dollar money market and mutual funds and other investments as may specifically be allowed. The funds are held in a cash account at TD Canada Trust as at March 31, 2016 and 2015.

7. CONTINGENCY FUND

The Board of Directors has set up a contingency fund for future unspecified projects and approves the contributions to and withdrawals from the fund. Interest income is allocated to the fund proportionately on the average net asset value between the general fund and contingency fund. The interest allocated to the fund amounted to \$649 (\$1,401 - 2015).

ARRABON, INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2016

8. GUARANTEES AND INDEMNITIES

The Organization has indemnified its past, present and future directors, officers and volunteers against expenses (including legal expenses), judgments and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding, subject to certain restrictions in which they are sued as a result of their involvement with the Organization, if they acted honestly and in good faith with a view to the best interest of the Organization. The Organization has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits and actions, but there is no guarantee that the coverage will be sufficient should any action arise.

In the normal course of business, the Organization has entered into agreements that include indemnities in favour of third parties, either express or implied, such as in service contracts and purchase contracts. In these agreements, the Organization agrees to indemnify the counterparties in certain circumstances against losses or liabilities arising from the acts or omissions of the Organization. The terms of these indemnities are not explicitly defined and the maximum amount of any potential liability cannot be reasonably estimated.

9. FINANCIAL INSTRUMENTS AND RISK EXPOSURE

The Organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the Organization's risk exposure at the balance sheet date.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Organization's main credit risks relate to cash, investments in GICs and accounts receivable.

Credit risk from investing activities is minimized by limiting investments to cashable GICs and maintaining cash accounts in reputable financial institutions with high quality credit ratings. Accounts receivable are mainly those amounts to be collected from government agencies that are both reliable and financially secure. The Organization is not exposed to significant credit risk.

Liquidity Risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with financial liabilities. The Organization is exposed to this risk mainly in respect of its accounts payable and accrued liabilities and mortgage payable and commitments. The Organization expects to meet these obligations as they come due from the operating grants it receives from the Ministry and other funders.

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. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. The Organization is not exposed to significant currency risk or other price risk. The Organization is exposed to interest rate risk on its interest-bearing investments.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The value of fixed income securities will generally rise if interest rates fall and decrease if interest rates rise. Details of the interest-bearing investments are disclosed in note 2.

ARRABON, INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2016

10. COMPARATIVE FIGURES

The comparative figures as at and for the year ended March 31, 2015 were reported upon by another firm of chartered accountants who issued a qualified audit report dated August 22, 2015.

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