Knowles Centre Inc.

Financial Statements

March 31, 2012

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Experienced Leadership
Entrepreneurial Thinking
Exceptional Results
CHARTERED ACCOUNTANTS

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, 2012, 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.

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, 2012 and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba
June 11, 2012

CHARTERED ACCOUNTANTS

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KNOWLES CENTRE INC.

STATEMENT OF FINANCIAL POSITION

MARCH 31

	Operating Fund	Capital Fund	Scholarship Fund	TOTAL 2012	TOTAL 2011
ASSETS					
CURRENT					
Cash	$	$ 45,447	$	**$ 45,447**	$ 34,700
Investments		412,130		**412,130**	409,516
Accounts receivable	886,071	5,932		**892,003**	895,263
Prepaid expenses	14,250			**14,250**	
Interfund balances	-	110,616	107,947	**218,563**	300,205
	900,321	574,125	107,947	**1,582,393**	1,639,684
CAPITAL ASSETS *(Note 3)*	-	1,776,613	-	**1,776,613**	1,670,162
	$ 900,321	$ 2,350,738	$ 107,947	**$ 3,359,006**	$ 3,309,846
LIABILITIES					
CURRENT					
Bank indebtedness	$ 122,706	$	$	**$ 122,706**	$ 352,060
Accounts payable	523,504			**523,504**	282,546
Deferred revenue	424,064			**424,064**	364,399
Interfund balances	110,616	107,947		**218,563**	300,205
Current portion of long term debt	-	18,742	-	**18,742**	17,730
	1,180,890	126,689	-	**1,307,579**	1,316,940
LONG TERM DEBT *(Note 6)*	-	186,087	-	**186,087**	204,651
FUND BALANCES					
FUND BALANCES *(Statement 2)*	(280,569)	2,037,962	107,947	**1,865,340**	1,788,255
	$ 900,321	$ 2,350,738	$ 107,947	**$ 3,359,006**	$ 3,309,846

Approved on behalf of the Board

Wayne Benson

Director

Director

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KNOWLES CENTRE INC.

STATEMENT 2

STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31

	2012	2011
OPERATING FUND		
BALANCE, *beginning of year*	$(303,454)	$(247,284)
Excess of revenue over expenditures *(Statement 3)*	52,885	1,600
Interfund transfer - Capital Fund	(30,000)	(57,770)
BALANCE, *end of year*	$(280,569)	$(303,454)
CAPITAL FUND		
BALANCE, *beginning of year*	$ 1,986,549	$ 1,805,346
Excess of expenditures over revenue *(Statement 3)*	18,798	127,048
Interfund transfer - Operating Fund	30,000	57,770
Net change in unrealized fair value of investments	2,615	(3,615)
BALANCE, *end of year*	$ 2,037,962	$ 1,986,549
SCHOLARSHIP FUND		
BALANCE, *beginning of year*	$ 105,160	$ 103,834
Excess of revenues over expenditures *(Statement 3)*	2,787	1,326
BALANCE, *end of year*	$ 107,947	$ 105,160
TOTAL FUND BALANCES	$ 1,865,340	$ 1,788,255

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KNOWLES CENTRE INC.

STATEMENT OF REVENUE AND EXPENDITURES

YEAR ENDED MARCH 31

	Operating Fund	Capital Fund	Scholarship Fund	2012	2011
REVENUE					
Other income *(Schedule 3)*	$ 5,702,823	$ 2,960	$	**$ 5,705,783**	$ 4,449,377
Group care treatment	2,579,826			**2,579,826**	2,515,875
Province of Manitoba grant	653,000			**653,000**	632,300
Roof donations		77,548		**77,548**	
Insurance proceeds	77,132			**77,132**	56,653
Investment income		18,574	5,583	**24,157**	24,358
Fundraising		12,854		**12,854**	
Thomas and Beatrice Gilroy Trust		4,553		**4,553**	5,050
C.H. Bowie, C.A. Bowie, and A.W. Gibson Memorial Fund		3,912		**3,912**	4,333
A.R. McNichol Fund		1,808		**1,808**	1,984
Furniture donations					47,119
Capital campaign	-	-	-	-	136,136
	9,012,781	122,209	5,583	**9,140,573**	7,873,185
EXPENDITURES					
Staff remuneration *(Schedule 1)*	8,078,165			**8,078,165**	6,674,665
Maintenance and repairs *(Schedule 1)*	210,395			**210,395**	311,731
Administration and general *(Schedule 1)*	177,977			**177,977**	225,417
Food, clothing, welfare and activities *(Schedule 2)*	493,359			**493,359**	440,793
Amortization		67,395		**67,395**	65,319
Interest on long term debt		10,858		**10,858**	15,857
Miscellaneous		3,415		**3,415**	4,823
Fundraising and public relations		750		**750**	
Repairs and maintenance		20,993		**20,993**	
Scholarships	-	-	2,796	**2,796**	4,607
	8,959,896	103,411	2,796	**9,066,103**	7,743,212
EXCESS OF REVENUE OVER EXPENDITURES (EXPENDITURES OVER REVENUE)	$ 52,885	$ 18,798	$ 2,787	**$ 74,470**	$ 129,973

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KNOWLES CENTRE INC.

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31

	Operating Fund	Capital Fund	Scholarship Fund	**2012**	2011
CASH FLOW FROM					
OPERATING ACTIVITIES					
Excess of revenue over expenditures (expenditures over revenue)	$ 52,885	$ 18,798	$ 2,787	**$ 74,470**	$ 129,974
Items not affecting cash					
Amortization of capital assets		67,395		**67,395**	65,319
Changes in non-cash working capital items					
Accounts receivable	3,325	(65)		**3,260**	(237,966)
Prepaid expenses	(14,250)			**(14,250)**	4,800
Accounts payable	242,157	(1,200)		**240,957**	(105,464)
Deferred revenue	59,667	-	-	**59,667**	72,267
	343,784	84,928	2,787	**431,499**	(71,070)
FINANCING ACTIVITIES					
Repayment of long term debt	-	(17,552)	-	**(17,552)**	(73,563)
	-	(17,552)	-	**(17,552)**	(73,563)
INVESTING ACTIVITIES					
Purchase of capital assets	-	(173,846)	-	**(173,846)**	(180,442)
	-	(173,846)	-	**(173,846)**	(180,442)
NET INCREASE (DECREASE) IN CASH	343,784	(106,470)	2,787	**240,101**	(325,075)
CASH, *beginning of year*	(352,060)	34,700	-	**(317,360)**	7,715
CASH, *end of year*	$(8,276)	$(71,770)	$ 2,787	**$(77,259)**	$(317,360)

CASH AND CASH EQUIVALENTS CONSISTS OF:		
Cash	**$ 15,800**	$ 19,042
Bank indebtedness	**(122,706)**	(352,060)
Short term investments	**29,647**	15,658
	$(77,259)	$(317,360)

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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.

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

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

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.

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.

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

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.

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.

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

VACATION PAY

In previous years, the Centre did not accrue for vacation pay. During the current year, the Centre adopted a policy of accruing for all vacation pay.

Management estimates that the unaccrued vacation pay liability at March 31, 2011 would have been approximately $261,000. Had the vacation pay liability been accrued, accounts payable would have increased by $261,000 and the ending balance in net assets would have decreased by $261,000.

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 2012	2011
Land	$ 17,719	$	**$ 17,719**	$ 17,719
Buildings	2,684,326	1,061,497	**1,622,829**	1,520,137
Ground improvements	47,362	17,833	**29,529**	8,967
Campsite conservation	179,869	168,295	**11,574**	12,860
Furniture and equipment	372,132	302,346	**69,786**	79,008
Tractor	15,824	15,751	**73**	92
Tractor loader	14,695	12,348	**2,347**	2,934
Camp equipment	33,745	33,545	**200**	250
Vans	182,384	159,828	**22,556**	28,195
	$ 3,548,056	$ 1,771,443	**$ 1,776,613**	$ 1,670,162

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

	2012	2011
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.	$ 204,829	$ 222,381
Less: Current portion	18,742	17,730
	$ 186,087	$ 204,651

Principal repayment terms are approximately:

2013	$ 19,806
2014	20,931
2015	22,120
2016	23,376

7. GOVERNMENT ASSISTANCE

During the year, the Centre received operating grants of $653,000 (2011 - $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 $165,747 (2011 - $149,444) and have been expensed during the year.

KNOWLES CENTRE INC.

SCHEDULE 1

SCHEDULE OF OPERATING FUND EXPENSES

YEAR ENDED MARCH 31

	2012	2011
STAFF REMUNERATION		
Salaries	$ 4,061,967	$ 3,511,311
Foster Care	3,315,039	2,524,465
Canada Pension Plan	165,103	145,411
United Way pension fund	165,747	149,445
Employee group insurance benefits	113,798	112,579
Employment insurance	85,348	82,919
Manitoba payroll tax	89,259	78,379
Workers compensation	81,904	70,156
	$ 8,078,165	$ 6,674,665
MAINTENANCE AND REPAIRS		
Autopac and insurance	$ 62,645	$ 63,324
Building repairs	51,212	130,125
Equipment repairs and replacement	16,562	29,481
Heating fuel	11,272	11,140
Hydro and electrical	30,773	29,932
Maintenance and household supplies	26,793	33,560
Municipal taxes	7,172	6,957
Water	3,966	7,212
	$ 210,395	$ 311,731
ADMINISTRATION AND GENERAL		
Accreditation	$ 4,200	$ 9,400
Advertising and miscellaneous	34,649	56,275
Bank charges and interest	8,216	6,613
Dues and subscriptions	5,996	5,779
Meetings	9,585	8,283
Office supplies	41,373	50,952
Payroll service charge	396	638
Postage	7,981	6,906
Professional fees	6,025	24,069
Public relations	10,381	7,845
Staff development	11,621	16,992
Telephone	37,554	31,665
	$ 177,977	$ 225,417

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KNOWLES CENTRE INC.

SCHEDULE 2

SCHEDULE OF OPERATING FUND EXPENSES

YEAR ENDED MARCH 31

	2012	2011
FOOD, CLOTHING, WELFARE AND ACTIVITIES		
Bedding and clothing	$ 31,604	$ 30,082
Food	151,123	143,061
Medical, dental and optical	6,188	4,834
Personal supplies	996	1,428
Program activities	46,242	40,397
Program supplies	22,512	27,421
Residents' gifts	4,394	3,117
Residents' transportation	12,905	14,181
SAIL Stage 2 - client living expenses	133,716	78,370
School supplies	958	682
Spending allowances	16,100	15,220
Summer outdoor education program	3,015	3,317
Transportation - general	61,131	73,839
Volunteer activities	2,475	4,844
	$ 493,359	$ 440,793

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KNOWLES CENTRE INC.

SCHEDULE 3

SCHEDULE OF OTHER INCOME

YEAR ENDED MARCH 31

	2012	2011
OTHER INCOME		
Foster care	$ 4,554,402	$ 3,487,174
SAIL Program	786,482	572,144
River East School Division	188,002	199,124
Sexual abuse treatment program	71,100	71,100
Outreach program	57,707	57,550
Miscellaneous	26,417	58,120
Donations	15,325	2,122
Rentals	3,388	2,045
	$ 5,702,823	$ 4,449,379

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