

**Canadian Children's Optimist Foundation
Financial Statements**

September 30, 2012

Canadian Children's Optimist Foundation

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September 30, 2012

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SOCIÉTÉ DE COMPTABLES PROFESSIONNELS AGRÉÉS
PARTNERSHIP OF CHARTERED PROFESSIONAL ACCOUNTANTS

JAMES M. ROWEN, CPA, CA

WENDY N. ROSCOE, CPA, CA

LILY YUAN HU

INDEPENDENT AUDITORS' REPORT

**To the Board of Directors of
Canadian Children's Optimist Foundation**

We were engaged to audit the accompanying financial statements of Canadian Children's Optimist Foundation (the Foundation), which comprise the statement of financial position as at September 30, 2012, and the statements of operations and changes in net assets, cash flows and supplementary information on expenditures 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 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 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 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 Foundation derives revenue from the general public, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Foundation. We were unable to determine whether any adjustments might be necessary to revenues, deficiency of revenues over expenses, assets and fund balances.

Qualified Opinion

In our opinion, except for the 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 the Foundation as at September 30, 2012 and the results of its operations, changes in net assets, its cash flows and supplementary information on expenditures for the year then ended in accordance with Canadian generally accepted accounting principles.

Montreal, Quebec
March 7, 2013

Rowen & Associates LLP

Rowen & Associates L.L.P.


James M. Rowen
James M. Rowen, CPA Auditor, CA




Canadian Children's Optimist Foundation
Statement of Financial Position
As at September 30, 2012

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 52,537	\$ 128,359
Accrued interest receivable	8,662	9,918
Accrued dividend receivable	3,726	2,559
Sales taxes receivable	3,447	5,740
	68,372	146,576
Long term assets		
Portfolio investments (note 4)	1,836,603	1,742,694
Deferred costs - scholarships	289,745	332,005
	2,126,348	2,074,699
Capital assets (note 7)	4,547	5,946
Intangible asset		
Organization cost (note 2)	18,708	18,708
	\$ 2,217,975	\$ 2,245,929
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 17,591	\$ 15,992
Amounts payable to Optimist International Foundation	36,112	48,931
Amounts payable to Optimist International	12,968	5,304
	66,671	70,227
Long term liabilities		
Deferred contributions (note 5)	177,445	500,959
Scholarships payable (note 2 & 6)	289,745	332,005
	467,190	832,964
	533,861	903,191
NET ASSETS		
Externally restricted		
- for endowment purposes - scholarship (note 8)	1,221,918	1,171,249
- for endowment purposes - CCC (note 8)	291,984	-
Internally restricted-invested in fixed assets	4,547	5,946
Unrestricted	165,665	165,543
	1,684,114	1,342,738
	\$ 2,217,975	\$ 2,245,929

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

 Director

 Director

See accompanying notes

Canadian Children's Optimist Foundation
Statement of operations
For the year ended September 30, 2012

	2012	2011
Revenue		
Contributions from individuals	\$ 500,853	\$ 309,612
Investment income (note 3)	126,679	97,416
	627,532	407,028
Grants and programmes		
Oratorical scholarships	40,000	29,550
Essay scholarships	44,600	16,950
C.C.D.H.H. scholarships	18,500	8,500
Don MacDonald Scholarship Oakville	14,000	4,000
Programme costs	15,000	15,150
Childhood cancer grant	19,304	50,359
Outsourcing program	237,710	88,790
	389,114	213,299
Excess of revenue over grants and programmes	238,418	193,729
Expenditures		
Volunteers and donors		
Donor awards and recognition	26,819	21,895
Volunteer activities	50,264	39,829
Special programs	7,561	5,655
	84,644	67,379
Fundraising	9,010	5,166
Staff and administration		
International convention	4,149	3,014
Administrative expenditures	88,557	78,738
Staff training	89	1,724
	92,795	83,476
	186,449	156,021
Excess of revenue over expenditures	\$ 51,969	\$ 37,708

See accompanying notes

Canadian Children's Optimist Foundation
Statement of changes in net assets
For the year ended September 30, 2012

	Externally restricted for endowment purposes (Scholarship)	Externally restricted for endowment purposes (CCC)	Internally restricted invested in capital assets	Unrestricted	2012	2011
Balance at beginning of year	\$ 1,171,249	\$ -	\$ 5,946	\$ 165,543	\$1,342,738	\$ 305,030
Excess of revenue over expenses	50,669	2,577	(1,399)	122	51,969	37,708
Transfer from deferred contribution	-	289,407	-	-	289,407	-
Contribution	-	-	-	-	-	1,000,000
Balance at end of year	\$1,221,918	\$ 291,984	\$ 4,547	\$ 165,665	\$1,684,114	\$1,342,738

See accompanying notes

Canadian Children's Optimist Foundation
Statement of cash flows
For the year ended September 30, 2012

	2012	2011
OPERATING ACTIVITIES		
Excess of revenue over expenditures	\$ 51,969	\$ 37,708
Adjustments for:		
Gain on sale on portfolio investments (note 3)	(14,054)	(35,717)
Unrealized loss (gain) on portfolio investments (note 3)	(32,357)	3,457
Amortization	1,399	1,049
	6,957	6,497
Changes in non cash working capital		
Decrease (increase) in accrued interest	1,256	(7,658)
Increase in dividend receivable	(1,167)	(2,559)
Decrease in contribution receivable	-	25,000
Decrease (increase) in sales taxes receivable	2,293	(3,352)
Increase (decrease) in current liabilities	1,599	(32,036)
Decrease in payable to Optimist International Foundation	(12,819)	(27,266)
Increase (decrease) in payable to Optimist International	7,664	(14,418)
Decrease (increase) in deferred costs	37,100	(57,659)
Scholarships granted, net	64,500	95,000
Scholarships paid	(101,600)	(55,000)
Increase (decrease) in deferred contributions	(323,514)	74,012
	(324,688)	(5,936)
Cash generated from (used in) operating activities	(317,731)	561
INVESTING ACTIVITIES		
Acquisition of investments	(643,458)	(1,754,326)
Proceeds on disposal of investments	595,960	716,556
Acquisition of capital assets	-	(6,995)
Increase in organization cost	-	(18,708)
	(47,498)	(1,063,473)
Cash used in investing activities	(47,498)	(1,063,473)
FINANCING ACTIVITY		
Contribution to endowment fund and		
Cash generated from financing activity	289,407	1,000,000
	(75,822)	(62,912)
NET DECREASE IN CASH	(75,822)	(62,912)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	128,359	191,271
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 52,537	\$ 128,359

See accompanying notes

Canadian Children's Optimist Foundation
Notes to the financial statements
September 30, 2012

1. GOVERNING STATUTES AND PURPOSES OF THE ORGANIZATION

The Foundation, incorporated under Part II of the Canada Corporation Act, receives and maintains funds to operate programs and activities for youth in Canada, to seek and accept real and personal property by gift, bequest, donation, legacy, purchase or otherwise and to hold and administer such property, in trust or otherwise, solely for the aforesaid objectives. It is a registered charity according to the Income Tax Act.

2. SIGNIFICANT ACCOUNTING POLICIES

Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Estimates are used when accounting for amortization, administrative expenditures and scholarships payable. Actual results could differ from such estimates.

Financial assets and liabilities

The Foundation has chosen to apply the recommendations of Section 3861, "Financial Instruments - Disclosure and Presentation", of the *CICA Handbook* with respect to the presentation and disclosure of financial instruments.

On initial recognition, all financial assets and liabilities are measured and recognized at their fair value, except for financial assets and liabilities resulting from certain related party transactions. Transaction costs from held-for-trading financial assets and liabilities are recognized in the statement of revenue and expenditures and presented under Administrative expenditures. Transaction costs from loans and receivables increase the carrying amount of the related financial assets. Transaction costs from other financial liabilities reduce the carrying amount of the related financial liabilities. Regular-way purchases or disposals of financial assets are recognized at the transaction date.

Subsequently, financial assets and liabilities are measured and recognized as follows:

Cash and cash equivalents, receivables and portfolio investments

These assets are classified as held-for-trading financial assets. They are measured at fair value and changes in fair value are recognized in the statement of revenue and expenditures.

Cash and cash equivalents include cash in bank and on deposit with broker, with a maturity of less than three months at time of purchase.

Canadian Children's Optimist Foundation
Notes to the financial statements
September 30, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts payable and accrued liabilities, amounts payable to Optimist International Foundation, amounts payable to Optimist International and scholarships payable

The accounts payable and accrued liabilities, amounts payable to Optimist International Foundation, amounts payable to Optimist International and scholarships payable are classified as other financial liabilities. They are valued at amortized cost using the effective interest method.

Organization costs

Organization costs including amounts related to the new charter, change in name of the Foundation, bylaws etc. have been recorded as organization costs.

This cost is not subject to amortization but must be written down when a permanent impairment in value occurs.

Revenue recognition

The Foundation follows the deferral method of accounting for contributions. Under this method, contributions restricted for future period expenditures are deferred and are recognized as revenue in the year in which the related expenditures 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. Endowment contributions are reported as direct increases in net assets.

Restricted interest income, including the amount applicable to endowment purposes is recognized as revenue in the year the related expenditures are incurred. Unrestricted interest income is recognized as earned. Interest income is recognized based on the number of days the investment was held during the year. Dividends are recognized as of the ex-dividend date. Realized gains or losses on the disposal of investments are determined using the average cost method.

All transaction costs related to the acquisition or disposal of investments are included in the cost of the services provided by the investment management company and accordingly included in administrative expenses.

Capital assets

Capital assets are recorded at acquisition cost. When the Foundation receives contributions of capital assets, the acquisition cost is equal to the fair value at the contribution date or to a nominal value of \$1 if the fair value cannot be reasonably determined.

Donated services

The Foundation benefits greatly from donated services in the form of volunteer work for various operating activities. The value of donated services is not recognized in the financial statements because of the difficulty of measurement.

Canadian Children's Optimist Foundation
Notes to the financial statements
September 30, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Scholarships

Contributions for Scholarships are set up as scholarships payable when received. Scholarship expense is recognized when the scholarships are paid, with the difference between the amount awarded and amount paid being recorded as deferred costs - scholarships on the statement of financial position.

Amortization of capital assets

Capital assets are amortized over their estimated useful lives on a the straight-line basis over a five-year period.

Foreign currency translation

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date, whereas other assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenue and expenditures in foreign currency are translated at the average rate in effect during the year, with the exception of revenue and expenditures relating to non-monetary assets and liabilities, which are translated at the historical rate. Gains and losses are included in the statement of operations for the year.

Future accounting changes

The CICA has approved a new accounting framework applicable to not-for-profit organizations. Effective for fiscal years beginning after January 1, 2012, not-for-profit organizations will have to choose between International Financial Reporting Standards ("IFRS") and new accounting standards for not-for-profit organizations, whichever suits them best. Early adoption of these standards is permitted. Canadian Children's Optimist Foundation has opted to use the new accounting standards for not-for-profit organizations, effective October 1, 2012.

Fair value of financial instruments

The following methods and assumptions were used to determine the estimated fair value of each class of financial instruments.

Short-term financial instruments

The fair value of the short-term financial assets and liabilities approximates their carrying amount due to their short term maturity date.

Investments

The fair value of shares and bonds is equivalent to the market value based on the closing price.

Scholarships payable

The fair value of scholarships payable is based on discounted cash flows using interest rates for loans with similar terms and conditions.

Canadian Children's Optimist Foundation
Notes to the financial statements
September 30, 2012

3. **INVESTMENT INCOME**

	2012	2011
Interest	\$ 45,683	\$ 54,456
Dividends	34,585	10,700
Gain on sale of portfolio investments	14,054	35,717
Unrealized gain (loss) on portfolio investments	32,357	(3,457)
	\$ 126,679	\$ 97,416

Income earned on investments held for endowment purposes included above is \$53,246 (\$30,527 in 2011)

4. **PORTFOLIO INVESTMENTS**

	2012		2011	
	Cost	Market Value	Cost	Market Value
Fixed income				
- Canadian	\$ 764,144	\$ 791,794	\$1,120,749	\$1,156,420
Common stock				
- Canadian	710,809	736,787	382,989	380,667
- US	113,681	116,407	105,745	103,546
	824,490	853,194	488,734	484,213
Pooled funds - Canadian	183,157	191,615	100,756	102,061
	\$1,771,791	\$1,836,603	\$1,710,239	\$1,742,694

The Foundation determines the fair value of its investments based on published price quotations in active markets. The unrealized gain on portfolio investments recognized in the year is calculated as follows:

	2012	2011
Fair value of investments	\$1,836,603	\$1,742,694
Cost of investments	1,771,791	1,710,239
Unrealized gain on portfolio investments, end of year	\$ 64,812	\$ 32,455
Change in unrealized gain on portfolio investments (note 3)	\$ 32,357	

Canadian Children's Optimist Foundation
Notes to the financial statements
September 30, 2012

4. PORTFOLIO INVESTMENTS (CON'T)

Corporate and government bonds bear interest at rates from 3.7% to 6.28 % (3.7% to 6.28% in 2011) and mature at various dates until 2020.

The investments have been managed by BMO Nesbitt Burns, RBC Dominion Value Mobilires Inc. and CIBC Wood Gundy in accordance with agreements approved by the directors of the Foundation.

5. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent operating fund contributions received which are restricted for disaster relief, childhood cancer and club programmes. These contributions are recognized as revenue in the period the related expenditures are incurred. Change in the deferred contributions balance is as follows:

	Childhood cancer	Club programmes	2012	2011
Balance, beginning of year	\$ 302,424	\$ 198,535	\$ 500,959	\$ 426,947
Contributions received	24,547	198,360	222,907	217,161
Transfer to CCC endowment fund (note 8)	(289,407)	-	(289,407)	-
Recognized as revenue during the year	(19,304)	(237,710)	(257,014)	(143,149)
Balance, end of year	\$ 18,260	\$ 159,185	\$ 177,445	\$ 500,959

6. SCHOLARSHIPS PAYABLE

Scholarships are awarded to help defray the recipients' cost of higher education. These scholarships are payable to an institution of higher learning upon the enrolment of the recipient and within 12 years of the date of the award. The amounts payable have been discounted by 3.0% (3.0% in 2011) (average prime rate) per annum over up to 12 years.

	2012		2011	
	Fair value	Carrying amount	Fair value	Carrying amount
Scholarships payable				
Oratorical contest	\$ 193,665	\$ 197,265	\$ 193,725	\$ 201,102
Essay	27,427	26,284	48,187	50,755
C.C.D.H.H.	68,348	66,196	81,383	80,148
	\$ 289,440	\$ 289,745	\$ 323,295	\$ 332,005

The amount applicable to the next fiscal year is not determinable.

Canadian Children's Optimist Foundation
Notes to the financial statements
September 30, 2012

7. CAPITAL ASSETS

	COST	ACCUMULATED AMORTIZATION	NET 2012	NET 2011
Computer software	\$ 6,995	\$ 2,448	\$ 4,547	\$ 5,946

8. RESTRICTIONS ON NET ASSETS

The net assets restricted for endowment purposes are subject to externally imposed restrictions stipulating that the resources have to be maintained permanently. Investment income earned on these funds is externally restricted for childhood cancer relief, scholarships and youth programmes.

Endowment purposes- Scholarship

During 2011, the Foundation received a donation of \$1 million to its endowment fund, to be restricted for specific purposes for no less than 10 years. The annual income will be used to provide 3 scholarships of \$3,000 each with the residual amounts transferred to the unrestricted fund. The Foundation may spend the capital of the donation if necessary, to meet annual disbursement quota under the requirements of the Income Tax Act.

Endowment purposes- Childhood Cancer Campaign (CCC)

In previous years the Foundation recorded the contributions for Childhood Cancer Campaign in deferred contributions on the statement of financial position.

During the year the directors approved the establishment of a separate endowment fund for contributions restricted for Childhood Cancer Campaign purposes.

Accordingly during the year \$289,407 was transferred from deferred contributions (note 5) to the externally restricted purposes - Childhood Cancer Campaign under net assets section of the statement of Financial Position.

In future all contributions to Childhood Cancer Campaign will be recorded in this endowment fund and the applicable funds will be included in a separate investment account, designated for this purpose.

Canadian Children's Optimist Foundation
Notes to the financial statements
September 30, 2012

9. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES, AND FINANCIAL RISKS

Financial risk management objectives and policies

The Foundation is exposed to various financial risks resulting from both its operating and investing activities. The Foundation's management manages financial risks.

The Foundation does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

Financial risks

The Foundation's main financial risk exposure and its financial risk management policies are as follows:

Interest rate risk

The investments in bonds bear interest at a fixed rate and the Foundation is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations.

The Foundation's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest.

Liquidity risk

Liquidity risk management serves to maintain a sufficient amount of cash and investments. The Foundation establishes budget and cash estimates to attain its objectives and fulfill its obligations.

Foreign exchange risk

The Foundation is exposed to foreign exchange risk due to cash, investments and accounts payable to Optimist International Foundation denominated in U.S. dollars. As at September 30, 2012, assets denominated in U.S. dollars consisting of cash and investments totalled \$122,749 (\$11,077 as at September 30, 2011) and accounts payable to Optimist International Foundation denominated in U.S. dollars totalled \$36,681 (\$46,681 as at September 30, 2011)

Credit risk

Credit risk is the risk that a counterparty to a financial instrument fails to fulfill a commitment or obligation towards the Foundation. The carrying amount of cash, and investments represents the Foundation's maximum credit risk exposure as at September 30, 2012.

Cash transactions are conducted with several reputable financial institutions, from which management believes the risk of loss is remote. The Foundation mitigates the credit risk related to its investments by ensuring that it has a diversified investment mix.

Canadian Children's Optimist Foundation
Supplementary Information
September 30, 2012

10. CAPITAL MANAGEMENT

The Foundation's capital management objectives are as follows:

- Maintain its ability to continue as a going concern
- Fulfill its financial obligations.

The Foundation defines its capital as follows:

	2012	2011
Net assets	\$1,684,114	\$1,342,738
Deferred contributions	177,445	500,959
Scholarships payable	289,745	332,005
	\$2,151,304	\$2,175,702

The Foundation manages its capital primarily by collecting funds from various contributors and managing its portfolio of investments.

The Foundation is subject to externally imposed capital requirements. These requirements are set out in certain agreements with contributors and relate to endowments and contributions restricted for specific expenses. The Foundation's management together with the Board of Directors, monitors these requirements on a regular basis. During the year, the Foundation complied with these requirements.

11. ALLOCATION

The Foundation normally charges expenses directly to the specific account except for administration expenditures which are allocated on basis of management estimates.

Canadian Children's Optimist Foundation
Supplementary Information on expenditures
September 30, 2012

	2012	2011
Donor awards and recognition		
Awards for donors	\$ 3,098	\$ 3,396
Postage and shipping costs	11,188	7,267
Administrative expenditures	12,533	11,232
	26,819	21,895
Volunteer activities		
Office of president	3,371	1,859
Board of Directors	25,805	21,794
Executive director	1,082	472
Representative expenditures and seminars	10,183	9,048
Administrative expenditures	9,823	6,656
	50,264	39,829
Special programmes		
Planned gift program	1,991	663
Administrative expenditures	5,570	4,992
	7,561	5,655
Fundraising		
Office supplies	1,362	828
Printing	566	594
Administrative expenditures	7,082	3,744
	9,010	5,166
Administrative expenditures		
General administrative expenditures	29,690	18,909
Bank charges	2,378	2,791
Exchange loss (gain)	(1,022)	10,325
Professional fees	36,197	24,315
Investment management fees	17,864	17,780
Telecommunications	844	311
Other administrative expenditures	1,207	3,258
Amortization of capital assets	1,399	1,049
	88,557	78,738