

The Sunshine Foundation of Canada

Financial statements
December 31, 2018



Independent auditor's report

To the Board of Directors of
The Sunshine Foundation of Canada

Qualified opinion

We have audited the financial statements of **The Sunshine Foundation of Canada** [the "Foundation"], which comprise the statement of financial position as at December 31, 2018, and the statements of operations and changes in fund balances and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for qualified opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 year, and cash and fund balances, end of year.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our qualified opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our qualified opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our qualified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

London, Canada
March 27, 2019

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants



The Sunshine Foundation of Canada

Statement of financial position

As at December 31

	2018	2017
	\$	\$
Assets		
Current		
Cash	1,264,580	784,839
Accounts receivable	263,736	140,138
Prepaid expenses	165,526	146,421
Total current assets	1,693,842	1,071,398
Investments <i>[note 3]</i>	2,700,375	2,845,260
Capital assets, net <i>[note 4]</i>	75,747	93,003
	4,469,964	4,009,661
Liabilities and fund balances		
Current		
Accounts payable and accrued liabilities <i>[note 13]</i>	175,591	150,817
Deferred contributions <i>[note 5]</i>	—	50,000
Total current liabilities	175,591	200,817
Commitments <i>[note 7]</i>		
Fund balances <i>[note 6]</i>		
Operating Fund	1,649,807	988,871
Endowment Fund	2,644,566	2,819,973
Total fund balances	4,294,373	3,808,844
	4,469,964	4,009,661

See accompanying notes

Approved by the Board:

Director

Director

The Sunshine Foundation of Canada

Statement of operations and changes in fund balances

	Year ended December 31, 2018			16-month period ended December 31, 2017		
	Operating Fund	Endowment Fund	Total	Operating Fund	Endowment Fund	Total
	\$	\$	\$	\$	\$	\$
Revenue						
Donations <i>[note 8]</i>	2,657,166	—	2,657,166	2,954,561	—	2,954,561
Amortization of deferred contributions <i>[note 5]</i>	50,000	—	50,000	129,444	—	129,444
Investment income (loss), net <i>[note 3]</i>	—	(64,553)	(64,553)	—	206,281	206,281
	2,707,166	(64,553)	2,642,613	3,084,005	206,281	3,290,286
Fundraising expenses <i>[note 9]</i>	905,122	—	905,122	1,346,637	—	1,346,637
	1,802,044	(64,553)	1,737,491	1,737,368	206,281	1,943,649
Expenditures						
Programs <i>[note 9]</i>	912,689	—	912,689	1,363,262	—	1,363,262
Administration <i>[note 9]</i>	339,273	—	339,273	693,620	—	693,620
	1,251,962	—	1,251,962	2,056,882	—	2,056,882
Excess (deficiency) of revenue over expenditures for the period	550,082	(64,553)	485,529	(319,514)	206,281	(113,233)
Fund balances, beginning of period	988,871	2,819,973	3,808,844	1,165,258	2,756,819	3,922,077
Inter-fund transfer <i>[note 6]</i>	110,854	(110,854)	—	143,127	(143,127)	—
Fund balances, end of period	1,649,807	2,644,566	4,294,373	988,871	2,819,973	3,808,844

See accompanying notes

The Sunshine Foundation of Canada

Statement of cash flows

	Year ended December 31, 2018 \$	16-month period ended December 31, 2017 \$
Operating activities		
Excess (deficiency) of revenue over expenditures for the period	485,529	(113,233)
Add (deduct) items not affecting cash		
Unrealized losses on investments, net	182,210	3,973
Accrued interest, net	(18,456)	(4,382)
Gain on sale of investments	(22,745)	(108,012)
Amortization of capital assets	20,340	43,746
	<u>646,878</u>	<u>(177,908)</u>
Net change in non-cash working capital balances related to operations <i>[note 10]</i>	(117,929)	927,929
Decrease in deferred contributions, net	(50,000)	(129,444)
Cash provided by operating activities	<u>478,949</u>	<u>620,577</u>
Investing activities		
Purchase of capital assets	(3,084)	(8,421)
Purchase of investments	(602,879)	(2,037,768)
Proceeds from sale of investments	606,755	2,137,658
Cash provided by investing activities	<u>792</u>	<u>91,469</u>
Financing activities		
Decrease in line of credit	—	(105,000)
Cash used in financing activities	<u>—</u>	<u>(105,000)</u>
Net increase in cash during the period	479,741	607,046
Cash, beginning of period	784,839	177,793
Cash, end of period	<u>1,264,580</u>	<u>784,839</u>

See accompanying notes

The Sunshine Foundation of Canada

Notes to financial statements

December 31, 2018

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, the Mio/Manz Sunshine Endowment Fund, and the Bill White Memorial Dream Endowment, a fixed percentage of the opening balance of the market value of invested assets is transferred to the Operating Fund at period-end.

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.

The Sunshine Foundation of Canada

Notes to financial statements

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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.

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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.

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Notes to financial statements

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3. Investments

Investments consist of the following:

	2018 \$	2017 \$
Income investments	1,218,070	1,175,557
Equity investments	1,482,305	1,669,703
	<u>2,700,375</u>	<u>2,845,260</u>

Investment income (loss), net consists of the following:

	Year ended December 31, 2018 \$	16-month period ended December 31, 2017 \$
Interest income	63,592	53,007
Dividend income	53,782	78,822
Realized gains, net	22,745	108,012
Investment management fees	(22,462)	(29,587)
Unrealized losses, net	(182,210)	(3,973)
	<u>(64,553)</u>	<u>206,281</u>

Bonds bear interest at varying rates between 2.350% and 4.609%. The bonds mature at varying dates between June 24, 2019 and June 1, 2028. Investment management fees on any mutual or segregated funds are not separated from interest and dividend income.

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4. Capital assets

Capital assets consist of the following:

	2018		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Tangible			
Leasehold improvements	9,941	9,941	—
Office furniture and fixtures	129,566	80,644	48,922
Computer systems	184,684	171,058	13,626
Telephone systems	41,763	40,306	1,457
Intangible			
Website development costs	71,654	59,912	11,742
	437,608	361,861	75,747
	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

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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:

	2018	2017
	\$	\$
Deferred contributions, beginning of period	50,000	179,444
Add amounts received related to subsequent periods	—	—
Less amounts recognized as revenue during the period	50,000	129,444
Deferred contributions, end of period	—	50,000
Less short-term portion	—	50,000
	—	—

6. Operating and Endowment Funds

The Operating and Endowment Funds consist of the following:

	2018	2017
	\$	\$
Operating Fund		
Dreams Program	733,240	217,673
Reserve	716,000	400,000
Capital assets	20,000	3,600
Undesignated	180,567	367,598
	1,649,807	988,871
Endowment Fund		
County Heritage/Stevenson Hunt Golf Classic Endowment Fund	1,531,413	1,620,777
Mio/Manz Sunshine Endowment Fund	940,708	1,017,690
Bill White Memorial Dream Endowment Fund	172,445	181,506
	2,644,566	2,819,973

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.

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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 year ended December 31, 2018, \$110,854 of investment income earned by the Endowment Fund was transferred to the Operating Fund [16-month period ended December 31, 2017 – \$143,127].

7. Lease commitments

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

	\$
2019	53,118
2020	55,906
2021	59,624
2022	63,237

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:

	Year ended December 31, 2018 \$	16-month period ended December 31, 2017 \$
Break Open Tickets gross revenue	99,368	182,294
Break Open Tickets net proceeds	26,800	90,547

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

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9. Allocation of expenses

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

	Year ended December 31, 2018 \$	16-month period ended December 31, 2017 \$
Fundraising	525,716	1,021,581
Programs	353,081	261,600
Administration	234,932	532,352
	<u>1,113,729</u>	<u>1,815,533</u>

10. Statement of cash flows

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

	Year ended December 31, 2018 \$	16-month period ended December 31 2017 \$
Decrease (increase) in current assets		
Accounts receivable	(123,598)	1,061,018
Prepaid expenses	(19,105)	72,264
	<u>(142,703)</u>	<u>1,133,282</u>
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	24,774	(205,353)
	<u>(117,929)</u>	<u>927,929</u>

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.

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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 with its bank that bears interest at the bank's prime lending rate of 3.95% [2017 – 3.2%] plus 1.4%. As at December 31, 2018, the Foundation has drawn nil funds on the credit facility [December 31, 2017 – nil].

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 \$667 [2017 – \$17,770]. All amounts are current.