

**FRIENDS OF SASKATCHEWAN
CHILDREN INC.**

FINANCIAL STATEMENTS

December 31, 2013

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FRIENDS OF SASKATCHEWAN CHILDREN INC.

We have audited the accompanying financial statements of Friends of Saskatchewan Children Inc., which comprise the statement of financial position as at December 31, 2013, and the statement of revenue and expenses, 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 not-for-profit organizations, Friends of Saskatchewan Children Inc. derives revenue from the general public in the form of fundraising activities and donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of Friends of Saskatchewan Children Inc. and we were not able to determine whether any adjustments might be necessary to the excess of revenues over expenses, and cash flows from operations for the years ended December 31, 2013 and December 31, 2012, current assets as at December 31, 2013 and December 31, 2012, and net assets as at January 1 and December 31 for both the 2013 and 2012 years. Our audit opinion on the financial statements for the year ended December 31, 2012 was modified accordingly, because of the possible effects of this scope limitation.

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 Friends of Saskatchewan Children Inc. as at December 31, 2013, 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.

Chartered Accountants

April 16, 2014
Saskatoon, Saskatchewan

FRIENDS OF SASKATCHEWAN CHILDREN INC.
STATEMENT OF REVENUE AND EXPENSES
Year ended December 31, 2013

	2013	2012 (Restated) (Note 10)
OPERATIONS		
REVENUE		
Adopt-A-Room program	\$ -	\$ 22,500
Donations, memorials and bequests	588,486	351,058
Fundraising	121,958	117,646
Ronald McDonald House Charities grant	132,851	132,851
Room fees	28,115	30,805
Third-party fundraising	197,322	68,092
	<u>1,068,732</u>	<u>722,952</u>
EXPENSES		
Amortization	45,960	50,371
Conferences and travel	5,006	1,171
Donations expense	15,315	12,849
Fundraising expense (Note 5)	40,996	32,724
Guest services	15,784	8,078
Household supplies	1,130	2,118
Insurance	750	1,345
Office	30,999	26,851
Professional fees	15,253	22,058
Property taxes	21,976	21,672
Publicity and promotion	56,236	28,944
Repairs and maintenance	23,592	10,670
Telephone	9,322	10,813
Utilities	26,608	29,545
Volunteer	10,153	6,366
Wages and employee benefits - administration	171,817	157,697
Wages and employee benefits - other	145,875	130,890
	<u>636,772</u>	<u>554,162</u>
REVENUE OVER EXPENSES - BEFORE INVESTMENT INCOME	431,960	168,790
INVESTMENT INCOME (Note 3)	86,973	91,575
EXCESS OF REVENUE OVER EXPENSES	\$ 518,933	\$ 260,365

The accompanying notes are an integral part of the financial statements

FRIENDS OF SASKATCHEWAN CHILDREN INC.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2013

	2013	2012
		(Restated) (Note 10)
ASSETS		
Cash	\$ 2,388,524	\$ 3,076,071
Short-term investments (Note 3)	188,849	147,140
Accounts receivable	158,248	51,416
Prepaid expenses	3,915	3,915
	2,739,536	3,278,542
LONG-TERM INVESTMENTS (Note 3)	2,262,295	2,212,422
CAPITAL ASSETS (Note 4)	7,970,884	2,845,909
	\$ 12,972,715	\$ 8,336,873
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 318,341	\$ 283,493
Deferred capital campaign revenue (Note 7)	479,730	1,558,002
	798,071	1,841,495
UNAMORTIZED CAPITAL ASSET FUNDING (Note 6)	6,243,757	1,083,424
COMMITMENTS (Note 8)		
NET ASSETS		
Internally restricted net assets invested in capital assets	1,727,127	1,762,485
Internally restricted net assets	3,153,760	3,079,469
Unrestricted net assets	1,050,000	570,000
	5,930,887	5,411,954
	\$ 12,972,715	\$ 8,336,873

The accompanying notes are an integral part of the financial statements

APPROVED BY THE BOARD

..... **Director**

..... **Director**

FRIENDS OF SASKATCHEWAN CHILDREN INC.
STATEMENT OF CHANGES IN NET ASSETS
Year ended December 31, 2013

	2013	2012
		(Restated) (Note 10)
INTERNALLY RESTRICTED NET ASSETS INVESTED		
IN CAPITAL ASSETS		
Balance, beginning of year	\$ 1,762,485	\$ 1,812,856
Capital assets purchased	10,602	-
Amortization	(45,960)	(50,371)
BALANCE, END OF YEAR	<u>\$ 1,727,127</u>	<u>\$ 1,762,485</u>
INTERNALLY RESTRICTED NET ASSETS		
Balance, beginning of year	\$ 3,079,469	\$ 2,649,457
Transfers from unrestricted net assets	74,291	430,012
BALANCE, END OF YEAR	<u>\$ 3,153,760</u>	<u>\$ 3,079,469</u>
UNRESTRICTED NET ASSETS		
Balance, beginning of year	\$ 570,000	\$ 689,276
Excess of revenue over expenses	518,933	260,365
Capital assets purchased	(10,602)	-
Amortization	45,960	50,371
Transfers:		
To internally restricted net assets	(74,291)	(430,012)
BALANCE, END OF YEAR	<u>\$ 1,050,000</u>	<u>\$ 570,000</u>

The accompanying notes are an integral part of the financial statements

FRIENDS OF SASKATCHEWAN CHILDREN INC.
STATEMENT OF CASH FLOWS
Year ended December 31, 2013

	<u>2013</u>	<u>2012</u> (Restated) (Note 10)
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 518,933	\$ 260,365
Items not affecting cash:		
Amortization	45,960	50,371
Changes in non-cash working capital:		
Accounts receivable	(106,832)	(22,811)
Prepaid expenses	-	(665)
Accounts payable and accrued liabilities	(255,279)	39
	<u>202,782</u>	<u>287,299</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(4,737,930)	(825,411)
Decrease in term deposits	-	15,145
(Increase) decrease in short-term investments	(41,709)	342,432
Increase in long-term investments	(49,873)	(47,133)
	<u>(4,829,512)</u>	<u>(514,967)</u>
FINANCING ACTIVITIES		
Capital campaign revenue received, net of expenses (Note 5)	3,939,183	2,641,426
NET (DECREASE) INCREASE IN CASH	(687,547)	2,413,758
CASH, BEGINNING OF THE YEAR	3,076,071	662,313
CASH, END OF YEAR	\$ <u>2,388,524</u>	\$ <u>3,076,071</u>

The accompanying notes are an integral part of the financial statements

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2013

1. DESCRIPTION OF BUSINESS

These financial statements reflect the operations of Friends of Saskatchewan Children Inc. (the “Organization”). The Organization was incorporated under the laws of the Province of Saskatchewan on December 14, 1982 and is a registered charitable organization under the provisions of the Income Tax Act. The Organization operates as Ronald McDonald House Saskatchewan and provides housing and other assistance for young patients and their families during periods of treatment at a Saskatoon hospital.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Part III of the Chartered Professional Accountants of Canada (“CPA”) Handbook, Canadian accounting standards for not-for-profit organizations (“ASNPO”) and include the following significant accounting policies:

Capital Assets

Capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a declining balance basis (with one half the rates taken in the year of acquisition) over the estimated useful lives, as follows:

Building	5%	Declining balance
Computer equipment	30%	Declining balance
Furniture and fixtures	20%	Declining balance
Paving and landscaping	20%	Declining balance
Signage	20%	Declining balance

Building under construction will be amortized once the building is available for use. No amortization has been recorded as of December 31, 2013.

The assets are also tested for impairment. Normal repairs and maintenance expenditures are expensed as incurred.

Intangible Assets

Intangible assets are recorded at cost. Intangible assets are amortized over their useful life and are also tested for impairment. No amortization has been taken as the intangible asset has not yet been put into use.

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value. The Organization subsequently measures all its financial assets and financial liabilities at amortized cost except for short-term and long-term investments which are measured at fair value as at the reporting date. Financial assets measured at amortized cost include cash and accounts receivable. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities. The Organization's financial assets measured at fair value include shares of publicly traded companies and investments in publicly traded bonds. Fair value fluctuations in these assets including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Transaction costs related to short-term investments are expensed as incurred. Transaction costs related to other financial instruments are netted against the varying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

The Organization uses the straight line method to recognize interest expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Use of Estimates

The preparation of the Organization's financial statements in accordance with ASNPO 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 reporting period. Actual results could differ materially from those estimates. Adjustments, if any will be reflected in the statement of revenue and expense in the period of settlement. Estimates are used when accounting for items such as the useful lives, amortization of capital assets and intangible assets.

Contributed Materials and Service

Volunteers contribute many hours per year to assist the Organization in carrying out its service delivery activities. Because of the difficulty of determining the fair market value of these services, contributed volunteer services are not recognized in the financial statements. In addition, materials contributed throughout the year for which the fair value cannot be reasonably determined are also not recorded on the financial statements.

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fundraising Expense Allocation

The Organization engages in fundraising projects. The costs of each project include the costs of personnel, premises and other expenses that are directly related to providing the project. Fundraising expense is reported as a separate line on the statement of revenue and expenses or netted against capital campaign revenue if the fundraising expense relates directly to the campaign.

Restricted Net Assets

Restricted net assets originate from decisions by the Board of Directors and provide for unexpected shortfalls or specific future causes, as well as investment in major capital expenditures. Investment income earned on these restricted funds is allocated to the net assets restricted for capital replacements on an annual basis or to increase the restricted net asset balance as determined by the Board of Directors.

Unrestricted Net Assets

It is the policy of the Board of Directors to retain approximately two times the budgeted amount of annual House operating and administration expenses for the next fiscal year (not including fundraising expenses, etc.), less annual budgeted Ronald McDonald House Charities grant and room fee revenue, in Unrestricted Net Assets at the current fiscal year end. Any excess amount or shortfall at year end will be transferred into or will be replenished from Restricted Net Assets.

Revenue Recognition

The Organization follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received. Restricted capital donations for which the related expenses have not been incurred are reflected in the statement of financial position as deferred capital campaign revenue. In-kind contributions are recorded when fair value can be reasonably estimated. Contributions of, or for, capital assets are recognized as revenue when the related capital assets are amortized. Capital asset contributions not yet recognized as revenue are reflected in the statement of financial position as unamortized capital asset funding.

**FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2013**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Room fee revenue is recognized when services are provided, the price is determinable and collection is reasonably assured.

Revenue from third-party fundraisers is recognized when received.

3. SHORT-TERM AND LONG-TERM INVESTMENTS

Short-term investments

Short-term investments consist of \$188,849 (2012 - \$146,117) in bonds with interest rates ranging from 3.35% to 5% (2012 - 4.25%) and \$nil (2012 - \$1,023) in fixed income securities and common equity investments.

Long-term investments

	2013	2012
Bonds - 2.36% to 7.05%, maturing June 2016 to June 2037 (December 31, 2012 - 3.35% to 7.05% maturing November 2014 to June 2037)	\$ 1,727,408	\$ 1,834,643
Publicly traded shares	534,887	377,779
	\$ 2,262,295	\$ 2,212,422

Investment income of \$86,973 (2012 - \$91,575) consists of interest and dividends of \$114,484 (2012 - \$100,362) and unrealized and realized (losses)/gains on investments of \$(5,587) (2012 - \$12,455) less investment management fees of \$21,924 (2011 - \$21,242).

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2013

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value	
			2013	2012
Land	\$ 1,001,951	\$ -	\$ 1,001,951	\$ 1,001,951
Building	1,787,170	1,112,554	674,616	704,960
Building under construction	6,243,757	-	6,243,757	1,088,328
Computer equipment - hardware	44,524	42,167	2,357	3,368
Computer equipment - software	8,195	-	8,195	-
Furniture and fixtures	244,824	212,532	32,292	37,657
Paving and landscaping	30,242	28,121	2,121	2,651
Signage	20,174	14,579	5,595	6,994
	<u>\$ 9,380,837</u>	<u>\$ 1,409,953</u>	<u>\$ 7,970,884</u>	<u>\$ 2,845,909</u>

Building under construction in the amount of \$6,243,757 (2012 - \$1,088,328) relates to the expansion project. These amounts have not been amortized as they are not available for use. In the current year, additions to buildings under construction included contributions in kind of \$142,878 (2012 - \$nil) and are a non-cash item.

During the year, capital assets acquired at a cost of \$290,127 are included in accounts payable and accrued liabilities at December 31, 2013 (2012 - \$258,013) and are a non-cash item.

Included in capital assets is computer software which is an intangible asset.

5. FUNDRAISING EXPENSES ALLOCATION

During the year, \$110,010 of fundraising expenses were netted against capital campaign revenue (2012 - \$489,666) and \$40,996 (2012 - \$32,724) is included in the statement of revenue and expenses.

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2013

6. UNAMORTIZED CAPITAL ASSET FUNDING

Unamortized capital asset funding includes the unamortized portion of contributed capital assets. The changes for the year are as follows:

	<u>2013</u>	<u>2012</u>
		(Restated)
		(Note 10)
Beginning balance	\$ 1,083,424	\$ -
Capital assets purchased from capital campaign revenue and in-kind contributions		
	<u>5,160,333</u>	<u>1,083,424</u>
	<u>\$ 6,243,757</u>	<u>\$ 1,083,424</u>

7. DEFERRED CAPITAL CAMPAIGN REVENUE

Deferred capital campaign revenue relates to restricted funding received for capital expenditures in subsequent periods. The changes for the year are as follows:

	<u>2013</u>	<u>2012</u>
		(Restated)
		(Note 10)
Beginning balance	\$ 1,558,002	\$ -
Capital campaign revenue received, net of expenses (Note 5) and in-kind contributions	4,082,061	2,641,426
Capital assets purchased from capital campaign revenue and in-kind contributions		
	<u>(5,160,333)</u>	<u>(1,083,424)</u>
	<u>\$ 479,730</u>	<u>\$ 1,558,002</u>

8. COMMITMENTS

In connection with the construction of certain capital projects and the purchase of certain capital items, the Organization has capital commitments at December 31, 2013 of approximately \$10,000,000 (December 31, 2012- \$10,000,000) of which \$6,100,879 has been spent as of December 31, 2013 (2012 - \$1,083,424).

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2013

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Credit Risk

The Organization's principal financial assets are cash, short-term and long-term investments, and accounts receivable, which are subject to credit risk. There is no allowance for uncollectable accounts receivable at year end (2012 - \$nil). The carrying amounts of financial assets on the statement of financial position represent the Organization's maximum credit exposure as at the financial statement date.

The Organization's credit risk is primarily attributable to its accounts receivable. The Organization does not have significant exposure to any individual customer and has not incurred any significant bad debts during the year. The credit risk on cash, short-term and long-term investments is limited because the counterparties are chartered banks with high credit ratings assigned by national credit-rating agencies.

Market Rate Risk

Market risk is the risk of loss that may arise from change in market factors such as interest rates and equity prices. The Organization is exposed to this market risk in its investing activities.

- a) Interest rate risk is the risk that the Organization is exposed to on its fixed interest rate financial instruments. Fixed-rate instruments subject the Organization to a fair value risk. The Organization is exposed to this type of risk as a result of its investments in bonds.
- b) Equity price risk is the risk that the fair value of future cash flows of an equity investment will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual equity instrument, or factors affecting similar equity instruments trade in the market. The investment portfolio is directly exposed to equity price risk in respect of its equities which total \$534,887 (2012 - \$377,779).

Fair Value

The fair value of cash, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their carrying value due to the short-term maturity and normal credit terms of these instruments.

The fair value of investments is based on quoted market prices.

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2013

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity Risk

The Organizations' objective is to have sufficient liquidity to meet its liabilities when due. The Organization monitors its cash balances and cash flows generated from operations to meet its requirements. As at December 31, 2013 and December 31, 2012, the most significant financial liabilities are accounts payable and accrued liabilities.

10. CORRECTION OF AN ERROR

During the year, it was noted that the prior year's net capital campaign revenue was incorrectly recognized. The prior year's comparative figures have been restated.

The restatement resulted in a \$2,641,426 decrease to excess of revenue over expenses, a \$1,083,424 increase to unamortized capital asset funding and a \$1,558,002 increase to deferred capital campaign revenue and a \$2,641,426 decrease to net assets.