Financial statements of
Kids Eat Smart Foundation Newfoundland and Labrador Inc.

July 31, 2019

Deloitte.

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Independent Auditor's Report

To the Board of Directors of
Kids Eat Smart Foundation Newfoundland and Labrador Inc.

Qualified Opinion

We have audited the financial statements of Kids Eat Smart Foundation Newfoundland and Labrador Inc. (the "Foundation"), which comprise the statement of financial position as at July 31, 2019, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at July 31, 2019, 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.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Foundation derives revenue from fundraising campaigns and other 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 the Foundation and we were not able to determine whether any adjustments might be necessary to revenues, the excess of revenues over expenses, and cash flows from operations for the years ended July 31, 2019 and 2018, current assets as at July 31, 2019 and 2018, and net assets as at August 1 and July 31 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended July 31, 2018 was modified accordingly because of the possible effects of this scope limitation.

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
November 22, 2019

Kids Eat Smart Foundation
Newfoundland and Labrador Inc.
Statement of operations
Year ended July 31, 2019

	Notes	Program and development $	Administration $	2019 $	2018 $
Revenue					
Corporate funding/donations		**1,021,439**	**—**	**1,021,439**	842,517
Government of Newfoundland and Labrador	4, 8	**485,468**	**176,188**	**661,656**	1,094,733
Interest		**—**	**6,045**	**6,045**	3,201
		1,506,907	**182,233**	**1,689,140**	1,940,451
Expenses					
Grants		**805,240**	**—**	**805,240**	1,099,159
Salaries and benefits		**423,130**	**96,283**	**519,413**	484,048
Fundraising		**135,457**	**—**	**135,457**	125,994
Other operating		**49,903**	**12,954**	**62,857**	73,120
Rent		**—**	**62,074**	**62,074**	60,019
Public education		**32,207**	**—**	**32,207**	34,308
Travel		**26,517**	**50**	**26,567**	18,183
Professional fees		**15,799**	**2,817**	**18,616**	16,236
Capacity building		**12,778**	**—**	**12,778**	14,966
Equipment leasing		**5,876**	**1,469**	**7,345**	7,790
Amortization		**—**	**3,680**	**3,680**	1,683
Insurance		**—**	**2,626**	**2,626**	2,530
Repairs and maintenance		**—**	**280**	**280**	2,415
		1,506,907	**182,233**	**1,689,140**	1,940,451
Excess of revenue over expenditures		**—**	**—**	**—**	**—**

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

Kids Eat Smart Foundation
Newfoundland and Labrador Inc.
Statement of changes in net assets
Year ended July 31, 2019

	Investment in tangible capital assets	Internally restricted	Unrestricted	2019	2018
	$	$	$	$	$
Balance, beginning of year	**3,738**	**85,000**	**88,480**	**177,218**	177,218
Amortization of tangible capital assets	**(3,680)**	**—**	**3,680**	**—**	—
Investment in tangible capital assets	**13,398**	**—**	**(13,398)**	**—**	—
Balance, end of year	**13,456**	**85,000**	**78,762**	**177,218**	177,218

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

Kids Eat Smart Foundation
Newfoundland and Labrador Inc.
Statement of financial position
As at July 31, 2019

	Notes	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents		**995,754**	564,082
Accounts receivable		**—**	20,000
Harmonized sales tax receivable		**10,610**	12,096
Prepaid expenses		**15,906**	3,337
		1,022,270	599,515
Tangible capital assets	3	**13,456**	3,738
		1,035,726	603,253
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**103,823**	103,394
Deferred contributions - Government of Newfoundland and Labrador	4	**754,685**	322,641
		858,508	426,035
Commitments	6		
Net assets			
Investment in tangible capital assets		**13,456**	3,738
Internally restricted	5	**85,000**	85,000
Unrestricted		**78,762**	88,480
		177,218	177,218
		1,035,726	603,253

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

Approved by the Board:

S E Murray ____________________, Chairperson

Jon Bott ____________________, Treasurer

Kids Eat Smart Foundation
Newfoundland and Labrador Inc.
Statement of cash flows
Year ended July 31, 2019

	Notes	2019 $	2018 $
Operating activities			
Excess of revenue over expenditures		—	—
Adjustment for:			
Amortization		**3,680**	1,683
Changes in non-cash operating working capital	7	**441,390**	(28,600)
		445,070	(26,917)
Investing activity			
Purchase of tangible capital assets		**(13,398)**	(803)
Net increase (decrease) in cash and cash equivalents		**431,672**	(27,720)
Cash and cash equivalents, beginning of year		**564,082**	591,802
Cash and cash equivalents, end of year		**995,754**	564,082

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

1. Purpose of the Foundation

Kids Eat Smart Foundation Newfoundland and Labrador Inc. (the "Foundation") partners with schools, communities, volunteers and sponsors to set up and support nutritious food programs called Kids Eat Smart Clubs, organized by volunteers for school aged children throughout Newfoundland and Labrador. The Foundation's mandate is to ensure that every school aged child in Newfoundland and Labrador attends school well-nourished to be ready to learn.

The Foundation is a not-for-profit corporation and is exempt from paying income tax under Section 149 of the Canadian Income Tax Act.

2. Significant accounting policies

The financial statements of the Foundation have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") in Part III of the Chartered Professional Accountants ("CPA") of Canada Handbook and reflect the following significant accounting policies:

Basis of presentation and fund accounting

The Foundation follows fund accounting classifying net assets as either internally restricted or unrestricted.

Unrestricted

The unrestricted net assets include the operating assets and liabilities of the Foundation. Unrestricted revenues are recognized as revenue in the year received or receivable.

Internally restricted

The Foundation has appropriated funds to be set aside to fund six months of budgeted operating expenses.

Revenue recognition

The Foundation 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 received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Contributed services

Volunteers contribute a significant number of hours per year to assist the Foundation in carrying out its objectives. In addition, the Foundation receives donated materials and services throughout the year. These contributions are only recognized in the financial statements when the fair value can be reasonably determined.

Cash and cash equivalents

Cash and cash equivalents includes cash and short-term investments in money market instruments with original maturities of three months or less.

2. Significant accounting policies (continued)

Tangible capital assets

Tangible capital assets are recorded at cost. Amortization is based on their estimated useful life using the following methods and rates:

Computers	Declining balance	30%
Furniture and equipment	Declining balance	20%

Employee future benefits

The Foundation participates in a defined contribution plan for certain employees. The Foundation's contributions are expensed in the year the contributions are made. During the year, the Foundation contributed $13,436 (2018 - $10,369) to the defined contribution pension plan, fully matching employee contributions up to 5% of their salary.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Foundation becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost.

Transaction costs related to financial instruments measured subsequent to initial recognition at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

With respect to financial assets measured at cost or amortized cost, the Foundation recognizes in net earnings an impairment loss, if any, where there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to net earnings in the period the reversal occurs.

Allocation of expenses

The Foundation records its expenses by function: Program and Development and Administration.

Salaries and benefits are allocated based on a predetermined percentage allocation being 81% for Program and Development and 19% for Administration.

Other operating expenses consist of the following:

- Grants, designated gifts, public education and capacity building: allocated 100% to Program and Development
- Fundraising expense: allocated 100% to Program and Development
- Other operating expenses: allocated 79% to Program and Development and 21% to Administration.
- Equipment leasing: allocated 80% to Program and Development and 20% to Administration.
- Professional fees: allocated 85% to Program and Development and 15% to Administration.

2. Significant accounting policies (continued)

Allocation of expenses

The remaining expenses included in both functions are allocated based on the nature of expenses incurred.

Use of estimates

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Key components of the financial statements requiring management to make estimates include the useful life and amortization of tangible capital assets, allocation of expenses and accrued liabilities. Actual results could differ materially from those estimates.

3. Tangible capital assets

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
	$	$	$	$
Computers	**34,546**	**25,360**	**9,186**	2,865
Furniture and equipment	**9,919**	**5,649**	**4,270**	873
	44,465	**31,009**	**13,456**	3,738

4. Deferred contributions – Government of Newfoundland and Labrador

Deferred contributions represent unspent resources, which are externally restricted for program development purposes, and operating funding related to subsequent periods. Changes in the deferred contributions balance are as follows:

	2019	2018
	$	$
Balance, beginning of year	**322,641**	323,674
Add: Funding received in the current year	**1,093,700**	1,093,700
Less: Revenue recognized in the current year	**(661,656)**	(1,094,733)
Balance, end of year	**754,685**	322,641

5. Internally restricted net assets

The Foundation has restricted a portion of its net assets as a reserve to help cover the estimated costs that would be incurred if the Foundation was to cease operations. The amount restricted represents management's best estimate of an appropriate reserve.

6. Commitments

Future lease payments for office rent and equipment for each of the next four years are as follows:

	$
2020	62,839
2021	62,839
2022	62,839
2023	42,759

7. Supplemental cash flow information

	2019	2018
	$	$
Changes in non-cash operating working capital		
Accounts receivable	**20,000**	(10,000)
Harmonized sales tax receivable	**1,486**	(2,457)
Prepaid expenses	**(12,569)**	857
Accounts payable and accrued liabilities	**429**	(5,967)
Deferred contributions - Gala	**—**	(10,000)
Deferred contributions - Government of Newfoundland and Labrador	**432,044**	(1,033)
	441,390	(28,600)

8. Economic dependence

Approximately 39% (2018 – 56%) of revenue for the year ended July 31, 2019, related to grants received from the Government of Newfoundland and Labrador (the "Province"). These grants are used to fund food programs in schools and community centres and the administration of the Foundation.

The current year reduction in revenue related to grants received from the Province and is attributed to a significant one-time donation and a current year change by President's Choice Children's Charity in the administration of their program. While both events reflect positively to the Foundation's mandate, they were unanticipated and do not add certainty to the Foundation's economic dependence beyond grants received from the Province.

9. Financial instruments

Financial risk factors

The Foundation has exposure to liquidity risk and market risk. The Foundation's Board of Directors has overall responsibility for the oversight of these risks and reviews the Foundation's policies on an ongoing basis to ensure that these risks are appropriately managed. The source of risk exposure and how each is managed is outlined below:

9. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Foundation will not be able to meet its financial obligations as they become due. As at July 31, 2019, the Foundation had cash and cash equivalents of $995,754 (2018 - $564,082), which is sufficient to cover its short-term financial obligations of $858,508 (2018 - $426,035).

To the extent that the Foundation does not believe that it has sufficient liquidity to meet current obligations, consideration will be given to obtaining additional funds through third party grants or other fundraising methods, assuming these can be obtained.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and equity prices will affect the Foundation's revenue and expenses and the value of its financial instruments. The Foundation is not subject to foreign exchange and price risk.

Interest rate risk

The cash equivalents bear interest at variable rates. Consequently, the Foundation is exposed to interest rate risk. The Foundation's management does not actively manage this risk as the Foundation does not believe the risk is significant.