

THE CHILDREN'S FOUNDATION

FINANCIAL STATEMENTS

31 MARCH 2006

THE CHILDREN'S FOUNDATION
Financial Statements
For the Year Ended 31 March 2006

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ROLFE, BENSON

CHARTERED ACCOUNTANTS*

1400 – 900 West Hastings Street
Vancouver, B.C. V6C 1E3
Telephone: 604-684-1101

Fax: 604-684-7937

E-mail: admin@rolfebenson.com

*a partnership of incorporated professionals

AUDITORS' REPORT

To the Members of,
The Children's Foundation

We have audited the statement of financial position of The Children's Foundation as at 31 March 2006 and the statements of operations for the operating fund, capital fund and designated funds and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at 31 March 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Society Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Rolfe, Benson

CHARTERED ACCOUNTANTS

Vancouver, Canada
19 May 2006

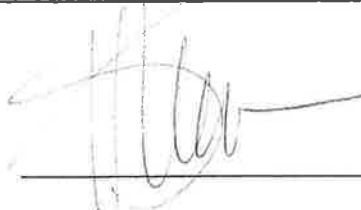


THE CHILDREN'S FOUNDATION
Statement of Financial Position
31 March 2006

	Operating Fund	Capital Fund	Designated Funds	2006	Total 2005
	\$	\$	\$	\$	\$
Assets					
Current					
Cash	772,398	-	56,299	828,697	391,293
Short-term investments	522,844	-	-	522,844	508,996
Accounts receivable	320,597	-	-	320,597	251,611
Due from (to) other funds	1,340	(10,260)	8,920	-	-
Prepaid expenses	38,567	-	278	38,845	28,074
	<u>1,655,746</u>	<u>(10,260)</u>	<u>65,497</u>	<u>1,710,983</u>	<u>1,179,974</u>
Building and equipment (Note 3)	-	2,799,535	-	2,799,535	2,898,537
	<u>1,655,746</u>	<u>2,789,275</u>	<u>65,497</u>	<u>4,510,518</u>	<u>4,078,511</u>
Liabilities					
Current					
Accounts payable	94,593	-	-	94,593	68,126
Accrued wages and deductions	153,103	-	-	153,103	127,014
Accrued vacation payable	282,312	-	-	282,312	243,443
Deferred contributions (Note 4)	313,443	-	-	313,443	131,286
Long-term debt - current portion (Note 5)	-	5,052	-	5,052	4,000
	<u>843,451</u>	<u>5,052</u>	<u>-</u>	<u>848,503</u>	<u>573,869</u>
Long-term debt (Note 5)	-	374,542	-	374,542	385,853
	<u>843,451</u>	<u>379,594</u>	<u>-</u>	<u>1,223,045</u>	<u>959,722</u>
Commitments (Note 8)					
Litigation and contingent liabilities (Note 9)					
Fund balances					
Restricted	150,000	-	65,497	215,497	67,658
Unrestricted	662,295	-	-	662,295	542,447
Invested in capital assets	-	2,409,681	-	2,409,681	2,508,684
	<u>812,295</u>	<u>2,409,681</u>	<u>65,497</u>	<u>3,287,473</u>	<u>3,118,789</u>
	<u>1,655,746</u>	<u>2,789,275</u>	<u>65,497</u>	<u>4,510,518</u>	<u>4,078,511</u>

APPROVED BY THE DIRECTORS:

R. Eugene Demme Director



Director

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S FOUNDATION
Statement of Operations and Fund Balance for the Operating Fund
For the Year Ended 31 March 2006

	2006	2005
Revenue		
Provincial government funding	\$ 4,651,741	\$ 4,511,653
Donations, grants and memberships	102,593	11,647
Rental income	2,323	13,143
Interest and other income	43,701	14,240
	<u>4,800,358</u>	<u>4,550,683</u>
Expenses		
Salaries and wages	3,137,978	3,092,063
Employee benefits (Note 12)	514,363	492,269
Building and equipment operation and maintenance	211,042	202,155
Contracted services	137,501	39,774
Recruitment and staff	87,834	82,702
Program supplies	80,499	68,824
Transportation	48,283	58,693
Office expenses	45,573	26,231
Equipment costs	45,524	71,533
Telecommunications	38,344	41,564
Automobile	34,056	35,670
Grant expenses	30,010	-
Insurance	26,990	12,180
Professional services	18,372	46,061
Promotion and volunteer	11,510	9,651
Workshops	5,169	-
Client management system	2,623	11,644
Fundraising expenses	395	81
	<u>4,476,066</u>	<u>4,291,095</u>
Excess of revenue over expenses	324,292	259,588
Operating Fund balance - beginning of year	542,447	306,172
Transfer to Capital Fund (Note 7)	(43,750)	(33,999)
Transfer from (to) Designated Funds (Note 7)	(10,694)	10,686
	<u>(10,694)</u>	<u>10,686</u>
Operating Fund balance - end of year	\$ 812,295	\$ 542,447

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S FOUNDATION
Statement of Operations and Changes in Fund Balance for the Capital Fund
For the Year Ended 31 March 2006

	2006	2005
Revenue	\$ -	\$ -
Expenses		
Amortization of building and equipment	142,753	135,140
Excess (deficiency) of expenses over revenue	(142,753)	(135,140)
Capital Fund balance - beginning of year	2,508,684	2,609,825
Transfer from Operating Fund (Note 7)	43,750	33,999
Capital Fund balance - end of year	\$ 2,409,681	\$ 2,508,684

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S FOUNDATION
Statement of Operations for the Designated Funds
For the Year Ended 31 March 2006

	Balance 31 March 2005	Receipts for the Year	Expenses for the Year	Transfers from (to) the Operating Fund	Balance 31 March 2006
	\$	\$	\$	\$	\$
Accreditation Fund	6,074	-	6,664	590	-
Christmas Fund	3,965	2,000	530	1,485	6,920
Elda Lindenfield - staff training and equipment	3,581	448	-	-	4,029
Litigation Fund	54,038	119	-	(1,881)	52,276
Winter Charity Ball Fund	-	-	8,228	10,000	1,772
Director's Fund	-	-	-	500	500
	67,658	2,567	15,422	10,694	65,497

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S FOUNDATION
Statement of Cash Flows
For the Year Ended 31 March 2006

	2006	2005
Cash provided by (used in):		
Operating activities		
Excess (deficiency) of revenue over expenses		
Operating Fund	\$ 324,292	\$ 259,588
Capital Fund	(142,753)	(135,140)
Designated Funds	(2,161)	(43,592)
Amortization of capital assets	142,753	135,140
Changes in non-cash working capital balances	973	(166,893)
Increase (decrease) in deferred contributions	182,157	(74,838)
	505,261	(25,735)
Investing activities		
Sale of investments	-	91,004
Purchase of investments	(13,848)	-
Purchase of equipment	(43,750)	(9,999)
	(57,598)	81,005
Financing activities		
Loan proceeds	15,518	-
Long-term debt repayments	(25,777)	(24,000)
	(10,259)	(24,000)
Net increase in cash	437,404	31,270
Cash - beginning of year	391,293	360,023
Cash - end of year	\$ 828,697	\$ 391,293

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S FOUNDATION
Notes to the Financial Statements
For the Year Ended 31 March 2006

1. Purpose of Society

The Children's Foundation is a not-for-profit charitable organization with operations in the Lower Mainland of British Columbia. The Foundation provides a range of community services and residential services for families experiencing difficulties with their children. In addition, the Foundation provides family counseling, education and individual treatment planning.

The Provincial Government has advised the Foundation of its intention to revise current funding commitments. As a result, the Foundation is undergoing a reorganization of its operating mandate and is renegotiating all of its government contracts. The Foundation is economically dependent upon government funding in order to carry out its mandate.

The Foundation is registered as a charitable organization under the Income Tax Act, Canada, and is exempt from income tax.

2. Summary of Significant Accounting Policies

(a) Fund Accounting

The Foundation follows the restricted fund method of accounting for revenue and expenses.

(i) Operating Fund

The Operating Fund reports the Foundation's revenue and expenses related to program delivery and administrative activities.

(ii) Capital Fund

The Capital Fund reports the ownership and equity relating to the Foundation's capital assets and related revenues and expenses.

(iii) Designated Funds

The Designated Funds report the revenues, expenses and balances designated for special purposes. By donor request, funds are restricted to the use their names imply or expenditures are at the discretion of the Board of Directors.

(b) Revenue Recognition

Restricted contributions related to general operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted funds.

Unrestricted contributions, fees and income are recognized as revenue when received or earned in the Operating Fund.

THE CHILDREN'S FOUNDATION
Notes to the Financial Statements
For the Year Ended 31 March 2006

2. Summary of Significant Accounting Policies - Continued

(c) Capital Assets

Purchased capital assets over \$500 are recorded at cost. Assets are expensed if cost is less than \$500. Contributed capital assets are recorded at the estimated fair value at the date of contribution if over \$500. Amortization is provided over the assets' estimated useful lives at the following annual rates:

Building	40 years straight line basis
Furniture and equipment	10 years straight line and 30% declining balance
Leasehold improvements	Term of the lease

In the year of acquisition, amortization is provided for one-half of a year.

(d) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingencies at the date of the balance sheet. Actual results could differ from those estimates.

3. Building and Equipment

	Cost	Accumulated Amortization	Net Book Value	
			2006	2005
Vancouver buildings	\$ 3,295,210	\$ 693,282	\$ 2,601,928	\$ 2,684,308
Furniture and equipment	424,191	247,523	176,668	193,364
Automotive	15,043	2,257	12,786	-
	<u>3,734,444</u>	<u>943,062</u>	<u>2,791,382</u>	<u>2,877,672</u>
Leasehold improvements	64,181	56,028	8,153	20,865
	<u>\$ 3,798,625</u>	<u>\$ 999,090</u>	<u>\$ 2,799,535</u>	<u>\$ 2,898,537</u>

The Foundation tests long-lived assets for impairment when events or circumstances indicate that their carrying amount may not be recoverable. Impairment exists when the carrying value of the asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of the carrying value over its fair value and the loss is recorded in the period when it is determined. The Company assesses fair value based on discounted future cash flows. No impairment losses were determined by management to be necessary for the year.

THE CHILDREN'S FOUNDATION
Notes to the Financial Statements
For the Year Ended 31 March 2006

4. Deferred Contributions

The deferred contributions reported in the Operating Fund of \$313,443 includes \$46,124 which represents restricted Province of British Columbia contributions received to fund future employee replacement costs.

5. Long-Term Debt

	2006	2005
Pacific Everand Ventures Ltd. - non-interest bearing and requires payments of \$2,000 per month, secured by equipment of the Foundation.	\$ -	\$ 4,000
Province of British Columbia - unsecured, non-interest bearing without specific terms of repayment	367,595	385,853
Chrysler Financial Canada - vehicle loan with interest at 8.29%, repayable monthly at \$489.79	11,999	-
	379,594	389,853
Less: current portion	5,052	4,000
	\$ 374,542	\$ 385,853

6. Line of Credit

The Foundation has an operating line of credit up to \$150,000. The interest rate is prime plus 1%. The balance at year end was \$Nil.

7. Interfund Transfers

The Foundation transfers funds from the Operating Fund to the Capital Fund to finance capital asset acquisitions and long-term debt repayments and to the Designated Funds to finance special purpose funds.

8. Commitments

The Foundation has entered into various operating leases for equipment, automobiles, service contracts and its Surrey office.

Future minimum operating lease and service contract payments are as follows:

2007	212,322
2008	209,547
2009	205,707
2010	205,300
2011	85,549
	\$ 918,425

THE CHILDREN'S FOUNDATION
Notes to the Financial Statements
For the Year Ended 31 March 2006

9. Litigation and Contingent Liabilities

The Foundation has been found vicariously liable for the 1968 to 1971 actions of a former employee by the B.C. Supreme Court and on June 18, 1999 the Supreme Court of Canada confirmed the decision. The majority of these claims were settled and funded directly by insurance coverage and the Provincial Government.

The Foundation has also been named defendant in several other lawsuits, which may or may not be covered by insurance. These potential claims are for indeterminable amounts.

No provision has been made in these financial statements for these matters except for the associated legal costs incurred to date.

10. Financial Instruments

The Foundation's financial instruments consist of cash and short term investments, accounts receivable, accounts payable and accrued liabilities and long-term debt. The fair values of these instruments approximate their carrying values due to their short maturities, except for long-term debt, the fair value of which is not determinable. It is management's opinion that the Foundation is not exposed to significant credit, interest or foreign exchange risk arising from its financial instruments.

11. Accrued Wages and Deductions and Vacation Payable

Accrued wages and deductions and vacation payable relating to employees consists of a provision for sick leave and vacation entitlement. The Foundation has both union and non-union employees. All employees are entitled to receive a certain number of sick leave and vacation days per year. The vacation entitlement depends on the employee's number of years of service. The union agreement sets a maximum accrued vacation entitlement of 10 days per year per employee, but the Foundation's policy is to set no limits on the accrued vacation entitlements.

The Foundation accrues up to 10 sick leave days per employee as this is the average sick leave that is taken per employee annually. The Foundation has insurance that limits their sick leave liability to 29 days per union employee. Sick days are paid out at 80% of the normal wage for union employees and 100% for non-union employees.

Accrued vacation entitlement is to be paid out upon termination of employment, but accrued sick leave entitlement is not.

12. Pension Plan

The Foundation has a Registered Pension Plan which is open to all permanent employees. The Plan is a defined contribution plan. The Foundation makes contributions to the Plan to match employee contributions, up to maximums that depend on employee age and earnings. Employees may also make additional un-matched contributions to the plan by way of payroll deductions.

THE CHILDREN'S FOUNDATION
Notes to the Financial Statements
For the Year Ended 31 March 2006

12. Pension Fund - Continued

The pension benefits in the Plan vest to employees after two years' service with the Foundation.

The Foundation also makes matching contributions to certain qualified employees' RRSP accounts, based on 3% of earnings. The total pension expense recorded by the Foundation was \$76,617 (2005 - \$80,591).