

KINARK CHILD AND FAMILY SERVICES

FINANCIAL STATEMENTS

MARCH 31, 2018

HILBORN_{LLP}

Independent Auditor's Report

To the Directors 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, 2018, 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 organization'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 organization'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, the financial statements present fairly, in all material respects, the financial position of Kinark Child and Family Services as at March 31, 2018, 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.

Other Matter

The comparative financial statements for the year ended March 31, 2017 were audited by another auditor who expressed an unmodified opinion in their Independent Auditor's Report dated June 12, 2017.



Toronto, Ontario
June 20, 2018

Chartered Professional Accountants
Licensed Public Accountants

KINARK CHILD AND FAMILY SERVICES

Statement of Financial Position

March 31	2018 \$	2017 \$
ASSETS		
Current assets		
Cash	1,991,346	2,317,269
Short-term deposits	4,328,338	5,047,879
Accounts receivable	317,933	225,441
Prepaid expenses and deposits	712,920	758,287
Due from Ministry of Children and Youth Services	390,000	-
	<u>7,740,537</u>	<u>8,348,876</u>
Property and equipment (note 4)	<u>5,190,491</u>	<u>5,407,737</u>
	<u>12,931,028</u>	<u>13,756,613</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	3,979,730	2,939,625
Accrued salaries payable	2,450,481	2,053,355
Employee payroll deductions payable	143,779	152,073
Government remittances payable	972,888	903,406
Deferred special contract revenue	1,624,182	3,692,148
Due to Ministry of Children and Youth Services	160,000	202,227
	<u>9,331,060</u>	<u>9,942,833</u>
FUND BALANCES		
Capital assets	5,190,491	5,407,737
Community mental health	(1,350,357)	(1,353,791)
Forensics	(573,708)	(573,708)
Autism services	360,451	360,452
General	(26,909)	(26,910)
	<u>3,599,968</u>	<u>3,813,780</u>
	<u>12,931,028</u>	<u>13,756,613</u>

The accompanying notes are an integral part of these financial statements

Approved on behalf of the Board:

Director

Director



Kinark Child and Family Services

Statement of Operations and Changes in Fund Balances

Year ended March 31	Capital assets		Community mental health		2018	Forensics	Autism services		2018	General	Total	Total
	2018	2017	2018	2017			2018	2017				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Operating revenues												
Government funding	-	-	24,160,382	24,453,765	15,506,100	15,457,709	49,653,813	36,295,146	1,513,845	1,546,545	90,834,140	77,753,165
Other contract funding and user fees	-	-	1,478,121	1,238,561	153,020	31,783	269,887	235,377	1,653,612	1,491,768	3,554,640	2,997,489
Child care	-	-	-	-	-	-	-	-	1,008,304	990,962	1,008,304	990,962
Donations and fund-raising	-	-	40,469	2,540	500	-	3,537	-	37,975	76,802	82,481	79,342
Other	-	-	92,203	72,233	-	-	-	-	-	-	92,203	72,233
	-	-	25,771,175	25,767,099	15,659,620	15,489,492	49,927,237	36,530,523	4,213,736	4,106,077	95,571,768	81,893,191
Operating expenses												
Salaries and benefits	-	-	17,870,275	17,503,590	13,883,900	13,680,514	11,256,574	10,159,538	3,506,836	3,256,872	46,517,585	44,600,514
Clinical, professional and other client	-	-	9,316	403,917	980,969	953,196	37,592,157	24,600,629	175,210	163,736	38,757,652	26,121,478
Building occupancy	-	-	2,385,472	2,010,970	326,124	295,538	485,604	528,730	189,813	106,764	3,387,013	2,942,002
Telephone, technology and equipment	-	-	2,189,974	2,036,196	109,623	135,949	111,365	303,145	19,173	67,317	2,430,135	2,542,607
General agency	-	-	1,563,353	1,713,847	144,835	52,589	356,617	295,224	264,520	426,958	2,329,325	2,488,618
Staff travel and training	-	-	653,761	647,898	198,793	181,502	141,019	191,148	57,975	71,054	1,051,548	1,091,602
Legal, audit and insurance	-	-	440,000	489,559	15,376	147,550	(16,098)	83,783	208	-	439,486	720,892
Amortization	-	-	487,275	412,188	96,910	119,406	104,873	137,623	183,778	248,804	872,836	918,021
	-	-	25,599,426	25,218,165	15,756,530	15,566,244	50,032,111	36,299,820	4,397,513	4,341,505	95,785,580	81,425,734
Excess (deficiency) of revenues over expenses for year												
	-	-	171,749	548,934	(96,910)	(76,752)	(104,874)	230,703	(183,777)	(235,428)	(213,812)	467,457
Fund balances, beginning of 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
Transfer additions to capital assets fund	655,590	835,010	(655,590)	(656,602)	-	(42,654)	-	(122,377)	-	(13,377)	-	-
Transfer amortization to capital assets fund	(872,836)	(918,021)	487,275	412,188	96,910	119,406	104,873	137,623	183,778	248,804	-	-
Fund balances end of year	5,190,491	5,407,737	(1,350,357)	(1,353,791)	(573,708)	(573,708)	360,451	360,452	(26,909)	(26,910)	3,599,968	3,813,780

The accompanying notes are an integral part of these financial statements

KINARK CHILD AND FAMILY SERVICES

Statement of Cash Flows

Year ended March 31	2018 \$	2017 \$
Cash flows from operating activities		
Excess (deficiency) of revenues over expenses	(213,812)	467,457
Amortization	872,836	918,021
	659,024	1,385,478
Changes in non-cash working capital balances		
Decrease (increase) in accounts receivable	(92,492)	168,068
Decrease (increase) in prepaid expenses and deposits	45,368	(81,315)
Decrease (increase) in due from Ministry of Children and Youth Services	(390,000)	182,000
Increase (decrease) in accounts payable and accrued liabilities	1,040,105	(713,449)
Increase in accrued salaries payable	397,126	391,106
Decrease in employee payroll deductions payable	(8,294)	(13,387)
Increase in government remittances payable	69,482	156,296
Increase (decrease) in deferred special contract revenue	(2,067,966)	2,925,896
Decrease in due to Ministry of Children and Youth Services	(42,227)	-
	(389,874)	4,400,693
Cash flows from investing activities		
Disposal (purchase) of short-term deposits	719,541	(3,537,179)
Purchase of property and equipment	(655,590)	(835,010)
	63,951	(4,372,189)
Net change in cash	(325,923)	28,504
Cash, beginning of year	2,317,269	2,288,765
Cash, end of year	1,991,346	2,317,269

The accompanying notes are an integral part of these financial statements

KINARK CHILD AND FAMILY SERVICES

Notes to Financial Statements

March 31, 2018

Nature and description of the organization

Kinark Child and Family Services ("Kinark") was incorporated as a not-for-profit corporation under the Ontario Business Corporations Act. Kinark is registered as a charitable organization under the Income Tax Act (Canada) and is exempt from 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 and include the following significant accounting policies:

(a) Fund accounting

Funds are held and presented in accordance with the objectives specified by funders. For financial reporting purposes, the following funds have been presented:

The Capital Assets fund accounts for Kinark's property and equipment. As a condition of receiving capital funding for property, Kinark has agreed to certain restrictions on the use and disposition of the property. The property cannot be transferred or charged without the consent of the Ministry of Children and Youth Services ("MCYS").

The Community Mental Health ("CMH") fund captures operations relating to a range of assessment and treatment services, including individual, family and group counselling services, in the Central, East and Peel (Vanier Residential Program) regions of Ontario.

The Forensics fund captures operations relating to the following programs: Secure Custody, Detention and Treatment and Intensive Supervision and Support Program ("ISSP") and Multi-Systematic Therapy - Youth Justice (MSI YJ").

The Autism Services fund captures operations relating to the Autism Intervention Program and the Autism Spectrum Disorder School Support Program ("ASD SSP").

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

KINARK CHILD AND FAMILY SERVICES

Notes to Financial Statements (continued)

March 31, 2018

1. Significant accounting policies (continued)

(b) Revenue recognition

Kinark follows the restricted fund method of accounting for contributions.

Restricted contributions for which a corresponding restricted fund is presented are recognized as revenue of that fund in the current period.

Restricted contributions for which no corresponding restricted fund is presented are recognized as revenue of the general fund in the period in which the related expenses are incurred. Prior to incurring the expenses, the contributions are recorded as deferred revenue in the Statement of Financial Position.

Unrestricted contributions are recognized as revenue of the General fund in the current period when received or receivable and the amount to be received can be reasonably estimated and its collection is reasonably assured.

Contributions consist primarily of government funding received from MCYS.

Other contract funding is received for Supervised Access Programs, Peel CAS and consulting income 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 user fees are recognized as revenue in the period in which the related expenses are incurred.

Child care services, operated on a cost-recovery basis, are funded through wage subsidies, fees subsidies and user fees paid by parents. The subsidies and user fees are recognized as revenue in the period in which the related expenses are incurred.

(c) Financial instruments

i) Measurement of financial assets and liabilities

Kinark initially measures its financial assets and financial liabilities at fair value adjusted by the amount of transaction costs directly attributable to the instrument.

Kinark subsequently measures all of its financial assets and financial liabilities at amortized cost.

Amortized cost is the amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount, and minus any reduction for impairment.

Financial assets measured at amortized cost include cash, short-term deposits, accounts receivable and due from MCYS.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, accrued salaries payable and due to MCYS.

KINARK CHILD AND FAMILY SERVICES

Notes to Financial Statements (continued)

March 31, 2018

1. **Significant accounting policies (continued)**

(c) **Financial instruments (continued)**

ii) **Impairment**

At the end of each reporting period, Kinark assesses whether there are any indications that a financial asset measured at amortized cost may be impaired. Objective evidence of impairment includes observable data that comes to the attention of Kinark, including but not limited to the following events: significant financial difficulty of the issuer; a breach of contract, such as a default or delinquency in interest or principal payments; and bankruptcy or other financial reorganization proceedings.

When there is an indication of impairment, Kinark determines whether a significant adverse change has occurred during the year in the expected timing or amount of future cash flows from the financial asset.

When Kinark identifies a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it reduces the carrying amount of the financial asset to the greater of the following:

- the present value of the cash flows expected to be generated by holding the financial asset discounted using a current market rate of interest appropriate to the financial asset; and
- the amount that could be realized by selling the financial asset at the statement of financial position date.

Any impairment of the financial asset is recognized in income in the year in which the impairment occurs.

When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent of the improvement, but not in excess of the impairment loss. The amount of the reversal is recognized in income in the year the reversal occurs.

KINARK CHILD AND FAMILY SERVICES

Notes to Financial Statements (continued)

March 31, 2018

1. Significant accounting policies (continued)

(d) Property and equipment

The costs of property and equipment are capitalized upon meeting the criteria for recognition as a capital asset, otherwise, costs are expensed as incurred. The cost of property and equipment comprises its purchase price and any directly attributable cost of preparing the asset for its intended use.

Property and equipment are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is provided for, upon the commencement of the utilization of the assets, using methods and rates designed to amortize the cost of property and equipment over their estimated useful lives. The methods and annual amortization rates are as follows:

Computer equipment	30% declining balance
Buildings	4% declining balance
Furniture and fixtures	20% declining balance
Computer software	55% declining balance
Vehicles	30% declining balance

Amortization of leasehold improvements is recorded on a straight-line basis over the remaining term of the lease.

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

Kinark capitalizes all property for which it receives grants or special funding from Ontario Capital Branch and MCYS.

Property and equipment are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If any potential impairment is identified, the amount of the impairment is quantified by comparing the carrying value of the property and equipment to its fair value. Any impairment of property and equipment is recognized in income in the year in which the impairment occurs.

An impairment loss is not reversed if the fair value of the property and equipment subsequently increases.

(e) Short-term deposits

Short-term deposits that mature within twelve months from the date of acquisition are classified as current.

KINARK CHILD AND FAMILY SERVICES

Notes to Financial Statements (continued)

March 31, 2018

1. Significant accounting policies (continued)

(f) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make judgments, estimates and assumptions that affect the application of accounting policies and 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 expenses during the current year. Actual results may differ from these estimates, the impact of which would be recorded in future years.

Significant estimates used in the preparation of these financial statements include the allocation of expenses to various funds.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

(g) 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.

2. Financial instrument risk management

Kinark is exposed to various risks through its financial instruments. The following analysis provides a measure of the risk exposure and concentrations.

The financial instruments of Kinark and the nature of the risks to which those instruments may be subject, are as follows:

Financial instrument	Risks				
	Credit	Liquidity	Market risk		
			Currency	Interest rate	Other price
Cash	X			X	
Short-term deposits	X			X	
Accounts receivable	X				
Due from MCYS	X				
Accounts payable and accrued liabilities		X			
Accrued salaries payable		X			
Due to MCYS		X			

Kinark manages its exposure to the risks associated with financial instruments that have the potential to affect its operating and financial performance in accordance with its risk management policy. The objective of the policy is to reduce volatility in cash flow and earnings and to safeguard assets. The Board of Directors monitors compliance with risk management policies and reviews risk management policies and procedures on an annual basis.

Kinark does not use derivative financial instruments to manage its risks.

KINARK CHILD AND FAMILY SERVICES

Notes to Financial Statements (continued)

March 31, 2018

2. Financial instrument risk management (continued)

Credit risk

Kinark is exposed to credit risk resulting from the possibility that parties may default on their financial obligations, or if there is a concentration of transactions carried out with the same party, or if there is a concentration of financial obligations which have similar economic characteristics that could be similarly affected by changes in economic conditions, such that Kinark could incur a financial loss. Kinark does not hold directly any collateral as security for financial obligations of counterparties.

The maximum exposure of Kinark to credit risk is as follows:

	2018 \$	2017 \$
Cash	1,991,346	2,317,269
Short-term deposits	4,328,338	5,047,879
Accounts receivable	317,933	225,441
Due from MCYS	390,000	-
	<u>7,027,617</u>	<u>7,590,589</u>

Cash and short-term deposits: Kinark reduces its exposure to the credit risk of cash and short-term deposits by ensuring that these assets are invested in financial obligations of: governments; major financial institutions that have been accorded investment grade ratings by a primary rating agency; and/or other credit-worthy parties. A review is performed periodically to evaluate changes in the status of the issuers of securities authorized for investment under the investment policy of Kinark.

Concentrations of credit risk with respect to guaranteed investment certificates are mitigated by the credit quality of the major financial institutions issuing the investment.

Concentrations of credit risk with respect to Canadian fixed income investments are mitigated by ensuring that these assets are invested in financial obligations of governments, major financial institutions and other credit-worthy parties.

Liquidity risk

Liquidity risk is the risk that Kinark will not be able to meet a demand for cash or fund its obligations as they come due.

Kinark meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flows from operations, anticipating investing and financing activities, holding assets that can be readily converted into cash, and having available a demand credit facility as detailed in note 3.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

KINARK CHILD AND FAMILY SERVICES

Notes to Financial Statements (continued)

March 31, 2018

2. Financial instrument risk management (continued)

Currency risk

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates.

The functional currency of Kinark is the Canadian dollar. Kinark occasionally transacts in foreign currencies when certain expenses are denominated in those currencies, or to source certain purchases, services and capital asset acquisitions internationally.

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates.

Kinark manages the interest rate risk exposure of its investments in guaranteed investment certificates and fixed income investments by having a portfolio with varying terms to maturity. This structure of maturities helps to enhance the average portfolio yield while reducing the sensitivity of the portfolio to the impact of interest rate fluctuations.

Other price risk

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

Kinark is not exposed to other price risk.

Changes in risk

There have been no significant changes in the risk profile of the financial instruments of Kinark from that of the prior year.

3. Demand credit facility

A revolving bank demand credit facility is available to Kinark for \$1,000,000. Interest is calculated at prime plus 1.0%. The credit facility is secured by a general security agreement. At March 31, 2018 and 2017, the bank facility had not been drawn upon.

KINARK CHILD AND FAMILY SERVICES

Notes to Financial Statements (continued)

March 31, 2018

4. Property and equipment

	Cost \$	Accumulated Amortization \$	2018 Net \$
Land	387,412	-	387,412
Computer equipment	5,089,172	4,140,481	948,691
Buildings	4,286,339	1,882,497	2,403,842
Furniture and fixtures	4,085,541	3,469,598	615,943
Leasehold improvements	2,179,618	2,051,783	127,835
Computer software	1,320,997	675,416	645,581
Vehicles	310,439	249,252	61,187
	<u>17,659,518</u>	<u>12,469,027</u>	<u>5,190,491</u>
	Cost \$	Accumulated Amortization \$	2017 Net \$
Land	387,412	-	387,412
Computer equipment	5,036,138	3,756,627	1,279,511
Buildings	4,286,339	1,782,337	2,504,002
Furniture and fixtures	4,017,248	3,333,922	683,326
Leasehold improvements	2,152,772	2,014,154	138,618
Computer software	839,324	475,087	364,237
Vehicles	284,694	234,063	50,631
	<u>17,003,927</u>	<u>11,596,190</u>	<u>5,407,737</u>

Amortization expense for the year amounted to \$872,836 (2017 - \$918,021).

KINARK CHILD AND FAMILY SERVICES

Notes to Financial Statements (continued)

March 31, 2018

5. **Pension plan**

Kinark has a defined contribution pension plan for its employees. In accordance with the Plan Agreement, employees in the plan may contribute 4%, 5% or 6% of their salary to the plan. Kinark is required to match their contributions. Included in salaries and benefits in the statement of operations and changes in fund balances is \$1,654,194 (2017 - \$1,607,185) of pension plan contributions made by Kinark during the year.

6. **Commitments**

Kinark is committed to lease its office premises until July 2023. The future annual lease payments, including an estimate of premises common area expenses and other operating leases are as follows:

	\$
2019	3,124,846
2020	2,858,443
2021	2,727,712
2022	2,748,957
2023	1,877,549
	<u>13,337,507</u>

7. **Contingencies**

Kinark is party to legal actions arising in the ordinary course of operations. While it is not feasible to predict the outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the operations of Kinark. Kinark maintains insurance coverage which includes error and omission provisions to mitigate against potential outcomes from these legal proceedings.

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 2017 with the Government of Ontario and it is available at the following website: www.fin.gov.on.ca.

KINARK CHILD AND FAMILY SERVICES

Notes to Financial Statements (continued)

March 31, 2018

9. Additional information

Kinark has service contracts with MCYS. The following is a reconciliation report which summarizes all revenue and expenses and identifies any resulting surplus or deficit that relates to its services contracts.

<u>Line</u>	<u>Kinark Central</u>	<u>Kinark East</u>
400 Total Gross Revenues per Audited Financial Statements	95,571,768	95,571,768
420 Total Approved Ministry Funding	62,158,907	12,334,959
440 Total Gross Expenditures per audited financial statements	95,785,580	95,785,580
445 Adjustments for inadmissible expenditures	(872,836)	(872,836)
456 Less: Other Adjustments for other activities and contracts	(32,753,837)	(82,577,787)
475 Total Eligible Expenditures	62,158,907	12,334,957
480 Total Eligible Expenditures	62,158,907	12,331,522
Balance due to MCYS	-	(3,435)

10. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year excess of revenues over expenses.

HILBORN

LISTENERS. THINKERS. DOERS.