

WATARI RESEARCH ASSOCIATION

Financial Statements

Year Ended March 31, 2012

	Page
AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement of Changes in Net Assets	3
Statement of Operations	4
Statement of Cash Flows	5
Notes to the Financial Statements	6 – 11

BUCKLEY DODDS PARKER LLP

Chartered Accountants

Suite 1140 - 1185 West Georgia Street

Vancouver, B.C. Canada V6E 4E6

Telephone: (604) 688-7227

Fax: (604) 681-7716

AUDITORS' REPORT

To the Directors of Watari Research Association:

We have audited the accompanying financial statements of Watari Research Association which comprise the balance sheet as at March 31, 2012, the statements of operations, changes in net assets and cash flows for the year then ended, and notes comprising 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.

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 an audit to obtain reasonable assurance about whether the consolidated 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 our 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, we consider 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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, Watari Research Association receives revenue from donations, 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 Watari Research Association and we were not able to determine whether any adjustments might be necessary to donation revenues, excess of revenue over expenditures, 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 Watari Research Association as at March 31, 2012, and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, British Columbia
Dodds" June 25, 2012
Chartered Accountants

"Buckley

WATARI RESEARCH ASSOCIATION

Balance Sheet

As at March 31, 2012

	2012	2011
ASSETS		
CURRENT		
Cash and term deposits	\$ 198,092	\$ 55,606
Accounts receivable (Note 4)	23,513	201,501
Due from employees	5,535	4,103
HST Receivable	14,220	11,964
Prepaid expenses	8,246	20,359
	<u>249,606</u>	293,533
PROPERTY, PLANT & EQUIPMENT (Note 8)	<u>36,485</u>	47,318
	<u>\$ 286,091</u>	<u>\$ 340,851</u>
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable and accrued liabilities	\$ 27,538	\$ 40,926
Bank loans payable (Note 7)	1,108	13,108
Deferred grants and contracts (Note 6)	175,226	112,375
	<u>203,872</u>	166,409
NET ASSETS		
Available for operations	45,734	127,124
Invested in capital assets	36,485	47,318
	<u>82,219</u>	174,442
	<u>\$ 286,091</u>	<u>\$ 340,851</u>

ON BEHALF OF THE BOARD

"Michelle Fortin" Director

"Claire Benson-Mantel" Director

WATARI RESEARCH ASSOCIATION
Statement of Changes in Net Assets
Year Ended March 31, 2012

	2012		2011
BALANCE - BEGINNING OF YEAR	\$ 174,442	\$	195,216
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>(92,223)</u>		<u>(20,774)</u>
BALANCE - END OF YEAR	<u>\$ 82,219</u>	\$	<u>174,442</u>

WATARI RESEARCH ASSOCIATION**Statement of Operations****Year Ended March 31, 2012**

	2012	2011
REVENUE		
Vancouver Coastal Health Authority	\$ 1,139,107	\$ 959,511
Vancouver Aboriginal Children & Family Society	130,866	147,953
Vancouver Foundation	128,500	96,888
Community Outreach Worker	75,720	59,685
Law Foundation	70,000	72,100
Ministry of Attorney General	68,727	137,418
Donations in-kind	35,490	39,110
Other grants, donations and miscellaneous income	31,926	47,578
Service contracts	24,298	10,096
Cash donations	9,820	9,104
Oregon Research Institute	-	6,947
	<u>1,714,454</u>	<u>1,586,390</u>
EXPENSES		
Wages and benefits	1,059,965	1,028,951
Contract services	195,806	161,857
Program expenses and service costs	183,770	121,919
Bad debts	150,000	44,893
Rent and other occupancy costs	112,377	105,162
Office supplies and administration	47,107	73,948
Telecommunications	20,703	20,872
Amortization	14,921	20,215
Accounting and audit	9,601	11,531
Staff travel	4,104	4,215
Staff development	2,939	3,644
Equipment and miscellaneous repairs	1,794	7,658
Fundraising	1,739	1,799
Training programs	1,234	-
Special programs	617	500
	<u>1,806,677</u>	<u>1,607,164</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ (92,223)</u>	<u>\$ (20,774)</u>

WATARI RESEARCH ASSOCIATION

Statement of Cash Flows

Year Ended March 31, 2012

	2012	2011
OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue)	\$ (92,223)	\$ (20,774)
Non-cash items:		
Amortization	14,921	20,215
Changes in non-cash working capital		
Accounts receivable	177,987	50,741
Due from employees	(1,432)	(2,705)
HST receivable	(2,256)	(4,153)
Prepaid expenses	12,113	(734)
Accounts payable and accrued liabilities	(13,388)	16,042
Wages and benefits payable	-	(1,624)
Deferred grants and contracts	62,851	(68,511)
Cash flow from operating activities	<u>158,573</u>	<u>(11,503)</u>
INVESTING ACTIVITIES		
Purchase of capital assets	<u>(4,087)</u>	<u>(2,668)</u>
Cash flow from (used by) investing activities	<u>(4,087)</u>	<u>(2,668)</u>
FINANCING ACTIVITIES		
Bank loans payable	<u>(12,000)</u>	<u>(26,586)</u>
Cash flow from (used by) financing activities	<u>(12,000)</u>	<u>(26,586)</u>
INCREASE IN CASH FLOW	142,486	(40,757)
CASH - Beginning of year	<u>55,606</u>	<u>96,363</u>
CASH - End of year	<u><u>\$ 198,092</u></u>	<u><u>\$ 55,606</u></u>
Cash paid for:		
Interest paid	<u><u>\$ 340</u></u>	<u><u>\$ 868</u></u>

WATARI RESEARCH ASSOCIATION

Notes to the financial statements

March 31, 2012

1. NATURE OF BUSINESS

The Watari Research Association (the "Society") is a not-for-profit society incorporated under the laws of the Province of British Columbia. The Society is a registered charitable organization and is therefore exempt from tax.

The Society's objective is to provide innovative services that support positive change for high-risk populations and their communities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

In accordance with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those reported. The most significant estimates in these financial statements include accruals for services rendered but not yet invoiced.

Revenue recognition

Funding for programs comes from various sources primarily in accordance with service contracts.

The organization follows the deferral method for accounting for contributions such as charitable donations. Under this method restricted contributions are recognized in the year the corresponding expenditure is incurred and unrestricted contributions are recognized in the year they are pledged if they are deemed to be reasonably collectible.

The amortization of capital contributions is on the same basis as the capital assets to which it relates.

Measurement uncertainty

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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

WATARI RESEARCH ASSOCIATION

Notes to the financial statements

March 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions in kind

Contributions in kind for goods and services are recognized when fair values can be reasonably estimated and when the goods and services are used in the normal course of the Society's operations and would otherwise have been purchased. Because of the difficulty in determining their fair value, services contributed by volunteers are not recognized in the financial statements.

Financial Instruments

The Society classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. The Society's accounting policy for each category is as follows:

Assets held-for-trading

Financial instruments classified as assets held-for-trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income (loss) in the period during which the change occurs. Transaction costs are expensed when incurred. In these financial statements, cash has been classified as held-for-trading.

Available-for-sale investments

Financial instruments classified as available-for-sale are reported at fair value at each balance sheet date, and any change in fair value is recognized in net assets in the period in which the change occurs. In these financial statements, there are no assets classified as available-for-sale investments.

Held-to-maturity investments

Financial instruments classified as held-to-maturity are financial assets with fixed or determinable payments and fixed maturities that the organization's management has the positive intention and ability to hold to maturity. These assets are initially recorded at fair value and subsequently carried at amortized cost, using the effective interest rate method. Transaction costs are included in the amount initially recognized. In these financial statements, there are no assets classified as held-to-maturity investments.

Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method. Transaction costs are expensed when incurred. In these financial statements, accounts receivable have been classified as loans and receivables and accounts payable, accrued liabilities and bank loans have been classified as other financial liabilities.

WATARI RESEARCH ASSOCIATION

Notes to the financial statements

March 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Society is exempt from Federal and Provincial income taxes.

Property, Plant and Equipment

Capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Society's ability to provide services, its carrying amount is written down to its residual value. Capital assets are amortized over their estimated useful lives as follows:

Office equipment and furniture	20% declining balance
Computer equipment	30% – 100% declining balance
Vehicles	30% declining balance
Leasehold improvements	20% declining balance

The provision for amortization is reduced by one-half in the year of acquisition.

3. CHANGE IN ACCOUNTING FRAMEWORK

The Society is currently classified as a not-for-profit organization. The Accounting Standards Board ("AcSB") has approved new accounting standards for non-government controlled not for-profit organizations (NPOs). These accounting standards provide NPOs the option of adopting International Financial Reporting Standards or Accounting Standards for Not-For-Profit Organizations, supplemented by Accounting Standards for Private Enterprises (APSE), where required. NPOs must adopt one of these two accounting frameworks for fiscal years beginning on or after January 1, 2012. The Society intends to adopt the Accounting Standards for Not-For-Profit Organizations, supplemented by ASPE. The Society is in the process of assessing the impact of the new standards.

4. ACCOUNTS RECEIVABLE

The carrying value of accounts receivable approximates fair value because of the short maturity of these instruments and because they are subject to normal credit terms.

5. LINE OF CREDIT

The Society has a \$5,000 line of credit secured by accounts receivable.

WATARI RESEARCH ASSOCIATION

Notes to the financial statements

March 31, 2012

6. DEFERRED GRANTS AND CONTRACTS

	<u>2012</u>	<u>2011</u>
Vancouver Coastal Health Authority	\$ 57,436	\$ 22,236
BC Gaming	57,000	-
TIPPY Evaluation	6,500	10,500
TTIPS subsidy and other	54,290	79,639
	<u>\$ 175,226</u>	<u>\$ 112,375</u>

7. BANK LOANS

	<u>2012</u>	<u>2011</u>
Loan payable to CCEC with fixed interest at 3.50% per annum payable in monthly amounts of \$1,025.57 consisting of interest and principal.	\$ 1,108	\$ 13,108
	<u>\$ 1,108</u>	<u>\$ 13,108</u>

8. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2012 Net Book Value	2011 Net Book Value
Office equipment & furniture	29,127	21,934	7,193	6,994
Computer equipment	60,774	52,834	7,940	8,535
Vehicles	51,265	29,913	21,352	30,503
Leasehold improvements	10,917	10,917	-	1,286
	<u>152,083</u>	<u>115,598</u>	<u>36,485</u>	<u>47,318</u>

WATARI RESEARCH ASSOCIATION

Notes to the financial statements

March 31, 2012

9. FINANCIAL INSTRUMENTS

The Society has various financial instruments including cash and cash equivalents, accounts receivable, due from employees, GST receivable, accounts payable and accrued liabilities, wages and benefits payable, and bank loans, which are all reported at amortized cost. The Society estimates that the carrying value of cash and cash equivalents, accounts receivable, due from employees, GST receivable, accounts payable and accrued liabilities, and wages and benefits payable approximate their fair values due to their short-term nature. The Society estimates that the carrying value of bank loans payable approximates their fair values as they are interest bearing.

Interest rate risk

The bank loan with CCEC in the amount of \$15,000 bears interest at a fixed rate of 6.50%. The Society does not consider this a significant interest risk due to the fixed nature and the small amount of the loan.

Credit risk

The Society is not exposed to significant credit risk with respect to its receivables as they were substantially received by the audit report date with exception of the prior year; of which a substantial amount was from one donor. This amount has been written off in the current year (note 4).

10. CAPITAL

The Society defines its capital as the amounts included in fund balances.

The Society's objectives when managing its capital are to safeguard its assets, and its ability to continue as a going concern, while ensuring sufficient funding is available to support anticipated capital expenditures and ensuring it can continue to fulfill its mission.

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for 2012.
