The Sunshine Foundation of Canada

Financial statements

December 31, 2017

Building a better
working world

Independent auditors' report

To the Board of Directors of
The Sunshine Foundation of Canada

We have audited the accompanying financial statements of **The Sunshine Foundation of Canada** [the "Foundation"], which comprise the statement of financial position as at December 31, 2017, and the statements of operations and changes in fund balances and cash flows for the 16-month period then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Foundation's preparation and fair presentation of the 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 Foundation'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 financial statements.

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

Basis for qualified opinion

In common with many charitable organizations, the Foundation derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the Foundation and we were not able to determine whether any adjustments might be necessary to revenue, excess (deficiency) of revenue over expenditures for the period, and cash and fund balances, end of period.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2017, and the results of its operations and changes in its fund balances and its cash flows for the period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

London, Canada
May 23, 2018

The Sunshine Foundation of Canada

Statement of financial position

As at

	December 31, 2017 $	August 31, 2016 $
Assets		
Current		
Cash	**784,839**	177,793
Accounts receivable	**140,138**	1,201,156
Prepaid expenses	**146,421**	218,685
Total current assets	**1,071,398**	1,597,634
Investments – long-term *[note 3]*	**2,845,260**	2,836,729
Capital assets, net *[note 4]*	**93,003**	128,328
	4,009,661	4,562,691
Liabilities and fund balances		
Current		
Bank indebtedness *[note 12]*	**—**	105,000
Accounts payable and accrued liabilities *[note 13]*	**150,817**	356,170
Deferred contributions – short-term *[note 5]*	**50,000**	129,444
Total current liabilities	**200,817**	590,614
Deferred contributions – long-term *[note 5]*	**—**	50,000
Total liabilities	**200,817**	640,614
Commitments *[note 7]*		
Fund balances *[note 6]*		
Operating Fund	**988,871**	1,165,258
Endowment Fund	**2,819,973**	2,756,819
Total fund balances	**3,808,844**	3,922,077
	4,009,661	4,562,691

See accompanying notes

Approved by the Board:

Director

Director

Statement of operations and changes in fund balances

	16-month period ended December 31, 2017			Year ended August 31, 2016		
	Operating Fund	Endowment Fund	Total	Operating Fund	Endowment Fund	Total
	$	$	$	$	$	$
Revenue						
Donations *[note 8]*	**2,954,561**	**—**	**2,954,561**	2,642,768	20	2,642,788
Amortization of deferred contributions *[note 5]*	**129,444**	**—**	**129,444**	160,040	—	160,040
Investment income, net *[note 3]*	**—**	**206,281**	**206,281**	—	181,169	181,169
	3,084,005	**206,281**	**3,290,286**	2,802,808	181,189	2,983,997
Fundraising expenses *[note 9]*	**1,346,637**	**—**	**1,346,637**	1,155,820	—	1,155,820
	1,737,368	**206,281**	**1,943,649**	1,646,988	181,189	1,828,177
Expenditures						
Programs *[note 9]*	**1,363,262**	**—**	**1,363,262**	1,818,965	—	1,818,965
Administration *[note 9]*	**693,620**	**—**	**693,620**	445,390	—	445,390
	2,056,882	**—**	**2,056,882**	2,264,355	—	2,264,355
Excess (deficiency) of revenue over expenditures for the period	**(319,514)**	**206,281**	**(113,233)**	(617,367)	181,189	(436,178)
Fund balances, beginning of period	**1,165,258**	**2,756,819**	**3,922,077**	1,677,899	2,680,356	4,358,255
Inter-fund transfer *[note 6]*	**143,127**	**(143,127)**	**—**	104,726	(104,726)	—
Fund balances, end of period	**988,871**	**2,819,973**	**3,808,844**	1,165,258	2,756,819	3,922,077

See accompanying notes

The Sunshine Foundation of Canada

Statement of cash flows

	16-month period ended December 31, 2017 $	Year ended August 31, 2016 $
Operating activities		
Deficiency of revenue over expenditures for the period	**(113,233)**	(436,178)
Add (deduct) items not affecting cash		
Unrealized losses (gains) on investments, net	**3,973**	(125,427)
Accrued interest	**(4,382)**	9,265
Loss (gain) on sale of investments	**(108,012)**	10,832
Amortization of capital assets	**43,746**	32,758
	(177,908)	(508,750)
Net change in non-cash working capital balances related to operations *[note 10]*	**927,929**	75,387
Decrease in deferred contributions, net	**(129,444)**	(128,282)
Cash provided by (used in) operating activities	**620,577**	(561,645)
Investing activities		
Purchase of capital assets	**(8,421)**	(38,630)
Purchase of investments	**(2,037,768)**	(1,037,422)
Proceeds from sale of investments	**2,137,658**	1,522,526
Cash provided by investing activities	**91,469**	446,474
Financing activities		
Increase (decrease) in line of credit	**(105,000)**	105,000
Cash provided by (used in) financing activities	**(105,000)**	105,000
Net increase (decrease) in cash during the period	**607,046**	(10,171)
Cash, beginning of period	**177,793**	187,964
Cash, end of period	**784,839**	177,793

See accompanying notes

The Sunshine Foundation of Canada

Notes to financial statements

December 31, 2017

1. Nature of operations

The Sunshine Foundation of Canada [the "Foundation"] makes dreams come true for children challenged by severe physical disabilities or life-threatening illnesses.

The Foundation is incorporated under the *Canada Corporations Act* as a not-for-profit organization and has been continued under the *Canada not-for-profit Corporations Act*. It is a registered charity under the *Income Tax Act* (Canada). As such, the Foundation is exempt from income taxes and is allowed to issue donation receipts for income tax purposes.

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, "Accounting Standards for Not-for-Profit Organizations", which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

Fund accounting

In order to ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of "fund accounting". Under these principles, resources are classified for accounting and reporting purposes into funds that are consistent with specified activities or objectives. The Foundation uses two fund groups: Operating Fund and Endowment Fund.

The Endowment funds are externally restricted and were established, consistent with the mission of the Foundation, to fulfill the dreams of children with life-threatening illnesses or severe physical disabilities. The Endowment Fund reports amounts that are required to be maintained by the Foundation on a permanent basis. Investment income, which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains or losses earned from investments are reported in the Endowment funds.

According to the agreement with the County Heritage/Stevenson Hunt Golf Classic Endowment Fund and the Mio/Manz Sunshine Endowment Fund, a fixed percentage of the opening balance of market value of assets is transferred to the Operating Fund at period-end. With respect to the Bill White Memorial Dream Endowment, amounts transferred to the Operating Fund are done after donor approval.

The Operating Fund accounts for the Foundation's operational revenue, and program and administrative expenditures. Unrestricted donations, are reported in the Operating Fund. Expenditures of the Operating Fund are financed primarily by donor contributions directed to general operations.

Tangible and intangible assets

Capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Amortization is provided on a straight-line basis over the assets' estimated useful lives at the following annual rates:

Leasehold improvements	20%
Office furniture and fixtures	10%
Computer systems	20%
Telephone systems	20%
Website development costs	33.3%

Financial instruments

Investments are recorded at fair value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in investment income.

Other financial instruments, including accounts receivable, and accounts payable and accrued liabilities, are initially recorded at their fair value and are subsequently measured at amortized cost using the effective interest rate method, net of any provisions for impairment.

Determination of fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on the latest closing price. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

Revenue recognition and deferred revenue

Donations are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment donations are recognized as direct increases in the Endowment Fund balance.

Donations designated by a donor for specific activities that will occur in a subsequent year are deferred. Deferred donations are recognized as revenue of the Operating Fund in the year in which expenditures are incurred for the designated activity.

Donations without designation are recognized as revenue of the Operating Fund.

Expenditures

The direct expenses related to the Foundation's activities are allocated to each function in the statement of operations and changes in fund balances. The Foundation also incurs general support expenses that are common to the administration of the Foundation and each of its functions. These expenses are allocated to functions as identified in note 9.

The allocated expenses include those related to personnel, facility resources, insurance and amortization. These expenses are allocated proportionately based on personnel hours incurred, or office space occupied.

Investments and investment income

Equity investments consist of marketable securities and income investments consist of fixed income securities, all of which are recorded at market value.

Marketable securities and fixed income securities that are publicly traded are valued based on the latest bid prices. Transactions are recorded on a trade date basis, and transaction costs are expensed as incurred.

Investment income, which consists of dividends, interest income, and realized and unrealized gains and losses on cash and securities, is recorded as revenue in the statement of operations and changes in fund balances.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates. Areas requiring estimates and assumptions include the valuation of deferred contributions and useful life of capital assets.

Donated services and materials

Volunteers contribute many hours per year to assist the Foundation in carrying out its activities. Because of the difficulty in determining fair value, contributed services are not recognized in the financial statements. Contributed materials are recognized in the financial statements when the value can be reasonably estimated.

Notes to financial statements

December 31, 2017

3. Investments

Investments consist of the following:

	December 31, 2017 $	August 31, 2016 $
Income investments	**1,175,557**	1,409,763
Equity investments	**1,669,703**	1,426,966
	2,845,260	2,836,729

Investment income, net, consists of the following:

	16-month period ended December 31, 2017 $	Year ended August 31, 2016 $
Interest income	**53,007**	43,585
Dividend income	**78,822**	41,297
Realized gains (losses), net	**108,012**	(12,965)
Investment management fees	**(29,587)**	(21,197)
Unrealized gains (losses), net	**(3,973)**	130,449
	206,281	181,169

Bonds bear interest at varying rates between 2.171% and 4.609%. The bonds mature at varying dates between April 2, 2018 and May 4, 2027. Investment management fees on any mutual or segregated funds are not separated from interest and dividend income.

Notes to financial statements

December 31, 2017

4. Capital assets

Capital assets consist of the following:

	December 31, 2017		
	Cost	Accumulated amortization	Net book value
	$	$	$
Tangible			
Leasehold improvements	**9,941**	**9,941**	**—**
Office furniture and fixtures	**129,566**	**71,462**	**58,104**
Computer systems	**181,600**	**161,964**	**19,636**
Telephone systems	**41,763**	**40,185**	**1,578**
Intangible			
Website development costs	**71,654**	**57,969**	**13,685**
	434,524	**341,521**	**93,003**

	August 31, 2016		
	Cost	Accumulated amortization	Net book value
	$	$	$
Tangible			
Leasehold improvements	9,941	7,977	1,964
Office furniture and fixtures	129,566	59,145	70,421
Computer systems	173,178	148,718	24,460
Telephone systems	41,763	37,003	4,760
Intangible			
Website development costs	71,654	44,931	26,723
	426,102	297,774	128,328

5. Deferred contributions

Deferred contributions relate to donations designated by donors for dream fulfillment that will occur in a subsequent year. Changes in the deferred contributions balance reported in the Operating Fund are as follows:

	December 31, 2017 $	August 31, 2016 $
Deferred contributions, beginning of period	**179,444**	307,726
Add amounts received related to subsequent periods	**—**	31,758
Less amounts recognized as revenue during the period	**129,444**	160,040
Deferred contributions, end of period	**50,000**	179,444
Less short-term portion	**50,000**	129,444
	—	50,000

6. Operating and Endowment Funds

The Operating and Endowment Funds consist of the following:	December 31, 2017 $	August 31, 2016 $
Operating Fund		
Dreams Program	**217,673**	582,580
Reserve	**400,000**	235,000
Capital assets	**3,600**	7,200
Undesignated	**367,598**	340,478
	988,871	1,165,258
Endowment Fund		
County Heritage/Stevenson Hunt Golf Classic Endowment Fund	**1,620,777**	1,566,090
Mio/Manz Sunshine Endowment Fund	**1,017,690**	1,014,350
Bill White Memorial Dream Endowment Fund	**181,506**	176,379
	2,819,973	2,756,819

Operating Fund

The Foundation's Dreams Program for a particular year is funded by surplus earned in prior years. During the annual budgeting process, the Foundation allocates a portion of the Operating Fund surplus to be spent on the Dreams Program in the upcoming year.

The reserve represents an amount that is internally restricted to provide funds to ensure operations continue uninterrupted in the event of unanticipated significant negative change in the Foundation's core revenue. The Foundation maintains a reserve that, together with the surplus allocated to the Dreams Program, represents three to six months of the budgeted expenses for the upcoming fiscal year.

Notes to financial statements

December 31, 2017

The Foundation's capital asset acquisitions are funded by surplus earned in prior years. During the annual budgeting process, the Foundation allocates a portion of the Operating Fund surplus to be spent on capital assets in the upcoming year.

The undesignated portion of the Operating Fund comprises [i] surplus invested in capital assets and prepaid expenses; and [ii] investment income earned by the endowment funds in excess of the specified minimum capital level that has been transferred to the Operating Fund and will be used for dream fulfillment in future years after the income has been realized.

Endowment Fund

The three externally restricted endowment funds were established, consistent with the mission of the Foundation, to fulfill the dreams of children with life-threatening illnesses or severe physical disabilities. Investment income, including unrealized gains and losses, is included in the Endowment Fund until it is transferred to the Operating Fund in accordance with the disbursement policy agreed upon with the third-party donor to be used for dream fulfillment in a future year.

During the 16-month period ended December 31, 2017, $143,127 of investment income earned by the Endowment Fund was transferred to the Operating Fund [year ended August 31, 2016 – $104,726].

7. Lease commitments

The Foundation currently leases its premises and equipment. The future minimum annual lease commitments under the existing leases are as follows:

	$
2018	49,621
2019	50,636
2020	53,424
2021	57,142
2022	61,789

8. Donations

In accordance with the disclosure requirements set out by the Alcohol and Gaming Commission of Ontario, the Operating Fund donations include gross gaming revenue from the following sources:

	16-month period ended December 31, 2017 $	Year ended August 31, 2016 $
Break Open Tickets gross revenue	**182,294**	181,567
Break Open Tickets net proceeds	**90,547**	85,103

These net proceeds are used to fund Dreams Programs in the Province of Ontario.

9. Allocation of expenses

General support and administration costs have been allocated and included in the following categories of expenditures:

	16-month period ended December 31, 2017 $	Year ended August 31, 2016 $
Fundraising	**1,021,581**	644,621
Programs	**261,600**	471,032
Administration	**532,352**	318,854
	1,815,533	1,434,507

10. Statement of cash flows

The net change in non-cash working capital balances related to operations consists of the following:

	16-month period ended December 31 2017 $	Year ended August 31, 2016 $
Decrease (increase) in current assets		
Accounts receivable	**1,061,018**	(29,524)
Prepaid expenses	**72,264**	(143,411)
	1,133,282	(172,935)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**(205,353)**	248,322
	927,929	75,387

11. Financial instruments and risk management

The Foundation is exposed to various financial risks through transactions in financial instruments.

Currency risk

The Foundation is exposed to currency risk with respect to [i] its US dollar cash holdings and [ii] its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar. The Foundation has not entered into hedging transactions to mitigate this risk.

Credit risk

The Foundation is exposed to credit risk in connection with its accounts receivable and its short-term and fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. The maximum credit risk is limited to the balance of the accounts receivable.

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its investments in fixed income investments and a pooled fund that holds fixed income securities because the fair value will fluctuate due to changes in market interest rates.

Other price risk

The Foundation is exposed to other price risk through changes in market prices [other than changes arising from interest rate risk or currency risk] in connection with its investments in equity securities and pooled funds.

Liquidity risk

The Foundation is exposed to the risk that it will encounter difficulty in meeting obligations associated with its financial liabilities. The Foundation has a planning and budgeting process in place to help determine the funds required to support the Foundation's normal operating requirements on an ongoing basis. The Foundation also manages its liquidity risk by forecasting cash flows from operations and anticipated investing, capital and financing activities to ensure it has sufficient available funds to meet current and foreseeable financial requirements.

12. Bank indebtedness

The Foundation has an operating line of credit facility of $175,000 [2016 – $175,000] with its bank that bears interest at the bank's prime lending rate [2017 – 3.2%] plus 1.4%. As at December 31, 2017, the Foundation has drawn nil on the credit facility [August 31, 2016 – $105,000].

As collateral for the credit facility, the Foundation has provided the bank with a general security agreement constituting a first ranking security interest in all property of the Foundation.

13. Government remittances payable

Included in accounts payable and accrued liabilities are government remittances payable of $17,770 [2016 – $22,063]. All amounts are current.