KIDS KOTTAGE FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2013

Allen & Associates
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Members of
Kids Kottage Foundation

We have audited the accompanying financial statements of **Kids Kottage Foundation**, which comprise the statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the statement of operations and changes in fund balances and the cash flow statements for the years ended March 31, 2013 and March 31, 2012, 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 audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, the Foundation derives revenue from donations, pledges, gifts, bequests and other contributions, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to accounting for amounts recorded in the records of the Foundation and we were not able to determine whether any adjustments might be necessary to donation and fundraising revenue, excess of revenue over expenditures, assets, and surplus.

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 **Kids Kottage Foundation** as at March 31, 2013, March 31, 2012 and April 1, 2011, and its financial performance and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Allen & Associates

Chartered Accountants

Edmonton, Alberta
June 18, 2013

KIDS KOTTAGE FOUNDATION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2013

	Kids Kottage Fund	Equipment Fund	Total
Revenue			
Province of Alberta operating grant	$ 706,308	$ -	$ 706,308
Fundraising and donations - net (note 8)	434,430	-	434,430
Investment income	27,435	-	27,435
Amortization of deferred capital contributions	-	12,558	12,558
Sundry revenue	11,621	-	11,621
	1,179,794	12,558	1,192,352
Kids Kottage site expenses			
Wages and benefits	872,346	-	872,346
Program costs	44,482	-	44,482
Program advertising	19,907	-	19,907
Amortization	-	14,574	14,574
Office	11,670	-	11,670
Insurance	10,070	-	10,070
Repairs and maintenance	9,041	-	9,041
Telephone	7,942	-	7,942
Staff training, education and recruitment	7,706	-	7,706
Volunteer training and expenses	2,656	-	2,656
Travel	1,527	-	1,527
	987,347	14,574	1,001,921
Income before administration expenses	192,447	(2,016)	190,431
Administration expenses			
Wages and benefits	131,497	-	131,497
Professional fees	20,500	-	20,500
Amortization	-	10,370	10,370
Office	8,231	-	8,231
Equipment rental and repairs	7,464	-	7,464
Telephone	6,752	-	6,752
Insurance	3,135	-	3,135
Janitorial	1,817	-	1,817
Bank charges	1,681	-	1,681
Staff training, education and recruitment	1,083	-	1,083
	182,160	10,370	192,530
Surplus (deficiency) of revenue over expenses	$ 10,287	$ (12,386)	$ (2,099)

KIDS KOTTAGE FOUNDATION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2012

	Kids Kottage Fund	Equipment Fund	Total
Revenue			
Province of Alberta operating grant	$ 672,676	$ -	$ 672,676
Fundraising and donations - net (note 8)	370,042	-	370,042
Province of Alberta wage bonus grants	55,424	-	55,424
Investment income	34,690	-	34,690
Sundry revenue	2,738	-	2,738
	1,135,570	-	1,135,570
Kids Kottage site expenses			
Wages and benefits	924,232	-	924,232
Program costs	40,796	-	40,796
Program advertising	18,796	-	18,796
Office	12,498	-	12,498
Insurance	9,624	-	9,624
Repairs and maintenance	6,957	-	6,957
Telephone	7,688	-	7,688
Staff training, education and recruitment	9,363	-	9,363
Volunteer training and expenses	3,389	-	3,389
Travel	1,780	-	1,780
Amortization	-	1,448	1,448
	1,035,123	1,448	1,036,571
Income before administration expenses	100,447	(1,448)	98,999
Administration expenses			
Wages and benefits	119,822	-	119,822
Professional fees	21,000	-	21,000
Office	9,272	-	9,272
Amortization	-	7,903	7,903
Telephone	6,084	-	6,084
Equipment rental and repairs	3,990	-	3,990
Insurance	3,369	-	3,369
Janitorial	1,840	-	1,840
Bank charges	1,557	-	1,557
Staff training, education and recruitment	1,423	-	1,423
	168,357	7,903	176,260
Deficiency of revenue over expenses	$ (67,910)	$ (9,351)	$ (77,261)

KIDS KOTTAGE FOUNDATION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2013

	Kids Kottage Fund	Equipment Fund	Total
Net assets, beginning of the year	$ 1,189,063	$ 16,539	$ 1,205,602
Surplus (deficiency) of revenue over expenses	10,287	(12,386)	(2,099)
Interfund transfers (note 4)	(6,190)	6,190	-
Net assets, end of the year	$ 1,193,160	$ 10,343	$ 1,203,503

KIDS KOTTAGE FOUNDATION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2012

	Kids Kottage Fund	Equipment Fund	Total
Net assets, beginning of the year	$ 1,262,194	$ 20,669	$ 1,282,863
Deficiency of revenue over expenses	(67,910)	(9,351)	(77,261)
Interfund transfers (note 4)	(5,221)	5,221	-
Net assets, end of the year	$ 1,189,063	$ 16,539	$ 1,205,602

KIDS KOTTAGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2013

ASSETS

	Kids Kottage Fund	Equipment Fund	Total
Current Assets			
Cash	$ 369,890	$ -	$ 369,890
Short term GICs	419,240	-	419,240
Accounts receivable (note 3)	15,400	-	15,400
GST recoverable	8,947	-	8,947
Prepaid expenses	21,038	-	21,038
Total current assets	834,515	-	834,515
Long Term GICs	497,483	-	497,483
Equipment (note 4)	-	65,050	65,050
	$ 1,331,998	$ 65,050	$ 1,397,048

LIABILITIES AND NET ASSETS

	Kids Kottage Fund	Equipment Fund	Total
Current Liabilities			
Accounts payable	$ 106,229	$ -	$ 106,229
Deferred revenue (note 6)	27,520	-	27,520
Deferred contributions (note 7)	5,089	-	5,089
Total current liabilities	138,838	-	133,749
Deferred Capital Contributions (note 4)	-	54,707	54,707
Total liabilities	138,838	54,707	193,545
Net Assets			
Unrestricted	1,193,160	-	1,193,160
Invested in equipment	-	10,343	10,343
	1,193,160	10,343	1,203,503
	$ 1,331,998	$ 65,050	$ 1,397,048

KIDS KOTTAGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2012

ASSETS

	Kids Kottage Fund	Equipment Fund	Total
Current Assets			
Cash	$ 324,756	$ 39,515	$ 364,271
Short term GICs	588,583	-	588,583
Accounts receivable (note 3)	38,072	8,000	46,072
GST recoverable	6,270	-	6,270
Prepaid expenses	7,686	-	7,686
Total current assets	965,367	47,515	1,012,882
Long Term GICs	425,057	-	425,057
Equipment (note 4)	-	73,714	73,714
	$ 1,390,424	$ 121,229	$ 1,511,653

LIABILITIES AND NET ASSETS

	Kids Kottage Fund	Equipment Fund	Total
Current Liabilities			
Accounts payable	$ 142,731	$ 37,175	$ 179,906
Deferred revenue (note 6)	25,000	-	25,000
Deferred contributions (note 7)	33,630	10,340	43,970
Total current liabilities	201,361	47,515	204,906
Deferred Capital Contributions (note 4)	-	57,175	57,175
Total liabilities	201,361	104,690	306,051
Net Assets			
Unrestricted	1,189,063	-	1,189,063
Invested in equipment	-	16,539	16,539
	1,189,063	16,539	1,205,602
	$ 1,390,424	$ 121,229	$ 1,511,653

KIDS KOTTAGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
APRIL 1, 2011

ASSETS

	Kids Kottage Fund	Equipment Fund	Total
Current Assets			
Cash	$ 298,433	$ -	$ 298,433
Short term GICs	493,436	-	493,436
Accounts receivable (note 3)	6,600	-	6,600
GST recoverable	6,262	-	6,262
Prepaid expenses	24,322	-	24,322
Total current assets	829,053	-	829,053
Long Term GICs	579,025	-	579,025
Equipment (note 4)	-	20,669	20,669
	$ 1,408,078	$ 20,669	$ 1,428,747

LIABILITIES AND NET ASSETS

	Kids Kottage Fund	Equipment Fund	Total
Current Liabilities			
Accounts payable	$ 88,506	$ -	$ 88,506
Deferred revenue (note 6)	25,000	-	25,000
Deferred contributions (note 7)	32,378	-	32,378
Total current liabilities	145,884	-	145,884
Net Assets			
Unrestricted	1,262,194	-	1,262,194
Invested in equipment	-	20,669	20,669
	1,262,194	20,669	1,282,863
	$ 1,408,078	$ 20,669	$ 1,428,747

KIDS KOTTAGE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2013

	2013	2012
Cash provided by (used in) operating activities		
Deficiency of revenue over expenditures	$ (2,099)	$ (77,261)
Item not affecting cash		
Amortization of equipment	24,944	9,351
Amortization of capital contributions	(12,558)	-
	10,287	(67,910)
Net change in non-cash working capital (note 10)	(56,514)	68,556
	(46,227)	646
Financing activities		
Increase (decrease) in deferred contributions	(38,881)	11,592
Investing activities		
Purchase of equipment	(16,280)	(62,396)
Capital contributions applied	10,090	57,175
Purchase of investments	(502,815)	(375,255)
Proceeds on sale or redemption of investments	599,732	434,076
	90,727	53,600
Increase in cash	5,619	65,838
Cash, beginning of the year	364,271	298,433
Cash, end of the year	$ 369,890	$ 364,271
Cash is comprised of:		
Cash in bank and broker accounts	$ 52,818	$ 164,102
Investment savings accounts	317,072	200,169
	$ 369,890	$ 364,271

1. Significant Accounting Policies

The Kids Kottage Foundation is a not-for-profit organization working to promote the health and well-being of Canadian children and their families.

The Foundation receives an operating grant from the Province of Alberta to cover approximately 80% of the wages and benefits for client care staff. All other costs are funded through extensive community fundraising efforts. Should the grant from the Province be cancelled or significantly reduced, it is unlikely that, once existing reserves are exhausted, the Foundation would be able to cover the shortfall with community fundraising and it would be forced to cut back or cancel services.

The Foundation is incorporated under the Alberta Societies Act and is a registered charity under the Income Tax Act. As such, the Foundation is exempt from income taxes.

These financial statements have been prepared using Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

(a) Fund Accounting

Revenue and expenses related to the operation of the Kids Kottage, along with related fundraising and administrative activities, are reported in the Kids Kottage Fund.

The Equipment Fund reports assets, liabilities, revenues and expenses related to the Foundation's equipment.

(b) Revenue Recognition

The Foundation follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue of the appropriate fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Investment income is recognized in the year it is earned.

(c) Cash

The Foundation defines cash as funds held in bank and broker accounts and readily convertible investments such as investment savings accounts and money market funds.

(d) Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is calculated on a straight line basis over the estimated useful life of the assets as follows:

Computer equipment	2 years
Kottage equipment	5 years
Office equipment	5 years
Leasehold improvements	5 years

1. **Significant Accounting Policies** - continued

(e) Deferred Capital Contributions

Capital contributions received are deferred and amortized into revenue in the equipment fund over the amortization period of the related assets.

(f) Financial Assets And Liabilities

The Foundation initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions. The Foundation subsequently measures all its financial assets and financial liabilities at amortized cost, except investments in equities traded in an active market, which are subsequently measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include short term and long term GICs and accounts receivable and GST recoverable. Financial liabilities measured at amortized cost include accounts payable. No financial assets are measured at fair value.

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of any write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of any improvement, directly or by adjusting the allowance account, provided it is no greater that the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of any reversal is recognized in net income.

The Foundation recognizes its transaction costs in net income in the period incurred. However, the carrying amount of the financial instruments that will not be subsequently measured at fair value reflects the financing fees that are directly attributable to their origination, issuance or assumption.

(g) Contributed Materials And Services

The Foundation could not fulfill its mandate without the generous donations of supplies by a number of benefactors and, especially, the many hours of work provided by volunteers. However, it is virtually impossible to place a monetary value on all of these contributions. Therefore, they are not recognized in these financial statements.

(h) Use Of Accounting Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. **Adoption Of Accounting Standards For Not-For-Profit Organizations**

Effective April 1, 2012, the Foundation adopted the requirements of the *Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting*, electing to adopt the new accounting framework: Canadian accounting standards for not-for-profit organizations. These are the Foundation's first financial statements prepared in accordance with these accounting standards for not-for-profit organizations (ASNPO) and the transition provisions of Section 1501, First-time Adoption have been applied. Section 1501 requires retrospective application of the accounting standards with certain elective exemptions and limited retrospective exceptions. The accounting policies set out in the significant accounting policies note (see note 1) have been applied in preparing the financial statements for the year ended March 31, 2013, the comparative information presented in these financial statements for the year ended March 31, 2012 and in the preparation of an opening ASNPO statement of financial position at April 1, 2011 (the Foundation's date of transition).

The Foundation issued financial statements for the year ended March 31, 2012 using generally accepted accounting principles prescribed by CICA Handbook - Accounting. There are no changes to the assets, liabilities and net assets reported, except that certain of the Foundation's disclosures included in these financial statements reflect the new disclosure requirements of ASNPO.

The Foundation has elected to use the following elective exemptions permissible under Section 1501, First-Time Adoption:

(a) Elected not to retrospectively apply Section 3840, Related Party Transactions for related party transactions that occurred prior to the date of transition. Accordingly, there are no adjustments to the assets or liabilities recognized in previous related party transactions. Applying this elective exemption has resulted in no change to assets, liabilities and net assets at the date of transition.

The opening statement of financial position as of April 1, 2011 (date of transition) was prepared adopting ASNPO retrospectively except as described above. The only effect of the adoption of ASNPO on this statement is the re-classification of certain items to comply with disclosures under ASNPO.

3. **Accounts Receivable**

Accounts receivable consist of:

	March 31, 2013		
	Kids Kottage Fund	Equipment Fund	Total
Pledges included in fundraising revenue	$ 10,400	$ -	$ 10,400
Event ticket sales	5,000	-	5,000
	$ 15,400	$ -	$ 15,400

	March 31, 2012		
	Kids Kottage Fund	Equipment Fund	Total
Provincial grant included in revenue	$ 28,330	$ -	$ 28,330
Pledges included in fundraising revenue	9,742	-	8,000
Pledges included in deferred contributions	-	8,000	8,000
	$ 38,072	$ 8,000	$ 36,330

	April 1, 2011		
	Kids Kottage Fund	Equipment Fund	Total
Pledges included in fundraising revenue	$ 5,100	$ -	$ 5,100
Event ticket sales	1,500	-	1,500
	$ 6,600	$ -	$ 6,600

4. **Equipment**

	March 31, 2013		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 32,972	$ 26,989	$ 5,983
Kottage equipment	16,444	3,742	12,702
Office equipment	11,162	8,677	2,485
Leasehold improvements	53,731	9,851	43,880
	$ 114,309	$ 49,259	$ 65,050

Deferred Capital Contributions	March 31, 2013		
	Capital Contributions	Accumulated Amortization	Deferred Capital Contributions
Kottage equipment	$ 13,534	$ 2,707	$ 10,827
Leasehold improvements	53,731	9,851	43,880
	$ 67,265	$ 12,558	$ 54,707

	March 31, 2012		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 39,306	$ 32,930	$ 6,376
Kottage equipment	18,521	14,630	3,891
Office equipment	33,686	27,414	6,272
Leasehold improvements	45,595	45,595	-
Renovations in progress	57,175	-	57,175
	$ 194,283	$ 120,569	$ 73,714

Deferred Capital Contributions	March 31, 2012		
	Capital Contributions	Accumulated Amortization	Deferred Capital Contributions
Renovations in progress	$ 57,175	$ -	$ 57,175

4. **Equipment** - continued

	April 1, 2011		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 44,096	$ 39,040	$ 5,056
Kottage equipment	25,124	17,351	7,773
Office equipment	33,686	25,846	7,840
Leasehold improvements	45,595	45,595	-
	$ 148,501	$ 127,832	$ 20,669

Funding

Equipment purchases were funded as follows:

	2013	2012
Cost of additions	$ 16,280	$ 62,396
Capital contributions for kitchen renovations	(10,340)	(57,175)
Excess contributions used to purchase supplies	250	-
Net transfer from Kids Kottage Fund	$ 6,190	$ 5,221

5. **Line Of Credit**

The Foundation's bank provides overdraft protection on its bank accounts to a maximum of $65,000, secured by a general security agreement and a GIC with a carrying value of $81,317. Overdraft interest is charged at the bank prime rate plus 1.0%. At March 31, 2013, no accounts were overdrawn.

6. **Deferred Revenue**

Deferred revenue represents fundraising revenue received in advance of the related fundraising event.

7. **Deferred Contributions**

Deferred contributions are externally restricted contributions to specific programs which have not yet been expended on the programs for which they are intended.

8. Fundraising And Donations

	2013	2012
Contributions received	$ 795,557	$ 750,721
Less restricted contributions (note 4)	-	(67,515)
Allocated to deferred revenue	(2,520)	-
Gross fundraising and donation revenue	793,037	683,206
Fundraising expenses		
Direct cost of fundraising events	177,818	136,758
Fundraising wages and benefits	126,601	117,846
Fundraising administration	54,188	58,560
	358,607	313,164
Net contribution to program costs	$ 434,430	$ 370,042

9. Special Programs

	2013	2012
FASD Respite Care grants received	$ 108,243	$ 105,511
Basic Shelf program grants received	9,000	27,500
Allocated from (to) deferred contributions	28,541	(1,252)
Gross special program revenue	145,784	131,759
Direct Program Expenditures		
Contribution to FASD Respite Care Partnership	108,243	105,511
Basic Shelf Program	36,115	25,038
Community Mapping project	1,426	1,210
Direct program expenditures	145,784	131,759
Net cost of special programs	$ -	$ -

10. **Supplementary Cash Flow Information**

Net Change In Non-cash Working Capital:

	2013	2012
Decrease (increase) in:		
Accounts receivable	$ 30,672	$ (39,472)
GST recoverable	(2,677)	(8)
Prepaid expenses	(13,352)	16,636
Increase (decrease) in:		
Accounts payable	(73,677)	91,400
Deferred revenue	2,520	-
	$ (56,514)	$ 68,556

11. **Financial Risks And Concentrations Of Risk**

The Foundation's financial assets and liabilities are exposed to certain risks. Unless otherwise noted, it is management's opinion that the Foundation is not exposed to significant liquidity, credit, interest rate, currency or market risks. The Foundation's risk exposure has not changed from 2012.

Liquidity Risk

Liquidity risk is the risk that the Foundation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Foundation's cash requirements are met by government funding and community fundraising. Unexpended funds are invested in GICs until they are required.

As explained in note 1, The Foundation's operations are funded by the Province of Alberta supplemented by community fundraising. The Foundation's ability to continue operating is dependant upon maintaining both sources of funding. Should provincial funding be significantly reduced, the Foundation would need to find an alternate source of stable funding. Similarly, a significant reduction in the proceeds from community fundraising would force the Foundation to seek additional government or other institutional funding. The Foundation has sufficient reserves to enable it to continue operating temporarily while searching for alternative funding sources.

Credit Risk

Credit risk refers to the risk that a counterparty may default on its contractual obligations, resulting in a financial loss. The Foundation is exposed to credit risk on its cash, GICs, and accounts receivable. Operating cash is held at a major Canadian chartered bank, GICs are held by a variety of Canadian banks and trust companies. Cash held for investment purposes is deposited with the Foundation's broker and the investment savings accounts are held by Canadian trust companies. The Foundation is exposed to risk to the extent that these deposits exceed the amounts guaranteed by the Canada Deposit Insurance Corporation and the Canadian Investor Protection Fund.

The Foundation's policy is not to record accounts receivable unless collection is reasonably assured.

11. **Financial Risks And Concentrations Of Risk** - continued

Interest Risk

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. Fixed-interest instruments subject the Foundation to a fair value risk.

The Foundation owns a number of GICs with fixed interest rates. Short term GICs (those which mature within the next 12 months) bear interest at effective rates between 1.31% and 4.45% per annum. Long term GICs with maturity dates between June 2014 and August 2017 bear interest at effective rates between 1.10% and 4.40% per annum.

12. **Change In Accounting Estimate**

During the year, management evaluated the remaining useful life of equipment acquired in previous years and adjusted the amortization rates and methods accordingly. As a result, amortization increased by $7,572 over what it would have been under the prior rates and methods.