

KNOWLES CENTRE INC.
FINANCIAL STATEMENTS

MARCH 31, 2011

AUDITORS' REPORT

To the Directors
Knowles Centre Inc.

We have audited the accompanying financial statements of Knowles Centre Inc., which comprise the statement of financial position as at March 31, 2011, and the statement of changes in fund balances, statement of revenues and expenditures 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 of 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 qualified audit opinion.

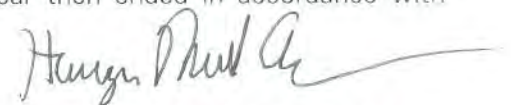
Basis for Qualified Opinion

In common with many charitable organizations, the Centre derives revenue from donations and fundraising, 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 Centre and we were not able to determine whether any adjustments might be necessary to donations and fundraising revenues, excess of revenues over expenses, current assets and net assets. In addition, the Centre does not accrue vacation pay in their year-end payables. The accounting policy for vacation pay is not in accordance with Canadian generally accepted accounting principles. If vacation pay were accrued annually, accounts payable would have been increased and operating net assets decreased as described in Note 3.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Knowles Centre Inc. as at March 31, 2011 and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba
June 15, 2011



CHARTERED ACCOUNTANTS

STATEMENT OF FINANCIAL POSITION

MARCH 31

	Operating Fund	Capital Fund	Scholarship Fund	2011	TOTAL 2010
ASSETS					
CURRENT					
Cash	\$	\$ 34,700	\$	\$ 34,700	\$ 99,146
Investments		409,516		409,516	413,131
Accounts receivable	889,396	5,867		895,263	657,297
Prepaid expenses					4,800
Interfund balances	-	89,885	105,160	195,045	145,134
	<u>889,396</u>	<u>539,968</u>	<u>105,160</u>	<u>1,534,524</u>	<u>1,319,508</u>
CAPITAL ASSETS (Note 3)	<u>-</u>	<u>1,670,162</u>	<u>-</u>	<u>1,670,162</u>	<u>1,555,039</u>
	<u>\$ 889,396</u>	<u>\$ 2,210,130</u>	<u>\$ 105,160</u>	<u>\$ 3,204,686</u>	<u>\$ 2,874,547</u>

LIABILITIES

CURRENT					
Bank indebtedness	\$ 352,060	\$	\$	\$ 352,060	\$ 91,431
Accounts payable	281,346	1,200		282,546	388,010
Deferred revenue	364,399			364,399	292,132
Interfund balances	195,045			195,045	145,134
Current portion of long term debt	-	17,730	-	17,730	13,561
	<u>1,192,850</u>	<u>18,930</u>	<u>-</u>	<u>1,211,780</u>	<u>930,268</u>
LONG TERM DEBT (Note 6)	<u>-</u>	<u>204,651</u>	<u>-</u>	<u>204,651</u>	<u>282,383</u>

FUND BALANCES

FUND BALANCES (Statement 2)	<u>(303,454)</u>	<u>1,986,549</u>	<u>105,160</u>	<u>1,788,255</u>	<u>1,661,896</u>
	<u>\$ 889,396</u>	<u>\$ 2,210,130</u>	<u>\$ 105,160</u>	<u>\$ 3,204,686</u>	<u>\$ 2,874,547</u>

Approved on behalf of the Board

Wayne Benson

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Director

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Director

KNOWLES CENTRE INC.

STATEMENT 2

STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31

	2 0 1 1	2 0 1 0
OPERATING FUND		
BALANCE, <i>beginning of year</i>	\$(247,284)	\$(286,922)
Excess of revenue over expenditures (<i>Statement 3</i>)	1,600	39,638
Interfund transfer - Capital Fund	<u>(57,770)</u>	<u> </u>
BALANCE, <i>end of year</i>	\$ <u>(303,454)</u>	\$ <u>(247,284)</u>
CAPITAL FUND		
BALANCE, <i>beginning of year</i>	\$ 1,805,346	\$ 1,802,239
Excess of expenditures over revenue (<i>Statement 3</i>)	127,048	4,282
Transfer of realized gains to investment income		814
Interfund transfer - Operating Fund	57,770	
Net change in unrealized fair value of investments	<u>(3,615)</u>	<u>(1,989)</u>
BALANCE, <i>end of year</i>	\$ <u>1,986,549</u>	\$ <u>1,805,346</u>
SCHOLARSHIP FUND		
BALANCE, <i>beginning of year</i>	\$ 103,834	\$ 99,767
Excess of revenues over expenditures (<i>Statement 3</i>)	<u>1,326</u>	<u>4,067</u>
BALANCE, <i>end of year</i>	\$ <u>105,160</u>	\$ <u>103,834</u>
TOTAL FUND BALANCES	\$ <u>1,788,255</u>	\$ <u>1,661,896</u>

KNOWLES CENTRE INC.

STATEMENT 3

STATEMENT OF REVENUE AND EXPENDITURES

YEAR ENDED MARCH 31

	Operating Fund	Capital Fund	Scholarship Fund	2 0 1 1	2 0 1 0
REVENUE					
Group care treatment	\$ 2,515,875	\$	\$	\$ 2,515,875	\$ 2,688,718
Other income <i>(Schedule 3)</i>	4,438,166			4,438,166	2,860,842
Province of Manitoba grant	632,300			632,300	632,300
Thomas and Beatrice Gilroy Trust		5,050		5,050	5,559
A.R. McNichol Fund		1,984		1,984	2,189
C.H. Bowie, C.A. Bowie, and A.W. Gibson Memorial Fund		4,333		4,333	4,693
Investment income		18,425	5,933	24,358	25,779
Insurance proceeds	56,653			56,653	
Fundraising					10
Replacement reserve contribution					30,000
Furniture donations		47,119		47,119	
Capital campaign	-	136,136	-	136,136	-
	<u>7,642,994</u>	<u>213,047</u>	<u>5,933</u>	<u>7,861,974</u>	<u>6,250,090</u>
EXPENDITURES					
Staff remuneration <i>(Schedule 1)</i>	6,663,453			6,663,453	5,400,866
Maintenance and repairs <i>(Schedule 1)</i>	311,731			311,731	255,726
Administration and general <i>(Schedule 1)</i>	225,417			225,417	145,700
Food, clothing, welfare and activities <i>(Schedule 2)</i>	440,793			440,793	339,930
Amortization		65,319		65,319	49,892
Interest on long term debt		15,857		15,857	4,738
Miscellaneous		4,823		4,823	3,477
Fundraising and public relations					910
Loss on sale of investments					814
Scholarships	-	-	4,607	4,607	50
	<u>7,641,394</u>	<u>85,999</u>	<u>4,607</u>	<u>7,732,000</u>	<u>6,202,103</u>
EXCESS OF REVENUE OVER EXPENDITURES (EXPENDITURES OVER REVENUE)	<u>\$ 1,600</u>	<u>\$ 127,048</u>	<u>\$ 1,326</u>	<u>\$ 129,974</u>	<u>\$ 47,987</u>

KNOWLES CENTRE INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

1. DESCRIPTION OF OPERATIONS

Knowles Centre Inc. is a private, not-for-profit agency established in 1907 and incorporated in 1910. The Centre is a registered charity under the provisions of the Income Tax Act, Canada. The Centre serves as a community resource for children and families in Manitoba and Northwestern Ontario who require intensive therapeutic intervention in order to reach their personal and social potential.

2. CHANGES IN ACCOUNTING POLICIES

Financial Instruments

The Centre adopted the following recommendations of CICA Handbook:

- a) Section 3855, Financial Instruments - Recognition and Measurement. This section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Under the new standard, financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments designated as held for trading are carried on the balance sheet at fair value and all periodic changes in fair value are recorded in income. Financial assets designated as available for sale are carried on the balance sheet at fair value and all unrealized periodic changes in fair value are recorded directly in the Statement of Changes in Fund Balances and reclassified to net income when realized. Other financial instruments are measured at amortized cost using the effective interest method.
- b) Section 3861, Financial Instruments - Disclosure and Presentation. This Section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.
- c) Section 3251, Equity - This Section establishes standards for the presentation of equity and changes in equity during the reporting period.

The Centre has classified its financial assets and liabilities as described in Note 3.

These new standards were applied retroactively as of April 1, 2007 without restatement of the prior year's amounts. The adjustment made to the balance sheet as of April 1, 2007, upon the adoption of the new standards, resulted in an increase of \$67,940 in the carrying value of investments.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Centre's designation of such instruments. Settlement date accounting is used.

Classification

Cash	Held for trading
Investment in money market funds	Available-for-sale
Investment in bonds	Available-for-sale
Accounts receivable	Loans and receivables
Bank indebtedness	Other liabilities
Accounts payable	Other liabilities

Held for trading

Held for trading financial assets are measure at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Available-for-sale

Available-for-sale financial assets are carried at fair value with unrealized gains and losses recorded directly in the Statement of Changes in Fund Balances until realized when the cumulative gain or loss is transferred to investment income.

Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method.

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)**FUND ACCOUNTING*

The accounts for the Centre are maintained in accordance with the principles of "fund accounting". Fund accounting is a procedure whereby a self balancing group of accounts is provided for each accounting fund established by the Centre.

For financial reporting purposes, the accounts have been classified into three funds. The activities carried out by each fund are as follows;

Operating fund

The Operating Fund accounts for the Centre's program delivery and administration activities. This fund reports unrestricted resources and operating grants.

Capital fund

The Capital Fund is utilized by the Centre as a building fund. All capital expenditures, including facility construction and expansion, and vehicle purchases are funded through this fund.

Scholarship fund

The Arthur Prior Estate Scholarship Fund was established as a result of a bequest. This fund is to be used as a scholarship fund for the further education of graduates or students of the Centre.

REVENUE RECOGNITION

Restricted contributions on account of group care treatment and other income are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred.

Capital Fund revenue is recognized as follows:

Interest and investment income are recorded on an accrual basis. Fundraising and donations are recorded as revenue when received. Restricted contributions are recorded as revenue in the same period as they are received.

Interest income is recorded on the accrual basis in the Arthur Prior Estate Scholarship Fund.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

CAPITAL ASSETS

Replacement of furnishings and equipment and ground improvements are recognized as operating expenses. New additions of fixed assets are capitalized and are funded by the capital fund at cost less government assistance.

Amortization of fixed assets is not recognized as an operating expense item that is recoverable from government agencies. It is provided for by a reduction in the capital fund as follows:

Buildings	2-1/2%	declining balance method
Program building	5%	declining balance method
Campsite conservation	10%	declining balance method
Ground improvements	2-1/2%	declining balance method
Furniture, equipment, vehicles	20%	declining balance method

DONATED MATERIALS AND SERVICES

During the year, the Centre received a significant amount of donated materials and services from volunteers, for which there has been no amount recorded in the financial statements.

FINANCIAL INSTRUMENTS

Interest rate risk

Financial risk is the risk to the Centre's earnings that arise from fluctuations in interest rates and the degree of volatility of those rates. The Centre does not use derivative instruments to reduce its exposure to interest rate risk.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. However, due to the nature of the receivables and the composition of its investment portfolio, this risk is minimized.

Fair value

The fair value of cash, accounts receivable, bank indebtedness, and accounts payable is approximately equal to their carrying values due to their short-term maturity.

VACATION PAY

The Centre does not accrue for vacation pay but rather expenses these costs as incurred. Limitations are placed on the number of vacation days that staff are allowed to carry-forward to the following fiscal year, and these vacation days are included in that year's budget which is approved by the Board of Directors. Management estimates that the unaccrued vacation pay liability at March 31, 2011 would approximate \$261,000 (2010 - \$215,000). Had the vacation pay liability been accrued, accounts payable would have increased by \$261,000 (2010 - \$215,000) and the ending balance in net assets would have decreased by \$261,000 (2010 - \$215,000).

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 disclosures of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value	
			2 0 1 1	2 0 1 0
Land	\$ 17,719	\$	\$ 17,719	\$ 17,719
Buildings	2,540,025	1,019,888	1,520,137	1,472,597
Ground improvements	26,042	17,075	8,967	9,197
Campsite conservation	179,869	167,009	12,860	14,289
Furniture and equipment	363,909	284,901	79,008	1,897
Tractor	15,824	15,732	92	115
Tractor loader	14,695	11,761	2,934	3,668
Camp equipment	33,745	33,495	250	313
Vans	<u>182,384</u>	<u>154,189</u>	<u>28,195</u>	<u>35,244</u>
	<u>\$ 3,374,212</u>	<u>\$ 1,704,050</u>	<u>\$ 1,670,162</u>	<u>\$ 1,555,039</u>

Land was revalued by directors' resolution in 1955. The stated amount of \$17,719 consists of \$7,650 cost and \$10,069 appraisal increase.

5. BANK INDEBTEDNESS

The Centre has available a maximum credit facility of \$300,000. The credit facility bears interest at prime plus 1.00%.

6. LONG TERM DEBT

	2 0 1 1	2 0 1 0
Mortgage payable, bearing interest at 5.60% per annum, payable in monthly installments of \$2,467, secured by land and buildings, general security agreement and assignment of fire and liability insurance, due November 1, 2014.	\$ 222,381	\$ 295,944
Less: Current portion	<u>17,730</u>	<u>13,561</u>
	<u>\$ 204,651</u>	<u>\$ 282,383</u>

Principal repayment terms are approximately:

2012	\$ 17,730
2013	18,609
2014	19,678
2015	20,809
2016	22,004

NOTES TO FINANCIAL STATEMENTSMARCH 31, 2011

7. GOVERNMENT ASSISTANCE

During the year, the Centre received operating grants of \$632,300 (2010 - \$632,300) from the Province of Manitoba - Department of Family Services which is included in operating fund revenue.

8. PENSION PLAN

The employees of Knowles Centre Inc. are members of the United Way Agencies Pension Plan, a multi-employer, defined benefit pension plan, which is accounted for as a defined contribution plan. Knowles Centre Inc.'s matching contributions for the year were \$149,444 (2010 - \$163,419) and have been expensed during the year.

In 2009 the Centre was notified by the Pension Plan's Trustees that the plan potentially had a solvency shortfall. An actuarial report was completed in September 2010, which showed that the plan was underfunded. The required employee and employer contribution rates were increased as a result in order to bring the plan up to a fully funded status. The Province of Manitoba agreed to fund the increased contribution rates for the participants in the plan and deposited the necessary amount in December 2010. As a result, Knowles Centre Inc. is no longer obligated to cover the funding shortfall.

An accrual for \$36,495 was set up in the prior year based on the estimated liability. The \$36,495 accrual has been reversed in the current year which has reduced accounts payable by \$36,495 and reduced operating expenditures by \$36,495.

9. COMPARATIVE FIGURES FOR THE PRIOR YEAR

Certain 2010 comparative figures have been reclassified in order to conform with the financial statement presentation adopted for 2011.

SCHEDULE OF OPERATING FUND EXPENSES

YEAR ENDED MARCH 31

	2011	2010
STAFF REMUNERATION		
Salaries	\$ 3,511,311	\$ 3,098,442
Foster Care	2,513,253	1,728,394
Canada Pension Plan	145,411	122,536
United Way pension fund	149,445	163,419
Employee group insurance benefits	112,579	93,152
Employment insurance	82,919	74,940
Manitoba payroll tax	78,379	66,622
Workers compensation	<u>70,156</u>	<u>53,361</u>
	\$ 6,663,453	\$ 5,400,866
MAINTENANCE AND REPAIRS		
Autopac and insurance	\$ 63,324	\$ 57,021
Building repairs	130,125	50,403
Equipment repairs and replacement	29,481	36,899
Heating fuel	11,140	16,398
Hydro and electrical	29,932	27,431
Maintenance and household supplies	33,560	24,009
Municipal taxes	6,957	5,913
Replacement reserve allocation		30,000
Water	<u>7,212</u>	<u>7,652</u>
	\$ 311,731	\$ 255,726
ADMINISTRATION AND GENERAL		
Advertising and miscellaneous	\$ 56,275	\$ 17,955
Accreditation	9,400	6,600
Bank charges and interest	6,613	6,952
Dues and subscriptions	5,779	7,037
Meetings	8,283	3,572
Office supplies	50,952	35,126
Payroll service charge	638	1,549
Postage	6,906	5,270
Professional fees	24,069	19,040
Public relations	7,845	4,272
Staff development	16,992	10,028
Telephone	<u>31,665</u>	<u>28,299</u>
	\$ 225,417	\$ 145,700

KNOWLES CENTRE INC.

SCHEDULE 2

SCHEDULE OF OPERATING FUND EXPENSES

YEAR ENDED MARCH 31

	2011	2010
FOOD, CLOTHING, WELFARE AND ACTIVITIES		
Bedding and clothing	\$ 30,082	\$ 28,165
Food	143,061	139,525
Medical, dental and optical	4,834	5,376
Personal supplies	1,428	918
Program activities	40,397	35,921
Program supplies	27,421	22,029
Residents' gifts	3,117	4,763
Residents' transportation	14,181	10,079
SAIL Stage 2 - client living expenses	78,370	
School supplies	682	1,646
Spending allowances	15,220	16,962
Summer outdoor education program	3,317	2,900
Transportation - general	73,839	69,395
Volunteer activities	4,844	2,251
	<u>\$ 440,793</u>	<u>\$ 339,930</u>

SCHEDULE OF OTHER INCOME

YEAR ENDED MARCH 31

	2 0 1 1	2 0 1 0
OTHER INCOME		
Foster care	\$ 3,475,962	\$ 2,317,644
SAIL Program	572,144	162,245
River East School Division	199,124	179,586
Outreach program	57,550	48,260
Sexual abuse treatment program	71,100	69,700
Donations	2,122	58,645
Miscellaneous	58,120	22,972
Rentals	<u>2,045</u>	<u>1,790</u>
	\$ 4,438,167	\$ 2,860,842