

Consolidated financial statements of

Kids Help Phone

December 31, 2008

Auditors' Report

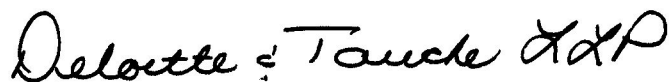
To the Members of
Kids Help Phone

We have audited the consolidated balance sheet of Kids Help Phone as at December 31, 2008 and the consolidated statements of revenue and expenses, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many charitable organizations, the Organization derives the majority of its revenue from the general public in the form of revenue from donations, sponsorship, special events and promotions, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the accounting for the amounts recorded in the records of the Organization and we were unable to determine whether any adjustments might be necessary to revenue from donations, sponsorship, special events and promotions, excess of revenue over expenses, assets and fund balances.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenues referred to in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants
February 20, 2009

Kids Help Phone

December 31, 2008

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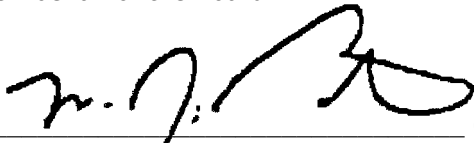
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Kids Help Phone

Consolidated balance sheet
as at December 31, 2008

	2008	2007
	\$	\$
Assets		
Current		
Cash	1,804,748	1,232,977
Short-term investment (Note 5a)	541,434	951,712
Accounts receivable	330,538	393,990
Prepaid expenses and other	172,025	217,697
	2,848,745	2,796,376
Restricted investments (Note 5b)		
Scholarship Fund	15,991	15,991
Kyra Field Memorial Fund	57,372	55,685
Operating Reserve Fund	1,490,136	1,408,187
Futures Campaign Fund	456,390	510,392
	2,019,889	1,990,255
Capital assets (Note 6)	325,650	434,226
	5,194,284	5,220,857
Liabilities		
Current		
Accounts payable and accrued liabilities	455,422	572,602
Deferred revenue (Note 7)	551,210	618,215
Obligation under capital leases - current (Note 8)	26,176	22,344
	1,032,808	1,213,161
Deferred capital contribution (Note 9)	1,572	2,079
Obligation under capital leases (Note 8)	27,423	53,660
	1,061,803	1,268,900
Fund balances (Note 4)		
Operating fund		
General	2,061,425	1,823,736
Invested in capital assets	270,479	356,143
Operating reserve fund	1,270,824	1,190,010
Futures campaign fund	456,390	510,392
Other externally restricted funds	73,363	71,676
	4,132,481	3,951,957
	5,194,284	5,220,857

On behalf of the Board



Jerry Patava Chair of the Board



Kerry Arbour Treasurer

Kids Help Phone

Consolidated statement of revenue and expenses
year ended December 31, 2008

	2008			2007
	Operating Fund	Restricted Funds	Total	Total
	\$	\$	\$	\$
Revenue				
Events	6,083,042	-	6,083,042	6,538,170
General donations and grants	3,638,638	1,644,893	5,283,531	4,236,312
Corporate promotions	366,017	-	366,017	316,982
Program sponsorship	332,033	-	332,033	265,893
Interest	60,489	12,807	73,296	133,072
Other	36,356	-	36,356	32,134
	10,516,575	1,657,700	12,174,275	11,522,563
Expenses				
Service costs				
Kids Help Phone	6,069,855	-	6,069,855	5,583,779
Student Ambassador	417,803	-	417,803	426,214
Direct fundraising - Schedule	3,753,405	-	3,753,405	3,669,351
General and administrative				
- Schedule	610,290	101	610,391	573,679
Donor development - Schedule	405,659	389,566	795,225	829,870
Amortization of capital assets	173,879	-	173,879	155,368
Rent	208,264	-	208,264	196,297
Interest on obligation under				
capital leases	8,672	-	8,672	10,770
Scholarship	-	1,000	1,000	1,000
	11,647,827	390,667	12,038,494	11,446,328
Excess of revenue over expenses (expenses over revenue)	(1,131,252)	1,267,033	135,781	76,235

Kids Help Phone

Consolidated statement of changes in fund balances
year ended December 31, 2008

						2008	2007
	Operating Fund		Internally Restricted Fund		Externally Restricted Fund		
	General	Capital assets	Operating Reserve Fund	Futures campaign	Other Externally Restricted Funds	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Accumulated excess(deficiency) of revenue over expenses, beginning of year	1,823,736	356,143	1,225,202	510,392	71,676	3,987,149	3,910,914
Excess (deficiency) of revenue over expenses	(957,871)	(173,372)	-	1,265,337	1,687	135,781	76,235
Interfund transfers	1,283,268	-	36,071	(1,319,339)	-	-	-
Purchase of capital assets	(65,303)	65,303	-	-	-	-	-
Capital lease obligation payment	(22,405)	22,405	-	-	-	-	-
Accumulated excess(deficiency) of revenue over expenses, end of year	2,061,425	270,479	1,261,273	456,390	73,363	4,122,930	3,987,149
Unrealized gain (loss) reported directly in the statement of changes in net assets, beginning of year	-	-	(35,192)	-	-	(35,192)	-
Adjustments to reflect changes in accounting policies regarding investments	-	-	-	-	-	-	(16,244)
Reclassification for losses and (gains) recognized in the statement of operations	-	-	7,690	-	-	7,690	-
Change in unrealized gain (loss) on investments during the year	-	-	37,053	-	-	37,053	(18,948)
Unrealized gain(loss) reported directly in the statement of changes in net assets, end of year	-	-	9,551	-	-	9,551	(35,192)
Fund balances, December 31, 2008	2,061,425	270,479	1,270,824	456,390	73,363	4,132,481	3,951,957

Kids Help Phone

Consolidated statement of cash flows year ended December 31, 2008

	2008	2007
	\$	\$
Net inflow (outflow) of cash related to the following activities		
Operating		
Excess of revenue over expenses	135,781	76,235
Items not affecting cash		
Amortization of capital assets	173,879	155,368
Loss on disposal of capital assets		-
Amortization of deferred capital contributions	(507)	(636)
Loss sale of investments	7,690	-
	316,843	230,967
Changes in non-cash working capital items		
Accounts receivable	63,452	257,833
Prepaid expenses and other	45,672	(85,107)
Accounts payable and accrued liabilities	(117,180)	84,763
Deferred revenue	(67,005)	466,837
	241,782	955,294
Investing		
Decrease in short-term investments	410,278	30,906
Purchase of capital assets (net of deferred capital contribution of \$Nil (2007 - \$899)	(65,303)	(144,011)
Kyra Field Memorial Fund - increase in investments	(1,687)	2,673
Operating Reserve Fund - increase in investments	(81,949)	(59,172)
Futures Campaign Fund - decrease in investments	54,002	(308,187)
Change in unrealized gain on investments	37,053	(35,192)
	352,394	(512,983)
Financing		
Capital lease obligations assumed	-	16,056
Payment under capital lease obligations	(22,405)	(17,455)
	(22,405)	(1,399)
Net increase in cash	571,771	440,912
Cash, beginning of year	1,232,977	792,065
Cash, end of year	1,804,748	1,232,977
Supplemental cash flows information		
Cash interest paid	11,534	12,671

Kids Help Phone

Notes to the consolidated financial statements

December 31, 2008

1. Description of the organization

The Organization is comprised of Kids Help Phone ("KHP") and Kids Help Foundation ("KHF"). All of the directors of Kids Help Foundation are also directors of Kids Help Phone.

The mandate of Kids Help Phone is to provide anonymous and confidential professional counseling, referrals and information through technologically-based communications media for Canadian children and youth.

The mandate of Kids Help Foundation, a registered charitable organization, is to improve the health and welfare of Canadian children and their families.

Kids Help Phone and Kids Help Foundation are classified as registered charities under the Income Tax Act and, as such, are not subject to income tax provided certain disbursement requirements are met.

2. Change in accounting policy

On January 1, 2008, Kids Help Phone adopted "Capital Disclosures, Section 1535". The adoption of this new standard has not resulted in any change in how the Organization accounts for its transactions, but does require additional disclosure, which is presented in Note 14.

On April 23, 2008, the Canadian Institute of Chartered Accountants ("CICA") amended Section 3855, "Financial Instruments – Recognition and Measurement" of the CICA Handbook to allow not-for-profit organizations to elect to not have to account for certain non-financial contracts as derivatives under Section 3855 and also to not have to account for certain derivative features embedded in non-financial contracts, leases and insurance contracts as embedded derivatives under Section 3855. These amendments to Section 3855 apply to fiscal years beginning on or after August 1, 2008, with earlier adoption permitted.

The Organization has elected to early adopt these amendments to Section 3855 effective for its fiscal year beginning on January 1, 2008. This change in accounting policy is required to be applied retrospectively with restatement of prior years. As the Organization did not have any non-financial contracts that were required to be accounted for as derivatives under Section 3855, nor any derivative features embedded in non-financial contracts, leases and insurance contracts that were required to be accounted for as embedded derivatives under Section 3855, this change in accounting policy did not have an impact on the current or prior year's financial statements.

3. Significant accounting policies

Financial statement presentation

These financial statements are presented on a consolidated basis and include the accounts of Kids Help Phone and Kids Help Foundation. The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Canadian Institute of Chartered Accountants, using the restricted fund method of reporting restricted contributions.

Revenue recognition

Corporate and sponsorship revenue is recorded in the year to which it relates if the receipt is reasonably assured. Donations revenue is recorded when received. Receipted gifts-in-kind are recognized as revenue and expense when received.

Revenue relating to special events or programs which have not yet occurred is recorded as deferred revenue and recognized as revenue in the year the events occur or program expenses are incurred.

Kids Help Phone

Notes to the consolidated financial statements

December 31, 2008

3. Summary of significant accounting policies (continued)

Financial instruments

The Organization has classified its financial instruments as follows:

<u>Asset/liability</u>	<u>Category</u>
Cash	Held-for-trading
Short-term investments	Held-for-trading
Accounts receivable	Loans and receivables
Restricted investments	Available for sale
Accounts payable and accrued liabilities	Other liabilities

Held-for-trading items are carried at fair value, with changes in their fair value recognized in the Statement of revenue and expenses in the current period. Available for sale items are carried at fair value and recognized in the Statement of changes in fund balances. "Loans and receivables" are carried at amortized cost, using the effective interest method, net of any impairment. "Other liabilities" are carried at amortized cost, using the effective interest method.

Pledges

Pledges received are recorded as revenue in the financial statements if the amounts can be reasonably estimated and collection is reasonably assured.

Capital assets

Office furniture and equipment and computers are capitalized on acquisition and amortized on a straight-line basis over their average useful lives, which has been estimated at three years for computers and ten years for office furniture and equipment. Assets held under capital lease are amortized over the lease term. Leasehold improvements are amortized over the remaining lease term.

Investments

Short-term investments are recorded at cost plus accrued income, which approximates fair value.

Restricted investments are recorded at fair value.

Transaction costs are expensed as incurred

Donor development expenses

Donor development expenses represent expenses incurred to investigate, develop and attract new fundraising sources. Any revenues received specifically for donor development activities are netted against the related expense (2008 - \$Nil; 2007 - \$Nil). Revenues received as a result of donor development activities are recognized in the appropriate categories of revenue.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the financial statements. Actual results could differ from those estimates.

Kids Help Phone

Notes to the consolidated financial statements

December 31, 2008

3. Summary of significant accounting policies (continued)

Future accounting changes

On October 15, 2008 the CICA deferred indefinitely the requirement of not-for-profit organizations to implement sections 3862 and 3863. Section 3862 requires the disclosure of information about: (a) the significance of financial instruments for the entity's financial position and performance and (b) the nature and extent of risks arising from the financial instruments to which the Organization is exposed during the period and at the balance sheet date, and how the Organization manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives.

The Organization has elected to defer application of these standards and as such continues to follow the disclosure requirements of section 3861.

In September 2008, the CICA issued amendments to several of the existing sections in the 4400 series – Financial Statements by Not-For-Profit Organizations. Changes apply to annual financial statements relating to fiscal years beginning on or after January 1, 2009. Accordingly, the Organization will have to adopt the amended standards for its fiscal year beginning January 1, 2009. The amendments include a) additional guidance in the applicability of Section 1100, Generally Accepted Accounting Principles; b) removal of the requirement to report separately net assets invested in capital assets; c) requirement to disclose revenues and expenses in accordance with EIC 123, Reporting Revenue Gross as a Principal Versus Net as an Agent; d) requirement to include a statement of cash flows in accordance with Section 1540, Cash Flow Statements; e) requirement to apply Section 1751, Interim Financial Statements, when preparing interim financial statements in accordance with GAAP; f) requirement for non-profit organizations that recognize capital assets to depreciate and assess these capital assets for impairment in the same manner as other entities reporting on a GAAP basis; g) requirement to disclose related party transactions in accordance with Section 3840; Related Party Transactions; and h) new disclosure requirements regarding the allocation of fundraising and general support costs.

4. Funds

Operating Fund

The general portion of the Kids Help Phone Operating Fund (the "Operating Fund") records the day-to-day operations of the Organization.

The capital assets portion of the Operating Fund includes the cost of capital assets acquired less accumulated amortization, less the unamortized portion of deferred capital contribution and outstanding obligations on capital leases.

Operating Reserve Fund

The Operating Reserve Fund represents funds restricted by the Board of Directors to offset potential operating shortfalls of the Organization. The interest earned on this fund is recorded in the General portion of the Operating Fund.

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Notes to the consolidated financial statements

December 31, 2008

4. Funds (continued)

Futures Campaign Fund

The Futures Campaign Fund represents a fund established by the Board of Directors to invest in building future capacity at Kids Help Phone.

During the year ended December 31, 2008, the board approved a transfer from the Futures Campaign Fund to the Operating Fund to cover the realization costs of the Futures Campaign incurred in the Operating Fund. The realization costs of , \$1,319,339 (2007: \$291,364) as set out in the Futures Campaign, are for building the Kids Website, and a Knowledge Management System and for investing in sustainability

Other Externally Restricted Funds

Other Externally Restricted Funds are comprised of the Scholarship Fund and the Kyra Field Memorial Fund.

The Scholarship Fund records donations made in memory of J. Davidson, Jr., and related interest income. The income of the fund is used to present an annual scholarship of \$1,000 to a member of Junior Achievement of Canada. Excess interest income is transferred to the Operating Fund.

The Kyra Field Memorial Fund records donations made in memory of Kyra Field, and related interest income. The fund is to be used for the development and training of professional counselors. During the year, administrators of the fund approved a transfer of \$Nil (2007 - \$5,000) to Kids Help Phone Operating Fund.

5. Investments

a) Short-term investments are comprised of the following:

	2008		
	Fair value	Interest rate	Due date
	\$		
Guaranteed Investment Certificate	506,466	Prime-2.25%	May 9, 2009
BMO Money Market Fund	34,968	N/A	N/A
	541,434		
			2007
	Fair value	Interest rate	Due date
	\$		
Guaranteed Investment Certificate	200,385	Prime-2.10%	December 12, 2008
Guaranteed Investment Certificate	717,155	Prime-2.35%	May 9, 2008
BMO Money Market Fund	34,172	N/A	N/A
	951,712		

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Notes to the consolidated financial statements
December 31, 2008

5. Investments (continued)

b. Restricted investments are comprised of the following:

	Fair value	Interest rate	2008 Due date
	\$	%	
Scholarship Fund			
Guaranteed investment certificat	15,991	2.00	December 23, 2009
Kyra Field Memorial Fund			
Cash	57,372	N/A	N/A
Operating Reserve fund			
Cash	165,283	N/A	N/A
Bank of Montreal			
Step up Bond	44,572	4.30	February 1, 2009
Province of Ontario Bond	250,933	3.85	March 26, 2009
Bell Canada Debenture	130,143	6.15	June 15, 2009
Bank of Montreal			
Fixed rate deposit notes	230,850	4.30	September 4, 2009
Ontario Saving Bond			
Variable rate	27,090	1.75	June 21, 2014
Ontario Savings Bond			
Variable rate	96,120	1.75	June 21, 2015
Canada Saving Bond			
Series C51 compound interest	390,514	2.0	November 1, 2018
Province of Ontario			
Coupon	154,631	N/A	March 8, 2010
	1,490,136		
Futures Campaign Fund			
Cash	456,390	N/A	N/A
	2,019,889		

Kids Help Phone

Notes to the consolidated financial statements December 31, 2008

5. Investments (continued)

b. Restricted investments are comprised of the following:

	Fair value	Interest rate	Due date
	\$	%	
2007			
Scholarship Fund			
Guaranteed investment certificate	15,991	3.50	December 23, 2008
Kyra Field Memorial Fund			
Cash	55,685	N/A	N/A
Operating Reserve Fund			
Cash	19,025	N/A	N/A
200 units 49 North Resource Fund Limited Partnership	1,140	N/A	N/A
Canada Savings Bond Series 51 compound interest	379,738	3.25	February 1, 2009 November 1, 2008
Bell Canada Debenture	130,065	6.15	June 15, 2009
Bank of Montreal Fixed rate deposit notes	225,533	4.30	September 4, 2009
Province of Ontario Coupon	144,183	N/A	March 8, 2010
Province of Ontario Bond	242,058	3.85	March 26, 2008
Province of Ontario Step-up Bond	140,020	4.05	June 17, 2008
Bank of Montreal Step-up Bond	43,138	4.25	February 1, 2008
Bank of Montreal Deposit Note	56,112	4.25	April 27, 2008
Ontario Savings Bond Variable Rate	27,175	4.10	June 21, 2014
	1,408,187		
Future Campaign Fund			
Cash	510,392	N/A	N/A
	1,990,255		

6. Capital assets

	2008		2007
	Cost	Accumulated amortization	Net book value
	\$	\$	Net book value \$
Office furniture and equipment	338,967	325,284	13,683 41,625
Computers	748,089	673,956	74,133 108,193
Leasehold improvements	575,129	530,283	44,846 75,494
Assets held under capital leases	474,463	281,475	192,988 208,914
	2,136,648	1,810,998	325,650 434,226

Kids Help Phone

Notes to the consolidated financial statements

December 31, 2008

7. Deferred revenue

	2008	2007
	\$	\$
Balance, beginning of year	618,215	151,378
Donations received for special events and programs	1,577,636	1,726,694
Amounts spent on specified events and programs	(1,644,641)	(1,259,857)
Balance, end of year	551,210	618,215

Deferred revenue is comprised of the following:

	2008	2007
	\$	\$
Ontario Ministry of Education	199,000	229,300
Bell Canada	39,367	60,000
Hill & Knowlton	-	40,000
Loyalty Management	25,000	25,000
Chapters		
Alberta	50,842	85,426
British Columbia	-	79,167
Manitoba/Saskatchewan	1,517	43,184
Ontario	28,626	5,000
Quebec	609	1,063
Atlantic	206,249	50,075
	551,210	618,215

8. Obligation under capital leases

The future minimum lease payments required under the capital lease agreements are as follows:

	\$
2009	33,933
2010	23,658
Beyond	7,238
Total minimum lease payments	64,829
Amount representing interest at rates varying between 8.5% and 12.5%	(11,230)
	53,599
Less current portion	(26,176)
Long-term portion	27,423

Interest expense related to these leases was \$8,672 (2007 - \$10,770).

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Notes to the consolidated financial statements

December 31, 2008

9. Deferred capital contribution

	2008	2007
	\$	\$
Balance, beginning of year	2,079	1,816
Receipt of donated capital assets	-	899
Amortization of donated capital assets	(507)	(636)
Balance, end of year	1,572	2,079

10. Contingencies and guarantees

In the normal course of business, the Organization enters into agreements that meet the definition of a guarantee. The Organization's primary guarantees subject to the disclosure requirements of AcG-14 are as follows:

- (a) The Organization has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Organization agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) An indemnity has been provided to all directors and/or officers of the Organization for various items including, but not limited, all costs to settle suits or actions due to their involvement with the Organization, subject to certain restrictions. The Organization has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Organization. The maximum amount of any potential future payment cannot be reasonably estimated.
- (c) In the normal course of business, the Organization has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Organization to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Organization from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Organization has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

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Notes to the consolidated financial statements

December 31, 2008

11. Lease commitments

KHP is committed to the following annual lease payments for office space in the years ended December 31:

	\$
2009	395,310
2010	253,290
2011	2,426
	<hr/> <hr/> 651,026

12. Related party transactions

In the normal course of business, KHP from time to time enters into transactions with companies which are related to KHP by virtue of their representation on the Board of Directors. Such transactions are for goods and services and can often be less than fair market value and are often donated. These goods and services are appropriately recorded in the financial statements at cost or at fair market value, if appropriate and determinable. KPH has a policy which governs transactions with volunteers and conflicts of interest. These transactions were in compliance with the policy.

13. Comparative figures

Certain of the comparative figures have been restated to conform to the current year's financial statement presentation.

14. Capital Disclosures

KHP manages externally restricted funds of \$73,363 (2007 - \$71,676) with conditions stipulated in donor agreements concerning the use of the funds and related income. KPH has complied with the requirements of these restricted funds.

Kids Help Phone

Consolidated schedule of operating fund expenses
year ended December 31, 2008

	2008	2007
	\$	\$
Direct fundraising		
Salaries and employee benefits	1,703,175	1,578,835
Marketing	583,583	598,480
Events	1,270,643	1,320,330
Fundraising campaigns	134,066	158,449
Corporate promotions	61,938	13,257
	3,753,405	3,669,351
General and administrative		
Salaries and employee benefits	389,805	369,423
Professional fees	78,824	72,701
General and office	68,360	62,378
Bank charges	45,939	44,907
Telephone	4,200	4,200
Insurance	23,263	20,070
Office equipment leasing	-	-
	610,391	573,679
Donor development		
Salaries and employment benefits	695,297	593,189
Professional fees	-	85,190
Community development	2,357	4,774
Mail campaign	56,777	15,203
Donor awareness	40,794	131,514
	795,225	829,870