

KINARK CHILD AND FAMILY SERVICES

FINANCIAL STATEMENTS

MARCH 31, 2011

KINARK CHILD AND FAMILY SERVICES

INDEX TO FINANCIAL STATEMENTS

MARCH 31, 2011

INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES	3
STATEMENT OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5 - 11

SHORE NEWMAN & ROSE LLP

C H A R T E R E D A C C O U N T A N T S

100 Sheppard Avenue East
Suite 850, Box 16
North York, ON M2N 6N5

T 416.250.0700
F 416.250.0800

www.shorenewmanrose.com

Sheldon S. Shore, CA
David M. Newman, BSc, CA
Steven M. Rose, BComm, CA
Darryl R. Rosenberg, BComm, CA

INDEPENDENT AUDITOR'S REPORT

To the Members of
Kinark Child and Family Services:

We have audited the accompanying financial statements of **Kinark Child and Family Services** which comprise the statement of financial position as at March 31, 2011, and the statement of operations and changes in fund balances and statement of 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

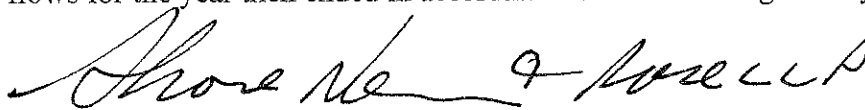
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of **Kinark Child and Family Services** as at March 31, 2011 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Licensed Public Accountants

May 30, 2011

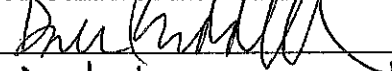
KINARK CHILD AND FAMILY SERVICES

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2011

	2011	2010
ASSETS		
Current assets		
Cash on hand and in bank	\$ 1,527,586	\$ 909,672
Investments	1,370,142	1,349,007
Sundry receivables (Note 5)	912,458	881,523
Due from Ministry of Children and Youth Services	-	111,688
Prepaid expenses and sundry	913,960	648,980
	<u>4,724,146</u>	<u>3,900,870</u>
Capital assets (Note 6)	5,499,010	5,409,725
Deposit on leases	103,717	102,438
	<u>\$ 10,326,873</u>	<u>\$ 9,413,033</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable and accrued liabilities	\$ 3,088,847	\$ 3,391,610
Accrued salaries payable	1,629,014	627,347
Employees payroll deductions payable	689,666	535,138
Deferred special contract revenue	930,430	795,682
	<u>6,337,957</u>	<u>5,349,777</u>
Fund balances (Note 3)		
Capital Assets fund account	5,499,010	5,409,724
Central East Treatment Programs fund account	(1,655,696)	(1,645,309)
Central West and Youth Justice Programs fund account	(116,049)	(116,050)
Central East Autism Program ("CEAP") fund account	160,015	160,013
Autism Spectrum Disorder - School Support Program ("ASD-SSP") fund account	(45,706)	(45,706)
Child Care Centres fund account	11,282	11,282
Donations and Fund-Raising fund account	136,060	289,302
	<u>3,988,916</u>	<u>4,063,256</u>
	<u>\$ 10,326,873</u>	<u>\$ 9,413,033</u>

On behalf of the Board



Director



Director

Commitments (Note 7)

Contingencies (Note 14)

See accompanying notes to the financial statements

KINARK CHILD AND FAMILY SERVICES

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED MARCH 31, 2011

	Capital Assets Fund		Central East Treatment Programs		Central West and Youth Justice Programs		CEAP		Autism Services ASD-SSP		Child Care Centres		Donations and Fund-Raising		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Operating revenues																
Government funding	\$ -	\$ -	\$ 19,974,338	\$ 20,020,838	\$ 12,477,807	\$ 11,843,287	\$ 23,481,336	\$ 22,943,680	\$ 4,519,700	\$ 4,519,700	\$ -	\$ -	\$ -	\$ -	\$ 60,453,181	\$ 59,327,505
Other contract funding and user fees (recovered)	-	-	3,505,703	3,424,667	325,000	6,575	(244)	-	-	-	-	-	-	138	3,830,459	3,431,380
Child care	-	-	-	-	-	-	-	-	-	-	1,047,661	1,232,710	-	-	1,047,661	1,232,710
Donations and fund-raising	-	-	63,393	111,312	-	60	-	-	-	-	-	-	16,608	6,619	80,001	117,991
Interest	-	-	35,785	20,121	-	-	-	-	-	-	-	-	-	-	35,785	20,121
	-	-	23,579,219	23,576,938	12,802,807	11,849,922	23,481,092	22,943,680	4,519,700	4,519,700	1,047,661	1,232,710	16,608	6,757	65,447,087	64,129,707
Operating costs																
Salaries and benefits	-	-	16,471,777	16,308,301	10,284,702	9,889,719	6,780,929	6,726,955	3,763,134	3,725,305	833,128	1,046,456	-	-	38,133,670	37,696,736
General agency	-	-	1,809,128	1,911,587	186,974	220,941	478,496	-	30,811	42,227	58,073	1,285	1,862	722	2,565,344	2,176,762
Building occupancy	-	-	2,049,183	2,046,168	763,914	820,830	492,744	247,182	175,394	145,943	74,950	77,977	-	-	3,556,185	3,338,100
Staff travel and training	-	-	1,097,881	1,244,038	261,006	193,340	221,212	178,645	187,942	190,036	950	2,533	-	-	1,768,991	1,808,592
Clinical, professional and other client	-	-	469,530	761,801	783,730	542,539	15,454,027	15,262,233	271,673	328,591	76,625	99,160	12,083	6,035	17,067,668	17,000,359
Telephone, technology and equipment	-	-	746,850	840,337	107,703	115,769	91,404	133,321	77,650	84,409	3,935	4,831	83	-	1,027,625	1,178,667
Legal, audit and insurance (recovered)	-	-	291,846	253,207	177,948	54,887	(68,682)	108,241	-	-	-	423	-	-	401,112	416,758
Amortization	-	-	621,667	404,354	117,522	117,507	54,143	72,103	37,725	51,338	6,914	4,692	-	-	837,971	649,994
Donations and fund-raising service use	-	-	7,039	1,944	-	-	-	-	-	-	-	45	2,580	-	9,619	1,989
	-	-	23,564,901	23,771,737	12,683,499	11,955,532	23,504,273	22,728,680	4,544,329	4,567,849	1,054,575	1,237,402	16,608	6,757	65,368,185	64,267,957
Excess (deficiency) of revenues over costs for the year	-	-	14,318	(194,799)	119,308	(105,610)	(23,181)	215,000	(24,629)	(48,149)	(6,914)	(4,692)	-	-	78,902	(138,250)
Fund balances, beginning of the year	5,409,724	5,616,493	(1,645,309)	(1,646,897)	(116,050)	(116,051)	160,013	91,490	(45,706)	(45,706)	11,282	12,875	289,302	289,302	4,063,256	4,201,506
Funds distributed during the year (Note 3)	-	-	-	-	-	-	-	-	-	-	-	-	(153,242)	-	(153,242)	-
Transfer additions to capital assets fund	927,257	443,225	(646,372)	(207,967)	(236,829)	(11,896)	(30,960)	(218,580)	(13,096)	(3,189)	-	(1,593)	-	-	-	-
Transfer amortization to capital assets fund	(837,971)	(649,994)	621,667	404,354	117,522	117,507	54,143	72,103	37,725	51,338	6,914	4,692	-	-	-	-
Fund balances, end of the year	\$ 5,499,010	\$ 5,409,724	\$ (1,655,696)	\$ (1,645,309)	\$ (116,049)	\$ (116,050)	\$ 160,015	\$ 160,013	\$ (45,706)	\$ (45,706)	\$ 11,282	\$ 11,282	\$ 136,060	\$ 289,302	\$ 3,988,916	\$ 4,063,256

See accompanying notes to the financial statements

KINARK CHILD AND FAMILY SERVICES

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2011

	2011	2010
Cash flows from operating activities		
Excess (deficiency) of revenues over costs - Central East Treatment Programs	\$ 14,318	\$ (194,799)
Excess (deficiency) of revenues over costs - Central West and Youth Justice Programs	119,308	(105,610)
Excess (deficiency) of revenues over costs - CEAP	(23,181)	215,000
Deficiency of revenues over costs - ASD-SSP	(24,629)	(48,149)
Deficiency of revenues over costs - Child Care Centres	(6,914)	(4,692)
Funds distributed during the year	(153,242)	-
Amortization	837,971	649,994
	763,631	511,744
Changes in non-cash working capital balances:		
Sundry receivables	(30,935)	349,894
Due from Ministry of Children and Youth Services	111,688	22,004
Prepaid expenses and sundry	(264,980)	(18,762)
Deposit on leases	(1,280)	65,232
Accounts payable and accrued liabilities	(302,761)	(1,147,279)
Employees payroll deductions payable	154,529	64,483
Accrued salaries payable	1,001,668	(338,680)
Deferred special contract revenue	134,747	(566,493)
	1,566,307	(1,057,857)
Cash flows from investing activities		
Purchase of capital assets (Note 9(a))	(927,257)	(443,225)
Increase in investments	(21,136)	(8,608)
	(948,393)	(451,833)
Increase (decrease) in cash and cash equivalents	617,914	(1,509,690)
Cash and cash equivalents, beginning of the year	909,672	2,419,362
Cash and cash equivalents, end of the year (Note 9(b))	\$ 1,527,586	\$ 909,672

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

Purpose of the organization

Kinark Child and Family Services ("Kinark") was incorporated under the laws of the Province of Ontario as a non-share capital corporation. It is a registered charitable organization within the meaning of the Income Tax Act and therefore is not subject to income taxes.

Kinark is an Ontario community based organization whose mission is *caring, helping, healing - so children and youth can live socially and emotionally healthy lives*. Kinark achieves this mission by providing expert help to children and youth, their families and communities. Kinark provides a range of services from parenting advice to help for children and youth with chronic and multiple mental health issues. In addition, Kinark provides intensive treatment and support to youth in conflict with the law as well as an extensive range of programs for children and youth diagnosed with Autism Spectrum Disorder (ASD).

1. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with the preceding year. Outlined below are the accounting policies considered to be significant.

Revenue recognition

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 when the amount to be received can be reasonably estimated and its collection is reasonably assured.

Government funding is primarily received from the Ontario Ministry of Children and Youth Services and is generally recorded when received. Funding received in respect of special contracts is recorded as revenue when Kinark provides the related services. Prior to providing the services, the amounts received is recorded as deferred special contract revenue in the Statement of Financial Position.

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

1. Significant accounting policies (*continued*)

Capital assets

Capital assets are recorded at cost. Amortization is calculated using the methods set out below applied to the cost of the assets, at annual rates based on their estimated useful lives as follows:

Asset	Rate	Method
Buildings	4%	Diminishing balance
Furniture and fixtures	20%	Diminishing balance
Vehicles	30%	Diminishing balance
Computer equipment	30%	Diminishing balance
Computer software	100%	Diminishing balance
Leasehold improvements		Straight line over the term of the lease

Amortization expense is reported in the Capital Assets fund.

In addition, Kinark capitalizes all real estate for which it receives capital grants or special funding from the Ministry of Children and Youth Services.

Other

Kinark does not inventory food and household supplies. These costs are charged to operations in the year incurred.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 revenues and costs during the year. Significant estimates used in the preparation of these financial statements include amortization of capital assets, accounts payable and accrued liabilities, accrued salaries payable and prepaid expenses and sundry. By their nature, these estimates are subject to measurement uncertainty. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the statement of operations and changes in fund balances in the year in which they become known.

Donated services

Donated services assist Kinark in carrying out its program activities. Since these services are not normally purchased by Kinark and because of the difficulty of determining their fair value, donated services are not recognized in the financial statements.

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

1. Significant accounting policies (*continued*)

Allocation of expenses

Kinark provides a range of treatments to help children, youth, their families and communities. The costs of each program include the costs of personnel, premises and other expenses that are directly related to providing the programs. Kinark also incurs a number of general support expenses that are common to the administration of Kinark and each of its programs. These expenses are allocated according to Kinark's annual Service Contract with the Ministry of Children and Youth Services.

Impairment of long-lived assets

Kinark reviews long-lived assets for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value. During 2011, Kinark has determined that no impairment in the carrying value of these assets existed.

2. Accounting changes

The Accounting Standards Board has approved a new framework for not-for-profit organizations that is based on existing Canadian Generally Accepted Accounting Principles and incorporates the 4400 series of standards which relate to situations unique to not-for-profit entities. The new standards are available as of December 31, 2010 as part III of the Canadian Institute of Chartered Accountants ("CICA") Handbook - Accounting and are effective for reporting periods beginning on or after January 1, 2012. Kinark plans to adopt the new standards beginning April 1, 2012.

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

3. Fund accounting

Kinark follows the restricted fund method of accounting for revenues and contributions. Resources are classified for accounting and reporting purposes into funds according to the activity or objective specified.

The Central West and Youth Justice Programs fund includes Central Youth Justice Services, Intensive Supervision Support Program "ISSP", Multiple Systemic Therapy - Youth Justice "MST YJ" and Central West Treatment.

The Central East Treatment Programs fund includes all other activities except those listed below.

The Central East Autism Program fund accounts for Kinark's autism program.

The Autism Spectrum Support - Program fund accounts for Kinark's autism school support program.

The Child Care Centres fund accounts for Kinark's activities funded by the Day Nurseries Act.

The Donations and Fund-Raising fund accounts for contributions which are used for a variety of activities. During the year, Kinark approved specified donations of \$153,242 from the Donation and Fund-Raising fund, of which, \$117,000 was in support of the Kinark Foundation.

The Capital Assets fund accounts for Kinark's real estate and capital assets. As a condition of receiving capital funding for real estate, Kinark has agreed to certain restrictions on the use and disposition of the real estate. As well, Kinark has agreed not to make significant alterations or additions to all or any part of any buildings on the land. The land cannot be transferred or charged without the consent of the Ministry of Children and Youth Services.

4. Divestments in prior years

During fiscal 1998, Kinark divested its interest in the Haliburton Area Program. As part of this transaction, the office facilities were transferred to Point In Time Centre for Children, Youth and Parents (formerly Family Services of Haliburton County) for a nominal sum. Kinark has retained a right of first refusal to reacquire the facilities for the same nominal sum should the purchaser intend to dispose of them in the future.

During fiscal 1995, 1998 and 1999, Kinark sold for nominal proceeds a total of six of its residential properties to various organizations funded by the Government of Ontario. In exchange for accepting nominal proceeds, Kinark has retained a right of first refusal to reacquire any of these properties for the same nominal sum should the purchaser intend to dispose of the properties in the future.

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

5. Sundry receivables

Included in sundry receivables is a receivable of \$41,694 (2010 - \$300,352) from Kinark Foundation (the "Foundation"). The Foundation is an independent corporation without share capital which has its own Board of Directors. The Foundation is responsible for fundraising activities carried out on behalf of Kinark. Kinark provides certain services to the Foundation and pays certain expenses on behalf of the Foundation. The receivable balance bears no interest and is repayable on a quarterly basis.

6. Capital assets

	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value
Land	\$ 387,412	\$ -	\$ 387,412	\$ 387,412
Buildings	4,270,632	1,096,962	3,173,670	3,308,399
Furniture and fixtures	3,369,906	1,957,065	1,412,841	1,134,858
Vehicles	233,625	231,208	2,417	8,941
Computer equipment	3,163,004	2,977,640	185,364	445,580
Computer software	252,598	-	252,598	24,964
Leasehold improvements	978,326	893,618	84,708	99,571
	\$ 12,655,503	\$ 7,156,493	\$ 5,499,010	\$ 5,409,725

Amortization expense for the year amounted to \$837,971 (\$649,994 for 2010).

7. Commitments

Kinark is committed under long-term leases for various periods extending to the fiscal year 2016. The minimum lease payments are as follows

	Equipment	Vehicles	Property	Total
2012	\$ 111,607	\$ 113,310	\$ 1,220,681	\$ 1,445,598
2013	96,205	27,869	1,126,986	1,251,060
2014	61,707	4,053	1,024,891	1,090,651
2015	-	-	973,842	973,842
2016	-	-	638,978	638,978
	\$ 269,519	\$ 145,232	\$ 4,985,378	\$ 5,400,129

8. Public sector salary disclosure

As required under the Public Sector Salary Disclosure Act, 1996, Kinark has filed a listing of its employees whose salaries exceeded \$100,000 during calendar year 2010 with the Government of Ontario and it is available at the following website: www.gov.on.ca.

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

9. Statement of cash flows

(a) During the fiscal year, capital assets were purchased for cash in the amount of \$927,257 (2010 - \$443,225).

(b) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and balances with banks.

10. Financial instruments

Fair value

Kinark's primary financial instruments consist of cash, investments, sundry receivables, due from Ministry of Children and Youth Services, accounts payable and accrued liabilities and accrued salaries payable. The fair values of the financial instruments approximate their book values due to the relatively short-term maturities of those instruments. It is management's opinion that Kinark is not exposed to significant interest, currency or credit risk arising from these financial instruments.

Kinark has designated investments as held for trading. These investments are measured at fair value and any related gains or losses are recognized in the Statement of Operations and Changes in Fund Balances in the current year. Transaction costs related to the acquisition of held for trading financial instruments are expensed as incurred.

11. Capital risk management

Kinark's objectives when managing capital are to ensure its ability to continue to fulfil its stated goals. Kinark manages its capital structure by preparing a balanced budget on an annual basis. If it becomes apparent that funds will fall short of those budgeted, expenses are curtailed so as to ensure that adequate capital is maintained. Kinark is not subject to any externally imposed capital requirements.

12. Pension plan

Kinark has a defined contribution pension plan for its employees. In accordance with the Plan Agreement, employees in the plan can contribute 4%, 5% or 6% of their salary to the plan. Kinark is required to match their contributions. Included in the salaries and benefits in the Statement of Operations and Changes in Fund Balances is approximately \$1,359,598 (2010 - \$1,344,996) of pension plan contributions.

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

13. Guarantees

In the normal course of business, Kinark enters into agreements that meet the definition of a guarantee. Kinark's primary guarantees are subject to the disclosure requirements of the CICA Handbook Accounting Guideline 14 "Disclosure of Guarantees".

Kinark has entered into various agreements that include guarantees of leases, banking, outsourcing and service agreements. These agreements may require Kinark to compensate others for losses incurred as a result of breaches of these agreements.

The nature of these agreements prevents Kinark from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, which stems from the unpredictability of future events. Historically, Kinark has not made any significant payments under such or similar agreements and, therefore, no amount has been accrued in the statement of financial position with respect to these agreements.

14. Contingencies

Kinark has been named as a defendant in two legal actions:

Kinark has been named as a co-defendant in a legal action by a former client. The action seeks \$9,000,000 in damages. At this time, Kinark's legal counsel cannot determine the outcome or potential liability, if any, in the action and Kinark has not determined the extent to which this action may be covered by insurance. It is Kinark's intent to vigorously defend this action.

Kinark and a current employee have been named as two of several defendants in a legal action by a former client. The action seeks \$5,250,000 in damages plus punitive damages. At this time, Kinark's legal counsel cannot determine the outcome or potential liability, if any, in the action and Kinark has not determined the extent to which this action may be covered by insurance. It is Kinark's intent to vigorously defend this action.