



## Governance and Financial Report 2012

Effective April 1, 2013, STARS changed its' fiscal year to an April 1st to March 31st timeframe, as opposed to the calendar year. This document also includes financial statements representing April 1, 2012 to March 31, 2013.

## Boards of Directors

As of June 1, 2013

(S) Shock Trauma Air Rescue Society

(F) Shock Trauma Air Rescue Service Foundation

**Dr. Lloyd Axworthy** (S) (4)

University of Winnipeg  
Winnipeg, MB

**Linda Banister** (S) (4)

Banister Research & Consulting Inc.  
Edmonton, AB

**Robert (Bob) Brennan** (S) (1)

Corporate Director  
Winnipeg, MB

**Lyle Carlstrom** (S, F) (4)

Kay McVey Smith & Carlstrom LLP  
Grande Prairie, AB

**Vito Culmone** (S) (1) (2)

WestJet  
Calgary, AB

**Dr. Anne Doig** (S) (3)

Family Physician  
Saskatoon, SK

**Randy Garvey** (F) (1)

Canadian Western Bank  
Edmonton, AB

**Andre Harpe** (S) (3)

Wiesco Acres Ltd.  
Valhalla, AB

**Rod Kennedy** (S, F) (3) (5)

RBC Dominion Securities Inc.  
Red Deer, AB

**Dr. John Kortbeek** (S) (3)

Foothills Medical Centre  
Calgary, AB

**Dan MacLean** (F) (2)

Tundra Oil & Gas  
Winnipeg, MB

**Greg Melchin** (S) (1)

Corporate Director  
Calgary, AB

**Dave Mowat** (F)

Board Chair, STARS Foundation  
ATB Financial  
Edmonton, AB

**Elaine Noel-Bentley** (F) (2) (5)

Corporate Director  
Calgary, AB

**Irene Pfeiffer** (F) (2)

Moorgate Holdings Ltd.  
Okotoks, AB

**Doug Ramsay** (S) (5)

Calfrac Well Services Ltd.  
Calgary, AB

**Dale Riddell** (F) (4)

Corporate Director  
East St. Paul, MB

**Evan Saugstad** (S) (3)

Spectra Energy  
Fort St. John, BC

**Paul Smith** (S, F) (5)

Talisman Energy Inc.  
Calgary, AB

**Brain Vaasjo** (S)

Board Chair, STARS Society  
Capital Power Corporation  
Edmonton, AB

**Pat Youzwa** (F) (4)

Corporate Director  
Regina, SK

(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)

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## Executive Team

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

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

**Jeff Quick**, Chief Financial Officer

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

### Operations

**Mike Lamacchia**, Vice-President, Alberta

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

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

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

# 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 organizations 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 the 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) Shock Trauma Air Rescue Society ("STARS Society") is a society under the Societies Act (Alberta) that was 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 at the date hereof, the voting members are Dr. Lloyd Axworthy, Linda Banister, Robert (Bob) Brennan, Lyle Carlstrom, Vito Culmone, Dr. Anne Doig, Andre Harpe, Rod Kennedy, Dr. John Kortbeek, Greg Melchin, Douglas Ramsay, Evan Saugstad, Paul Smith and Brian Vaasjo (the "STARS Society Members"). In addition to the 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 the STARS Society.

As at the date hereof, each of the STARS Society Members also serves as a director of the STARS Society. All of these directors act as directors in a volunteer capacity.

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) Shock Trauma Air Rescue Service Foundation ("STARS Foundation") is a foundation that was 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 it 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 the date hereof, the voting members are Lyle Carlstrom, Randy Garvey, Rod Kennedy, Dan MacLean, David Mowat, Elaine Noel-Bentley, Irene Pfeiffer, Dale Riddell, Paul Smith, 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 serves as a director of the STARS Foundation. Like the directors of the STARS Society, all of the directors of STARS Foundation are independent, outside, 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 the 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, 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 the STARS Society, which is the decision making body of the 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 the STARS Society.

## Boards of Directors - Volunteer Governance

As charitable and non-profit entities, STARS Society and STARS Foundation have no shareholders and are each effectively governed by volunteer Boards. 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 2012, the Boards volunteered a total of 1,286 hours solely in relation to Board and Board Committee meetings. This number does not take into the 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 of Directors and Standing Board 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 President and Chief Executive Officer and all other officers, review of senior management compensation, and approval of the President and Chief Executive Officer's compensation, monitoring the performance of the President and Chief Executive Officer, and reviewing and approving the strategic direction for the organizations. The Boards have established administrative procedures which prescribe the rules governing the approval of transactions carried out in the course of the organizations' operations, the delegation of authority and the execution of documents on behalf of the organizations.

The Boards, including Committees or an individual director, may engage an outside advisor at the expense of the organizations to assist them in the execution of their directors' responsibilities. From time to time, the organizations 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 been on an arms-length basis and has been accomplished in compliance with applicable conflict of interest rules.

The Boards and the Standing Board 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 organizations. 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 of impact to 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 organizations and that appropriate procedures are in place to monitor and mitigate the risks. STARS is committed to the health and safety of STARS personnel, volunteers, and patients, and takes appropriate remedial and preventative actions as required, and supports wellness initiatives.

#### Succession Planning

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

### Composition of the Boards of Directors

#### Composition

The Board of STARS Society had 15 Directors as of December 31, 2012 and the Board of STARS Foundation had 11 Directors. As of December 31, 2012, the membership of the Board of STARS Foundation included an overlap of four members of the STARS Society Board.

#### 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 organizations when they may have a potential conflict of interest.

## 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 organizations. This review takes into account diversity of background, skills and experience. These 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.

As STARS currently provides services in Alberta, Manitoba, Saskatchewan and eastern British Columbia, the Boards also recognize the importance of having Board representation in each of those geographical areas.

The Governance and Nominating Committee, with input from the Boards, 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 the 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 organizations operate, 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 Boards. 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 President & CEO. The Boards believe that the key accountability of the Chairs of the Boards 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 as to the following: providing leadership to enhance Board effectiveness; managing the Board; acting as a liaison between Board and management; acting in an advisory capacity to the President & CEO; involvement in President & 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 possible.
- One-on-one orientation meetings with the Chairs, the President & CEO, the Corporate Secretary, 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, ("Guidelines for Governance") 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.

The details of the orientation of each new director are tailored to that director's individual needs and areas of interest, in addition to overall governance accountabilities. It is recognized that schedule conflicts and directors' 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 organizations. Management assists directors by providing them with regular updates on developments in the industry, political and economic developments, and communications from the President & CEO to employees, and such other information management considers of interest to the Boards.

Furthermore, in addition to scheduled Board meetings, management may engage external speakers to make presentations to the Boards and management on matters affecting the organizations 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 Boards and provide members of the Boards 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, President & CEO, regularly scheduled in-camera sessions for our Boards and Board Committee meetings, in-camera sessions with our auditor with 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 President & CEO, 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: the Governance and Nominating Committee, the Audit and Finance Committee, the Investment Committee, the Human Resources and

Compensation Committee, and the Safety and Risk Committee. The majority of members of all Standing Committees are non-management directors and independent. As per the existing Bylaws/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. As such, 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 are ex-officio (non-voting) members of the Standing Committees. Appropriate skills and expertise are considered in the formation of each respective Committee. Committee membership is reviewed annually. All Standing Committees meet independently from Management members on a regular basis.

### Joint Governance and Nominating Committee

Number of meetings held in 2012: 4

Number of independent directors serving (as Voting Members) on Committee: 5 of 5 or 100%

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.

### Joint Audit and Finance Committee

Number of meetings held in 2012: 3

Number of Independent Board Members serving on Committee: 5 of 5 or 100%

Number of non-director members serving on Committee: 1 (The Audit and Finance Committee currently has one external, independent, non-director member)

The Audit and Finance Committee monitors the financial accountability, risk and integrity of the organizations, 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.

### **Joint Investment Committee**

Number of meetings held in 2012: 4

Number of Independent Board members serving on Committee: 4 of 4 or 100%

Number of non-director members serving on Committee: 2 (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.

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

Number of meetings held in 2012: 3

Number of independent directors (as Voting Members) serving on Committee: 5 of 5 or 100%

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 organizations. The Committee annually reviews insurance coverage as recommended by management and actively discusses the safety culture of the organization.

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

Number of meetings held in 2012: 4

Number of Independent directors (as Voting Members) Serving on Committee: 5 of 5 or 100%

The Human Resources and Compensation Committee is responsible for monitoring compensation and human resource policies, for developing and monitoring a succession plan for the President & CEO of the organizations, for the annual performance review and compensation recommendations for the President & CEO 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 President & CEO 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 President & CEO are reviewed with the Boards of Directors and are recommended to the Boards of Directors for approval.

### **Director Compensation**

The volunteer members of the organization's Boards of Directors are not reimbursed for their service on the STARS Boards or Standing Committees.

# 2012 Message from the President & CEO

The year 2012 was one of significant growth for STARS.

In Alberta and parts of eastern British Columbia, STARS has been a critical link in the life-saving chain of survival for close to 28-years, 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.

STARS entered a new era in 2012 when we broadened our service-area and began operating across the Canadian Prairies, with new bases in Saskatchewan and Manitoba.

As a charitable, non-profit organization, STARS is funded by provincial governments, donors - individuals, service groups and businesses - and industry clients. In each province, the mix is different, but all elements are vital. This unique funding 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.

Funding from Alberta Health Services represented approximately 21 per cent of STARS' total costs in Alberta for 2012. In addition to this essential government funding, we rely on fundraising activities such as the annual STARS lottery and philanthropic donations for the remaining 79 per cent of mission operations funding.

In Saskatchewan, funding from the provincial government represented approximately 50 per cent of total costs in 2012. The program was further supported by corporate donations, individual donors and the first STARS lottery in the province.

In Manitoba, the provincial government funded the majority of the STARS operation in the province in 2012, with plans in place to grow fundraising activities for 2013 and beyond.

The STARS organization regularly reviews its strategic direction. For 2012, the focus was on building the program in Saskatchewan and Manitoba while continuing to deliver a safe, rapid, highly specialized emergency medical transport system throughout Alberta and parts of eastern BC.

## **A summary of STARS strategic directions for 2012 are outlined below:**

- Develop and open three new bases in Saskatchewan and Manitoba:
  - On February 22, 2012, STARS signed a 10-year service agreement with the Government of Manitoba.
  - In Saskatchewan, STARS met our commitment to the provincial government by opening the Regina base in April 2012, followed by the Saskatoon base in October 2012.
- Continue to deliver a safe, rapid, highly specialized emergency medical transport system from three bases in Alberta.
- Enhance the human resources, information technology, finance and communications infrastructure to support the mission across three provinces.
- Establish and refine fundraising approach in new areas, including development of provincial specific fundraising plans.

Inherent in our planning process is a careful review of the risks facing the organization and determination of risk mitigation strategies.

While the challenges of providing helicopter ambulance services to critically ill and injured patients continues to be the highest risk statistically, the current global economy coupled with our unique funding model requires us to pay special attention to our financial picture.

## **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 adjustments (inflation):**

Expenditures, as described in our financial statements, are likely to increase at the annual market adjustments (inflation).

## **Aviation costs:**

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.

Costs are expected to slowly start increasing on the BK117 helicopter fleet. The BK117 has been a great performer for STARS over the last two decades. Due to the age of the aircraft, more scheduled and unscheduled maintenance will be required.

## **Revenue Risks**

### **Agreements with provincial governments**

#### *Alberta*

An agreement with Alberta Health Services was signed effective April 1, 2010. In 2012, this agreement provided a baseline amount of partial funding for mission operations of \$5.5 million per year, plus reimbursement of AB mission fuel and landing fees, representing approximately 21% of funding for our Alberta program. The remaining funding comes from community fundraising initiatives.

For the 2013-14 year, STARS will also receive an additional \$5 million in government funding. This is for one year only and the funding is specifically earmarked for increased operating costs related to the AW139 helicopter (\$3 million) and a grant for providing critical care training to fixed wing providers (\$2 million). This funding is expected to commence April 1, 2013.

#### *Saskatchewan*

STARS signed an agreement with the Government of Saskatchewan in April 2011. 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. In fiscal year 2012-13, the provincial government provided STARS with \$10.5 million, representing approximately 50 per cent of our operating budget in the province. Government funding levels for 2013-14 will remain the same.

#### *Manitoba*

STARS signed a 10-year agreement with the Government of Manitoba in February 2012 for STARS to establish a base in Winnipeg. In 2012-2103, the Government of Manitoba provided STARS with approximately \$12.5 million in funding; this included both operating and capital funding for the STARS BK117 helicopter. This represented close to 100 per cent of the annual budget for the year. In 2013-14, government funding levels are expected to increase slightly to approximately \$13.0 million in order to account for moving from 12 hour operations to 24 hour operations, which is expected to commence in April 2013, and complete the capital equipment purchases budgeted.

## **Revenue generation**

Fee-for-service programs offered through the STARS Emergency Link Centre are positioned to continue generating revenue going forward. A record number of industry sites, approximately 4,500, are registered through the Industry Site Registration Program. The Industry Emergency Contact Centre is another program STARS has developed to support industry with their emergency response needs. Together these programs are projected to bring in \$4.5 million in the coming year.

## **Philanthropy**

Despite an unpredictable global economy, STARS continues to reach significant fundraising milestones.

In Alberta, the annual STARS & Spurs gala, hosted by the Petroleum Services Association of Canada, raised \$1.14 million, surpassing last year's gala by about \$250,000.

The annual STARS Lottery in Alberta once again sold out as it has since inception, bringing in total revenue in excess of \$10.9 million. There is always the possibility the Lottery could experience difficulty selling out, thereby reducing anticipated revenue. However, we believe the history of sell out is reflective of the strong community support for the mission of the organization. The risk of missed revenue from this funding initiative is felt to be low.

In Saskatchewan, corporate donations continued to be strong in 2012. The first annual STARS Lottery in Saskatchewan while shy of sell-out also brought in an additional \$1.6 million in revenue. Going forward, fundraising initiatives including individual donations and special events are projected to increase.

The STARS Foundation is in its infancy stage in Manitoba. There has been some success to date with events, a direct mail campaign and some philanthropic gifts from corporations and individuals. Going forward, STARS is launching a Lottery in the province, with a goal of raising more than \$1.0 million for the Manitoba operation. A large-scale fundraising event, CEO Rescue on the Island modeled after a similar event in Alberta, will be held in the province in fall 2013.

## Capital procurement

The first of three AW139 helicopters arrived in December 2012. A second aircraft is scheduled for a mid-2013 delivery, and a third which will be dedicated to the Saskatchewan program is expected to arrive in late 2013.

Before going into service, final certification of the aircraft from Transport Canada is required. All new AW139 helicopters are required to undergo test flights, pilot training and air medical crew training.

The Vision Critical Campaign raised the majority of the funds to meet the payment schedule for two of the Alberta-based AW139's. 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. This shortfall was funded \$3 million from excess operating cash and \$4 million in term debt. Targeted fundraising for the reduction of the \$4 million term loan will occur over the next four to five years.

The Saskatchewan-based AW139 was purchased by PotashCorp. STARS has entered into a lease agreement with Potash Corp, for use of the helicopter with such lease payments offset by a donation from PotashCorp. The donation from PotashCorp is also fully-funding the medical interior development and implementation for the Saskatchewan AW139.

STARS purchased three pre-owned BK117 helicopters that were suitable for refurbishment to STARS specifications for the Saskatchewan and Manitoba bases. Two of these aircraft are now in-service and the third expected for mid-2013. Funding for the BK117 helicopters was provided by the Government of Manitoba, Government of Saskatchewan, as well as corporate donors specifically for the Saskatchewan program. Due to the timing of receipt of the government funding and corporate donations, the two BK117 helicopters in Saskatchewan were financed through five year leases.

## Workforce demographic

The shortage of appropriately trained and qualified pilots and aircraft engineers is one of the largest workforce challenges for STARS, although to date this hasn't been a significant issue due to robust recruitment and retention strategies. The risk is further mitigated through unique scheduling models allowing for 'pool pilots' who can shift from base-to-base to cover shifts where needed.

Although the shortage of trained health care professionals - registered nurses, paramedics, physicians - continues to grow nationwide, this is not expected to significantly impact STARS. The intensive education programs offered internally to the air medical crew and the unique critical care delivery model have allowed us to continue to attract highly skilled and motivated clinical teams.

## 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 was conducted, including 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 new opportunities to enhance the quality of care provided, as well as access for people living in rural and remote areas.

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. Protocols are now under development which would allow the most appropriate STARS base to respond.

Additionally, with a team of 80 Transport Physicians across three provinces, the potential for increasing the quality and effectiveness of the patient care provided through physician collaboration has never been greater.

STARS is often approached by provincial governments and private industry as a possible solution to health care access challenges. All of these opportunities need to be carefully evaluated before moving forward. The team is developing criteria for assessing and rating business development opportunities, such as new bases and mobile deployment, to ensure the opportunities we do move forward with are appropriately aligned and enhance our core business of providing care to patients who are critically ill and injured. This is expected to be completed by the end of 2013.

March 11, 2013

## Management's Report

The accompanying combined financial statements of STARS as at December 31, 2012 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 2012.

External auditors, appointed by the Board of Directors, have independently examined the 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 & CEO



**Jeffrey Quick, CA**  
Chief Financial Officer

April 16, 2013

## Independent Auditor's Report

### To the Boards of Directors of

**Shock Trauma Air Rescue Society  
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, 2012 and 2011 and the combined statements of fundraising, operations and change in fund balance and cash flows for the years ended December 31, 2012 and 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the combined 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 audits. We conducted our audits 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 at December 31, 2012 and 2011 and the results of its fundraising and operations and its cash flows for the years ended December 31, 2012 and 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

*PricewaterhouseCoopers LLP*

Chartered Accountants  
Calgary, AB

**Shock Trauma Air Rescue Service**

**Combined Statement of Financial Position**

(thousands of dollars)

	<b>December 31 2012</b>	December 31 2011
<b>Assets</b>		
<b>CURRENT</b>		
Cash	\$ 16,402	\$ 12,562
Receivables	6,507	6,819
Deferred expenses	366	259
Prepaid expenses	419	690
Helicopter parts and store inventory	1,989	1,654
	<u>25,683</u>	<u>21,984</u>
Investments (Note 6)	7,755	14,434
Commitment to purchase helicopter (Note 3)	-	138
Deposit on advanced technology helicopters	-	5,771
Property and equipment (Note 10)	58,099	31,041
	<u>\$ 91,537</u>	<u>\$ 73,368</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Payables and accruals	\$ 4,857	\$ 6,190
Deferred revenue	667	1,941
Foreign exchange contract (Note 3)	-	138
Current portion of long term debt (Note 11)	1,938	396
	<u>7,462</u>	<u>8,665</u>
Long-term debt (Note 11)	10,900	3,405
Deferred contributions (Note 5)	24,198	19,829
	<u>42,560</u>	<u>31,899</u>
<b>Net Assets</b>		
Capital Preservation Fund	48,957	41,449
Endowment Fund - externally restricted	20	20
	<u>48,977</u>	<u>41,469</u>
	<u>\$ 91,537</u>	<u>\$ 73,368</u>

Commitments and contingencies (Note 12)

On behalf of the Board



Director  
Brian Vaasjo  
Board Chair, STARS Society



Director  
David Mowat  
Board Chair, STARS Foundation

See accompanying notes to the financial statements.

## Shock Trauma Air Rescue Service

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

(thousands of dollars)

Year Ended December 31	2012	2011
<b>Fundraising Activities</b>		
Fundraising revenue		
Donations and fundraising revenue	\$ 19,416	\$ 17,081
Donations and fundraising expenditures	(3,506)	(2,747)
	<u>15,910</u>	<u>14,334</u>
Lottery revenue	23,813	17,157
Lottery expenditures	(11,267)	(7,453)
	<u>12,546</u>	<u>9,704</u>
Calendar revenue	3,298	3,063
Calendar expenditures	(2,134)	(2,167)
	<u>1,164</u>	<u>896</u>
Investment and other income (Note 7)	758	155
Total net fundraising revenue before other expenditures	<u>30,378</u>	<u>25,089</u>
Other expenditures		
Administration	(3,723)	(2,826)
Excess of revenue over expenditures from fundraising	<u>\$ 26,655</u>	<u>\$ 22,263</u>
<b>Operating Activities</b>		
Operating revenue		
Government contributions	\$ 23,444	\$ 11,724
Site registration recoveries	3,368	2,876
Fee for services (Note 4)	3,136	6,753
	<u>29,948</u>	<u>21,353</u>
Operating Expenditures		
Aviation operations	19,838	14,591
Clinical operations	12,312	7,500
STARS Emergency Link Centre	4,714	3,849
Administration	8,339	6,558
Amortization	3,598	2,332
Interest	267	17
	<u>49,068</u>	<u>34,847</u>
Deficiency of revenue over expenditures from operations	<u>(19,120)</u>	<u>(13,494)</u>
Combined excess of revenue over expenditures before the following	<u>7,535</u>	<u>8,769</u>
Loss on disposal of property and equipment	(27)	-
Combined excess of revenue over expenditures	<u>7,508</u>	<u>8,769</u>
Net assets, beginning balance	41,469	32,700
Net assets, end of year	<u>\$ 48,977</u>	<u>\$ 41,469</u>

See accompanying notes to the combined financial statements.

**Shock Trauma Air Rescue Service****Combined Statement of Cash Flows**

(thousands of dollars)

<b>Year Ended December 31</b>	<b>2012</b>	2011
<b>Operations/Fundraising</b>		
Combined excess of revenue over expenditures	\$ 7,508	\$ 8,769
Items not requiring cash outlay		
Amortization of property and equipment	3,598	2,332
Amortization of deferred contributions (Note 5)	(597)	(1,270)
Loss on sale of investments (Note 7)	515	105
Exchange (gain) loss on investments (Note 7)	91	(117)
Unrealized (gain) loss on investments (Note 7)	(969)	283
Loss on disposal of property and equipment	27	-
Changes in non-cash operating working capital (Note 13)	(2,466)	(318)
	<u>7,707</u>	<u>9,784</u>
<b>Financing</b>		
Proceeds from long-term debt and credit facilities	9,037	3,705
Deferred contributions	4,966	1,959
	<u>14,003</u>	<u>5,664</u>
<b>Investing</b>		
Net change in investments (Notes 6 and 7)	7,042	(346)
Deposits on advanced technology helicopters	5,771	(1,423)
Purchase of property and equipment	(30,683)	(6,363)
	<u>(17,870)</u>	<u>(8,132)</u>
Net increase in cash	3,840	7,316
Cash, beginning of year	12,562	5,246
Cash, end of year	\$ 16,402	\$ 12,562

**Supplementary Information**

	<b>2012</b>	2011
Interest received	\$ 113	\$ 71
Interest paid	\$ 267	\$ 17

See accompanying notes to the combined financial statements.

## Notes to the Combined Financial Statements

(thousands of dollars)  
December 31, 2012

### 1. General

These combined financial statements represent the financial position and the combined operations as at, and for the year ended, December 31, 2012 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 Provinces of Alberta, Saskatchewan, Manitoba, 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. The Agreement provides for a shared funding model between government, corporations, and communities.

### 2. Summary of significant accounting policies

These combined financial statements are prepared in accordance with 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.

#### a. 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.

#### **b. 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 combined statement of financial position.

#### **c. 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 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.

#### **d. Investments**

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

#### **e. 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	5 to 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

#### **f. 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 and if the carrying value is greater than net recoverable amount, the asset is written down to its estimated fair value.

#### **g. 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 2012 was \$1,541 (2011 - \$879). 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.

#### **h. 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.

#### **i. Cash**

Cash consists of balances with banks including outstanding deposits and net of outstanding cheques.

#### **j. Inventory**

Inventory is 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.

#### **k. 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.

#### **l. 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.

#### **m. Financial instruments**

Financial instruments recognized in the combined statement of financial position consist of cash, receivables, foreign exchange contract, deposits on helicopter, 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.

#### **n. 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. As at December 31, 2012, the fair value of the contract equates to a liability of CAD \$ NIL (2011 - \$138). 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 (n)).

The required accounting treatment results in the recording of the commitment asset and foreign exchange liability of CAD \$ NIL (2011 - \$138) 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

	<u>2012</u>	<u>2011</u>
Human patient simulator	\$ 499	\$ 537
Emergency contact centre	602	675
Administration	-	160
Standby support missions	<b>2,035</b>	5,381
	<b>\$ 3,136</b>	<b>\$ 6,753</b>

### 5. Deferred contributions

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 19,829	\$ 19,140
Restricted contributions received	4,966	1,959
Amortization of amounts related to operating expenditures	(177)	(1,153)
Amortization of amounts related to property & equipment	(420)	(117)
Balance, end of year	<b>\$ 24,198</b>	<b>\$ 19,829</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

	<u>2012</u>	<u>2011</u>
Equity and bond funds	\$ 7,245	\$ 7,297
Cash and cash equivalents	192	238
Canadian dollar bonds and notes	318	1,545
US dollar bonds and notes	-	5,354
Total investments	<b>\$ 7,755</b>	<b>\$ 14,434</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

	2012	2011
Interest and investment income	\$ 396	\$ 346
Loss on sale of investments	(515)	(105)
Exchange gain (loss) on investments	(91)	117
Unrealized gain (loss) on investments	969	(283)
Other income (loss)	(1)	80
Total investment and other income	<u>\$ 758</u>	<u>\$ 155</u>

## 8. Income taxes

Aviation has tax values in excess of book values for property and equipment of \$23,556 for which no tax benefit has been recognized. Aviation paid no income taxes in 2012 or 2011.

## 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, 2012, \$79 (2011 - \$132) is included within accounts payable and accrued liabilities.

## 10. Property and equipment

	Cost	Accumulated Amortization	2012 Net Book Value	2011 Net Book Value
Helicopters	\$ 62,555	\$ 13,670	\$ 48,885	\$ 27,566
Night vision goggles	972	698	274	195
Medical equipment	3,603	2,452	1,151	753
Office equipment	1,200	881	319	216
Equipment under capital lease	429	187	242	207
Computer hardware & software	5,587	3,788	1,799	186
Leasehold improvements	1,305	586	719	383
Buildings	4,839	296	4,543	1,302
Automobiles	995	828	167	233
	<u>\$ 81,485</u>	<u>\$ 23,386</u>	<u>\$ 58,099</u>	<u>\$ 31,041</u>

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 \$6,400 or \$3,200 per helicopter. The re-fit was completed in 2012 and the helicopters were placed into service.

In 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 \$3,100. In 2012, the construction was substantially completed and the building was occupied.

A donor made a five year pledge toward the purchase of the BKs and Regina hangar in 2011. Accordingly, STARS entered into capital lease agreements (Note 11) to finance the purchase of these assets to match the annual donations with the principal payments. The balance of principal payments will be paid from future annual donations.

In 2012, STARS purchased and started a re-fit on a BK117 helicopter for primary use in the province of Manitoba.

STARS received its second AW139 helicopter in November 2012. The medical interiors for the two AW139 helicopters were purchased in 2012. At December 31, 2012, the medical interior was installed in the first AW139 helicopter and is being used for training. Neither of the two AW139 helicopters were certified to fly missions at December 31, 2012.

As part of the purchase of its second AW139, STARS entered into a term loan agreement (Note 11) for a portion of the purchase price with the balance of the principal payments to be paid from future donations.

Included in property and equipment are assets under capital lease as follows:

	2012		2011	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Helicopters	\$ 6,198	\$ 620	\$ 3,286	\$ -
Buildings	4,527	113	1,173	-
Equipment	429	187	319	112

Helicopters, computer software, and buildings include assets not in use and thus not subject to amortization and are recorded in these combined financial statements as follows:

	2012 Cost	2011 Cost
Helicopters	\$ 36,205	\$ 19,302
Computer software	242	-
Buildings	-	1,173

## 11. Long term debt and credit facilities

AW139 helicopter loan bearing interest at 3.25% with monthly payments of \$67 with a balance due of \$400 in 2018. No principal payments are due for the first six months.

Regina hangar lease bearing interest at 3.72% fixed rate for five years. Monthly lease payments are \$23 with a balance due of \$1,265 in 2018. Principal payments start in March 2013.

Regina hangar lease bearing interest at 3.6% repayable in monthly installments, with a balance due of \$426 in 2016.

Two Saskatchewan BK117 helicopter leases, each bearing interest at the three month CDOR plus 2%, repayable in monthly installments, with interest only payments for six months.

Equipment capital leases bearing interest at 3.8% to 10.7%, repayable in monthly or quarterly installments.

Current portion

Long term portion

	2012	2011
	\$ 4,000	\$ -
	2,300	-
	725	797
	5,585	2,800
	228	204
	\$ 12,838	\$ 3,801
	1,938	396
	\$ 10,900	\$ 3,405

Principal repayments due are estimated as follows:

2013	\$ 1,938
2014	2,389
2015	2,438
2016	2,884
2017	1,490
2018	1,699
	<u>\$ 12,838</u>

In 2012, Society paid interest of \$267 (2011 - \$17) on long term debt.

As at December 31, 2012, the Organization has a line of credit available of up to \$1,000 (2011 - \$1,000) bearing interest at prime plus 1%. As at December 31, 2012 and 2011, no amount was drawn on this line of credit.

## 12. Lease obligations and commitments

Base related leases mature as follows:

Calgary Base	March 2013
Saskatoon Base - temporary office space	August 2013
Foundation community fundraising office	December 2013
Grande Prairie Base	August 2020
Regina Base - airport land lease	September 2021
Edmonton Base	September 2022

Future minimum lease payments are as follows:

<u>Year</u>	<u>Base and Office Leases</u>
2013	\$ 1,352
2014	908
2015	908
2016	908
2017	908
Beyond	3,740
	<u>\$ 8,724</u>

## 13. Supplemental cash flow information

	<u>2012</u>	<u>2011</u>
Changes in non-cash operating working capital:		
Receivables	\$ 312	\$ (3,836)
Deferred expenses	(107)	(22)
Prepaid expenses	271	(342)
Helicopter parts and store inventories	(335)	(924)
Payables and accruals	(1,333)	3,726
Deferred revenue	(1,274)	1,080
	<u>\$ (2,466)</u>	<u>\$ (318)</u>

## 14. Segmented information

Presented below is the December 31, 2012 segmentation by province of the Combined Statement of Financial Position, and Combined Statement of Fundraising, Operations, and Change in Fund Balance.

### Combined Statement of Financial Position - Provinces

	Alberta	Saskatchewan	Manitoba	Total
<b>Assets</b>				
Current assets	\$ 18,820	\$ 9,012	\$ 4,429	\$ 32,261
Investments	7,755	-	-	7,755
Property and equipment	44,379	11,330	2,390	58,099
<b>Total Assets</b>	<u>\$ 70,954</u>	<u>\$ 20,342</u>	<u>\$ 6,819</u>	<u>\$ 98,115</u>
<b>Liabilities</b>				
Current liabilities	\$ 5,790	\$ 4,917	\$ 3,333	\$ 14,040
Long-term debt	3,740	7,160	-	10,900
Deferred contributions	19,662	1,908	2,628	24,198
<b>Total Liabilities</b>	<u>29,192</u>	<u>13,985</u>	<u>5,961</u>	<u>49,138</u>
<b>Net Assets</b>				
Capital Preservation Fund	41,742	6,357	858	48,957
Endowment Fund - externally restricted	20	-	-	20
<b>Total Net Assets</b>	<u>41,762</u>	<u>6,357</u>	<u>858</u>	<u>48,977</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 70,954</u>	<u>\$ 20,342</u>	<u>\$ 6,819</u>	<u>\$ 98,115</u>

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

	Alberta	Saskatchewan	Manitoba	Total
<b>Fundraising Activities</b>				
Fundraising revenue				
Donations and fundraising revenue net of expenditures	\$ 11,738	\$ 4,280	\$ (108)	\$ 15,910
Lottery revenue net of expenditures	10,984	1,589	(27)	12,546
Calendar revenue net of expenditures	1,016	128	20	1,164
Investment and other income	736	22	-	758
Total net fundraising revenue before other expenditures	24,474	6,019	(115)	30,378
Administration expenditures	(2,616)	(847)	(260)	(3,723)
Excess of revenue over expenditures from fundraising	21,858	5,172	(375)	26,655
<b>Operating Activities</b>				
Operating revenue	13,023	9,806	7,119	29,948
Operating Expenditures	(30,433)	(12,749)	(5,886)	(49,068)
Excess (deficiency) of revenue over expenditures from operations	(17,410)	(2,943)	1,233	(19,120)
Combined excess of revenue over expenditures before the following	4,448	2,229	858	7,535
Loss on disposal of property and equipment	(27)	-	-	(27)
Combined excess of revenue over expenditures	4,421	2,229	858	7,508
Net assets, beginning balance	37,341	4,128	-	41,469
Net assets, end of year	<u>\$ 41,762</u>	<u>\$ 6,357</u>	<u>\$ 858</u>	<u>\$ 48,977</u>

**Lease Obligations and Commitments**

	2013	2014	2015	2016	2017	Beyond
Alberta	\$ 1,195	\$ 895	\$ 895	\$ 895	\$ 895	\$ 3,690
Saskatchewan	139	13	13	13	13	50
Manitoba	18	-	-	-	-	-
	<u>\$ 1,352</u>	<u>\$ 908</u>	<u>\$ 908</u>	<u>\$ 908</u>	<u>\$ 908</u>	<u>\$ 3,740</u>

STARS has established individual bank accounts for each province in order to segregate fundraising and operations revenues and expenditures. On a monthly or quarterly basis 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 either a monthly or quarterly basis. Additionally, STARS has received cash deposits equivalent to one month's operating expenditures from the provinces of Saskatchewan and Manitoba.

## 15. Comparative figures

Certain of the 2011 figures have been reclassified to conform to the current year presentation.

## 16. 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 market 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.

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

	Alberta (1)		Saskatchewan (2)		Manitoba (3)	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Gross Contributions	<b>\$18,726</b>	\$17,943	<b>\$5,744</b>	-	<b>\$107</b>	-
Gross gaming proceeds	<b>17,921</b>	17,289	<b>6,041</b>	-	-	-
Soliciting contributions expenses	<b>7,448</b>	7,740	<b>1,412</b>	-	<b>487</b>	-
Remuneration paid to employees	<b>3,571</b>	3,366	<b>517</b>	-	<b>101</b>	-
Third party fundraising expenses	<b>273</b>	291	<b>198</b>	-	<b>67</b>	-

(1) Alberta Charitable Fundraising Act

(2) Saskatchewan Charitable Fund-raising Businesses Act

(3) Manitoba Charities Endorsement



## March 31, 2013 Financial Statements

Effective April 1, 2013, STARS changed its' fiscal year to an April 1 to March 31 timeframe, as opposed to the calendar year. The following financial statements represent April 1, 2012, to March 31, 2013.

June 27, 2013

## Independent Auditor's Report

### To the Board of Directors of

**Shock Trauma Air Rescue Society  
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 March 31, 2013 and the combined statements of fundraising, operations and change in fund balance and cash flows for the year ended March 31, 2013, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the combined 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 audits. We conducted our audits 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 at March 31, 2013 and the results of its fundraising and operations and its cash flows for the year ended March 31, 2013 in accordance with Canadian accounting standards for not-for-profit organizations.

### Other matter

The financial statements of STARS as at March 31, 2012 and for the year then ended were not audited but were subject to review. A review engagement is substantially less in scope than an audit.

*PricewaterhouseCoopers LLP*

Chartered Accountants  
Calgary, AB

**Shock Trauma Air Rescue Service**

**Combined Statement of Financial Position**

(thousands of dollars)

As at March 31

	2013	2012 UNAUDITED
<b>Assets</b>		
<b>CURRENT</b>		
Cash	\$ 25,243	\$ 17,114
Receivables	5,019	4,816
Deferred expenses	2	3,390
Prepaid expenses	1,657	1,021
Helicopter parts and store inventory	2,353	2,492
	<u>34,274</u>	<u>28,833</u>
Investments (Note 7)	8,089	14,713
Commitment to purchase helicopter (Note 4)	-	249
Deposit on advanced technology helicopters	-	6,504
Property and equipment (Note 11)	57,717	34,981
	<u>\$ 100,080</u>	<u>\$ 85,280</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Payables and accruals	\$ 4,194	\$ 3,695
Deferred revenue	136	6,957
Foreign exchange contract (Note 4)	-	249
Current portion of long term debt (Note 12)	2,172	734
	<u>6,502</u>	<u>11,635</u>
Long-term debt (Note 12)	10,329	5,049
Deferred contributions (Note 6)	24,446	22,599
	<u>41,277</u>	<u>39,283</u>
<b>Net Assets</b>		
Capital Preservation Fund	58,783	45,977
Endowment Fund - externally restricted	20	20
	<u>58,803</u>	<u>45,997</u>
	<u>\$ 100,080</u>	<u>\$ 85,280</u>

Commitments and contingencies (Note 13)

On behalf of the Board



Director  
Brian Vaasjo  
Board Chair, STARS Society



Director  
David Mowat  
Board Chair, STARS Foundation

See accompanying notes to the financial statements.

## Shock Trauma Air Rescue Service

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

(thousands of dollars)

Year Ended March 31	2013	2012 UNAUDITED
<b>Fundraising activities</b>		
Fundraising revenue		
Donations and fundraising revenue	\$ 21,462	\$ 16,588
Donations and fundraising expenditures	(3,350)	(2,795)
	<u>18,112</u>	<u>13,793</u>
Lottery revenue (Note 15)	30,812	18,385
Lottery expenditures (Note 15)	(15,324)	(7,546)
	<u>15,488</u>	<u>10,839</u>
Calendar revenue	3,294	3,150
Calendar expenditures	(2,099)	(2,252)
	<u>1,195</u>	<u>898</u>
Investment and other income (Note 8)	815	74
Total net fundraising revenue before other expenditures	<u>35,610</u>	<u>25,604</u>
Other expenditures		
Administration	(4,218)	(2,988)
Excess of revenue over expenditures from fundraising	<u>\$ 31,392</u>	<u>\$ 22,616</u>
<b>Operating Activities</b>		
Operating revenue		
Government contributions	\$ 27,932	\$ 12,858
Site registration recoveries	3,321	3,118
Donations	1,000	1,000
Fee for services (Note 5)	1,224	8,676
	<u>33,477</u>	<u>25,652</u>
Operating Expenditures		
Aviation operations	20,816	17,286
Clinical operations	12,322	6,127
STARS Emergency Link Centre	5,907	6,429
Administration	8,470	7,518
Amortization	4,189	2,450
Interest	332	46
	<u>52,036</u>	<u>39,856</u>
Deficiency of revenue over expenditures from operations	<u>(18,559)</u>	<u>(14,204)</u>
Combined excess of revenue over expenditures before the following	<u>12,833</u>	<u>8,412</u>
Gain (loss) on disposal of property and equipment	(27)	2
Combined excess of revenue over expenditures	<u>12,806</u>	<u>8,414</u>
Net assets, beginning balance	45,997	37,583
Net assets, end of year	<u>\$ 58,803</u>	<u>\$ 45,997</u>

See accompanying notes to the combined financial statements.

## Shock Trauma Air Rescue Service

### Combined Statement of Cash Flows

(thousands of dollars)

Year Ended March 31	2013	2012 UNAUDITED
<b>Operations/Fundraising</b>		
Combined excess of revenue over expenditures	\$ 12,806	\$ 8,414
Items not requiring cash outlay		
Amortization of property and equipment	4,189	2,450
Amortization of deferred contributions (Notes 3 and 6)	(691)	(1,576)
Loss on sale of investments (Note 8)	326	105
Exchange (gain) on investments (Note 8)	(3)	(116)
Unrealized (gain) loss on investments (Note 8)	(748)	283
Loss (gain) on disposal of property and equipment	27	(2)
Changes in non-cash operating working capital (Note 14)	(3,634)	(3,124)
	<u>12,272</u>	<u>6,434</u>
<b>Financing</b>		
Proceeds from long term debt and credit facilities	6,718	5,650
Deferred contributions (Note 6)	2,538	4,584
	<u>9,256</u>	<u>10,234</u>
<b>Investing</b>		
Net change in investments (Notes 7 and 8)	7,049	(263)
Deposits on advanced technology helicopters	6,504	(1,556)
Purchase of property and equipment	(26,952)	(10,838)
	<u>(13,399)</u>	<u>(12,657)</u>
Net increase in cash	8,129	4,011
Cash, beginning of year	17,114	13,103
Cash, end of year	<u>\$ 25,243</u>	<u>\$ 17,114</u>
<b>Supplementary Information</b>		
Interest received	\$ 117	\$ 81
Interest paid	\$ 332	\$ 46

See accompanying notes to the combined financial statements.

## Notes to the Combined Financial Statements

For the Year ended March 31, 2013 with unaudited comparatives for the year ended March 31, 2012.

### 1. General

These combined financial statements represent the financial position and the combined operations as at, and for the year ended, March 31, 2013 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 Provinces of Alberta, Saskatchewan, Manitoba, 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. The Agreement provides for a shared funding model between government, corporations, and communities.

### 2. Change in accounting policy

Effective March 31, 2013, STARS has changed the accounting policy for recognizing Lottery revenue to better reflect the nature and timing of ticket sales and lottery draws. Previously, lottery revenue was recognized in the year the lottery was drawn. Under the new revenue recognition policy, revenue is recognized based on timing of the ticket sales and lottery draws. This change has been applied retrospectively in these financial statements with the impact of increasing (decreasing) lottery revenue and excess of revenue over expenditures for the year ended March 31, 2012 by \$606 and \$303 respectively and capital preservation fund and deferred revenue at March 31, 2012 by \$303 and \$3,380 respectively of the amounts that otherwise would have been reported.

### 3. Summary of significant accounting policies

These combined financials statements are prepared in accordance with 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.

#### a. 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 recoveries and other fees for service are recognized as revenue when the service has been performed.

Lottery revenue has multiple elements including ticket revenue and contribution revenue. As appropriate, this multiple element arrangement is assessed for stand-alone value with the ticket revenue component measured at fair value and the contribution component comprised of the residual. STARS revenue recognition policies are then applied to each element. Ticket revenue is recognised in the year the lottery is drawn and contribution revenue is recognised when received or receivable if the amount to be received can reasonably be estimated and collection is reasonably assured.

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.

## **b. Expense recognition**

Costs incurred for lottery and annual event marketing material not meeting the definition of an asset are expensed in the year incurred. All prize costs for the lottery and refundable fundraising deposits paid prior to the event are recorded as deferred expenses on the balance sheet until the lottery draw is held or the event happens.

## **c. 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 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.

## **d. Investments**

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

## **e. 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	5 to 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

#### **f. 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 and if the carrying value is greater than net recoverable amount, the asset is written down to its estimated fair value.

#### **g. 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 2013 was \$1,368 (2012 - \$859). 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.

#### **h. 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.

#### **i. Cash**

Cash consists of balances with banks including outstanding deposits and net of outstanding cheques.

#### **j. Inventory**

Inventory is 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.

#### **k. 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.

#### **l. 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.

#### **m. Financial instruments**

Financial instruments recognized in the combined statement of financial position consist of cash, receivables, foreign exchange contract, deposits on helicopter, 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.

## n. 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.

## 4. 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. As at March 31, 2013, the fair value of the contract equates to a liability of CAD \$ NIL (2012 - \$249). 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 3 (n)).

The required accounting treatment results in the recording of the commitment asset and foreign exchange liability of CAD \$ NIL (2012 - \$249) 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.

## 5. Fee for services

	2013	2012
Human patient simulator	\$ 501	\$ 525
Emergency contact centre	573	805
Administration	(16)	95
Standby support missions	166	7,251
	<b>\$ 1,224</b>	<b>\$ 8,676</b>

## 6. Deferred contributions

	2013	2012
Balance, beginning of year	\$ 22,599	\$ 19,591
Restricted contributions received	2,538	4,584
Amortization of amounts related to operating expenditures	(177)	(1,403)
Amortization of amounts related to property & equipment	(514)	(173)
Balance, end of year	<b>\$ 24,446</b>	<b>\$ 22,599</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.

## 7. Investments

	2013	2012
Equity and bond funds	\$ 7,584	\$ 7,656
Cash and cash equivalents	188	55
Canadian dollar bonds and notes	317	1,736
US dollar bonds and notes	-	5,266
Total investments	<b>\$ 8,089</b>	<b>\$ 14,713</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.

## 8. Investment and other income

	<u>2013</u>	<u>2012</u>
Interest and investment income	\$ 394	\$ 330
Loss on sale of investments	(326)	(105)
Exchange gain on investments	3	116
Unrealized gain (loss) on investments	748	(283)
Other (loss) income	(4)	16
Total investment and other income	<u>\$ 815</u>	<u>\$ 74</u>

## 9. Income taxes

Aviation has tax values in excess of book values for property and equipment of \$23,766 for which no tax benefit has been recognized. Aviation paid no income taxes in 2013 or 2012.

## 10. 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 March 31, 2013, \$67 (2012 - \$73) is included within accounts payable and accrued liabilities.

## 11. Property and equipment

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2013 Net Book Value</u>	<u>2012 Net Book Value</u>
Helicopters	\$ 63,218	\$ 14,336	\$ 48,882	\$ 29,395
Night vision goggles	972	717	255	184
Medical equipment	3,639	2,552	1,087	1,138
Office equipment	1,209	903	306	209
Equipment under capital lease	457	209	248	234
Computer hardware & software	5,618	3,951	1,667	767
Leasehold improvements	1,355	707	648	370
Buildings	4,804	358	4,446	2,465
Automobiles	1,024	846	178	219
	<u>\$ 82,296</u>	<u>\$ 24,579</u>	<u>\$ 57,717</u>	<u>\$ 34,981</u>

A donor made a five year pledge toward the purchase of the BKs and Regina hangar in 2011. Accordingly, STARS entered into capital lease agreements (Note 12) to finance the purchase of these assets to match the annual donations with the principal payments. The balance of principal payments will be paid from future annual donations.

In 2012, STARS purchased and started a re-fit on a BK117 helicopter for primary use in the province of Manitoba.

STARS received its second AW139 helicopter in November 2012. The medical interiors for the two AW139 helicopters were purchased in 2012. At March 31, 2013, the medical interior was installed in the first AW139 helicopter and is being used for training. Neither of the two AW139 helicopters are certified to fly missions at March 31, 2013.

As part of the purchase of its second AW139, STARS entered into a term loan agreement (Note 12) for a portion of the purchase price with the balance of the principal payments to be paid from future donations.

Included in property and equipment are assets under capital lease as follows:

	2013		2012	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Helicopters	\$ 6,198	\$ 930	\$ 4,055	\$ -
Buildings	4,527	170	2,344	-
Equipment	457	209	362	128

Helicopters, computer software, and buildings include assets not in use and thus not subject to amortization and are recorded in these combined financial statements as follows:

	2013 Cost	2012 Cost
Helicopters	\$ 36,738	\$ 21,409
Computer software	215	85
Buildings	-	2,344

## 12. Long term debt and credit facilities

AW139 helicopter loan bearing interest at 3.25% with monthly payments of \$67 with a balance due of \$400 in 2018. No principal payments are due for the first six months.

Regina hangar lease bearing interest at 4.02% fixed rate for five years. Monthly lease payments are \$23 with a balance due of \$1,265 in 2018. Principal payments start in March 2013.

Regina hangar lease bearing interest at 3.6% repayable in monthly installments, with a balance due of \$426 in 2016.

Two Saskatchewan BK117 helicopter leases, each bearing interest at the three month CDOR plus 2%, repayable in monthly installments, with interest only payments for six months.

Equipment capital leases bearing interest at 3.8% to 10.7%, repayable in monthly or quarterly installments.

Current portion

Long term portion

	2013	2012
	\$ 4,000	\$ -
	2,277	715
	706	780
	5,284	4,055
	234	233
	\$ 12,501	\$ 5,783
Current portion	2,172	734
Long term portion	\$ 10,329	\$ 5,049

Principal repayments due are estimated as follows:

<b>2014</b>	<b>\$ 2,172</b>
<b>2015</b>	<b>2,408</b>
<b>2016</b>	<b>2,457</b>
<b>2017</b>	<b>2,821</b>
<b>2018</b>	<b>2,443</b>
<b>2019</b>	<b>200</b>
	<b>\$ 12,501</b>

Included in the above principal repayments are two balloon payments on the Regina Hangar. The first balloon payment of \$426 is due in 2016 and the second one of \$1,265 is due in 2018. In 2013, Society paid interest of \$ 332 (2012 - \$46) on long term debt.

At March 31, 2013, the Organization has a line of credit available of up to \$1,000 (2012 - \$1,000) bearing interest at prime plus 1%. As at March 31, 2013 and 2012, no amount was drawn on this line of credit.

### 13. Lease obligations and commitments

#### Training:

In January 2013, STARS entered into a contract with Agusta Westland to provide pilot training on the AW139 helicopters. From January 2013 to December 2018, the total amount of the contract is \$5.8 million US or \$5.7 million CDN.

Base related leases mature as follows:

Saskatoon Base - temporary office space	August 2013
Foundation community fundraising office	December 2013
Grande Prairie Base	August 2020
Regina Base - airport land lease	September 2021
Edmonton Base	September 2022

Future minimum payments are as follows:

<u>Fiscal Year</u>	<u>Base &amp; Office Lease</u>	<u>Training</u>	<u>Total</u>
2014	\$ 1,213	\$ 1,141	\$ 2,354
2015	917	1,141	2,058
2016	917	1,141	2,058
2017	917	1,141	2,058
2018	917	610	1,527
Beyond	3,468	-	3,468
	<b>\$ 8,349</b>	<b>\$ 5,174</b>	<b>\$ 13,508</b>

### 14. Supplemental cash flow information

	<u>2013</u>	<u>2012</u>
Changes in non-cash operating working capital:		
Receivables	<b>\$ (203)</b>	\$ (2,256)
Deferred expenses	<b>3,388</b>	302
Prepaid expenses	<b>(636)</b>	(512)
Helicopter parts and store inventories	<b>139</b>	(1,880)
Payables and accruals	<b>499</b>	1,674
Deferred revenue	<b>(6,821)</b>	(452)
	<b>\$ (3,634)</b>	\$ (3,124)

## 15. Lottery revenues

STARS hold annual lotteries for which the financial results may be recorded in different fiscal reporting periods due to the timing of lottery ticket sales and draws. The following summarizes lottery results for each annual lottery by reporting period:

	<b>2013</b>	<b>2012</b>
<b>2011 Lottery</b>		
Revenue		\$ 7,376
Expenses		3,692
Net		<u>3,684</u>
<b>2012 Lottery</b>		
Revenue	\$ 6,770	11,009
Expenses	3,389	3,854
Net	<u>3,381</u>	<u>7,155</u>
<b>2013 Lottery</b>		
Revenue	\$ 24,042	
Expenses	11,935	
Net	<u>12,107</u>	

## 16. Segmented information

Presented below is the March 31, 2013 segmentation by province of the Combined Statement of Financial Position, and Combined Statement of Fundraising, Operations and Change in Fund Balance.

### Combined Statement of Financial Position - Provinces

	<b>Alberta</b>	<b>Saskatchewan</b>	<b>Manitoba</b>	<b>Total</b>
<b>Assets</b>				
Current assets	\$ 24,125	\$ 6,296	\$ 4,853	\$ 35,274
Investments	8,089	-	-	8,089
Property and equipment	44,020	10,898	2,799	57,717
<b>Total Assets</b>	<u>\$ 76,234</u>	<u>\$ 17,194</u>	<u>\$ 7,652</u>	<u>\$ 101,080</u>
<b>Liabilities</b>				
Current liabilities	\$ 3,074	\$ 2,000	\$ 2,428	\$ 7,502
Long-term debt	3,548	6,781	-	10,329
Deferred contributions	19,833	2,042	2,571	24,446
<b>Total Liabilities</b>	<u>26,455</u>	<u>10,823</u>	<u>4,999</u>	<u>42,277</u>
<b>Net Assets</b>				
Capital Preservation Fund	49,759	6,371	2,653	58,783
Endowment Fund - externally restricted	20	-	-	20
<b>Total Net Assets</b>	<u>49,779</u>	<u>6,371</u>	<u>2,653</u>	<u>58,803</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 76,234</u>	<u>\$ 17,194</u>	<u>\$ 7,652</u>	<u>\$ 101,080</u>

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

	Alberta	Saskatchewan	Manitoba	Total
<b>Fundraising Activities</b>				
Fundraising revenue				
Donations and fundraising revenue net of expenditures	\$ 12,965	\$ 5,265	\$ (118)	\$ 18,112
Lottery revenue net of expenditures	14,044	1,487	(43)	15,488
Calendar revenue net of expenditures	1,074	106	15	1,195
Investment and other income	783	32	-	815
Total net fundraising revenue before other expenditures	28,866	6,890	(146)	35,610
Administration expenditures	(2,969)	(946)	(303)	(4,218)
Excess of revenue over expenditures from fundraising	25,897	5,944	(449)	31,392
<b>Operating Activities</b>				
Operating revenue	10,929	11,956	10,592	33,477
Operating Expenditures	(30,571)	(14,213)	(7,252)	(52,036)
Excess (deficiency) of revenue over expenditures from operations	(19,642)	(2,257)	3,340	(18,559)
Combined excess of revenue over expenditures before the following	6,255	3,687	2,891	12,833
Loss on disposal of property and equipment	(27)	-	-	(27)
Combined excess of revenue over expenditures	6,228	3,687	2,891	12,806
Net assets, beginning balance	43,551	2,684	(238)	45,997
Net assets, end of year	\$ 49,779	\$ 6,371	\$ 2,653	\$ 58,803

### Lease Obligations and Commitments

	2014	2015	2016	2017	2018	Beyond
Alberta	\$ 1,832	\$ 1,665	\$ 1,665	\$ 1,665	\$ 1,310	\$ 3,426
Saskatchewan	499	393	393	393	217	42
Manitoba	23	-	-	-	-	-
	\$ 2,354	\$ 2,058	\$ 2,058	\$ 2,058	\$ 1,527	\$ 3,468

STARS has established individual bank accounts for each province in order to segregate fundraising and operations revenues and expenditures. On a monthly or quarterly basis 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 either a monthly or quarterly 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 2012 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 market 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

	Alberta (1)		Saskatchewan (2)		Manitoba (3)	
	2013	2012	2013	2012	2013	2012
Gross Contributions	\$19,539	\$20,298	\$8,032	\$467	\$174	\$1
Gross gaming proceeds	18,216	17,932	6,041	-	-	-
Soliciting contributions expenses	7,511	7,617	1,613	412	590	5
Remuneration paid to employees	3,479	3,171	598	132	151	-
Third party fundraising expenses	229	268	198	66	92	-

(1) Alberta Charitable Fundraising Act

(2) Saskatchewan Charitable Fund-raising Businesses Act

(3) Manitoba Charities Endorsement

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