

**SLEEPING CHILDREN AROUND THE WORLD
CONSOLIDATED FINANCIAL STATEMENTS**

February 28, 2017

INDEPENDENT AUDITOR'S REPORT

To the Directors

SLEEPING CHILDREN AROUND THE WORLD

We have audited the accompanying consolidated financial statements of Sleeping Children Around The World, which consist of the consolidated statement of financial position as at February 28, 2017 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Basis of Qualified Opinion

In common with many charitable organizations, the Organization derives revenue from donations, the completeness of which is not susceptible to complete verification by audit procedures. Accordingly, our examination of these revenues was confined to tests of recorded receipts in authorized depositories. We were not able to determine whether any adjustments may be required to donations, excess of revenues over expenditures, current assets and net assets.

Qualified Opinion

In our opinion, except for the effects of the adjustments and disclosures in the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Sleeping Children Around The World as at February 28, 2017, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Mississauga, Ontario

August 22, 2017

Chartered Professional Accountants

Licensed Public Accountants

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Sleeping Children Around The World
Consolidated Statement of Financial Position

As at February 28, 2017

	Operating Account	Capital Assets	Bedkit Account	Legacy Account	Pinehurst Club	2017 Total	2016 Total
ASSETS							
Current:							
Cash	\$ 16,413	\$ -	\$ 574,719	\$ 416,117	\$ 41,648	\$ 1,048,897	\$ 579,866
Prepaid expenses	-	-	-	-	9,000	9,000	12,673
Accrued interest	-	-	-	44,632	-	44,632	41,824
Marketable securities (Schedule 1)	-	-	-	343,415	-	343,415	752,306
Interaccount receivables (payables) (Note 3)	<u>(14,860)</u>	<u>-</u>	<u>395,870</u>	<u>(378,972)</u>	<u>(2,038)</u>	<u>-</u>	<u>-</u>
	1,553	-	970,589	425,192	48,610	1,445,944	1,386,669
Marketable securities (Schedule 1)	-	-	-	3,603,220	-	3,603,220	2,894,429
Property and building (Note 4)	-	269,000	-	-	-	269,000	277,000
Computer software (Note 4)	<u>11,716</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,716</u>	<u>17,574</u>
Total Assets	<u>\$ 13,269</u>	<u>\$ 269,000</u>	<u>\$ 970,589</u>	<u>\$ 4,028,412</u>	<u>\$ 48,610</u>	<u>\$ 5,329,880</u>	<u>\$ 4,575,672</u>
LIABILITIES							
Accounts payable and accruals	\$ 7,775	\$ -	\$ -	\$ -	\$ -	\$ 7,775	\$ 7,796
Deferred revenue (Note 5)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,150</u>	<u>36,150</u>	<u>30,000</u>
	<u>7,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,150</u>	<u>43,925</u>	<u>37,796</u>
NET ASSETS							
Reserve fund	-	269,000	970,589	4,028,412	12,460	5,280,461	4,536,563
Operating fund	<u>5,494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,494</u>	<u>1,313</u>
Total Net Assets	<u>5,494</u>	<u>269,000</u>	<u>970,589</u>	<u>4,028,412</u>	<u>12,460</u>	<u>5,285,955</u>	<u>4,537,876</u>
Total Liabilities and Net Assets	<u>\$ 13,269</u>	<u>\$ 269,000</u>	<u>\$ 970,589</u>	<u>\$ 4,028,412</u>	<u>\$ 48,610</u>	<u>\$ 5,329,880</u>	<u>\$ 4,575,672</u>

Director _____

Treasurer _____

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

Sleeping Children Around The World
Consolidated Statement of Operations

For the year ended February 28, 2017

	Operating Account		Capital Assets		Bedkit Account		Legacy Account		Pinehurst Club	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues:										
Regular donations	\$ -	\$ -	\$ -	\$ -	\$ 2,372,469	\$ 2,147,291	\$ -	\$ -	\$ 196,266	\$ 203,925
Large estate donations	-	-	-	-	376,107	-	-	-	-	-
Sales	2,107	1,460	-	-	448	-	-	-	-	-
Investment income	13	-	-	-	-	431	76,625	108,238	-	-
	<u>2,120</u>	<u>1,460</u>	<u>-</u>	<u>-</u>	<u>2,749,024</u>	<u>2,147,722</u>	<u>76,625</u>	<u>108,238</u>	<u>196,266</u>	<u>203,925</u>
Expenditures:										
Postage	19,226	28,041	-	-	-	-	-	-	-	-
Administrative services	49,001	49,016	-	-	-	-	-	-	-	-
Pinehurst Club breakfast	-	-	-	-	-	-	-	-	49,050	49,189
Maintenance and janitorial	2,029	666	-	-	-	-	-	-	-	-
Insurance	41	11,126	-	-	-	-	-	-	-	-
Bank charges	22,524	22,357	-	-	-	-	-	103	2,305	2,352
Office and printing	29,945	20,314	-	-	-	-	-	-	-	-
Property taxes	7,285	7,331	-	-	-	-	-	-	-	-
Utilities	4,527	4,281	-	-	-	-	-	-	-	-
Communications	3,127	6,456	-	-	-	-	-	-	-	-
Professional fees	6,526	7,749	-	-	-	-	-	-	-	-
HST refund	(5,533)	(2,187)	-	-	-	-	-	-	-	-
Distributions (Schedule 2)	-	-	-	-	2,065,000	2,135,000	-	-	-	-
Amortization (Note 4)	5,858	5,858	8,000	8,000	-	-	-	-	-	-
Foreign exchange loss (gain)	3,382	158	-	-	3,663	(1,748)	-	-	-	-
	<u>147,938</u>	<u>161,166</u>	<u>8,000</u>	<u>8,000</u>	<u>2,068,663</u>	<u>2,133,252</u>	<u>-</u>	<u>103</u>	<u>51,355</u>	<u>51,541</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (145,818)</u>	<u>\$ (159,706)</u>	<u>\$ (8,000)</u>	<u>\$ (8,000)</u>	<u>\$ 680,361</u>	<u>\$ 14,470</u>	<u>\$ 76,625</u>	<u>\$ 108,135</u>	<u>\$ 144,911</u>	<u>\$ 152,384</u>

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

Sleeping Children Around The World
Consolidated Statement of Changes in Net Assets
For the year ended February 28, 2017

	Operating Account	Reserve Funds			Pinehurst Club	Total Reserve Funds	2017 Total	2016 Total
		Capital Assets	Bedkit Account	Legacy Account				
Net assets, beginning of year	\$ 1,312	\$ 277,000	\$ 287,228	\$ 3,949,801	\$ 22,535	\$ 4,536,564	\$ 4,537,876	\$ 4,430,593
Excess (deficiency) of revenues over expenditures	(145,818)	(8,000)	680,361	76,625	144,911	893,897	748,079	107,283
Legacy Account to other accounts (Note 3)	150,000	-	3,000	(153,000)	-	(150,000)	-	-
Pinehurst Club to Legacy Account (Note 3)	-	-	-	154,986	(154,986)	-	-	-
Net Assets, end of year	<u>\$ 5,494</u>	<u>\$ 269,000</u>	<u>\$ 970,589</u>	<u>\$ 4,028,412</u>	<u>\$ 12,460</u>	<u>\$ 5,280,461</u>	<u>\$ 5,285,955</u>	<u>\$ 4,537,876</u>

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

Sleeping Children Around The World
Consolidated Statement of Cash Flows

For the year ended February 28, 2017

	2017	2016
Cash flow was provided from (applied to):		
Operating activities:		
Cash received from donations and other activities	\$ 2,954,160	\$ 2,386,508
Cash paid for bedkits and operating expenses	(2,258,448)	(2,343,795)
Interest received	<u>75,397</u>	<u>100,000</u>
	<u>771,109</u>	<u>142,713</u>
Investing activities:		
Purchases of marketable securities	(1,250,680)	(657,904)
Proceeds from marketable securities	<u>948,602</u>	<u>208,424</u>
	<u>(302,078)</u>	<u>(449,480)</u>
Increase (decrease) in cash	469,031	(306,767)
Cash, beginning of year	<u>579,866</u>	<u>886,633</u>
Cash, end of year	<u>\$ 1,048,897</u>	<u>\$ 579,866</u>

These accompanying notes are an integral part of these consolidated financial statements

Sleeping Children Around The World
Schedule 1: Consolidated Schedule of Investments

As at February 28, 2017

Marketable Securities		2017 Cost	2016 Cost
Province of Ontario	4.2% due March 8, 2018	\$ 276,081	\$ 276,081
Enbridge	5.0% due August 9, 2016	-	267,860
Canada Housing Trust	4.1% due December 15, 2018	207,710	207,710
Province of New Brunswick	4.45% due March 26, 2018	175,695	175,695
Province of Quebec	4.5% due December 1, 2017	172,678	172,678
Hydro One Inc.	4.40% due June 1, 2020	166,530	166,530
Brookfield Asset Management Inc	5.04% due March 8, 2024	164,336	164,336
GE Capital	5.1% due June 1, 2016	-	160,296
Telus Corp.	3.20% due April 5, 2021	152,330	152,330
Royal Bank of Canada	3.66% due January 25, 2017	-	152,154
Thomson Reuters Corp	3.309% due Nov 12, 2021	150,770	150,770
Province of Quebec	4.5% due December 1, 2019	148,210	148,210
GIC Equitable Bank	2.15% due July 8, 2016	-	100,000
GIC Manulife Trust	2.10% due August 2, 2016	-	100,000
GIC Home Trust Company	2.10% due March 20, 2017	100,000	100,000
GIC Manulife Trust	2.62% due August 1, 2019	100,000	100,000
Manulife Financial	Money Market Investment Savings Account	17,761	150,025
Industrial Alliance	2.64% due February 23, 2027	150,612	79,992
Wells Fargo Finance Canada	3.46% due Jan.24, 2023	158,343	158,343
Enbridge	4.77% due Sept. 2, 2019	165,490	165,490
BNS Investment Savings	Money Market Investment Savings Account	52,976	100,006
Bank of Montreal	4.609% due September 10, 2025	117,367	-
Toronto Ont	3.5% due Dec. 6, 2021	112,132	112,132
GIC Laurentian Bank	1.92% due Apr.1, 2019	100,000	100,000
GIC Montreal Trust	2.2% due May 1, 2020	100,000	100,000
GIC National Trust	2.2% due May 1, 2020	100,000	100,000
GIC Vancity (Citizens Trust) Cashable	1.25% due Oct. 17, 2016	-	43,000
BCE Inc.	3.35% due March 22, 2023	157,692	-
Canadian Western Bank	2.788% due September 13, 2021	101,635	-
CI Financial Corp.	2.645% due December 7, 2020	150,765	-
Husky Energy Inc.	3.55% due March 12, 2025	154,006	-
Interpipe Inc.	3.776% due May 20, 2022	107,650	-
Brookfield Asset Management Inc.	4.82% due January 28, 2026	161,565	-
GIC Equitable Bank	1.75% due October 5, 2020	100,000	-
GIC Home Trust Company	2.3% due May 6, 2021	100,000	-
GIC People's Trust	1.8% due October 4, 2021	100,000	-
		<u>4,022,334</u>	<u>3,703,638</u>
Amortization of bond premium		<u>(75,699)</u>	<u>(56,903)</u>
		3,946,635	3,646,735
Securities maturing within a year		<u>(343,415)</u>	<u>(752,306)</u>
Securities maturing after a year		<u>\$ 3,603,220</u>	<u>\$ 2,894,429</u>
Market value of marketable securities		<u>\$ 4,103,120</u>	<u>\$ 3,769,728</u>

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

Sleeping Children Around The World
Schedule 2: Consolidated Schedule of Bedkit Funding
For the year ended February 28, 2017

	2017	2016
Kenya	\$ 140,000	\$ 175,000
Sri Lanka	140,000	157,500
Bangladesh	210,000	210,000
India	700,000	752,500
Philippines	175,000	175,000
Togo	175,000	175,000
Tanzania	175,000	175,000
Honduras	140,000	140,000
Zimbabwe	17,500	-
Uganda	<u>192,500</u>	<u>175,000</u>
	<u>\$ 2,065,000</u>	<u>\$ 2,135,000</u>
 Total number of bedkits funded (Note 5)	 <u>59,000</u>	 <u>61,000</u>

These accompanying notes are an integral part of these consolidated financial statements

Sleeping Children Around The World

Notes to Consolidated Financial Statements

For the year ended February 28, 2017

1. Purpose of the Organization

Sleeping Children Around the World (the "Organization") is a federally-incorporated charity and qualifies as a not-for-profit organization that is exempt from taxation under provisions of the Income Tax Act (Canada).

The Organization's objectives are:

- To provide bedkits, consisting of a mat, pillow, sheet, blanket, mosquito net, clothing and school supplies to children in need in underdeveloped and developing countries around the world
- To maximize the number of bedkits distributed annually based on the current level of donations and
- To safeguard the Organization's ability to continue to fulfill its mandate over the long-term.

To achieve the above objectives, the Organization's policy with respect to managing its capital is as follows:

- Bedkit donations are monitored relative to the planned number of bedkits to be distributed. Any temporary surplus cash held in the Bedkit Account is at all times invested based on the requirements for preservation of capital, income and liquidity.
- The Legacy Account generates investment income to pay operating expenses. The account is maintained at a minimum threshold balance approved by the Board of Directors to ensure the Organization's long-term viability. The Board may, at its discretion, make capital withdrawals from the account to purchase bedkits or pay expenses, so long as any such withdrawal does not cause the total market value of the account to fall below the minimum threshold balance, which is currently at \$3,400,000.
- Funds are invested in accordance with prudent and sound investment policies. Given the need for investment income to cover the Organization's expenses, funds held in the Legacy Account are at all times invested based on the requirements for preservation of capital, income and liquidity.
- The Pinehurst Club Account was established to generate funds to supplement the Legacy Account and help ensure that 100% of bedkit donations are used for bedkits.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO), which are part of Canadian generally accepted accounting principles, and include the following significant accounting policies:

Basis of consolidation

These consolidated financial statements include the assets, liabilities and operating results for the Organization and Sleeping Children Around the World-USA, Inc. (SCAW USA). SCAW USA has the same Board of Directors as the Organization and is considered to be controlled by the Organization. Transactions between the organizations have been eliminated on consolidation.

SCAW USA was established in 2010 as a Massachusetts corporation organized exclusively for charitable purposes and is exempt from taxation under the Internal Revenue Code in the United States. The purpose of SCAW USA is the same as SCAW as described above. For the year ended February 29, 2017, SCAW USA raised U.S. \$32,250 (2016 - \$20,929) in bedkit donations and had a balance of U.S. \$57,861 (2016 - \$26,583) held in cash at year end.

Sleeping Children Around The World

Notes to Consolidated Financial Statements

For the year ended February 28, 2017

2. **Summary of significant accounting policies** *(Continued from previous page)*

Fund Accounting and basis of reporting

The Organization reports using fund accounting and maintains five reserve funds:

Operating Account - The Organization utilizes this account to pay operating expenses to fulfil its mandate.

Bedkit Account - Established at inception as an account to be used solely for the provision of bedkits under the Organization's mandate. Large estate donations of \$100,000 or more are shown separately from regular donations.

Legacy Account - Established at inception to provide funds for the Operating Account for use by the Organization in fulfilling its mandate. \$3,000 of earned interest from a \$50,000 donation in prior years is stipulated to be used annually to buy bedkits.

Large bequests, donated to fund bedkits, can not always be utilized for that purpose in the year received. In such cases, the bequest may be temporarily invested in the Legacy Account to optimize investment income. The bequest, along with interest earned, will be used to fund bedkits as soon as practical. The amount of any such bequests held in the Legacy Account is shown as an Interaccount payable to the Bedkit Account.

Except as noted above, interest earned in this account is used for operations. Legacy Account funds not required to pay operating expenses may, with the approval of the Board of Directors, be transferred to either the Bedkit Account or the Operating Account with the condition that, after any such transfer, there would remain in the Legacy Account a minimum threshold balance of net assets of at least \$3,400,000.

Capital Assets - Exists to finance the purchase of the property, building, computer software and the related amortization.

Pinehurst Club - Established in 2008 by a group of business leaders to raise awareness and funds for the Legacy Account.

Revenue recognition

The Organization follows the restricted fund method for contributions, in which restricted contributions are recognized when they are received in the fund corresponding to the purpose for which they were donated.

Investment income earned on marketable securities is recognized as revenue of the appropriate fund in the year when earned.

Bedkit funding distributions

The Organization recognizes bedkits as having been distributed at the time the funding for the bedkits is transferred to the Organization's representatives in recipient countries.

Contributed services

Volunteers contribute their time to assist the Organization in carrying out its community service activities. Contributed services are not recognized in the consolidated financial statements because of the difficulty in determining their fair value.

Sleeping Children Around The World

Notes to Consolidated Financial Statements

For the year ended February 28, 2017

2. Significant accounting policies (Continued from previous page)

Financial instruments

The Organization recognizes its financial instruments when the Organization becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value.

At initial recognition, the Organization may irrevocable elect to subsequently measure any financial instruments at fair value. The Organization has not elected to carry any financial instruments at fair value during the year.

The Organization's Financial instruments include cash, accrued interest, accounts receivable and marketable securities and accounts payable and accruals. Cash is subsequently measured at fair value, while the other financial instruments are subsequently measured at amortized cost, except for marketable securities as disclosed in the consolidated schedule of investments.

Capital assets

Capital assets are stated at cost less accumulated amortization. Capital assets are amortized over their estimated useful lives at the following rates and methods.

	Method	Rate
Building	straight-line	25 Years
Computer software	declining-balance	20 %

Foreign currency translation

Monetary assets and liabilities are translated at currency exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average rates prevailing during the period, except for amortization, which is translated at historical exchange rates. Translation gains and losses for the year are reflected in the consolidated statement of operations.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 consolidated financial statements, and the reported revenues and expenditures during the reporting period.

Amortization is based on the estimated useful lives of capital assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

3. Interaccount transfers

During the year, the sum of \$150,000 (2016 - \$97,435) was transferred from the Legacy Account to the Operating Account to assist the Organization in fulfilling its mandate. The sum of \$3,000 (2016 - \$3,000) was transferred from the Legacy Account to the Bedkit Account to purchase bedkits. The sum of \$154,986 (2016 - \$159,717) was transferred from the Pinehurst Club to the Legacy Account. Interaccount balances are unsecured, interest-free and currently due.

Sleeping Children Around The World
Notes to Consolidated Financial Statements

For the year ended February 28, 2017

4. Property, building and computer software

	2017		2016	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 205,000	\$ -	\$ 205,000	\$ -
Building	<u>200,000</u>	<u>136,000</u>	<u>200,000</u>	<u>128,000</u>
	<u>\$ 405,000</u>	<u>\$ 136,000</u>	<u>\$ 405,000</u>	<u>\$ 128,000</u>
Net book value		<u>\$ 269,000</u>		<u>\$ 277,000</u>
Computer software	<u>\$ 29,290</u>	<u>\$ 17,574</u>	<u>\$ 29,290</u>	<u>\$ 11,716</u>
Net book value		<u>\$ 11,716</u>		<u>\$ 17,574</u>

Total amortization expensed during the year was \$13,858 (2016 - \$13,858).

5. Deferred revenue

Deferred revenue for year 2017 is \$36,150 (2016 - \$30,000). Deferred revenue represents the balance at year-end of unearned revenues stemming from payments for events that have not yet occurred. Restricted contributions are recognized when they are received in the fund corresponding to the purpose for which they were donated.

6. Financial instruments risk management

The Organization's investment activities expose it to a variety of financial risks. The Board seeks to minimize these risks by utilizing professional advisors and by monitoring the investment activities and diversifying the investment portfolio within the constraints of the investment guidelines and objectives. The investment portfolio is comprised of cash and cash equivalents and fixed income securities.

Interest rate risk

Interest rate risk arises on interest bearing financial instruments held in the investment portfolio such as bonds. The Organization is exposed to the risk that the value of interest bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates.

Foreign currency risk

Foreign currency risk is the risk that a variation in the exchange rates between the Canadian dollar and foreign currencies will affect the Organization's operating and financial results. SCAW USA holds donations and transfers received in U.S. funds until disbursed and accordingly is exposed to currency risk when reported in Canadian dollars. As at February 29, 2017, SCAW USA held U.S. funds of \$57,861 (2016 - \$26,583).