

**STARS**<sup>®</sup>

Governance and Financial  
Report 2011

# Spreading Hope



## Boards of Directors

As of April 4, 2012

(S) Shock Trauma Air Rescue Society

(F) Shock Trauma Air Rescue Service Foundation

**Myrna Bentley** (S, F) (1)  
Corporate Director, Saskatoon

**Neil Camarta** (S) (3) (5)  
Corporate Director, Calgary

**Lyle D. Carlstrom** (S, F) (4)  
Kay McVey Smith & Carlstrom LLP,  
Grande Prairie

**Vito Culmone** (S) (1)  
WestJet, Calgary

**Christopher James Doig** MD MSc  
FRCPC (S) (2) (3)  
Faculty of Medicine,  
University of Calgary, Calgary

**Randy Garvey** (F) (1)  
Canadian Western Bank, Edmonton

**Andre Harpe** (S) (3)  
Wiesco Acres Ltd., Valhalla

**Grant Innes** MD FRCPC (S) (3)  
Alberta Health Services, Calgary

**Rod Kennedy** (S, F) (3) (5)  
RBC Dominion Securities Inc., Red Deer

**Joe Marushack** (S) (3)  
ConocoPhillips Company, Calgary

**Greg Melchin** FCA (S) (1)  
Corporate Director, Calgary

**David Mowat** (F), Board Chair,  
STARS Foundation  
ATB Financial, Edmonton

**Elaine Noel-Bentley** (F) (2) (5)  
Corporate Director, Calgary

**Irene Pfeiffer** CM (F) (2)  
Moorgate Holdings Ltd., Okotoks

**D. Gregory Powell** O.C. MD FRCPC (S, F)  
Founder and Director Emeritus  
STARS & STARS Foundation  
University of Calgary, Calgary

**Douglas R. Ramsay** (S) (5)  
Calfrac Well Services Ltd., Calgary

**Evan Saugstad** (S) (3)  
Spectra Energy, Fort St. John

**Paul Smith** (S, F) (5)  
Talisman Energy Inc., Calgary

**Rory Tyler** (F) (2) (4)  
Korn/Ferry International, Calgary

**Brian Vaasjo** (S)  
Board Chair, STARS Society  
Capital Power Corporation, Edmonton

**Pat Youzwa** (F) (4)  
Corporate Director, Regina

(Numbers denote committee  
membership)

### Committees:

- (1) Audit and Finance Committee
- (2) Human Resources and Compensation Committee
- (3) Safety and Risk Management Committee
- (4) Governance and Nominating Committee
- (5) Investment Committee

### Volunteer, non-director committee members:

**Art Hironaka** FCA (1) (5)  
**Michael Trattner** (5)

## Executive Team

**Andrea Robertson**, President & Chief Executive Officer

**Dr. Dennis Nesdoly**, Chief Medical Officer

**Jeffrey Quick**, Chief Financial Officer

**Rod Gantefoer**, Executive Vice-President, STARS Foundation

**Mike Lamacchia**, Vice-President, Alberta Operations  
& Chief Clinical Officer

**Ron Dufresne**, Vice-President, Saskatchewan Operations

**Betty Lou Rock**, Vice-President, Manitoba Operations

**Scott Young**, Vice-President, Aviation

**Ken King**, Vice-President, Patient Access  
and Emergency Communications

**Colleen Stewart**, Director, Human Resources

**Wendy Beauchesne**, Director, Communications

On April 4, 2012, Dr. Greg Powell officially transitioned from CEO of STARS to the role of Founder and Director Emeritus. Linda Powell transitioned to the role of Ambassador and Special Advisor for STARS.

# STARS Governance

## Statement of Governance Practices

STARS is committed to the principles of strong governance. It strives to lead in the area of voluntary and non-profit sector governance with a commitment to stewardship of the STARS organization through effective and best practices.

Effective governance requires sound ethical and legal processes and direction consistent with the organization's vision and mission and adequate controls to ensure appropriate oversight of the organization's resources. For non-profit, charitable organizations, this includes appropriate guidance and protection of the benefits and services provided to the community and sound stewardship of resources, whether funding, volunteer time, financial or other expertise, or other skills committed to the organization.

The STARS Boards of Directors recognize their governance responsibilities to all stakeholders including our patients, provincial governments, health regions, emergency service providers, corporate and community donors, volunteers, employees and the general public.

STARS is committed to the ongoing evaluation and application of best practices in governance to promote a healthy, productive, transparent, accountable and effective organization. We regularly assess emerging best practices and annually review our governance and financial disclosure practices to ensure we meet or exceed the requirements for non-profit organizations.

## Charitable Status and Organizational Structure

There are three entities that carry out the operations of STARS .

1) The Shock Trauma Air Rescue Society ("STARS Society") is a society under the Societies Act (Alberta) formed on March 26, 1986 and it is a registered charity under the Income Tax Act (Canada). Instead of shareholders, STARS Society has voting members who are entitled to notice of and to vote at all meetings of the members of STARS Society. As of December 31, 2011, the voting members are Myrna Bentley, Neil Camarta, Lyle D. Carlstrom, Vito Culmone, Dr. Christopher James Doig, Andre Harpe, Dr. Grant Innes, Rod Kennedy, Joe Marushack, Greg Melchin, Dr. Mike Percy, Dr. D. Gregory Powell, Douglas R. Ramsay, Evan Saugstad, Paul Smith and Brian Vaasjo ("STARS Society Members"). In addition to STARS Society Members, the STARS Society also has associate members

and honorary members; however, they are not entitled to notice of or the right to vote at a meeting of the members of STARS Society.

As at the date hereof, each of the STARS Society Members also serve as a director of the STARS Society. All of these directors, with the exception of Dr. D. Gregory Powell, are independent, outside volunteer directors.

The primary services and activities of the STARS Society are to provide emergency medical helicopter transport services to critically ill and injured patients in Alberta, Saskatchewan and Manitoba.

2) The Shock Trauma Air Rescue Service Foundation ("STARS Foundation") is a foundation formed as a company with objects other than the acquisition of gain under Part 9 of the Companies Act (Alberta) on April 18, 1991 and is also a registered charity under the Income Tax Act (Canada). Instead of shareholders, STARS Foundation has voting members who are entitled to notice of and to vote at all meetings of the members of the STARS Foundation. As at December 31, 2011, the voting members are Myrna Bentley, Lyle D. Carlstrom, Randy Garvey, Rod Kennedy, David Mowat, Elaine Noel-Bentley, Dr. Mike Percy, Irene E. Pfeiffer, Dr. D. Gregory Powell, Paul Smith, Rory Tyler and Pat Youzwa ("STARS Foundation Members"). In addition to the STARS Foundation Members, the STARS Foundation also has associate members and honorary members; however, they are not entitled to notice of or the right to vote at a meeting of the members of the STARS Foundation.

As at the date hereof, each of the STARS Foundation Members also serve as a director of the STARS Foundation. Like the directors of STARS Society, all of the directors of STARS Foundation, with the exception of Dr. D. Gregory Powell, are independent, outside volunteer directors.

The STARS Foundation is primarily responsible for the fundraising activities carried out in support of the STARS Society's services and activities, as described above.

3) STARS Aviation Canada Inc. ("STARS Aviation") is a corporation that was incorporated on August 29, 1985 under the Canada Business Corporations Act (Canada). The sole shareholder of STARS Aviation is STARS Society. Pursuant to a declaration and unanimous shareholders agreement dated March 24, 2006, the powers of the Board of Directors of STARS Aviation are abrogated and the STARS Society, as sole shareholder of STARS Aviation, is granted the right to exercise and perform all the rights,

<sup>1</sup> In addition to STARS Society, STARS Foundation and STARS Aviation, there are two inactive entities in the STARS group. Shock Trauma Air Rescue Society (Canada) is a corporation under Part II of the Canada Corporations Act (Federal) incorporated on July 9, 1996. It does not have any assets and has never carried on business. STARS Education and Response Technologies Inc. is a corporation under the Business Corporations Act (Alberta) incorporated on October 18, 2005. This entity is also inactive.

powers and duties of the directors of STARS Aviation to manage the business affairs of STARS Aviation, including those rights, powers and duties set forth in the Canada Business Corporations Act (Canada). This means that effectively, the business affairs of STARS Aviation are managed by the Board of Directors of STARS Society, which is the decision making body of STARS Society.

STARS Aviation does not have any employees and the only business that it carries on is to hold ownership of certain helicopters that are used to provide emergency medical transport services, which helicopters are leased by STARS Aviation to STARS Society.

## Boards of Directors - Volunteer Governance

As charitable and non-profit entities, STARS Society and STARS Foundation have no shareholders and are each governed by volunteer Boards of Directors. The members of the respective Boards and Board Standing Committees do not receive any remuneration, consideration or fees for undertaking the responsibilities, risks and the significant time commitment involved in being a volunteer director. In 2011, the Boards volunteered a total of 1,555 hours. This number does not take into account the significant amount of time the Boards dedicate to events, such as fundraising events or meetings with staff members outside of regularly scheduled Board or Committee meetings.

A Governance and Nominating Standing Committee stewards the governance process and culture. Formalized "Guidelines for Governance" and Terms of Reference for the Board Standing Committees are regularly reviewed and revised as required.

## Mandate of the Boards of Directors

The fundamental responsibility of the Boards of Directors is to oversee the management of the organization, with a view to maximizing benefit and value to the community in carrying out the Vision, Mission and Strategic Objectives and to assure the ongoing continuity and strength of its programs. The Boards' responsibilities include, among others, the appointment of the Chief Executive Officer and other officers, review of senior management compensation, monitoring the performance of the Chief Executive Officer, and reviewing and approving the strategic direction for the organization. The Boards have established administrative procedures which prescribe the rules governing the approval of transactions carried out in the course of the organization's operations, the delegation of authority and the execution of documents on behalf of the organization.

The Boards, including Committees or an individual director, may engage an outside advisor at the expense of the organization to assist them in the execution of their directors' responsibilities. From time to time, the organization may use professional services from a business affiliated with a director, recognizing the expertise the business brings to STARS. At this time, the engagement of such services has not affected the independence of any members of the Boards.

The Boards and the Board Standing Committees meet independently of management on a regular basis.

## Board Responsibilities

### Strategic Planning

STARS' Boards of Directors have the responsibility for setting and monitoring overall strategic direction with management. In assuming this responsibility, the Boards of Directors undertake an annual strategic planning session with the senior management team to review and approve the strategic direction of the organization. Senior management regularly prepare reports that are reviewed and discussed with the Boards. Strategic plans are reviewed and budgets are approved by the Boards prior to implementation. The key strategic objectives are incorporated into the annual budget processes.

### Communications

STARS is committed to ongoing transparent communications with its stakeholders. Key communications issues are reported to the Boards of Directors. STARS issues regular newsletters and communicates ongoing and annual activities through the STARS Annual Report, STARS website and other electronic communication tools and through our medical and community outreach programs. Information is released to the public on a regular basis on issues that may impact our stakeholders.

### Safety and Risk Management

The Boards work with management to ensure that a system is in place to identify the principal risks to the organization and that appropriate procedures are in place to monitor and mitigate the risks. STARS is committed to the health and safety of STARS personnel and volunteers, takes appropriate remedial and preventative actions as required, and supports wellness initiatives.

### Succession Planning

The Boards ensure a process is established that adequately provides for succession planning, both within the Boards, for the Chief Executive Officer and for senior members of management.

## Composition of the Boards of Directors

### Composition

As of December 31, 2011, the Board of STARS Society had 16 directors and the Board of STARS Foundation had 12 directors. The membership of the Board of STARS Foundation included an overlap of five members of the Board of STARS Society. The Chief Executive Officer is both a director and a member of senior management and is an ex-officio member of all of the Boards' Joint Standing Committees.

## Independence

The Boards believe that having a majority of independent directors brings assurance to our stakeholders that decisions are being made in the best interests of the organizations. The independence of the Boards is reviewed on at least an annual basis, and the Boards take into account the independence of potential nominee directors during the succession planning process. Board members are also expected to inform the organization when they may have a potential conflict of interest.

As of December 31, 2011, 94% of the Society Board and 92% of the Foundation Board were independent directors. Dr. D. Gregory Powell was not considered to be an independent director as he was the CEO of the organization at the time.

## Board Processes

### Nomination of Directors

Annually, the Governance and Nominating Committee reviews the recruitment criteria for candidates to be considered for nomination to the Boards. The objective of this review is to ensure that the composition of the Boards provides the best mix of skills and experience to guide the long term strategy and ongoing operations and community service of the organization. This review takes into account diversity of background, skill and experience. Skills include, but are not limited to, government relations, public relations, operational risk management, investments, finance, legal, oilfield services, oil & gas/utilities, human resources, transportation, economics, aviation and medical expertise.

In 2011 STARS provided services in Alberta, eastern British Columbia and Manitoba. Commencing in 2012, STARS will provide service in Saskatchewan. The Boards recognize the importance of having Board representation in each of those geographical areas.

The Governance and Nominating Committee, together with the Chairs and the CEO, identifies potential nominees, screens their qualifications, and makes recommendations for interviewing, consideration as nominees, and eventual nomination to the Boards. The Boards are ultimately responsible for recommending suitable candidates for election to the Boards by the voting members at the Annual General Meeting.

### Director Terms

The Governance and Nominating Committee annually, and upon term completion, reviews both the appropriateness of continuation of the individual directors and potential term renewal. This is to ensure that its review of the size and composition of the Boards and its recruitment of new directors anticipates and addresses the succession planning issues associated with both the loss of the skills and experience provided by retiring directors and the need for continuity on the Boards.

As per the Bylaws (STARS Society) or Articles of Association (STARS Foundation) under which the organization operates, a director's term is three years. Under normal circumstances, the maximum number of terms is two. It has been agreed by the Boards of Directors that after completion of one full

Board term, renewal for a second term would occur under normal circumstances, pending review and recommendation of the Governance and Nominating Committee, and that a director may sit for a third term only under exceptional circumstances at the pleasure of the Board. A term of less than three years, although not the norm, can occur in compliance with the Bylaws and Articles of Association, under unusual and specific circumstances.

### Code of Conduct and Code of Ethics

The STARS Code of Conduct and Code of Ethics is approved by the Boards on an annual basis. An Accountability and Compliance Hotline (commonly called a "whistleblower" line) is in place, and a Communications Policy provides guidance for external and internal communications.

These policies and supporting information are found on STARS website - [www.stars.ca](http://www.stars.ca). Employees are required to promptly report breaches of the Code of Conduct and Code of Ethics.

### Position Descriptions

The Boards have developed position descriptions for each of the Board Chairs and the CEO. The Boards believe that the key accountability of the Board Chairs is the effective stewardship and management of the affairs of the Boards in supporting the vision and mission of the organizations. The Chairs' position description includes guidance for providing leadership to enhance Board effectiveness; managing the Board; acting as a liaison between Board and management; acting in an advisory capacity to the CEO; involvement in CEO performance process; and stakeholder interface.

### New Director Orientation

New directors are provided with an orientation and education program that includes:

- A tour of the most proximal base, with an eventual tour of all operational bases, as practical.
- One-on-one orientation meetings with the Chair, the CEO and specific senior management. This session includes an overview of history, strategy, challenges, financial status, and future for the organization. A hands-on session can also be incorporated (e.g. simulation, night vision goggles, etc.), if desired.
- A Directors' Manual, which includes written information about the duties and obligations of directors, the business and operations of the organization, minutes and material from recent Board and Committee meetings.
- Consideration of a presentation by legal counsel regarding directors' duties and responsibilities.

In addition, each director undergoes a security check and completion of required T3010 documentation (Registered Charity Information Return) and Charitable Registration Act declarations, and provision of a photo. The security check process is required for all STARS staff and volunteers.

Orientation for each new director is tailored to that director's individual needs and areas of interest, in addition

to overall governance accountabilities. It is recognized that schedule conflicts and travel requirements must be taken into account for effective execution of the orientation.

### Ongoing Director Education

Each director assumes responsibility for keeping informed about the business of the organization. Management assists directors by providing them with regular updates on developments in the industry, political and economic developments, communications from the CEO to employees, and such other information management considers of interest to the Board.

Furthermore, in addition to scheduled Board meetings, management may engage external speakers to make presentations to the Board and management on matters affecting the organization and the air medical industry.

Tours of the facilities, as changes occur, are encouraged.

These informal presentations, discussions and tours facilitate increased discussion between management and the Board and provide members of the Board with additional context for exercising their duties.

### Other

Our governance best practices include a separation of duties between the Boards and Management and between the Board Chairs and Chief Executive Officer, regularly scheduled in-camera sessions for our Board and Board Committee meetings, in-camera sessions with our auditor and Audit & Finance Committee members present only, and a formalized annual work plan calendar for Board and Board Committee meetings. The Boards carry out an annual review of the effectiveness of board governance practices, which includes overall board assessment and self-assessment. Director attendance at Board and Committee meetings is tracked and reviewed. Succession planning processes are in place for our Chief Executive Officer, Board Chairs and members of the Boards of Directors. The Boards annually review board terms and the skills, qualifications and characteristics required for future directors and a comprehensive orientation program is carried out for all new directors. Risk assessment is inherent and integrated into Board strategic planning and management planning and execution practices.

## Board Committees

### Standing Committees

The Boards of Directors of STARS Society and STARS Foundation have five Joint Standing Committees that assist the Boards in fulfilling their mandates.

The Boards annually review and appoint members to the Joint Standing Committees with mandates as outlined in the Board approved Terms of Reference for the Committees. All Committees make recommendations to the respective Boards for approval and do not act independently unless specifically authorized to do so by the Boards of Directors and as limited by legislation, as applicable.

Five Joint Standing Committees assist the Boards in their stewardship role: Governance and Nominating Committee, Audit & Finance Committee, Investment Committee, Human Resources and Compensation Committee, and Safety and Risk Management Committee. The majority of members of Standing Committees are independent non-management directors. As per the existing Bylaws or Articles of Association of the Society and the Foundation respectively, membership to the Committees may include both directors and external non-directors, with external members providing expertise in specific areas. External members of a Committee are voting and are permanent visiting guests for the term of the appointment. The Investment Committee currently has two external, independent, non-director members and the Audit and Finance Committee has one external, independent, non-director member. The Board Chairs and the Chief Executive Officer are ex-officio (non-voting) members of the Standing Committees. Appropriate skills and expertise are considered in the formation of each Committee. Committee membership is reviewed annually. All Standing Committees meet independently from management on a regular basis.

### Governance and Nominating Committee

Number of meetings held in 2011: 7

Number of independent Board Members serving on Committee: 4 of 4

The Governance and Nominating Committee monitors and manages Board governance practices and is responsible for: proposing all nominees to the Boards and the Committees; monitoring Board and Board Committee effectiveness and performance according to the goals and objectives of the organizations; and overseeing orientation of new Board members and ongoing education of incumbent members.

### Audit and Finance Committee

Number of meetings held in 2011: 3

Number of independent Board Members serving on Committee: 5 of 5 (The Audit & Finance Committee currently has one external, independent, non-director member).

The Audit and Finance Committee monitors the financial accountability, risk and integrity of the organization, ensuring that appropriate internal control and reporting systems are in place. The Committee reviews the annual financial audit and quarterly financial statements and reports its findings and recommendations to the Boards. The Committee reviews the terms of engagement, including fees, of the external auditors and recommends the appointment of the external auditors to the Boards for recommendation to the members on an annual basis. The Committee regularly meets independently of management and of the external auditors. One member of the Committee must have a financial designation as is required by the Terms of Reference for that Committee.

### **Investment Committee**

Number of meetings held in 2011: 4

Number of independent Board Members serving on Committee: 7 of 7 (The Investment Committee currently has two external, independent, non-director members).

The Investment Committee is responsible for monitoring investment returns, reviewing the investment strategies and making recommendations to the Boards on investment policy and overall strategy.

### **Safety and Risk Management Committee**

Number of meetings held in 2011: 3

Number of independent Board Members serving on Committee: 7 of 7

The Safety and Risk Management Committee assists the Boards in carrying out their responsibilities by monitoring and discussing principal risks identified by management and faced by the organization. The Committee annually reviews insurance coverage as recommended by management and actively discusses the safety culture of the organization.

### **Human Resources and Compensation Committee**

Number of meetings held in 2011: 3

Number of independent Board Members serving on Committee: 5 of 5

The Human Resources and Compensation Committee is responsible for monitoring compensation and human resource policies, for developing and monitoring a succession plan for the Chief Executive Officer of the organization, for the annual performance review and compensation recommendations for the Chief Executive Officer and for reviewing recommendations for senior management compensation.

### **Executive Compensation**

The Human Resources and Compensation Committee annually reviews senior management compensation. The remuneration for the Chief Executive Officer is regularly evaluated by the Human Resources and Compensation Committee utilizing periodic regular market assessments and various industry and professional benchmarks, including those for charitable and non-profit organizations, and by periodic independent consultation. The Committee's conclusions for compensation for the Chief Executive Officer are reviewed with the Boards of Directors and are recommended to the Boards of Directors for approval.

The organization's Boards of Directors act in a volunteer capacity and are not reimbursed for their service on STARS Boards or Standing Committees.

# 2011 Message from President & CEO

Since 1985, STARS has been a critical link in the life-saving chain of survival, working collaboratively with partners in emergency, medical, and rescue services to provide excellence in critical patient care, rapid transportation, and emergency medical training and education.

Our unique model of government, corporate and community support allows us to meet the opportunities and challenges of the economy and changes to the health care system. We continue to provide excellence and innovation in patient care.

Our mission is saving lives and our key focus is always what's best for the patient. Programs and departmental activities are related to maintaining, improving and broadening this focus.

STARS recently signed collaborative agreements with Governments in Manitoba and Saskatchewan. In 2011, STARS began operating in Manitoba, followed by Saskatchewan in 2012. STARS is a charitable, non-profit organization and in each province where we serve, our funding model will continue to be a partnership between government, community and corporate support. The STARS partnership model provides for ongoing financial sustainability and an eye to the future.

In Alberta, long term, stable funding from Alberta Health Services continues to represent approximately 21 per cent of STARS' total mission-related costs in 2011. In addition to this essential funding, we rely on corporate and community support for the remaining 79 per cent of mission operations funding.

In Saskatchewan, funding from the government will represent approximately 70 per cent of total mission-related costs. The program is being further supported by corporate donations, with Crescent Point Energy Corp. the lead founding donor with a \$5 million contribution. Support from the corporate community has been strong and other founding donors include Mosaic, PotashCorp, Enbridge, Husky Oil, Enerplus and Rawlco Radio. Both corporate and community support will be important components of the STARS program in Saskatchewan.

In Manitoba, the provincial government currently funds all of the mission-related costs of the STARS program. Plans are underway to develop fundraising programs for additional corporate and community support.

The STARS organization regularly reviews its strategic direction. Annually, each department and organizational area determines goals and establishes performance metrics, tied to our balanced scorecard, and reports to our Executive Team on a quarterly basis. Inherent in this process is a careful review of the risks facing the organization and determination of risk mitigation strategies. The resulting plans are implemented and monitored.

While the clinical challenges of providing emergency care to critically ill and injured patients continue to be the highest risk statistically, the current global economy requires us to pay special attention to our financial picture.

In summary, we continue to be a patient-centred organization, providing services across three and a half provinces. STARS remains focused on the pillars of finding the patient, medical care and transport, clinical education and training, and fundraising and community partnerships.

## **A summary of STARS strategic directions are outlined below:**

- Provide care and transport to patients who are critically ill and injured, working collaboratively with members of the chain of survival, while effectively leveraging economies of scale;
- Continue to deliver on our responsibility for coordination of care and transport for rural critically ill and injured patients in Alberta with continued focus on a 'one call does it all' concept;
- Develop and open STARS Bases in Regina (Spring 2012) and Saskatoon (Fall 2012);
- Continue to establish and develop the STARS Winnipeg Base;
- Add six new helicopters to our fleet, based in strategic locations;
- Continue to enhance and deliver an academic curriculum for the training of critical care providers;
- Continue to meet the needs of our industry partners by expanding our emergency call taking geographic information mapping system (GIS) in the STARS Emergency Link Centre (STARS ELC);
- Participate in the management and development of helipads in collaboration with Alberta Health Services, Saskatchewan Health and Manitoba Health;

- Continue to develop the information technology, human resources, communications and fundraising infrastructure to support and sustain the plan; and
- Continue to explore challenges and opportunities in areas where patient care may benefit from the STARS program.

### **Risk & Opportunity Analysis**

Overall, our sustainability as a 'going concern' is not in question. The following risks regarding budgetary pressures merit specific mention.

#### **Expense Risks**

##### **Annual market adjustment rate:**

Expenditures, as described in our financial statements are likely to increase at the annual market adjustment rate.

##### **Operating costs of new helicopters:**

Aviation costs are a blend of ongoing scheduled and unscheduled maintenance. The initial start up costs of the AW139 helicopters, on a one-time basis began with pilot training in 2011 and are projected to occur through to 2014.

#### **Revenue Risks**

##### **Agreements with provincial governments:**

An agreement with Alberta Health Services was signed effective April 1, 2010. In 2011, this agreement provides a baseline amount of partial funding for mission operations of \$5.488 million per year. Additionally, Alberta Health Services has agreed to reimburse STARS for mission related fuel expenditures.

In Alberta, STARS receives the majority of required funding from communities, individuals and industry. We are optimistic this collaborative model of partial funding from government and partial funding from the STARS Foundation will remain intact. With the additional commitments agreed upon in the Rural Red Patient Matters Affiliation Agreement, STARS will continue to monitor revenue and cost risks.

STARS signed a Rural Red Patient Matters Services Agreement with the government of Saskatchewan in April 2011 for STARS to establish two bases, one in each Regina and Saskatoon. The agreement is for five years with an automatic renewal for five years and also provides for a shared funding model between government, corporations and communities.

STARS signed a Purchase Services Agreement with the Government of Manitoba in February 2012 for STARS to establish a base in Winnipeg. The agreement is for a period of 10 years and provides for a shared funding model between government, corporations and communities.

##### **Revenue generation:**

Costs for critical care education programs and the STARS ELC are stable, and both areas are positioned to generate revenue. Medical Education Technologies Inc. ('METI') was purchased by CAE Inc. in 2011. STARS continues to provide human patient simulation support in Canada and this activity continues as a growing revenue source.

##### **Philanthropy:**

The overall economic recovery was positive for STARS contributing to our ongoing financial sustainability. A new fundraising campaign launched in 2011, CEO Rescue in the Rockies, was a phenomenal success raising approximately \$1.4 million. New fundraising programs such as the Fund a Flight program are projected to increase revenues well into the future.

The annual STARS Lottery in Alberta provides significant revenue. While there is always the possibility the Lottery could experience difficulty selling out, thereby reducing anticipated revenue, the 2012 lottery sold out as it has since inception 18 years ago. We believe this history of sell out is reflective of the strong support for the purpose and mission of the organization by individual supporters in the community. The risk of missed revenue from this funding initiative is felt to be low. A STARS Lottery in Saskatchewan is being launched in 2012.

Other fundraising initiatives including corporate donations and event proceeds are projected to increase with the anticipated economic recovery. Actual donations and fundraising revenues increased by \$2.9 million in 2011 over 2010 levels.

##### **Capital procurement:**

During 2010, STARS Aviation Canada Inc., a subsidiary of Shock Trauma Air Rescue Society, traded its AW139 helicopter to AgustaWestland for an AW139 capable of flying in known ice conditions. This will result in two identical AW139 aircraft with de-icing capabilities. STARS has entered into an agreement with Air Concepts International Inc. and HeliMods Pty Ltd. for the delivery of two AW139 medical interiors. The first aircraft is expected to be in service in late 2012. The Vision Critical Campaign raised the majority of the funds to meet the payment schedule for both helicopters. Additional fundraising is required to address the costs of the medical interiors, currency fluctuations and new aircraft pilot training, which has created the potential for an approximate \$7 million shortfall by the end of 2012. We are developing mitigation strategies which include targeted fundraising for the medical interiors. Potential certification delays of the AW139 due to external factors will

increase the time window to manage these costs and we believe the liabilities can be managed without significant difficulty through fundraising and bridge financing.

STARS purchased three pre-owned BK117 helicopters that were suitable for refurbishment to STARS specifications for the Saskatchewan and Manitoba bases. There are also plans to purchase a third medically-equipped helicopter to support Saskatchewan operations. Funding for the helicopters is being provided by the Government of Manitoba, Government of Saskatchewan, as well as corporate donors specifically for the Saskatchewan program.

**Workforce demographic:**

The shortage of appropriately trained and qualified physicians, nurses and paramedics with critical care skills is growing nationwide. STARS is addressing the potential shortfall with education programs, in particular the STARS Critical Care and Transport Medicine Academy. This innovative, multi-disciplinary education program provides us with the opportunity to enhance our unique critical care delivery model and to attract highly motivated medical crews. The risk of STARS being unable to provide adequately trained numbers of professional medical personnel is well mitigated through this undertaking.

**Regulatory Risk**

As STARS begins operating in new jurisdictions, there are differing health legislation and compliance requirements in each province which has potential to impact operations. A compliance review is well underway, this includes an audit of all applicable health legislation. STARS is working on this with each provincial College of Physicians and Surgeons, College of Paramedics, and Registered Nursing Associations.

**Opportunities**

As STARS is now operating in eastern British Columbia, Alberta, Saskatchewan and Manitoba, there are opportunities to support interprovincial health care collaboration, specifically as it relates to multi-province licensing for nurses and paramedics, and ensuring patients are transported to appropriate tertiary care centre regardless of provincial boundary.

As research demonstrating savings of downstream health care costs through rapid sophisticated intervention gains momentum, we have the opportunity to collaboratively study and realize those system savings. The new AW139 helicopters will enhance range of access.

As the shortage of appropriately trained and qualified physicians, nurses and paramedics with critical care skills continues to grow, STARS has an opportunity and arguably a responsibility to be part of the solution for health care human resource shortages. This could include unique staffing models and innovative approaches to reach remote northern communities.

The analysis and discussion presented here will be revisited and revised on a frequent basis as internal and external variables change.

May 5, 2012

## Management's Report

The accompanying combined financial statements of STARS as at December 31, 2011 and all other financial and operating information contained in this Annual Financial Report are the responsibility of management. The combined financial statements have been prepared in accordance with accounting policies detailed in the notes to the combined financial statements and in accordance with generally accepted accounting principles in Canada.

The organization's systems of internal controls have been designed and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently well maintained to provide relevant, timely and reliable information to management. Management believes the systems of internal controls were operating effectively in 2011.

External auditors, appointed by the Boards of Directors, have independently examined the combined financial statements. They have performed such tests as they deemed necessary to enable them to express an opinion on these combined financial statements.

The Audit and Finance Committee has reviewed these combined financial statements with management and the external auditors.

The respective Boards of Directors have approved these combined financial statements on the recommendation of the Audit and Finance Committee.



**Andrea Robertson**  
President and CEO



**Jeffrey Quick, CA**  
Vice President, Finance & Administration  
Chief Financial Officer

May 10, 2012

## **Independent Auditor's Report**

### **To the Board of Directors of**

#### **Shock Trauma Air Rescue Society and Shock Trauma Air Rescue Service Foundation (collectively STARS)**

We have audited the accompanying combined financial statements of Shock Trauma Air Rescue Society and Shock Trauma Air Rescue Service Foundation, which comprise the combined statement of financial position as at December 31, 2011 and 2010 and January 1, 2010 and the combined statements of fundraising, operations and change in fund balance and cash flows for the years ended December 31, 2011 and 2010, and the related notes, which comprise 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 combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

#### **Opinion**

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of STARS as at December 31, 2011 and 2010 and January 1, 2010 and the results of its fundraising and operations and its cash flows for the years ended December 31, 2011 and 2010 in accordance with Canadian accounting standards for not-for-profit organizations.

#### **Comparative information**

Without modifying our opinion, we draw attention to note 2a to the combined financial statements, which describes that STARS adopted Canadian accounting standards for not-for-profit organizations on January 1, 2011 with a transition date of January 1, 2010. These standards were applied retrospectively by management to the comparative information in these combined financial statements, including the combined statement of financial position as at December 31, 2010 and January 1, 2010, and the combined statements of fundraising, operations and change in fund balance and cash flows for the year ended December 31, 2010 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

*PricewaterhouseCoopers LLP*

Chartered Accountants

**Shock Trauma Air Rescue Service**

**Combined Statement of Financial Position**

(thousands of dollars)

	<b>December 31, 2011</b>	December 31, 2010	January 1, 2010
<b>Assets</b>			
Current			
Cash	\$ 12,562	\$ 5,246	\$ 2,726
Receivables	7,053	2,983	1,044
Deferred expenses	259	237	461
Prepaid expenses	690	349	319
Helicopter parts and store inventories	1,654	731	785
	<u>22,218</u>	<u>9,546</u>	<u>5,335</u>
Investments (Note 6)	14,434	14,358	16,812
Commitment to purchase helicopter (Note 3)	138	180	166
Deposit on advanced technology helicopters	5,771	4,348	2,618
Property and equipment (Note 10)	31,041	27,009	30,405
	<u>\$ 73,602</u>	<u>\$ 55,441</u>	<u>\$ 55,336</u>
<b>Liabilities</b>			
Current			
Payables and accruals	\$ 6,424	\$ 2,464	\$ 1,652
Deferred revenue	2,144	861	292
Foreign exchange contract (Note 3)	138	180	166
Current portion of long term debt (Note 12)	396	33	162
	<u>9,102</u>	<u>3,538</u>	<u>2,272</u>
Long term debt (Note 12)	3,405	63	3,581
Deferred contributions (Note 5)	19,626	19,140	17,966
	<u>32,133</u>	<u>22,741</u>	<u>23,819</u>
<b>Net Assets</b>			
Capital Preservation Fund	41,449	32,680	31,497
Endowment Fund - externally restricted	20	20	20
	<u>41,469</u>	<u>32,700</u>	<u>31,517</u>
	<u>\$ 73,602</u>	<u>\$ 55,441</u>	<u>\$ 55,336</u>

Commitments and contingencies (Notes 3, 5 and 12)

On behalf of the STARS Society & STARS Foundation Boards of Directors



David Mowat  
Board Chair, STARS Foundation



Brian Vaasjo  
Board Chair, STARS Society

See accompanying notes to the combined financial statements.

## Shock Trauma Air Rescue Service

### Combined Statement of Fundraising, Operations and Change in Fund Balance

(thousands of dollars)

Year ended December 31	2011	2010 Restated Note 2a
<b>Fundraising activities</b>		
Fundraising revenue		
Amortization of deferred contributions (Note 5)	\$ 1,270	\$ 498
Donations and fundraising revenue	15,811	11,243
Donations and fundraising expenditures	2,747	2,082
	<b>14,334</b>	9,659
Lottery revenue	17,157	17,235
Lottery expenditures	7,453	6,842
	<b>9,704</b>	10,393
Calendar revenue	3,063	3,214
Calendar expenditures	2,167	2,081
	<b>896</b>	1,133
Investment and other income (Note 7)	155	834
Total net fundraising revenue before other expenditures	<b>25,089</b>	22,019
Other expenditures		
Administration	2,826	2,262
Excess of revenue over expenditures from fundraising	<b>\$ 22,263</b>	\$ 19,757
<b>Operating Activities</b>		
Operating revenue		
Government contributions	\$ 11,724	\$ 6,079
Site Registration recoveries	2,876	2,466
Fee for services (Note 4)	6,753	1,949
	<b>21,353</b>	10,494
Operating expenditures		
Aviation operations	14,430	10,611
Clinical operations	7,417	6,387
STARS Emergency Link Centre	4,060	3,609
Administration	6,608	5,104
Amortization	2,332	2,727
	<b>34,847</b>	28,438
Deficiency of revenue over expenditures from operations	<b>(13,494)</b>	(17,944)
Combined excess of revenue over expenditures before the following	<b>8,769</b>	1,813
Loss on disposal of property and equipment	-	(630)
Combined excess of revenue over expenditures	<b>8,769</b>	1,183
Net assets, beginning balance	<b>32,700</b>	31,517
Net assets, end of year	<b>\$ 41,469</b>	\$ 32,700

See accompanying notes to the combined financial statements.

**Shock Trauma Air Rescue Service**

**Combined Statement of Cash Flows**

(thousands of dollars)

Year ended December 31	2011	2010
		Restated Note 2a
<b>Operations / Fundraising</b>		
Combined excess of revenue over expenditures	<b>\$ 8,769</b>	\$ 1,183
Items not requiring cash outlay:		
Amortization of property and equipment	<b>2,332</b>	2,727
Amortization of deferred contributions (Note 5)	<b>(1,270)</b>	(498)
Loss on sale of investments (Note 7)	<b>105</b>	248
Exchange (gain) loss on investments (Note 7)	<b>(117)</b>	143
Unrealized (gain) loss on investments (Note 7)	<b>283</b>	(878)
Loss on disposal of property and equipment (Note 15)	<b>-</b>	630
Changes in non-cash operating working capital (Note 14)	<b>(115)</b>	(310)
	<b>9,987</b>	3,245
<b>Financing</b>		
Current portion of long term debt	<b>363</b>	-
Long term debt and credit facilities	<b>3,342</b>	(3,648)
Deferred contributions	<b>1,756</b>	1,672
	<b>5,461</b>	(1,976)
<b>Investing</b>		
Net change in investments (Notes 6 and 7)	<b>(346)</b>	2,940
Deposits on advanced technology helicopters	<b>(1,423)</b>	(1,730)
Proceeds from sale of property and equipment	<b>-</b>	16,205
Purchase of property and equipment	<b>(6,363)</b>	(16,164)
	<b>(8,132)</b>	1,251
Net increase in cash	<b>7,316</b>	2,520
Cash, beginning of year	<b>5,246</b>	2,726
Cash, end of year	<b>\$ 12,562</b>	\$ 5,246

Supplementary Information

Interest received 2011 - \$71 (2010 - \$24)

Interest paid 2011 - NIL (2010 - \$204)

See accompanying notes to the combined financial statements.

## Notes to the Combined Financial Statements

(thousands of dollars)  
December 31, 2011

### 1. General

These combined financial statements represent the financial position and the combined operations as at, and for the year ended, December 31, 2011 of the Shock Trauma Air Rescue Service Foundation ("Foundation"), the Shock Trauma Air Rescue Society ("Society"), and STARS Aviation Canada Inc. ("Aviation"). Collectively, these entities are referred to as "STARS", "Shock Trauma Air Rescue Service" or the "organization". Each entity has a separate Board of Directors, although some directors are common to more than one Board. Transactions and balances between the entities have been eliminated in arriving at the combined financial statements.

Society and Foundation are non-profit and non-taxable registered charities pursuant to Section 149 of the Income Tax Act (Canada). Aviation is a private corporation incorporated under the Canada Business Corporations Act. Society has an economic interest in Foundation because Foundation is primarily responsible for the fundraising activities carried out in support of the Society's services and activities.

STARS works collaboratively with emergency services, the community, government, and regional health authorities to support and carry out its vision of saving lives through partnership, innovation and leadership. The current service area for STARS is the Province of Alberta and parts of the Province of British Columbia, where it provides an emergency medical transport system to critically ill and injured patients, with emergency medical communications, education and research, and fundraising and community partnerships also being significant pillars of the STARS program.

STARS signed a Purchase Services Agreement with the Government of Manitoba in February 2012 for STARS to establish a base in Winnipeg. The agreement is for a period of ten years and provides for a shared funding model between government, corporations and communities.

STARS signed a Rural Red Patient Matters Services Agreement with the Government of Saskatchewan in April 2011 for STARS to establish two bases, one in each of Regina and Saskatoon. The agreement is for five years with an automatic renewal for five years and provides for a shared funding model between government, corporations and communities.

STARS signed a Rural Red Patient Matters Affiliation Agreement with Alberta Health Services that commenced on April 1, 2010 for five years with automatic renewal for five years, providing annual funding of \$5,488 for mission operations.

### 2. Summary of significant accounting policies

#### a. First time adoption of accounting standards for not for profit organizations

Effective January 1, 2011, the organization elected to adopt Canadian accounting standards for not for profit organizations as set out in Part III of the Canadian Institute of Chartered Accountants Handbook, as issued by the Canadian Accounting Standards Board. The opening combined statement of financial position as of January 1, 2010 was prepared in accordance with provisions set out in Section 1501 First Time Adoption for not for profit organizations.

The accounting policies selected under this framework have been applied retrospectively for comparative purposes. The changes have been applied to opening net assets as at January 1, 2010 and to combined excess of revenue over expenditures for the year ended December 31, 2010 as follows:

Net assets as at December 31, 2010, as previously reported	\$	32,700
Impact of first time adoption of accounting standards for not for profit organizations		-
Net assets as at January 1, 2010, under Canadian accounting standards for not for profit organizations	\$	32,700
Combined excess of revenue over expenditures for 2010, as previously reported	\$	305
Change in unrealized gain on investments in 2010 (i)	\$	878
Combined excess of revenue over expenditures for the year ended December 31, 2010, under Canadian accounting standards for not for profit organizations	\$	1,183

(i) An adjustment was recorded to combined excess of revenue over expenditures as at December 31, 2010 to recognize changes in unrealized gain on investments as part of investment and other income (Note 7). Prior to the

transition, unrealized gain (loss) on investments were recognized as an adjustment to the capital preservation fund.

#### **b. Revenue recognition**

STARS follows the deferral method of accounting for donation contributions, including government contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred, unless related to capital assets, in which case they are deferred and amortized to revenue in the same manner as the related asset. Unrestricted contributions are recognized when received or receivable if the amount to be received can reasonably be estimated and collection is reasonably assured.

Revenue received in advance of the period to which it relates is recorded as deferred revenue.

Site Registration and other fees for service are recognized as revenue when the service has been performed.

Lottery revenue is recognized in the year the lottery draw is held. Calendar revenue is recognized at the time calendars are sold.

Fundraising event revenue is initially deferred and recognized as revenue when the event occurs.

Realized interest, unrealized gains and losses on investments and investment revenue is recognized as earned in the statement of fundraising, operations and change in fund balance.

Endowment contributions are recognized as an increase in net assets when received. Earnings resulting from endowment assets may be spent in accordance with the objectives of STARS.

Donations in kind of investments, if any, are recorded at market value on the date of donation.

#### **c. Expense recognition**

Costs incurred for lottery and annual event marketing material not meeting the definition of an asset are expensed in the year incurred. Only refundable Lottery deposits paid prior to the tickets being available for sale and refundable fundraising deposits paid prior to the event are recorded as deferred expenses on the statement of financial position.

#### **d. Description of net assets**

##### **Internally restricted net assets:**

The Capital Preservation Fund is an internally restricted fund established by the Boards of Directors and exists to fund future purchases of new and replacement helicopters, buildings and equipment. Operating and fundraising surpluses and deficits, including unrealized gains and losses on available for sale investments, are allocated to this fund through resolutions of the Boards of Directors.

##### **Externally restricted net assets:**

The Endowment Fund is a fund where the principal assets are to be maintained in perpetuity. There is no restriction on the earnings from these assets provided the revenue is expended in accordance with the objectives of STARS.

#### **e. Investments**

Investments are recorded at fair value with realized and unrealized gains and losses and impairments recognized in the combined statement of fundraising, operations and change in fund balance.

#### **f. Property and equipment**

STARS provides for amortization of the original cost net of salvage value over the estimated useful life of its assets on a straight-line basis as follows:

Helicopters	20 years
Night vision goggles	3 years
Medical equipment	2 to 5 years
Office equipment	5 years
Equipment under capital lease	5 years
Computer equipment and software	2 to 3 years
Leasehold improvements	Lesser of term of lease or 5 years
Buildings	20 years
Automobiles	5 years

**g. Impairment of long-lived assets**

On a periodic basis, management assesses the carrying value of long-lived assets for indicators of impairment. When an indicator of impairment is present, STARS tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than net recoverable amount, the asset is written down to its estimated fair value.

**h. Donations of services and materials**

Donations in kind are recorded at fair market value only when fair market value can be reasonably estimated and when the donated materials or services would normally otherwise be purchased and paid for by STARS. The value of donations in kind recorded in 2011 was \$879 (2010 - \$742). Volunteers contribute substantial donated time and services throughout the year to STARS but because of the difficulty of determining fair market value of these donated services, the value is not recorded in these financial statements.

**i. Use of estimates**

The preparation of the combined 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 dates of the combined financial statements and the reported amounts of sales and expenses during the reporting periods. Management believes the most significant estimates and assumptions are associated with the valuation of accounts receivable, inventories, amortization, fair value of hedges and future tax assets (liabilities). If the underlying estimates and assumptions, upon which the combined financial statements are based, change in future periods, actual amounts may differ materially from those included in the accompanying combined financial statements.

**j. Cash**

Cash consists of balances with banks net of outstanding cheques.

**k. Inventories**

Inventories are valued at the lower of cost and current replacement cost or net realizable value. Cost is determined on a weighted average basis for store merchandise and on a specific item basis for aircraft parts. The amount of inventory recognized as expense in 2011 was \$1,435 (2010 - \$1,470).

**l. Income taxes - Aviation**

As a private corporation Aviation determines its income tax provision using the liability method of tax allocation. Future income taxes are recognized when there are differences between the carrying amount of existing assets and liabilities in the financial statements and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates in effect in the period in which those temporary differences are expected to be recovered or settled. Changes to these balances are recognized in income in the period in which they occur. Unless it is more likely than not that future income tax assets will be realized, a valuation allowance is taken against the assets.

**m. Foreign currency**

Transactions denominated in foreign currencies are translated into Canadian dollars at the approximate rate of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the year end exchange rate. Foreign exchange gains and losses are included in the combined statement of fundraising, operations and change in fund balance, other than those related to designated hedges.

**n. Financial instruments**

Financial instruments recognized in the combined statement of financial position consist of cash, receivables, foreign exchange contract, investments, commitment to purchase helicopter, payables and accruals and long term debt. They are initially recognized at fair value with subsequent measurement dependent on the purpose for which the financial instruments were acquired or issued. Realized gains and losses and impairments are recognized in the combined statement of fundraising, operations and change in fund balance.

**o. Hedges**

The organization enters into foreign exchange contracts in order to manage currency risks on significant foreign currency commitments when payment amounts and dates can be reasonably assured. These are measured at fair value, based on observable market data, at the end of each period and the resulting gain or loss is recognized in the combined statement of operations and change in fund balance. A corresponding adjustment is made to the

carrying value of the firm commitment with the resulting gain or loss also recognized in the combined statement of operations and change in fund balance. The net result, assuming the hedge remains effective, is that the gains and losses offset one another.

### 3. Hedging

Society entered into a foreign currency forward contract on November 1, 2010 to sell CAD \$5,968 in exchange for US \$5,700 on December 3, 2012. The fair value of the contract equates to a liability of CAD \$138 (2010 - \$180). The contract was entered into by Society in an effort to manage its foreign currency risk on the purchase of the second AgustaWestland helicopter. The original contract is designated as a hedge for accounting purposes (Note 2 (o)).

The required accounting treatment results in the recording of the commitment asset and foreign exchange liability of CAD \$138 (2010 - \$180) on the combined statement of financial position, which is the change in the fair value of the effective portion of the foreign exchange contract since being designated as a hedge.

### 4. Fee for services

	2011	2010
Human patient simulator	\$ 537	\$ 561
Patient referral coordination	-	70
Emergency contact centre	675	163
Edmonton rent	-	393
Administration	160	56
Other	-	13
Standby support missions	5,381	693
	<b>\$ 6,753</b>	<b>\$ 1,949</b>

### 5. Deferred contributions

	2011	2010
Balance, beginning of year	\$ 19,140	\$ 17,966
Restricted contributions received	1,756	1,672
Amortization of amounts related to operating expenditures	(1,153)	(247)
Amortization of amounts related to property & equipment	(117)	(251)
Balance, end of year	<b>\$ 19,626</b>	<b>\$ 19,140</b>

Contributions are deferred when a donor restricts the usage of their contribution to a specific purpose. The majority relate to amounts received for the advanced technology helicopters and medical equipment.

### 6. Investments

	December 31, 2011	December 31, 2010	January 1, 2010
Equity and bond funds	\$ 7,297	\$ 8,385	\$ 8,040
Cash and cash equivalents	238	303	1,163
Government treasury bills	-	-	4,998
Canadian dollar bonds and notes	1,545	699	2,611
US dollar bonds and notes	5,354	4,971	-
Total investments	<b>\$ 14,434</b>	<b>\$ 14,358</b>	<b>\$ 16,812</b>

The equity and bond funds are professionally managed under pooled portfolio management service agreements. The Canadian and US dollar bonds are low risk, fixed term investments.

## 7. Investment and other income

	2011	2010
Interest and investment income	\$ 346	\$ 332
Loss on sale of investments	(105)	(248)
Exchange gain (loss) on investments	117	(143)
Unrealized gain (loss) on investments	(283)	878
Other income	80	15
Total investment and other income	\$ 155	\$ 834

## 8. Income taxes

Aviation has tax values in excess of book values for property and equipment of \$6,312 for which no tax benefit has been recognized. Aviation paid no income taxes in 2011 or 2010.

## 9. Government remittances

Government remittances consist of sales taxes and payroll withholding taxes required to be paid to government authorities and are recognized when the amounts become due. In respect of government remittances outstanding as at December 31, 2011, \$132 (2010 - \$68) is included within accounts payable and accrued liabilities.

## 10. Property and equipment

	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value	January 1, 2010 Net Book Value
Helicopters	\$ 39,166	11,600	27,566	25,321	\$ 24,228
Night vision goggles	832	637	195	17	43
Medical equipment	2,765	2,012	753	450	482
Office equipment	1,005	789	216	154	249
Equipment under capital lease	319	112	207	96	129
Computer hardware & software	3,530	3,344	186	186	405
Leasehold improvements	1,481	1,098	383	357	489
Buildings	1,450	148	1,302	161	4,222
Automobiles	993	760	233	267	158
	\$ 51,541	20,500	31,041	27,009	\$ 30,405

Helicopters include \$19,302 (2010 - \$15,702) and buildings include \$1,173 (2010 - NIL) related to assets not in use and thus not subject to amortization.

## 11. Capital disclosure

STARS defines its capital as the amounts included in its net asset and long term debt balances.

STARS' objective when managing its capital is to safeguard its ability to continue as a going concern to provide appropriate benefits and services to its beneficiaries and its stakeholders.

Prior to 2011, the long term debt was used to fund the purchase of the building that is used to house the Edmonton base. The building was sold in 2010 and proceeds of the sale were used to extinguish the debt.

During 2011, STARS purchased and re-fit two BK 117 helicopters for primary use in the province of Saskatchewan. Associated with the purchase of the two helicopters, STARS Society entered into lease agreements to finance the purchase and re-fit of the helicopters for total lease financing of \$3,200. Additionally, during 2011, STARS purchased a

hangar in Regina, Saskatchewan. Associated with the purchase and renovations of the hangar, STARS Society entered into a lease agreement to finance the purchase and construction of the Regina hangar for a total lease financing of \$3,300.

A portion of STARS' capital is restricted in that the organization is required to meet certain requirements in order to utilize its externally restricted fund balance, as described in Note 2(d). The organization has internal control processes to ensure that the restrictions are met prior to the utilization of these resources and has been in compliance with these restrictions throughout the year.

## 12. Long term debt and credit facilities

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Term loan, bearing interest at 5.77%, maturing in October 2011.	\$ -	-	2,399
Term loan, bearing interest at 5.52%, maturing October 2011.	\$ -	-	1,219
Regina hangar lease bearing interest at 3.6%, repayable in monthly installments, with a balance due of \$426 in 2016.	\$ 797	-	-
Two Saskatchewan BK117 helicopter leases, each bearing interest at the 3-Month CDOR plus 2%, repayable in monthly installments, with interest only payments for six months.	\$ 2,800	-	-
Equipment capital leases bearing interest at 3.8% to 10.7%, repayable in monthly or quarterly installments.	\$ 204	96	125
	<b>3,801</b>	96	3,743
Current portion	\$ 396	33	162
Long term debt	\$ 3,405	63	3,581

Principal repayments due are estimated as follows:

2012	396
2013	666
2014	660
2015	682
2016	662
2017	735
	<u>\$ 3,801</u>

In 2011, Society paid interest of \$17 (2010 - \$204) on long term debt.

The organization has a line of credit available of up to \$1,000 (2010 - \$1,000) bearing interest at prime plus 1%. As at December 31, 2011 and 2010, no amount was drawn on this line of credit.

### 13. Lease obligations and commitments

Base related leases mature as follows:

Calgary Base	December 2014
Edmonton Base	December 2013
Grande Prairie Base	August 2020
Edmonton Base - future location	September 2022
Saskatoon Base - temporary office space	August 2013
Regina Base - temporary office space	May 2012
Regina Base - airport land lease	September 2021
Winnipeg Base - hangar and office space	December 2012
Foundation community fundraising office	December 2013

Future minimum lease payments are as follows:

Year	Base and Office Leases
2012	\$ 1,242
2013	1,440
2014	1,263
2015	708
2016	708
Beyond	3,518
	<u>\$ 8,879</u>

On August 13, 2010, Aviation entered into a contract with Agusta Aerospace Corporation to purchase a second helicopter for US \$14,218. The helicopter is scheduled to be delivered in December 2012. Deposits of US \$3,500 have been made against this contract.

Society has entered into a contract with Air Concepts International, Inc. and Helimods PTY Ltd. to acquire two (2) medical interiors configured for the advanced technology AW139 helicopters for the sum of US \$3,985. Deposits of US \$1,440 were made in 2011 (2010 - US \$756) with future payment based on contractual project milestones.

With the helicopter and medical interior contractual commitments in US dollars, STARS executed an economic hedge for US \$10,700 in October 2010. A portion of the economic hedge was achieved by Society entering into a foreign currency forward contract in the amount of US \$5,700 (Note 3) and the balance by converting CAD \$ to US \$5,000.

### 14. Supplemental cash flow information

	2011	2010
Changes in non-cash operating working capital:		
Receivables	\$ (4,070)	\$ (1,939)
Deferred expenses	(22)	224
Prepaid expenses	(342)	(30)
Helicopter parts and store inventories	(924)	54
Payables and accruals	3,960	812
Deferred revenue	1,283	569
	<u>\$ (115)</u>	<u>\$ (310)</u>

### 15. Loss on disposal of property and equipment

During 2011 STARS did not dispose of any property or equipment. In 2010 STARS disposed of property and equipment resulting in a net loss on disposal of \$630.

## 16. Segmented information

Presented below is the December 31, 2011 segmentation by province of the Combined Statement of Financial Position, and Combined Statement of Fundraising, Operations and Change in Fund Balance.

<b>Combined Statement of Financial Position</b>	<b>Alberta</b>	<b>Saskatchewan</b>	<b>Manitoba</b>	<b>Total</b>
<b>Assets</b>				
Current				
Cash	6,772	5,782	8	12,562
Receivables	4,577	-	-	4,577
Interprovincial receivable	2,476	-	-	2,476
Deferred expenses	259	-	-	259
Prepaid expenses	381	309	-	690
Helicopter parts and stores inventories	1,133	521	-	1,654
	<u>15,598</u>	<u>6,612</u>	<u>8</u>	<u>22,218</u>
Investments	14,434	-	-	14,434
Commitment to purchase helicopter	138	-	-	138
Deposit on advanced technology helicopters	5,771	-	-	5,771
Property and equipment	26,335	4,495	211	31,041
	<u>62,276</u>	<u>11,107</u>	<u>219</u>	<u>73,602</u>
<b>Total Assets</b>				
<b>Liabilities</b>				
Current				
Payables and accruals	3,924	24	-	3,948
Interprovincial payable	-	2,257	219	2,476
Deferred revenue	2,144	-	-	2,144
Foreign exchange contract	138	-	-	138
Current portion of long term debt	63	333	-	396
	<u>6,269</u>	<u>2,614</u>	<u>219</u>	<u>9,102</u>
Long term debt	140	3,265	-	3,405
Deferred contributions	18,526	1,100	-	19,626
	<u>24,935</u>	<u>6,979</u>	<u>219</u>	<u>32,133</u>
<b>Total Liabilities</b>				
<b>Net assets</b>				
Capital Preservation Fund	37,321	4,128	-	41,449
Endowment Fund - externally restricted	20	-	-	20
	<u>37,341</u>	<u>4,128</u>	<u>-</u>	<u>41,469</u>
<b>Total Net Assets</b>				
<b>Total Liabilities and Net Assets</b>	<u>62,276</u>	<u>11,107</u>	<u>219</u>	<u>73,602</u>

## Combined Statement of Fundraising, Operations and Change in Fund Balance

	Alberta	Saskatchewan	Manitoba	Total
<b>Fundraising Activities</b>				
Fundraising revenue				
Amortization of deferred contributions	307	963	-	1,270
Donations and fundraising revenue	14,240	1,563	8	15,811
Donations and fundraising expenditures	2,657	90	-	2,747
	<u>11,890</u>	<u>2,436</u>	<u>8</u>	<u>14,334</u>
Lottery - net of expenditures	9,704	-	-	9,704
Calendar - net of expenditures	887	9	-	896
Investment and other income	155	-	-	155
	<u>22,636</u>	<u>2,445</u>	<u>8</u>	<u>25,089</u>
Total net fundraising before other expenditures				
Administration	2,672	154	-	2,826
Excess of revenue over expenditures from fundraising	<u>19,964</u>	<u>2,291</u>	<u>8</u>	<u>22,263</u>
<b>Operating Activities</b>				
Operating revenue				
Government contributions	6,724	5,000	-	11,724
Site Registration recoveries	2,800	75	-	2,875
Fee for services	6,740	14	-	6,754
Total operating income	<u>16,264</u>	<u>5,089</u>	<u>-</u>	<u>21,353</u>
Operating Expenses				
Aviation operations	13,174	1,248	8	14,430
Clinical operations	7,079	338	-	7,417
STARS Emergency Link Centre	3,929	131	-	4,060
Administration	5,079	1,529	-	6,608
Amortization	2,326	6	-	2,332
Total operating expenses	<u>31,587</u>	<u>3,252</u>	<u>8</u>	<u>34,847</u>
Excess (deficiency) of revenue over expenditures from operations	<u>(15,323)</u>	<u>1,837</u>	<u>(8)</u>	<u>(13,494)</u>
<b>Combined excess of revenue over expenditures</b>	<u>4,641</u>	<u>4,128</u>	<u>-</u>	<u>8,769</u>

### Lease Obligations and Commitments

	2012	2013	2014	2015	2016	Beyond
Alberta	1,078	1,405	1,250	695	695	3,460
Saskatchewan	67	35	13	13	13	58
Manitoba	97	-	-	-	-	0
	<u>1,242</u>	<u>1,440</u>	<u>1,263</u>	<u>708</u>	<u>708</u>	<u>3,518</u>

STARS has established individual bank accounts for each province in order to segregate fundraising and operations revenues and expenditures. At the end of each month STARS reconciles revenues and expenditures for each province which results in an interprovincial receivable or payable. Cash transfers settle interprovincial receivable or payable accounts on a monthly basis. Additionally, STARS has received cash deposits equivalent to one month's operating expenditures from the provinces of Saskatchewan and Manitoba.

## 17. Comparative figures

Certain of the 2010 figures have been reclassified to conform to the current year presentation.

## 18. Financial instrument risk

### Fair values

Financial instruments consist of cash, receivables, foreign exchange contract, investments, payables and accruals, commitment to purchase helicopters, and long term debt. The fair values of the financial instruments, excluding long term debt and investments, approximate their carrying values due to the short time to maturity. The fair value of long term debt is not materially different from its carrying amount. Investments are carried at fair value.

### Price risk

The foreign exchange contract entered into by STARS is subject to price risk because changes in the Canadian to US dollar exchange rate affect the market value of the contract. This is not a risk to STARS since the purpose of the contract is to fix the purchase price of the advanced technology helicopter and there is no intention to sell the contract.

The investments are subject to price risk because changing interest rates impact the market value of the fixed rate investments, general economic conditions affect the market value of equity investments and currency exchange rate changes impact the market value of the investments denominated in currencies other than the Canadian dollar. This risk is mitigated through the use of an investment manager for the long term portfolio investments and by investing other funds in short term fixed rate products with high credit ratings.

### Credit risk

STARS does not believe it is exposed to significant credit risk on any of its financial assets. STARS manages credit risk by maintaining bank accounts with reputable financial institutions, only investing in securities that are liquid, highly rated, traded in active markets and ensuring that its accounts receivable are from reputable, credit worthy organizations.

### Liquidity risk

STARS is exposed to a liquidity risk resulting from the foreign exchange contract and from its investments. STARS manages foreign exchange contract risk by placing the contract with a large reputable Canadian financial institution and monitoring the ability of the financial institution to complete the transaction at the date the contract matures. To manage the investment risk, STARS uses an investment manager for the investments it plans to hold for a long period of time. These investments are subject to liquidity risk if STARS is required to sell at a time that the market for the investments is unfavourable.

## 19. Additional information to comply with the disclosure requirement of the Alberta Charitable Fundraising Act

Gross contributions, including capital campaign receipts, governed by the Alberta Charitable Fundraising Act totalled \$17,943 (2010 - \$15,138). In addition, \$17,289 (2010 - \$17,235) of gross proceeds were realized from lottery sales and other gaming activities governed by the Alberta Gaming and Liquor Act. All expenses incurred for the purposes of soliciting contributions under the Charitable Fundraising Act were \$7,740 (2010 - \$6,424). Of these expenditures \$3,366 (2010 - \$2,947) were paid as remuneration to employees whose principal duties involve fundraising. Also included in expenditures for soliciting contributions were \$291 (2010 - \$273) paid as remuneration to third party fundraising businesses, including any expenses or fees paid by the Foundation on behalf of the fundraising businesses or as reimbursements to the fundraising businesses.

# STARS®

## **STARS Calgary Base - Head Office**

**Phone:** 403-295-1811 | 1-888-797-8277 **Fax:** 403-275-4891

## **STARS Edmonton Base**

**Phone:** 780-447-5492 **Fax:** 780-447-5493

## **STARS Grande Prairie Base**

**Phone:** 780-830-7000 **Fax:** 780-830-7009

## **STARS Regina Base**

**Phone:** 306-564-7900 **Fax:** 306-525-5035

## **STARS Saskatoon Office**

**Phone:** 306-242-0200 **Fax:** 306-242-0292

## **STARS Winnipeg Base**

**Phone:** 204-786-4647 **Fax:** 204-786-6785

For a detailed 2011 donor list and for the 2011 Report to the Community, please visit [www.stars.ca](http://www.stars.ca)

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