

KINARK CHILD AND FAMILY SERVICES

FINANCIAL STATEMENTS

MARCH 31, 2017

KINARK CHILD AND FAMILY SERVICES

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MARCH 31, 2017

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SHORE NEWMAN & ROSE LLP

CHARTERED ACCOUNTANTS

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

T 416.250.0700
F 416.250.0800

www.shorenewmanrose.com

David M. Newman, CPA, CA, BSc.
Steven M. Rose, CPA, CA, BComm
Darryl R. Rosenberg, CPA, CA, BComm

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, 2017 and the statements of operations and changes in fund balances 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 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, 2017 and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Licensed Public Accountants
June 12, 2017


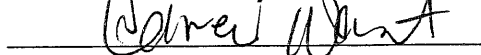
KINARK CHILD AND FAMILY SERVICES

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2017

	2017	2016
ASSETS		
Current assets		
Cash	\$ 2,317,269	\$ 2,288,765
Investments (Note 6)	5,047,879	1,409,497
Sundry receivables	225,441	393,509
Due from Ministry of Children and Youth Services	-	182,000
Prepaid expenses and sundry	582,611	568,254
	8,173,200	4,842,025
Property, plant and equipment (Note 7)	5,407,737	5,490,748
Investments (Note 6)	-	101,203
Deposit on leases	175,677	108,717
	\$ 13,756,614	\$ 10,542,693
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable and accrued liabilities	\$ 2,939,625	\$ 3,653,073
Accrued salaries payable	2,053,355	1,662,249
Employee payroll deductions payable	152,073	165,459
Government remittances payable	903,406	747,110
Deferred special contract revenue	3,692,148	766,252
Due to Ministry of Children and Youth Services	202,227	202,227
	9,942,834	7,196,370
Fund balances (Note 2)		
Capital Assets fund	5,407,737	5,490,748
Community Mental Health fund	(1,353,791)	(1,658,311)
Forensics fund	(573,708)	(573,708)
Autism Services fund	360,452	114,503
Other fund	(26,910)	(26,909)
	3,813,780	3,346,323
	\$ 13,756,614	\$ 10,542,693

On behalf of the Board

Director

Director

Commitments (Note 8)

Contingencies (Note 11)

KINARK CHILD AND FAMILY SERVICES

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED MARCH 31, 2017

	Capital Assets		Community Mental Health		Forensics		Autism Services		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Operating revenues												
Government funding	\$ -	\$ -	\$ 24,453,765	\$ 24,284,632	\$ 15,457,709	\$ 15,482,100	\$ 36,295,146	\$ 27,539,808	\$ 1,546,545	\$ 1,011,891	\$ 77,753,165	\$ 68,318,431
Other contract funding and user fees	-	-	1,238,561	1,422,403	31,783	-	235,377	312,037	1,491,768	1,476,568	2,997,489	3,211,008
Child care	-	-	-	-	-	-	-	-	990,962	951,444	990,962	951,444
Donations and fund-raising	-	-	2,540	21,612	-	-	-	-	76,802	20,773	79,342	42,385
Other income	-	-	72,233	30,377	-	-	-	-	-	-	72,233	30,377
	-	-	25,767,099	25,759,024	15,489,492	15,482,100	36,530,523	27,851,845	4,106,077	3,460,676	81,893,191	72,553,645
Operating costs												
Salaries and benefits	-	-	17,503,590	18,537,688	13,680,514	13,656,735	10,159,538	10,120,509	3,256,872	2,317,084	44,600,514	44,632,016
Clinical, professional and other client	-	-	403,917	535,679	953,196	902,985	24,600,629	16,506,504	163,736	116,168	26,121,478	18,061,336
Building occupancy	-	-	2,010,970	2,292,083	295,538	354,652	528,730	539,761	106,764	110,589	2,942,002	3,297,085
Telephone, technology and equipment	-	-	2,036,196	1,090,254	135,949	10,270	303,145	140,696	67,317	27,919	2,542,607	1,269,139
General agency	-	-	1,713,847	1,660,029	52,589	72,105	295,224	210,392	424,822	244,282	2,486,482	2,186,808
Staff travel and training	-	-	647,898	856,002	181,502	203,318	191,148	151,182	71,054	137,511	1,091,602	1,348,013
Legal, audit and insurance	-	-	489,559	245,576	147,550	86,440	83,783	23,598	-	-	720,892	355,614
Donations and fund-raising activities	-	-	-	274	-	-	-	-	2,136	3,416	2,136	3,690
Amortization	-	-	412,188	308,848	119,406	100,458	137,623	153,835	248,804	90,077	918,021	653,218
	-	-	25,218,165	25,526,433	15,566,244	15,386,963	36,299,820	27,846,477	4,341,505	3,047,046	81,425,734	71,806,919
Excess (deficiency) of revenues over costs for the year	-	-	548,934	232,591	(76,752)	95,137	230,703	5,368	(235,428)	413,630	467,457	746,726
Fund balances, beginning of the year	5,490,748	4,744,023	(1,658,311)	(1,663,659)	(573,708)	(565,860)	114,503	114,503	(26,909)	(29,410)	3,346,323	2,599,597
Transfer additions to capital assets fund	835,010	1,399,943	(656,602)	(536,091)	(42,654)	(203,443)	(122,377)	(159,203)	(13,377)	(501,206)	-	-
Transfer amortization to capital assets fund	(918,021)	(653,218)	412,188	308,848	119,406	100,458	137,623	153,835	248,804	90,077	-	-
Fund balances, end of the year	\$ 5,407,737	\$ 5,490,748	\$ (1,353,791)	\$ (1,658,311)	\$ (573,708)	\$ (573,708)	\$ 360,452	\$ 114,503	\$ (26,910)	\$ (26,909)	\$ 3,813,780	\$ 3,346,323

KINARK CHILD AND FAMILY SERVICES

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2017

	2017	2016
Cash flows from operating activities		
Excess (deficiency) of revenues over costs - Community Mental Health fund	\$ 548,934	\$ 232,591
Excess (deficiency) of revenues over costs - Forensics fund	(76,752)	95,137
Excess of revenues over costs - Autism Services fund	230,703	5,368
Excess (deficiency) of revenues over costs - Other fund	(235,428)	413,630
Amortization	918,021	653,218
	1,385,478	1,399,944
Changes in non-cash working capital balances:		
Sundry receivables	168,068	1,651
Due to Ministry of Children and Youth Services	-	202,227
Prepaid expenses and sundry	(14,356)	20,836
Due from Ministry of Children and Youth Services	182,000	(182,000)
Deposit on leases	(66,959)	-
Accounts payable and accrued liabilities	(713,449)	1,143,461
Accrued salaries payable	391,106	303,443
Employee payroll deductions payable	(13,387)	155,321
Government remittances payable	156,296	358,664
Deferred special contract revenue	2,925,896	33,506
	4,400,693	3,437,053
Cash flows used in investing activities		
Increase in investments	(3,537,179)	(19,309)
Purchase of property, plant and equipment	(835,010)	(1,399,943)
	(4,372,189)	(1,419,252)
Increase in cash	28,504	2,017,801
Cash, beginning of the year	2,288,765	270,964
Cash, end of the year	\$ 2,317,269	\$ 2,288,765

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

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 *helping children and youth with complex needs achieve better outcomes*. Kinark has three primary program streams: community mental health services, forensic/youth justice services, and autism services.

1. Significant accounting policies

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") and include the following significant accounting policies.

Revenue recognition

Restricted contributions are recognized as revenue:

- a) where there is a restricted fund - when received or receivable and the amount to be received can be reasonably estimated and its collection is reasonably assured;
- b) where there is no restricted fund - in the year in which the related expenses are incurred. Prior to incurring the expense, the amounts are recorded as deferred revenue in the Statement of Financial Position.

Unrestricted contributions are recognized as revenue when received or receivable and 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 receivable.

Other contract funding is primarily for Supervised Access Programs, Peel CAS and other government and non-government funding and is recorded as revenue when Kinark provides the related services.

Kinark operates the Kinark Outdoor Centre ("KOC") which is a therapeutic recreation and respite centre located in Haliburton, Ontario. Revenue is derived from various sources including Government of Ontario funding, user fees assessed to participants, and grants for specific projects. The government funding and the user fees are recognized when receivable. The grants are recognized in the year in which the related expenses are incurred.

Child care services, operated on a not-for-profit basis, are funded through wage subsidies, fees subsidies and user fees paid by parents. The subsidies are recognized as revenue in the year in which the related expenses are incurred. User fees from parents are recognized when receivable.

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

1. Significant accounting policies (*continued*)

Financial instruments

Measurement of financial instruments

Kinark initially measures its financial assets and liabilities at fair value.

Kinark subsequently measures its financial assets and financial liabilities at amortized cost except investments which are quoted in an active market. Changes in fair value are recognized in the Statement of Operations and Changes in Fund Balances.

Kinark has elected to designate all investments to be subsequently measured at fair value.

Financial instruments measured at amortized cost include cash, sundry receivables, accounts payable and accrued liabilities, accrued salaries payable, employee payroll deductions payable, government remittances payable and due to/from Ministry of Children and Youth Services.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in the Statement of Operations and Changes in Fund Balance. Any previously recognized impairment loss may be reversed to a maximum of the cumulative amount previously written down. The amount of the reversal is recognized in the Statement of Operations and Changes in Fund Balances.

Transaction costs

Kinark recognizes its transaction costs in the Statement of Operations and Changes in Fund Balances in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

1. Significant accounting policies (*continued*)

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is calculated using the methods set out below applied to the cost of the property, plant and equipment, 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	55%	Diminishing balance
Leasehold improvements		Straight line over the term of the lease

Amortization expense is reported in the various funds and the amounts are transferred to 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.

Impairment of long-lived assets

Kinark monitors the recoverability of long-lived assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Kinark reviews factors such as current market value, future asset utilization and business climate and, when such indicators exist, compares the carrying value of the assets to the future undiscounted cash flows expected to result from the use of the related asset. If such cash flows are less than the carrying value, the impairment charge to be recognized equals the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is generally measured as equal to the estimated future discounted net cash flows from the asset or assets. At the financial position date, Kinark has determined that no impairment in the carrying value of these assets exists.

Other

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

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

1. Significant accounting policies (*continued*)

Use of estimates

The preparation of financial statements in conformity 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 revenues and costs during the year. Significant estimates used in the preparation of these financial statements include allowance for receivables from different sources, estimated useful lives of property, plant and equipment, accruals of various expenses for each regional program and head office, salaries and vacation accruals. 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.

Allocation of expenses

Kinark provides a range of programs for children, youth and their families. 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 contracts with the Ministry of Children and Youth Services.

Controlled entity

Kinark provides operational and staff support to the Kinark Foundation ("Foundation") and is able to appoint the majority of the Board members of the Foundation. Therefore, the Foundation is a controlled entity. The financial statements of the Foundation are not consolidated in Kinark's financial statements (Note 5).

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

2. Fund accounting

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

The Community Mental Health ("CMH") fund includes a full range of assessment and treatment services, including individual, family and group counselling, in the Central and East regions and in Peel (the Vanier Residential Program and Dual Diagnosis Services).

The Forensics fund includes Secure Custody, Detention and Treatment, Intensive Supervision and Support Program ("ISSP"), Multi-Systemic Therapy - Youth Justice ("MST YJ").

The Autism Services fund includes the Autism Intervention Program and the Autism Spectrum Disorder School Support Program ("ASD-SSP").

The Other fund includes the Child Care Centres, Supervised Access Programs, CMH Lead Agency responsibilities and other restricted and unrestricted programs.

The Capital Assets fund accounts for Kinark's property, plant and equipment. 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.

3. 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, 2017

4. Demand credit facility

A revolving demand credit facility is available to Kinark from the Toronto-Dominion ("TD") Bank for \$1,000,000 with an additional \$1,000,000, if needed. The amount outstanding at year end is \$0 (2016 - \$0). Interest is calculated at the TD Bank's prime rate plus 1.0% per annum. The credit facility is secured by a general security agreement. Kinark is in compliance with the financial covenants at March 31, 2017.

5. Kinark Foundation

The Kinark Foundation ("Foundation") is an independent corporation without share capital with its own Board of Directors the majority of which are Kinark board members.

The Foundation is responsible for raising funds in support of the mission of Kinark. Kinark provides administrative and personnel support to the Foundation and pays certain expenses on behalf of the Foundation.

During the year, Kinark received an administration fee of \$19,167 (2016 - \$10,005) for providing these services.

These transactions are in the normal course of operations and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in sundry receivables is an amount of \$13,568 (2016 - \$8,743) from Kinark Foundation. The amount receivable bears no interest and is repayable on a quarterly basis.

Condensed Statement of Financial Position

As at March 31, 2017

Assets	\$	109,336
Liabilities		21,895
Fund balances (net)		87,441
Total liabilities and fund balances	\$	109,336

Condensed Statement of Operations

For the year ended March 31, 2017

Revenues	\$	144,309
Expenditures		42,910
Grants		134,852
		177,762
Deficiency of revenues over expenditures	\$	(33,453)

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

6. Investments

	2017	2016
Fixed income marketable securities, bearing interest rates varying from 1.35% to 2.05% per annum and Government bonds maturing in one year	\$ 4,776,048	\$ 1,406,170
Mutual funds and other investments	271,831	104,530
	5,047,879	1,510,700
Less: current portion	5,047,879	1,409,497
	\$ -	\$ 101,203

7. Property, plant and equipment

	Cost	Accumulated Amortization	2017 Net Book Value	2016 Net Book Value
Land	\$ 387,412	\$ -	\$ 387,412	\$ 387,412
Buildings	4,286,338	1,782,336	2,504,002	2,608,336
Furniture and fixtures	4,017,248	3,333,922	683,326	751,181
Vehicles	284,694	234,063	50,631	32,928
Computer equipment	5,036,138	3,756,627	1,279,511	1,414,324
Computer software	839,324	475,087	364,237	146,288
Leasehold improvements	2,152,772	2,014,154	138,618	150,279
	\$ 17,003,926	\$ 11,596,189	\$ 5,407,737	\$ 5,490,748

Amortization expense for the year amounted to \$918,021 (\$653,218 for 2016).

8. Commitments

Kinark is committed under long-term leases for various periods extending to the fiscal year 2022. The minimum lease payments are as follows:

	Equipment	Vehicles	Property	Total
2018	\$ 859,000	\$ 88,000	\$ 1,359,108	\$ 2,306,108
2019	859,000	72,000	1,086,487	2,017,487
2020	859,000	55,000	965,093	1,879,093
2021	859,000	43,000	990,851	1,892,851
2022	335,000	18,000	599,883	952,883
	\$ 3,771,000	\$ 276,000	\$ 5,001,422	\$ 9,048,422

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

9. 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 2016 with the Government of Ontario and it is available at the following website: www.fin.gov.on.ca.

10. 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 \$1,607,185 (2016 - \$1,655,753) of pension plan contributions.

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MARCH 31, 2017

11. Contingencies

The nature of Kinark's activities is such that there may be years where there is litigation pending or in progress. In some cases, where a potential liability is likely and is able to be estimated, management records its best estimate of the potential liability. In other cases, the ultimate outcome of the claims cannot be determined.

With respect to claims as at March 31, 2017, Kinark has been named as a defendant in a legal action associated with a prior year. This action seeks damages of \$2,600,000.

Three complaints against Kinark were filed with the Human Rights Tribunal of Ontario alleging discrimination in discharge-from-service decisions in the Autism program. These complaints seek cash remedies ranging from \$126,000 to \$397,000 and/or reinstatement of services. Subsequent to the year end, one of the complaints was settled.

During the year, Kinark has been named as one of multiple defendants in a legal action that seeks two claims of damages in the total amount of \$11,000,000.

Kinark's legal counsel is currently unable to determine the expected outcome or potential liability, if any, of these actions and Kinark has not determined the extent to which these actions maybe covered by insurance.

It is Kinark's intent to defend these actions.

During the year, Her Majesty The Queen in Right of the Province of Ontario ("Province") filed a third party claim naming Kinark to a class action against the Province relating to the use of secure isolation dating back to January 1, 2007. The Province is claiming that third party operators ("The Defendants") are responsible for operation and use of secure isolation pursuant to legislation and regulation within their respective facilities and also claiming third party contribution and indemnity for any amounts owing to plaintiffs and other costs. The Defendants have filed a statement of defence denying responsibility for alleged damages. The Defendants were successful in obtaining a Judgment Motion to remove the third party claim. Following the Judgment, the Province has filed a Notice of Appeal.

KINARK CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

12. Financial instruments

Risks

The following analysis presents Kinark's exposure to financial instruments risks.

Credit risk

Kinark is exposed to credit risk with respect to its sundry receivables. Kinark assesses, on a continuous basis, sundry receivables on the basis of amounts it is virtually certain to receive.

Interest rate risk

Kinark is exposed to interest rate risk on its fixed interest rate financial instruments and bank indebtedness with variable interest rates. Fixed interest rate financial instruments subject Kinark to a fair value risk while the bank indebtedness with variable interest rate subjects Kinark to a cash flow risk.