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Financial Statements of

**SOS CHILDREN'S VILLAGES
CANADA**

December 31, 2017

Ian W. Hendry, CPA, CA, CFP
Daniel B. Warren, CPA, CA, TEP
Marie Fraser, CPA, CA, CFP
Nancy Nicks, CPA, CA
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May 25, 2018

INDEPENDENT AUDITORS' REPORT

To the Members of
SOS Children's Villages Canada:

We have audited the accompanying financial statements of SOS Children's Villages Canada, which comprise the statement of financial position as at December 31, 2017 and the statements of revenue and expenses, changes in net assets and cash flow 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.

Auditors' 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 opinion.

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Basis for Qualified Opinion

In common with many not-for-profit organizations, SOS Children's Villages Canada derives revenue from donations and gifts, 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 SOS Children's Villages Canada. Therefore, we were not able to determine whether any adjustments might be necessary to donations revenue, deficiency of revenue over expenses, and cash flow from operations for the years ended December 31, 2017 and December 31, 2016, and assets and net assets as at December 31, 2017 and December 31, 2016.

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 SOS Children's Villages Canada as at December 31, 2017, 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.

HENDRY WARREN LLP
Chartered Professional Accountants
Licensed Public Accountants
Ottawa, Ontario

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SOS CHILDREN'S VILLAGES CANADA

Statement of Financial Position

December 31, 2017, with comparative figures for 2016

	2017	2016
Assets		
Current assets		
Cash	\$ 1,752,542	\$ 1,713,746
Accounts receivable	561,769	1,730
Short-term investments (Note 2)	1,359,443	1,351,617
Government remittances receivable	33,974	18,279
Prepaid expenses	29,702	14,011
	3,737,430	3,099,383
Endowment fund investments	411,070	405,668
Capital assets (Note 3)	15,337	15,945
	\$ 4,163,837	\$ 3,520,996
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued charges	\$ 104,248	\$ 252,789
Deferred revenue (Note 4)	922,182	921,518
Due to related party (Note 5)	1,912,394	934,576
	2,938,824	2,108,883
Commitments (Note 6)		
Net assets		
Unrestricted	198,606	390,500
Restricted		
Invested in capital assets	15,337	15,945
Internally restricted for reserve purposes	600,000	600,000
Endowment fund	411,070	405,668
	1,225,013	1,412,113
	\$ 4,163,837	\$ 3,520,996

Approved on behalf of the Board:


Director

See accompanying notes to the financial statements.

SOS CHILDREN'S VILLAGES CANADA

Statement of Revenue and Expenses

Year ended December 31, 2017, with comparative figures for 2016

	2017	2016
Revenue		
Donations (Note 7)	\$ 5,565,177	\$ 4,987,847
Global Affairs Canada contribution	1,021,176	-
Legacy gifts	572,350	363,643
Cooperation agreements	235,539	28,722
Student sponsorship	109,096	69,430
Investment income	6,919	11,503
Other income	5,590	7,634
	<u>7,515,847</u>	<u>5,468,779</u>
Expenses		
Distributions (Note 8)	5,098,024	3,312,245
Fundraising	1,804,328	1,374,795
Administration	614,993	580,318
Communications and public education	117,502	273,561
Canadian program services	73,502	-
	<u>7,708,349</u>	<u>5,540,919</u>
Deficiency of revenue over expenses	<u>\$ (192,502)</u>	<u>\$ (72,140)</u>

SOS CHILDREN'S VILLAGES CANADA

Statement of Changes in Net Assets

Year ended December 31, 2017, with comparative figures for 2016

	Unrestricted	Invested In Capital Assets	Internally Restricted for Reserve Purposes	Endowment Fund	Total 2017	Total 2016
Balance, beginning of year	\$ 390,500	\$ 15,945	\$ 600,000	\$ 405,668	\$ 1,412,113	\$ 1,478,173
Deficiency of revenue over expenses	(192,502)	-	-	-	(192,502)	(72,140)
Purchase of capital assets	(6,356)	6,356	-	-	-	-
Amortization	6,964	(6,964)	-	-	-	-
Investment income	-	-	-	5,402	5,402	24,080
Other disbursements	-	-	-	-	-	(18,000)
Balance, end of year	\$ 198,606	\$ 15,337	\$ 600,000	\$ 411,070	\$ 1,225,013	\$ 1,412,113

SOS CHILDREN'S VILLAGES CANADA

Cash Flow Statement

Year ended December 31, 2017, with comparative figures for 2016

	2017	2016
Operating activities		
Deficiency of revenue over expenses	\$ (192,502)	\$ (72,140)
Investment income - Endowment Fund	5,402	6,080
Non-cash item:		
Amortization expense	6,964	7,461
Changes in working capital balances (Note 9)	238,516	304,104
<u>Cash provided by operating activities</u>	<u>58,380</u>	<u>245,505</u>
Investing activities		
Acquisition of short-term investments	(13,228)	(244,236)
Acquisition of capital assets	(6,356)	(3,772)
<u>Cash used in investing activities</u>	<u>(19,584)</u>	<u>(248,008)</u>
Increase (decrease) in cash	38,796	(2,503)
Cash, beginning of year	1,713,746	1,716,249
<u>Cash, end of year</u>	<u>\$ 1,752,542</u>	<u>\$ 1,713,746</u>

SOS CHILDREN'S VILLAGES CANADA

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

Nature of activities

SOS Children's Villages Canada (the "Organization") is incorporated as a not-for-profit organization under the Canada Not-for-Profit Corporations Act. The Organization is a registered charity under the Income Tax Act and is exempt from taxes under section 149(1)(f). Its purpose is to provide children in need with a caring, loving and lifetime secure family environment where basic needs for food, health, shelter and education are met.

These financial statements report on the activities and financial position of SOS Children's Villages Canada.

1. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting standards for not-for-profit organizations and include the following significant accounting policies:

Fund accounting

The Organization maintains its accounts in accordance with the principals of fund accounting. Resources are classified for accounting purposes into the following funds:

a) Unrestricted fund

Revenues and expenses for general activities and administration are reported in the unrestricted fund.

b) Invested in capital assets

This fund reports the Organization's investment in capital assets.

c) Internally restricted for reserve purposes

The Board of Directors has designated certain of the unrestricted net assets for reserve purposes.

d) Endowment fund

The Endowment fund was created by a bequest received from the Estate of George Lambert Popow. The money is invested and a percentage of the total invested funds is used to support at least one children's home in Bulgaria in George Lambert Popow's name in perpetuity. The Organization has the right to encroach upon the principal, if necessary, to support the home in Bulgaria. The Endowment fund is invested in mutual funds.

SOS CHILDREN'S VILLAGES CANADA

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

Revenue recognition

The Organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when they are received or receivable if collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets in the year.

Investment income in the Endowment fund includes dividend and interest income, realized investment gains and losses on the sale of investments, and unrealized gains and losses on investments measured at fair value. Unrestricted dividends and interest are recognized as revenue when they are earned.

Cash and cash equivalents

The Organization's policy is to disclose bank balances and cash held in investment accounts under cash and cash equivalents, including temporary investments with a maturity period of three months or less from the date of acquisition.

Capital assets

Capital assets are accounted for at cost. Amortization is based on the assets' respective useful lives using the following method and durations:

Asset	Method	Duration
Computer equipment	Straight-line	3 years
Furniture and equipment	Straight-line	5 years
Leasehold improvements	Straight-line	Term of lease

One-half of the annual amount is claimed in the year of acquisition.

Use of estimates

The preparation of these financial statements in conformity with Canadian generally accepted accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the current period. These estimates are reviewed periodically and adjustments are made to the statement of revenue and expenses as appropriate in the year they become known. Significant estimates include the valuation of short-term investments, useful lives of capital assets and the completeness of accounts payable and accrued charges.

SOS CHILDREN'S VILLAGES CANADA

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

Financial instruments

Measurement of financial instruments

The Organization initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions.

The Organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of revenue and expenses.

Financial assets measured at amortized cost include cash, accounts receivable and guaranteed investment certificates.

Financial assets measured at fair value include mutual funds and common shares.

Financial liabilities measured at amortized cost include accounts payable and accrued charges.

The amount due to a related party is measured at the exchange amount as the fair value cannot be reasonably determined due to the non-arm's length nature of the relationship.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in the statement of revenue and expenses. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the statement of revenue and expenses.

Transaction costs

The Organization recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Donated materials and services

The Organization is grateful for the tremendous commitment that Canadian volunteers make. Across the country people devote their time and their talent to activities which raise funds and raise awareness of the work done on behalf of children at risk.

In addition, the Organization relies on donated materials and services to achieve its objectives. Many companies provide in-kind support such as donated air-time, creative talent and discounted or free goods.

While the Organization does not reflect donated services nor all of the in-kind support in the financial statements, they are essential to the effectiveness of the Organization.

SOS CHILDREN'S VILLAGES CANADA

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

2. Short-term investments

	2017	2016
Guaranteed Investment Certificates (1.25% to 1.77%)	\$ 253,378	\$ 304,021
Mutual funds	1,090,665	1,037,877
Common shares	15,400	9,719
	\$ 1,359,443	\$ 1,351,617

3. Capital assets

	2017		2016	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 21,010	\$ 14,874	\$ 6,136	\$ 4,230
Furniture and equipment	24,278	21,045	3,233	3,367
Leasehold improvements	11,918	5,950	5,968	8,348
	\$ 57,206	\$ 41,869	\$ 15,337	\$ 15,945

SOS CHILDREN'S VILLAGES CANADA

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

4. Deferred revenue

	2017	2016
Balance, beginning of year	\$ 921,518	\$ 582,286
Plus amounts received in the year	1,300,224	367,954
Less amounts recognized in the year	(1,299,560)	(28,722)
Balance, end of year	\$ 922,182	\$ 921,518

Deferred revenue consists of the following at year end:

	2017	2016
Green Family Education Fund	\$ 590,248	\$ 537,771
Intact Insurance	43,000	73,000
Anonymous	87,154	52,253
SOS cooperation agreements	22,956	258,494
Global Affairs Canada Niger	178,824	-
	\$ 922,182	\$ 921,518

5. Due to related party

The following is a summary of an amount due to a related party. Since this amount will be paid before January 1, 2019, it has been included with current liabilities. The amount is non-interest bearing.

	2017	2016
SOS International and Villages	\$ 1,912,394	\$ 934,576

SOS CHILDREN'S VILLAGES CANADA

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

6. Commitments

Future minimum rental payments required under operating leases for premises that have initial or remaining lease terms in excess of one year at December 31, 2017 are as follows:

	Premises
2018	\$ 69,603
2019	69,603
2020	69,603
2021	11,600
	<hr/>
	\$ 220,409

During 2016, the Organization entered into a written cooperation agreement with SOS Austria and SOS Sweden to enhance sponsorship of children at SOS Villages in Peru and villages under the responsibility of Sweden, respectively. SOS Austria provided funds to the Organization in the amount of euros 50,000 to fund marketing efforts in Canada aimed at generating such child sponsorships. SOS Sweden provided funds to the Organization in the amount of 1.500.000 Swedish krona. The cooperation agreements call for the generation of a minimum threshold of sponsorship, and ongoing reporting for three years after reaching the threshold. As at December 31, 2017 \$264,260 (2016: \$28,722), representing 92% (2016: 10%) of the total grant, has been recognized in the statement of revenue and expenses.

SOS CHILDREN'S VILLAGES CANADA

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

7. Donations

During the year, the Organization received total cash donations of \$6,294,370 (2016: \$5,463,887). Of these donations, \$47,747 (2016: \$42,966) were classified as deferred revenues as they relate to future expenses and disbursements. The remainder are included on the statement of revenue and expenses as donations, legacy gifts and student sponsorship.

8. Related party transactions

SOS Children's Villages Canada and SOS Children's Villages British Columbia ("SOS BC") through SOS Children's Villages Canada are members of SOS Kinderdorf International ("SOS International"). As a member, the Organization is required to comply with international rules and guidelines as set by SOS International. The Organization, SOS International and SOS BC have separate management and all transactions are in the normal course of operations and are recognized at the exchange amount.

SOS Children's Villages Canada had the following transactions with these organizations:

	2017	2016
Distributions		
SOS Children's Villages British Columbia	\$ 628,461	\$ 85,654
SOS Sponsorships	1,829,353	1,742,606
SOS International	1,722,434	1,483,985
SOS International - Global Affairs Canada	917,776	-
	<hr/>	<hr/>
	\$ 5,098,024	\$ 3,312,245

Included in the distributions above are fees paid for program and financial oversight of \$418,985 (2016: \$328,633) to SOS International in the year.

SOS CHILDREN'S VILLAGES CANADA

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

9. Changes in working capital balances

Changes in working capital balances have provided (used) cash as follows:

	2017	2016
Accounts receivable	\$ (560,039)	\$ (1,730)
Government remittances receivable	(15,695)	3,037
Prepaid expenses	(15,691)	4,856
Accounts payable and accrued charges	(148,541)	149,994
Deferred revenue	664	339,232
Due to related parties		
Received	6,075,842	3,120,960
Distributed	(5,098,024)	(3,312,245)
	<hr/>	<hr/>
	\$ 238,516	\$ 304,104

10. Community Foundation of Ottawa Deposits

Deposits and cash of \$12,476 (2016: \$12,256) held in an education endowment fund and \$102,115 (2016: \$100,320) held in an operating endowment fund, both with the Community Foundation of Ottawa, are investments in perpetuity. Although these funds are not recorded on the statement of financial position of the Organization, the interest from these investments is received annually to support the Organization's programs.

11. Financial instruments

Risk and concentrations

The Organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the risk exposures and concentrations at the statement of financial position date, December 31, 2017.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Organization is exposed to this risk mainly in respect of its accounts payable and accrued charges and amounts due to related party.

SOS CHILDREN'S VILLAGES CANADA

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other prices risk. The Organization is primarily exposed to currency and other prices risk.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Organization's currency risk relates primarily to their commitments to villages in euros.

Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Organization is exposed to other price risk through its investments in mutual funds and common shares.

The Organization's exposure to liquidity, market and currency risk is unchanged from the year ended December 31, 2016. The Organization's exposure to other price risk has increased since the year ended December 31, 2016 with its increased investment in mutual funds.

12. Allocation of expenses

The Organization engages in fundraising and communication efforts and incurs general support expenses that are common to the administration of the Organization and its programs. The Organization allocates certain of its general support expenses by identifying the appropriate basis of allocating each component expense, and applies that basis each year. Allocations are based on specific employees time spent on fundraising, communications and administrative efforts.

Allocations for these general support expenses have been made for the year ended December 31, 2017 as follows:

Human resources

	2017	2016
Fundraising	\$ 838,748	\$ 849,608
Communications and public education	70,244	53,755
Administration	135,414	146,044
	<hr/> \$ 1,044,406	<hr/> \$ 1,049,407