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FINANCIAL STATEMENTS

**KIDS CAN FREE THE CHILDREN**

FOR THE YEAR ENDED MARCH 31, 2012



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etc 2012*

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# KIDS CAN FREE THE CHILDREN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012

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<b>Contents</b>	<b>Page</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	
<b>FINANCIAL STATEMENTS</b>	
Statement of financial position	1
Statement of changes in net assets	2
Statement of revenue and expenditures	3
Statement of cash flows	4
<b>NOTES TO FINANCIAL STATEMENTS</b>	5 - 12



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## INDEPENDENT AUDITOR'S REPORT

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**To the Members of Kids Can Free The Children  
Toronto, Ontario**

We have audited the statements of financial position of Kids Can Free The Children as at March 31, 2012 and the statements of revenue and expenditures, 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 standards, 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. Except as explained in the following paragraph, 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 the auditor's judgement, 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.


In common with many charitable organizations, the organization derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to donation revenues, excess or deficiency of revenue over expenditures, assets and net assets.

### **Opinion**

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the donations referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the organization as at March 31, 2012, and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

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Toronto, Canada



Licensed Public Accountants



# KIDS CAN FREE THE CHILDREN

## STATEMENT OF FINANCIAL POSITION AS AT MARCH 31

	2012 \$	2011 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (note 12)	3,199,100	3,553,260
Marketable securities	677,942	522,005
Accounts receivable (note 3)	806,235	86,370
Sales taxes recoverable	419,384	249,639
Prepaid expenses and sundry	341,953	125,009
	<u>5,444,614</u>	<u>4,536,283</u>
<b>PROPERTY AND EQUIPMENT (note 4)</b>	<u>7,595,265</u>	<u>6,741,156</u>
	<u>13,039,879</u>	<u>11,277,439</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank demand loan (note 5)	-	700,000
Accounts payable and accruals	95,998	140,752
Deferred contributions (note 6)	2,621,512	1,489,250
	<u>2,717,510</u>	<u>2,330,002</u>
<b>NET ASSETS</b>		
Net investment in capital assets	7,595,265	6,741,156
Unrestricted	2,727,104	2,206,281
	<u>10,322,369</u>	<u>8,947,437</u>
	<u>13,039,879</u>	<u>11,277,439</u>

ON BEHALF OF THE BOARD:

Member

Member

*Chair  
Board of Directors*

See accompanying notes.

# RIDS CAN FREE THE CHILDREN

## STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED MARCH 31

	Unre- stricted \$	Net invest- ment in capital assets \$	2012 \$	2011 \$
		(Note 7)		
NET ASSETS, beginning of year	2,206,281	6,741,156	8,947,437	10,359,682
Excess of revenue over expenditures (expenditures over revenue)	1,403,807	( 28,875)	1,374,932	(1,412,245)
Investment in capital assets, net	( 882,984)	882,984	-	-
NET ASSETS, end of year	2,727,104	7,595,265	10,322,369	8,947,437

See accompanying notes.

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# KIDS CAN FREE THE CHILDREN

## STATEMENT OF REVENUE AND EXPENDITURES FOR THE YEAR ENDED MARCH 31

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	2012 \$	2011 \$
<b>REVENUE</b>		
Donations from the public		
- Donations	18,366,683	15,639,514
- Donated goods	3,571,724	5,101,070
Grants		
- Government	1,279,625	750,000
- Private	2,108,621	628,226
Investment and other income, net	100,713	129,606
	<hr/> 25,427,366	<hr/> 22,248,416
<b>EXPENDITURES</b>		
Programs		
- International projects (note 9)	10,146,186	11,018,380
- Domestic projects	10,858,081	9,372,253
- Leadership education and public awareness	971,965	860,516
	<hr/> 21,976,232	<hr/> 21,251,149
Support (note 10)		
- Fundraising	521,688	516,347
- Administration	1,554,514	1,893,165
	<hr/> 2,076,202	<hr/> 2,409,512
	<hr/> 24,052,434	<hr/> 23,660,661
<b>EXCESS OF REVENUE OVER EXPENDITURES (EXPENDITURES OVER REVENUE)</b>	<hr/> 1,374,932	<hr/> ( 1,412,245)

See accompanying notes.

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# KIDS CAN FREE THE CHILDREN

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31

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	2012	2011
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenditures (expenditures over revenue)	1,374,932	(1,412,245)
Adjustment for non-cash items		
- Unrealized gain on marketable securities	( 61,299)	( 9,391)
- Realized gain on disposal of marketable securities	-	( 609)
- Gain on disposal of real properties	( 304,615)	( 70,954)
- Amortization	333,490	326,673
	1,342,508	(1,166,526)
Changes in non-cash working capital		
- Marketable securities	( 94,637)	( 261,296)
- Accounts receivable	( 719,866)	( 21,441)
- Inventory	-	289,784
- Sales taxes recoverable	( 169,744)	( 191,357)
- Prepaid expenses and sundry	( 216,945)	( 55,320)
- Accounts payable and accruals	( 44,753)	34,964
- Deferred contributions	1,132,261	1,389,250
	1,228,824	18,058
<b>INVESTING ACTIVITIES</b>		
Property and equipment additions, net	( 882,984)	(1,002,587)
<b>FINANCING ACTIVITIES</b>		
Bank demand loan	( 700,000)	700,000
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	( 354,160)	( 284,529)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	3,553,260	3,837,789
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (note 12)</b>	3,199,100	3,553,260

See accompanying notes.

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# KIDS CAN FREE THE CHILDREN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2012

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## 1/ PURPOSE OF ORGANIZATION

Kids Can Free The Children is an organization which is committed to creating a network of children helping children through representation, leadership and action, and dedicated to reducing poverty and the exploitation of children around the world.

The organization was incorporated under the provision of Part II of the Canada Corporations Act as a non-profit corporation, without share capital. As a result, the organization is exempt from income tax under Section 149 of the Income Tax Act, Canada.

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## 2/ ACCOUNTING POLICIES

### Revenue recognition

The organization follows the deferral method of accounting for contributions, which are mainly comprised of cash donations, donations-in-kind, and public and private grants. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

### Donations-in-kind

Contributions of materials are recognized when a fair value can be reasonably estimated and when the materials are used in the normal course of the organization's operation and would otherwise have been purchased. While the organization also benefits from volunteer time, the value of this volunteer time has not been reflected in these statements.

### Investment income

Investment income is recorded on the accrual basis, includes interest income, dividends, net gain (loss) on sale of investments and change in unrealized gains (losses) on investments.

### Allocation of expenses

Expenses are recorded and reported by program and support services. Certain officers and employees perform a combination of program, fundraising and administrative activities; as a result, salaries are allocated based on time dedicated to each activity. Other operating and general costs, such as postage, printing and copying costs have been allocated based on the actual utilization of such expenses. Allocations are reviewed annually, updated and applied on a prospective basis.



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# KIDS CAN FREE THE CHILDREN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2012

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## 2/ ACCOUNTING POLICIES (Continued)

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, term deposits and balances in money market funds that mature in a short-term period.

### Marketable securities

Marketable securities are classified as held for trading and recorded at fair market value determined based on quoted price in the active market. Unrealized gains or losses are recognized in the income statement of the current period. Dividend income is recognized when received.

### Amortization

Property and equipment are recorded at cost and amortized on the declining-balance basis using the following annual rates:

Buildings	-	4%
Computer equipment	-	30%
Furniture and fixtures	-	20%
Vehicles	-	30%

### Translation of foreign currencies

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the rate in effect at the balance sheet date. Non-monetary assets are translated using historic rates. Revenue and expenses are translated at the average rate during the year. Exchange gains and losses on monetary items are taken into income in the current year.

### Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported year. These estimates are reviewed yearly and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

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# KIDS CAN FREE THE CHILDREN

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2012

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### 2/ ACCOUNTING POLICIES (Continued)

#### Future accounting changes

##### New accounting framework

The Canadian Institute of Chartered Accountants (CICA) has issued a new accounting framework applicable to not-for-profit organizations. Effective for fiscal years that commence on or after January 1, 2012, not-for-profit organizations will have to choose between International Financial Reporting Standards (IFRSs) and GAAP for not-for-profit organizations, whichever suits them better. The organization plans to adopt the new accounting standards for not-for-profit organizations for its fiscal year beginning on April 1, 2012. The effects of this transition has not yet been determined.

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### 3/ ACCOUNTS RECEIVABLE

Accounts receivable are donations receivable from various corporate donors. As all amounts are considered collectible, no provision for allowance has been provided.

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### 4/ PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value	
	\$	\$	2012	2011
			\$	\$
Land	2,000,000	-	2,000,000	1,900,000
Buildings	6,036,494	788,893	5,247,601	4,417,863
Computer equipment	330,713	224,165	106,548	134,176
Furniture and fixtures				
- Office	402,489	222,207	180,282	204,107
- Residential buildings	38,835	28,222	10,613	13,266
Vehicles	180,178	129,957	50,221	71,744
	8,988,709	1,393,444	7,595,265	6,741,156

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# KIDS CAN FREE THE CHILDREN

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2012

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### 5/ BANK DEMAND LOAN

The organization has a credit facility that provides a loan to a maximum of \$700,000. The loan, when drawn, bears interest at prime plus 1% and is due on demand. The credit facility is collaterally secured by a general security agreement over all assets of the organization. As at year end, the bank loan balance was Nil.

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### 6/ DEFERRED CONTRIBUTIONS

Deferred contributions are comprised of amounts restricted for the funding of expenses to be incurred in the future. The continuity of deferred revenue is as follows:

	April 1, 2011 \$	Donations Received \$	Recognized as Revenue \$	March 31, 2012 \$
Cash donations	1,489,250	19,855,933	18,723,671	2,621,512

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	April 1, 2010 \$	Donations Received \$	Recognized as Revenue \$	March 31, 2011 \$
Cash donations	100,000	17,128,764	15,739,514	1,489,250

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### 7/ NET ASSETS

The segregated balance of investment in property and equipment represents the amortized cost of property and equipment.

# KIDS CAN FREE THE CHILDREN

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2012

### 8/ COMMITMENTS

The organization leases office space at several locations in Canada. Aggregate minimum rent payments per annum in the next five years are as follows:

	\$
2013	206,000
2014	155,600
2015	163,400
2016	171,500
2017	180,000
	876,500

### 9/ INTERNATIONAL PROJECTS

	2012 \$	2011 \$
<b>Programs</b>		
Asia	1,449,483	935,040
Africa	4,639,727	5,401,838
Latin America	4,056,976	4,681,503
	10,146,186	11,018,380

### 10/ SUPPORT EXPENDITURES

	2012 \$	2011 \$
<b>Fundraising Expenses</b>		
Office expenses	20,710	33,582
Events	43,263	18,514
Wages and benefits	457,715	464,251
	521,688	516,347

# KIDS CAN FREE THE CHILDREN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2012

## 10/ SUPPORT EXPENDITURES (Continued)

	2012 \$	2011 \$
<b>General Administration</b>		
Office expenses	775,355	848,425
Training	22,135	15,364
Wages and benefits	580,699	656,764
Consulting and other professional fees	118,810	87,165
Travel and transportation	28,640	29,728
Amortization	333,490	326,673
	1,859,129	1,964,119
Less: Gain on disposal of real properties	( 304,615)	( 70,954)
	1,554,414	1,893,165

## 11/ RELATED-PARTY TRANSACTIONS

- a/ The co-founders of the organization have a controlling interest in Me to We Social Enterprises Inc. and its subsidiaries ("Me to We") through a holding company. The transactions during the year with the group of companies can be summarized as follows:

	2012 \$	2011 \$
Rental revenue	30,240	30,240
Donations received	296,520	312,334
	326,760	342,574
Purchase of promotional goods for domestic projects	33,003	174,255

The purpose of the Me to We group is to help support the operation of Kids Can Free the Children. The organization purchases books, other educational materials and promotional clothing from Me to We. These items are charged at cost, which are the agreed prices between the two parties. Annually, Me to We donates back 50% of any profits and retains 50% to provide for its own sustainability.

- b/ During the year, the holding company of the Me to We group also donated \$200,000 to the organization.

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# KIDS CAN FREE THE CHILDREN

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2012

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### 12/ CASH FLOW INFORMATION

	2012	2011
	\$	\$
Cash on hand	693,604	2,353,250
Term deposits	500,000	500,000
Money market fund	2,005,496	700,010
	3,199,100	3,553,260

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Term deposits bear interest at 1.15%. They mature within the next four months and are renewable at the organization's option.

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### 13/ FINANCIAL INSTRUMENTS

a/ The organization has classified its financial instruments as follows:

Cash and cash equivalents	-	Held-for-trading
Marketable securities	-	Held-for-trading
Accounts receivable	-	Amortized cost
Sales taxes recoverable	-	Amortized cost
Accounts payable and accruals	-	Other financial liabilities

b/ The fair values of cash and cash equivalents, accounts receivable, sales taxes receivable and accounts payable and accruals are approximately equal to their carrying values, due to their short-term maturities.

c/ Exchange risk

Amounts denominated in U.S. currency at the balance sheet date are as follows:

	2012	2011
	\$	\$
Cash	429,752	( 24,187)
Marketable securities	398,722	369,760

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Unless otherwise noted, the organization is not exposed to significant interest or credit risk arising from its financial instruments.

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# KIDS CAN FREE THE CHILDREN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2012

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## 14/ CAPITAL MANAGEMENT

The organization's objectives in managing capital are:

- a/ to ensure that sufficient financial resources are in place to deliver on the priorities set by the Board of Directors during its annual strategic plan review;
- b/ to manage grants and donations with external restrictions in order to comply with the conditions for using these financial resources.

The organization monitors its capital by reviewing various financial metrics, including cash flows and variances to forecasts and budgets.

Capital management objectives, policies and procedures are unchanged since the preceding year.

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## 15/ ALLOCATION OF EXPENSES

During the year, total administration expenses of \$788,000 (2011 - \$497,833) relating to fundraising activities were identified and allocated to fundraising expenses and programs as follows:

	2012	2011
	\$	\$
Fundraising	490,256	497,833
Programs	297,744	-
	788,000	497,833

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## 16/ COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.