

**FRIENDS OF SASKATCHEWAN
CHILDREN INC.**

FINANCIAL STATEMENTS

December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FRIENDS OF SASKATCHEWAN CHILDREN INC.

We have audited the accompanying financial statements of Friends of Saskatchewan Children Inc., which comprise the statement of financial position as at December 31, 2012, and the statement of revenue and expenses, changes in net assets 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, Friends of Saskatchewan Children Inc. derives part of its revenue from the general public in the form of third party fundraising activities and donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly verification of these revenues was limited to the amounts recorded in the records of Friends of Saskatchewan Children Inc. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue and donations, excess of revenues over expenses, and cash flows from operations for the year ended December 31, 2012, current assets and net assets as at December 31, 2012.

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 Friends of Saskatchewan Children Inc. as at December 31, 2012, and the results of its revenue and expenses and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative Information

Without modifying our opinion, we draw attention to Note 3 to the financial statements which describes that Friends of Saskatchewan Children Inc. adopted Canadian accounting standards for not-for-profit organizations on January 1, 2012 with a transition date of January 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at December 31, 2011 and January 1, 2011, and the statement of revenue and expenses, changes in net assets and cash flows for the year ended December 31, 2011 and related disclosures. We were not engaged to report on the restated corresponding information, and as such, it is unaudited.

A handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Accountants

April 10, 2013
Saskatoon, Saskatchewan

FRIENDS OF SASKATCHEWAN CHILDREN INC.
STATEMENT OF REVENUE AND EXPENSES
Year ended December 31, 2012

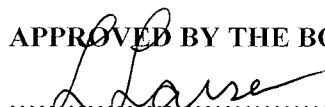
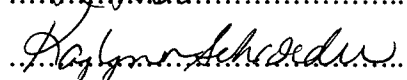
	December 31, 2012	December 31, 2011
OPERATIONS		
REVENUE		
Adopt-A-Room program	\$ 22,500	\$ 27,199
Donations, memorials and bequests	351,058	378,586
Fundraising	117,646	102,828
Ronald McDonald House Charities grant	132,851	132,851
Room fees	30,805	42,117
Third party fundraising	68,092	90,091
	<u>722,952</u>	<u>773,672</u>
EXPENSES		
Amortization	50,371	55,900
Conferences and travel	1,171	5,965
Donations expense	12,849	11,726
Fundraising expense	32,724	38,583
Guest services	8,078	6,050
Household supplies	2,118	2,346
Insurance	1,345	2,315
Office	26,851	35,846
Professional fees	22,058	17,313
Property taxes	21,672	21,251
Publicity and promotion	28,944	42,401
Repairs and maintenance	10,670	52,181
Telephone	10,813	9,106
Utilities	29,545	26,966
Volunteer	6,366	7,177
Wages and employee benefits - administration	157,697	153,300
Wages and employee benefits - other	130,890	92,096
	<u>554,162</u>	<u>580,522</u>
REVENUE OVER EXPENSES - BEFORE INVESTMENT INCOME	168,790	193,150
INVESTMENT INCOME (NOTE 4)	91,575	162,223
EXCESS OF REVENUE OVER EXPENSES - OPERATIONS	260,365	355,373
CAPITAL CAMPAIGN REVENUE	3,131,092	-
CAPITAL CAMPAIGN EXPENSES	489,666	-
EXCESS REVENUE OVER EXPENSES - CAPITAL CAMPAIGN	2,641,426	-
TOTAL EXCESS OF REVENUE OVER EXPENSES	\$ 2,901,791	\$ 355,373

See accompanying notes to the financial statements

FRIENDS OF SASKATCHEWAN CHILDREN INC.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2012

	December 31, 2012	December 31, 2011	January 1, 2011
CURRENT ASSETS			
Cash	\$ 3,076,071	\$ 662,313	\$ 505,574
Term deposits	-	15,145	-
Short-term investments (Note 4)	147,140	489,572	353,657
Accounts receivable	51,416	28,605	20,382
Prepaid expenses	3,915	3,250	3,630
	<u>3,278,542</u>	<u>1,198,885</u>	<u>883,243</u>
TERM DEPOSITS - RESTRICTED	-	-	22,660
LONG-TERM INVESTMENTS (Note 4)	2,212,422	2,165,289	2,045,933
CAPITAL ASSETS (Note 5)	<u>2,845,909</u>	<u>1,812,856</u>	<u>1,863,850</u>
	<u>\$ 8,336,873</u>	<u>\$ 5,177,030</u>	<u>\$ 4,815,686</u>
LIABILITY AND NET ASSETS			
Current liability			
Accounts payable and accrued liabilities	\$ 283,493	\$ 25,441	\$ 19,470
COMMITMENTS (NOTE 7)			
Net assets			
Internally restricted net assets invested in capital assets	2,845,909	1,812,856	1,863,850
Internally restricted net assets	3,079,469	2,649,457	2,316,835
Externally restricted capital campaign net assets	1,558,002	-	-
Unrestricted net assets	570,000	689,276	615,531
	<u>\$ 8,336,873</u>	<u>\$ 5,177,030</u>	<u>\$ 4,815,686</u>

See accompanying notes to the financial statements

APPROVED BY THE BOARD

..... Director

..... Director

FRIENDS OF SASKATCHEWAN CHILDREN INC.
STATEMENT OF NET ASSETS
Year ended December 31, 2012

	December 31, 2012	December 31, 2011
INTERNALLY RESTRICTED NET ASSETS INVESTED IN CAPITAL ASSETS		
Balance, beginning of year	\$ 1,812,856	\$ 1,863,850
Transfers to unrestricted net assets:		
Capital assets purchased	1,083,424	4,906
Amortization	(50,371)	(55,900)
BALANCE, END OF YEAR	<u>\$ 2,845,909</u>	<u>\$ 1,812,856</u>
INTERNALLY RESTRICTED NET ASSETS		
Balance, beginning of year	\$ 2,649,457	\$ 2,316,835
Transfers from unrestricted net assets	430,012	332,622
BALANCE, END OF YEAR	<u>\$ 3,079,469</u>	<u>\$ 2,649,457</u>
EXTERNALLY RESTRICTED CAPITAL CAMPAIGN NET ASSETS		
Balance, beginning of year	\$ -	\$ -
Transfer from unrestricted net assets	2,641,426	-
Invested in building under construction	(1,083,424)	-
BALANCE, END OF YEAR	<u>\$ 1,558,002</u>	<u>\$ -</u>
UNRESTRICTED NET ASSETS		
Balance, beginning of year	\$ 689,276	\$ 615,531
Total excess of revenue over expenses	2,901,791	355,373
Transfers:		
From internally restricted net assets invested in capital assets	50,371	50,994
To internally restricted net assets	(430,012)	(332,622)
To externally restricted capital campaign fund	(2,641,426)	-
BALANCE, END OF YEAR	<u>\$ 570,000</u>	<u>\$ 689,276</u>

See accompanying notes to the financial statements

FRIENDS OF SASKATCHEWAN CHILDREN INC.
STATEMENT OF CASH FLOWS
Year ended December 31, 2012

	2012	2011
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 2,901,791	\$ 355,373
Items not affecting cash:		
Amortization	50,371	55,900
Changes in non-cash working capital:		
Accounts receivable	(22,811)	(8,223)
Prepaid expenses	(665)	380
Accounts payable and accrued liabilities	39	5,971
Cash provided by operating activities	<u>2,928,725</u>	<u>409,401</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(825,411)	(4,906)
Decrease (increase) in term deposits	15,145	(15,145)
Decrease in restricted term deposits	-	22,660
Decrease (increase) in short-term investments	342,432	(135,915)
Increase in long-term investments	(47,133)	(119,356)
Cash used in investing activities	<u>(514,967)</u>	<u>(252,662)</u>
NET INCREASE IN CASH	2,413,758	156,739
CASH, BEGINNING OF THE YEAR	<u>662,313</u>	<u>505,574</u>
CASH, END OF YEAR	<u>\$ 3,076,071</u>	<u>\$ 662,313</u>

See accompanying notes to the financial statements

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2012

1. DESCRIPTION OF BUSINESS

These financial statements reflect the operations of Friends of Saskatchewan Children Inc. (the "Organization"). The Organization was incorporated under the laws of the Province of Saskatchewan on December 14, 1982, and is a registered charitable organization under the provisions of the Income Tax Act. The Organization operates as Ronald McDonald House Saskatchewan and provides housing and other assistance for young patients and their families during periods of treatment at a Saskatoon hospital.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Part III of the CICA Handbook, Canadian accounting standards for not-for-profit organizations ("ASNPO") and include the following significant accounting policies:

Capital Assets

Capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a declining balance basis over the estimated useful lives, as follows:

Building	5%	Declining balance
Computer equipment	30%	Declining balance
Furniture and fixtures	20%	Declining balance
Paving and landscaping	20%	Declining balance
Signage	20%	Declining balance

Building under construction will be amortized once the building is available for use. No amortization has been recorded as of December 31, 2012.

Impairment of Long-lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate their carrying amount may not be recoverable. Impairment loss is recognized when their carrying amounts exceed the total undiscounted cash flows expected from their use and eventual disposition. The amount of impairment loss is determined as to the excess of the carrying value of the assets over their fair market value. No events have occurred nor have any circumstances changed which would indicate impairment in the value of long-lived assets.

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is measured at amortized cost except for term deposits, short-term and long-term investments which are measured at fair value as at the reporting date. Financial assets measured at amortized cost include cash and accounts receivable. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities. The Organization's financial assets measured at fair value include shares of publicly traded companies and investments in publicly traded bonds. Fair value fluctuations in these assets including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Transaction costs related to short-term investments are expensed as incurred. Transaction costs related to other financial instruments are netted against the varying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

The Organization uses the straight line method to recognize interest expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Use of Estimates

The preparation of Organization's financial statements in accordance 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 revenue and expenses during the reporting period. Actual results could differ materially from those estimates. Estimates are used when accounting for items such as amortization of capital assets.

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed Materials and Service

Volunteers contribute many hours per year to assist the Organization in carrying out its service delivery activities. Because of the difficulty of determining the fair market value of these services, contributed volunteer services are not recognized in the financial statements. In addition, materials contributed throughout the year for which the fair value cannot be reasonably determined are also not recorded on the financial statements.

Restricted Net Assets

Restricted net assets originate from decisions by the Board of Directors and provide for unexpected shortfalls or specific future causes, as well as investment in major capital expenditures. Investment income earned on these restricted funds is allocated to the net assets restricted for capital replacements on an annual basis or to increase the restricted net asset balance as determined by the Board of Directors.

Certain donations have been restricted by the donors for particular projects. If these have not been completed by the end of the fiscal year, the amount is transferred into externally restricted net assets. Transfers out of this fund by the Board of Directors are based on utilization of the funds for the purpose intended. Externally restricted net assets as at December 31, 2012 are \$1,558,002 (December 31, 2011 - \$Nil)

Unrestricted Net Assets

It is the policy of the Board of Directors to retain approximately two times the budgeted amount of annual House operating and administration expenses for the next fiscal year (not including fundraising expenses, etc.), less annual budgeted Ronald McDonald House Charities grant and room fee revenue, in Unrestricted Net Assets at the current fiscal year end. Any excess amount or shortfall at year end will be transferred into or will be replenished from Restricted Net Assets.

Revenue Recognition

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2012

3. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING

New Accounting Framework

The Organization has elected to apply ASNPO. These financial statements are the first financial statements for which the Organization has applied ASNPO. The transitional provision of Section 1501, *First-time Adoption* has been applied. As described below, the Organization has elected to adopt the exemptions available under Section 1501 related to recording any eligible financial asset or liability outstanding on the opening balance sheet date at fair value. The impact of adopting those standards was accounted for in net assets as at the date of transition; January 1, 2011.

The impact of the adoption of the new standards on the statement of financial position as at January 1, 2011 is summarized as follows:

	Reference	Balance as previously reported	Adjustment	Balance as adjusted as at January 1, 2011
<i>Liability and net assets</i>				
Internally restricted net assets	(a)	\$ 2,392,366	\$ (75,531)	\$ 2,316,835
Unrestricted net assets	(a)	540,000	75,531	615,531
Total adjustment to liabilities and net assets		\$ -	\$ -	\$ -

**FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2012**

3. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING (continued)

The impact of adopting of the new standards on the statement revenue and expenses for the year ended December 31, 2011 is summarized as follows:

	Reference	Balance as previously reported 2011	Adjustment	Balance as adjusted 2011
Investment income	(a)	\$ 73,470	\$ 88,745	\$ 162,223
EXCESS OF REVENUE OVER EXPENSES	(a)	\$ 266,628	\$ 88,745	\$ 355,373

Explanation of adjustment

a) Unrealized gains and losses

As at January 1, 2011, the Organization recognized its investments in quoted shares at fair value. Under the previous basis of accounting, these investments were also recognized at fair value as available-for-sale financial assets, and the unrealized gains were reported directly in the statement of net assets. These unrealized gains are now recognized in the statement of revenues and expenses. Therefore, there is no net effect on the investments or net assets. However, the change had an effect on the statement of revenue and expenses.

In addition, the Operating activities section of the cash flow statement has been adjusted to reflect, as appropriate, the above changes.

4. SHORT-TERM AND LONG-TERM INVESTMENTS

Short-term investments

The Organization's short-term and long-term investment portfolio is recorded at its fair market value. The portfolio is made up of a combination of fixed income securities and common equity investments. Short-term investments consist of \$146,117 (December 31, 2011 - \$139,250) in bonds and \$1,023 (\$350,322) in fixed income securities and common equity investments.

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2012

4. SHORT-TERM AND LONG-TERM INVESTMENTS (continued)

Long-term investments

	2012	2011
Bonds - 3.35% to 7.05%, maturing November 2014 to June 2037 (December 31, 2011 - 2.75% to 7.05% maturing June 2013 to June 2037)	\$ 1,834,643	\$ 1,821,384
Publicly traded shares	377,779	343,905
	\$ 2,212,422	\$ 2,165,289

Investment income consists of interest and dividends of \$100,362 (2011 - \$88,139) and unrealized and realized gains on investments of \$12,455 (2011 - \$94,107). These are netted against investment management fees of \$21,242 (2011 - \$20,023).

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value	
			2012	2011
Land	\$ 1,001,951	\$ -	\$ 1,001,951	\$ 1,011,951
Building	1,782,266	1,077,306	704,960	742,061
Building under construction	1,088,328	-	1,088,328	4,906
Computer equipment	44,524	41,156	3,368	4,811
Furniture and fixtures	242,417	204,760	37,657	47,071
Paving and landscaping	30,242	27,591	2,651	3,314
Signage	20,174	13,180	6,994	8,742
	\$ 4,209,902	\$ 1,363,993	\$ 2,845,909	\$ 1,822,856

Building under construction in the amount of \$1,088,328 (December 31, 2011 - \$4,906; January 1, 2011 - \$Nil) relates to the expansion project. These amounts have not been amortized as they are not available for use.

During the year, capital assets acquired at a cost of \$258,013 is included in accounts payable and accrued liabilities at December 31, 2012 (December 31, 2011 - \$Nil) and is a non cash item.

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2012

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Credit Risk

The Organization's principal financial assets are cash, term deposits, short-term and long-term investments, and accounts receivable, which are subject to credit risk. There is no allowance for accounts receivable at year end. The carrying amounts of financial assets on the statement of financial position represent the Organization's maximum credit exposure as at December 31, 2012 and December 31, 2011.

The Organization's credit risk is primarily attributable to its accounts receivable. The Organization does not have significant exposure to any individual customer and has not incurred any significant bad debts during the year. The credit risk on cash, term deposits, short-term and long-term investments is limited because the counterparties are chartered banks with high-credit-ratings assigned by national credit-rating agencies.

Interest Rate Risk

The Organization is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Organization to a fair value risk while the floating-rate instruments subject it to a cash flow risk. The Organization is exposed to this type of risk as a result of its investments in bonds.

Fair Value

The fair value of cash, term deposits, short-term and long-term investments, accounts receivable and accounts payable and accrued liabilities approximate their carrying value due to the short-term maturity and normal credit terms of these instruments.

The fair value of investments is based on quoted market prices.

Liquidity Risk

The Organizations objective is to have sufficient liquidity to meet its liabilities when due. The Organization monitors its cash balances and cash flows generated from operations to meet its requirements. As at December 31, 2012 and December 31, 2011, the most significant financial liabilities are accounts payable and accrued liabilities.

FRIENDS OF SASKATCHEWAN CHILDREN INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2012

7. COMMITMENTS

In connection with the construction of certain capital projects and the purchase of certain capital items, the Organization has capital commitments at December 31, 2012 of approximately \$10,000,000 (December 31, 2011- \$Nil) of which \$1,083,424 has been spent as of December 31, 2012.

8. SUBSEQUENT EVENT

The Organization entered into a mortgage loan agreement (the “agreement”) with Conexus Credit Union on January 2, 2013 for \$6,000,000. The purpose of the agreement is to provide construction/interim financing to assist with the expansion of Ronald McDonald House. The term of the agreement is 12 months. The Organization has pledged the land and building as security for the agreement.

9. COMPARATIVE FIGURES

Certain of the prior year’s figures have been reclassified to comply with the current year’s presentation.