

**KIDS KOTTAGE FOUNDATION**  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2011

*Allen & Associates*  
CHARTERED ACCOUNTANTS

4367 - 99 Street  
Edmonton, Alberta  
T6E 5E4

Telephone (780) 641-0301  
Fax (780) 641-0308

**INDEPENDENT AUDITORS' REPORT**

To the Members of  
**Kids Kottage Foundation**

We have audited the accompanying financial statements of **Kids Kottage Foundation**, which comprise the statement of financial position as at March 31, 2011, 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 generally accepted accounting principles 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, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Allen & Associates*

Edmonton, Alberta  
June 14, 2011

Chartered Accountants

**KIDS KOTTAGE FOUNDATION**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED MARCH 31, 2011**

	<b>2011</b>	<b>2010</b>
<b>Revenue</b>		
Province of Alberta operating grant	\$ 672,676	\$ 444,700
Fundraising and donations - net (note 8)	312,495	543,028
Investment income	42,030	61,441
Special programs - net (note 9)	-	(1,040)
	<b>1,027,201</b>	<b>1,048,129</b>
 <b>Kids Kottage Site expenses</b>		
Wages and benefits	836,576	860,454
Program costs	32,599	33,859
Program advertising	14,485	15,736
Insurance	9,856	7,692
Office	8,717	8,322
Repairs and maintenance	8,498	4,866
Telephone	8,119	7,366
Staff training, education and recruitment	7,330	7,149
Volunteer training and expenses	3,074	3,025
Travel	2,344	3,121
Accreditation costs	-	7,636
	<b>931,598</b>	<b>959,226</b>
 <b>Income before administration expenses</b>	<b>95,603</b>	<b>88,903</b>
 <b>Administration expenses</b>		
Wages and benefits	117,970	108,025
Professional fees	20,500	20,000
Office	8,268	12,727
Telephone	6,067	5,170
Equipment rental and repairs	4,303	7,252
Insurance	3,495	4,027
Janitorial	1,999	1,973
Staff training, education and recruitment	1,863	1,374
Bank charges	1,528	1,840
	<b>165,993</b>	<b>162,388</b>
 <b>Deficiency of revenue over expenses before amortization</b>	<b>(70,390)</b>	<b>(73,485)</b>
 <b>Amortization of equipment</b>	<b>(7,695)</b>	<b>(10,911)</b>
 <b>Deficiency of revenue over expenses</b>	<b>\$ (78,085)</b>	<b>\$ (84,396)</b>

*Allen & Associates*

**KIDS KOTTAGE FOUNDATION**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED MARCH 31, 2011**

	Kids Kottage Fund	Equipment Fund	Total
<b>Net assets, beginning of the year</b>	\$ 1,337,327	\$ 23,621	\$ 1,360,948
<b>Deficiency of revenue over expenses</b>	(70,390)	(7,695)	(78,085)
<b>Interfund transfers (note 4)</b>	(4,743)	4,743	-
<b>Net assets, end of the year</b>	\$ 1,262,194	\$ 20,669	\$ 1,282,863

**KIDS KOTTAGE FOUNDATION**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED MARCH 31, 2010**

	Kids Kottage Fund	Equipment Fund	Total
<b>Net assets, beginning of the year</b>	\$ 1,423,893	\$ 31,026	\$ 1,454,919
<b>Deficiency of revenue over expenses</b>	(73,485)	(10,911)	(84,396)
<b>Change in unrealized gains on investments</b>	(7,656)	-	(7,656)
<b>Prior years' unrealized gains reclassified against realized gains in the Statement of Operations during the year</b>	(1,919)	-	(1,919)
<b>Interfund transfers (note 4)</b>	(3,506)	3,506	-
<b>Net assets, end of the year</b>	\$ 1,337,327	\$ 23,621	\$ 1,360,948

**KIDS KOTTAGE FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2011**

**ASSETS**

	<u>Kids Kottage Fund</u>	<u>Equipment Fund</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and cash equivalents (note 5)	\$ 377,797	\$ -	\$ 377,797
Investments (note 5)	414,072	-	414,072
Accounts receivable	6,600	-	6,600
GST recoverable	6,262	-	6,262
Prepaid expenses	24,322	-	24,322
	<hr/>	<hr/>	<hr/>
Total current assets	829,053	-	829,053
<b>Investments</b> (note 5)	579,025	-	579,025
<b>Equipment</b> (note 4)	-	20,669	20,669
	<hr/>	<hr/>	<hr/>
	\$ 1,408,078	\$ 20,669	\$ 1,428,747
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**LIABILITIES AND NET ASSETS**

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

**KIDS KOTTAGE FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2010**

**ASSETS**

	<u>Kids Kottage Fund</u>	<u>Equipment Fund</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and cash equivalents (note 5)	\$ 298,872	\$ -	\$ 298,872
Investments (note 5)	347,987	-	347,987
Accounts receivable	15,733	-	15,733
GST recoverable	4,075	-	4,075
Prepaid expenses	34,182	-	34,182
	<hr/>	<hr/>	<hr/>
Total current assets	700,849	-	700,849
<b>Investments</b> (note 5)	804,045	-	804,045
<b>Equipment</b> (note 4)	-	23,621	23,621
	<hr/>	<hr/>	<hr/>
	\$ 1,504,894	\$ 23,621	\$ 1,528,515
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>			
Accounts payable	\$ 96,790	\$ -	\$ 96,790
Deferred revenue (note 6)	35,000	-	35,000
Deferred contributions (note 7)	35,777	-	35,777
	<hr/>	<hr/>	<hr/>
Total current liabilities	167,567	-	167,567
	<hr/>	<hr/>	<hr/>
<b>Net Assets</b>			
Unrestricted	1,337,327	-	1,337,327
Invested in equipment	-	23,621	23,621
	<hr/>	<hr/>	<hr/>
	1,337,327	23,621	1,360,948
	<hr/>	<hr/>	<hr/>
	\$ 1,504,894	\$ 23,621	\$ 1,528,515
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**KIDS KOTTAGE FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MARCH 31, 2011**

	<b>2011</b>	<b>2010</b>
<b>Cash provided by (used in) operating activities</b>		
Deficiency of revenues over expenditures	\$ (78,085)	\$ (84,396)
Items not affecting cash		
Amortization	7,695	10,911
Gain on sale of investments	-	(4,103)
	(70,390)	(77,588)
Net change in non-cash working capital (note 10)	(4,877)	14,187
	(75,267)	(63,401)
 <b>Investing activities</b>		
Purchase of equipment	(4,743)	(3,506)
Purchase of investments	(209,584)	(212,791)
Proceeds on sale or redemption of investments	368,519	405,478
	154,192	189,181
 <b>Increase in cash</b>	78,925	125,780
<b>Cash and cash equivalents, beginning of the year</b>	298,872	173,092
	\$ 377,797	\$ 298,872

**KIDS KOTTAGE FOUNDATION**  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2011

**1. Nature Of The Organization**

The Kids Kottage Foundation is a non-profit organization that works to promote the health and well-being of Canadian children and their families.

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.

**2. Accounting Policies**

Significant accounting policies observed in the preparation of the financial statements are summarized below. These policies are in accordance with Canadian generally accepted accounting principles.

(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) Investments

The Foundation has classified its investments as described in note 11. Non-redeemable GICs are recorded at amortized cost, which includes accrued interest. Unrealized gains or losses on investments classified as available-for-sale are reported on the Statement of Changes in Net Assets.

(d) Equipment

Equipment is recorded at cost less accumulated amortization. Capital grants and donations received to assist in the purchase of equipment are applied against the cost of the equipment purchased. Amortization is provided using the following methods and annual rates:

Computer equipment	50% declining balance
Kottage equipment	20% declining balance
Office equipment	20% declining balance
Leasehold improvements	20% straight line

*Allen & Associates*

**KIDS KOTTAGE FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2011**

2. **Accounting Policies** - continued

(e) Donated Materials And Services

Donated materials and services are not recorded in the financial statements.

(f) Use Of Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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.

(g) Statement Of Cash Flows

The statement of cash flows has been prepared using the indirect method.

3. **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. Overdraft interest is charged at the bank prime rate plus 1.0%. At March 31, 2011, no accounts were overdrawn.

4. **Equipment**

	<u>2011</u>			<u>2010</u>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 44,096	\$ 39,040	\$ 5,056	\$ 7,380
Kottage equipment	25,124	17,351	7,773	6,442
Office equipment	33,686	25,846	7,840	9,799
Leasehold improvements	45,595	45,595	-	-
	<u>\$ 148,501</u>	<u>\$ 127,832</u>	<u>\$ 20,669</u>	<u>\$ 23,621</u>

Equipment purchases were funded as follows:

	<u>2011</u>	<u>2010</u>
Transfer from Kids Kottage Fund	\$ 4,743	\$ 3,506

**KIDS KOTTAGE FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2011**

**5. Investments**

	<b>2011</b>		<b>2010</b>	
	Cost	FMV	Cost	FMV
<b>Cash and cash equivalents</b>				
Cash in bank	\$ 190,868	\$ 190,868	\$ 82,413	\$ 82,413
Investment savings account	107,565	107,565	137,863	137,863
Redeemable GIC	79,364	79,364	78,596	78,596
	377,797	377,797	298,872	298,872
<b>Investments maturing within the next 12 months</b>				
Non-redeemable GICs	414,072	414,072	347,987	347,987
<b>Investments with remaining terms of greater than 12 months</b>				
Non-redeemable GICs	579,025	579,025	804,045	804,045
Total investments	\$ 1,370,894	\$ 1,370,894	\$ 1,450,904	\$ 1,450,904

**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.

**KIDS KOTTAGE FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2011**

**8. Fundraising And Donations**

	<b>2011</b>	<b>2010</b>
Contributions received	\$ 668,844	\$ 922,465
Allocated from (to) deferred revenue	10,000	(35,000)
	678,844	887,465
Fundraising expenses		
Direct cost of fundraising events	194,276	192,940
Fundraising wages and benefits	121,430	112,126
Fundraising administration	50,643	39,371
	366,349	344,437
Net contribution to program costs	\$ 312,495	\$ 543,028

**9. Special Programs**

	<b>2011</b>	<b>2010</b>
Restricted contributions received	\$ 127,172	\$ 182,215
Allocated from deferred contributions	3,399	5,518
	130,571	187,733
Gross special program revenue		
Contribution to community partnership	102,172	157,215
Direct program expenses	28,399	31,558
	130,571	188,773
Special program expenditures		
Net cost of special programs	\$ -	\$ (1,040)

**KIDS KOTTAGE FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2011**

**10. Supplementary Cash Flow Information**

Net Change In Non-cash Working Capital:

	<b>2011</b>	<b>2010</b>
Decrease (increase) in:		
Accounts receivable	\$ 9,133	\$ (8,470)
GST recoverable	(2,187)	11,930
Prepaid expenses	9,860	(21,902)
Increase (decrease) in:		
Accounts payable	(8,284)	3,147
Deferred revenue	(10,000)	35,000
Deferred contributions	(3,399)	(5,518)
	\$ (4,877)	\$ 14,187

**11. Financial Instruments**

The Foundation's financial instruments consist of the following:

Held-for-trading	Cash and cash equivalents
Available-for-sale	Corporate and government bonds (none at March 31, 2011)
Held-to-maturity	Non-redeemable GICs
Loans and receivables	Accounts receivable GST recoverable
Other liabilities	Accounts payable

Fair Value

Financial instruments classified as held-for-trading and available-for-sale are recorded at fair value. Financial instruments classified as held-to-maturity are recorded at amortized cost, which includes interest accrued to the year end date.

Unless otherwise disclosed, the carrying values for financial instruments classified as held-to-maturity, loans and receivables, and other liabilities approximate their fair values.

**KIDS KOTTAGE FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2011**

**11. Financial Instruments - continued**

Financial Instrument Risks

The Foundation is exposed to the following risks arising from these financial instruments:

(a) Credit Risk

The Foundation is exposed to credit risk on its cash and cash equivalents, investments, and accounts receivable. Cash and the redeemable GIC are held at a major Canadian chartered bank. The investment savings account and the non-redeemable GICs are held by a variety of Canadian banks and trust companies. The Foundation's policy is not to record accounts receivable unless collection is reasonably assured.

(b) Interest Risk

Investments include GICs with fixed interest rates. Investments which mature within the next 12 months bear interest at effective rates between 2.05% and 4.96%. Other investments with maturity dates between June 2012 and March 2014 bear interest at effective rates between 2.65% and 4.45%.

**12. Capital Disclosures**

The Foundation defines capital that it manages as the aggregate of its net assets. The Foundation's objective in managing its capital is to ensure sufficient liquidity is maintained to meet its operating requirements and undertake specific initiatives to achieve the goals and objectives of the organization, while at the same time taking a conservative approach towards management of financial risk.

The Foundation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

Capital structure as at March 31

	<b>2011</b>	<b>2010</b>
Unrestricted net assets	\$ 1,262,194	\$ 1,337,327
Net assets invested in equipment	20,669	23,621
	\$ 1,282,863	\$ 1,360,948

The Foundation currently has no externally imposed capital requirements.

**KIDS KOTTAGE FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2011**

**13. Future Accounting Standards**

In November, 2010 the Accounting Standards Board (AcSB) issued "Accounting Standards for Not-for-Profit Organizations" (ASNPO). This pronouncement outlines accounting standards for private sector NPOs that choose not to adopt International Financial Reporting Standards (IFRS). The standards use the existing standards in the "4400 series" of the current CICA Handbook which provide guidance on specific NPO accounting issues, incorporating certain additional standards and amendments along with the base of Accounting Standards for Private Enterprises (ASPE). Management anticipates that the Foundation will choose to adopt ASNPO for its fiscal year beginning April 01, 2012.