

Financial Statements of

**STOLLERY CHILDREN'S
HOSPITAL FOUNDATION**

Year ended March 31, 2016



KPMG LLP
Chartered Professional
Accountants
10125-102 Street
Commerce Place
Edmonton AB
T5J 3V8

Telephone (780) 429-7300
Fax (780) 429-7379
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the Stollery Children's Hospital Foundation

We have audited the accompanying financial statements of the Stollery Children's Hospital Foundation, which comprise the statement of financial position as at March 31, 2016, the statements of operations and changes in fund balances and cash flows for the year then ended, and notes, comprising 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 our 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, we consider internal control relevant to the entity'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 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 financial statements.

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Stollery Children's Hospital Foundation as at March 31, 2016, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants

June 14, 2016
Edmonton, Canada

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Financial Statements

Year ended March 31, 2016

Financial Statements

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STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Statement of Financial Position

March 31, 2016, with comparative information for 2015

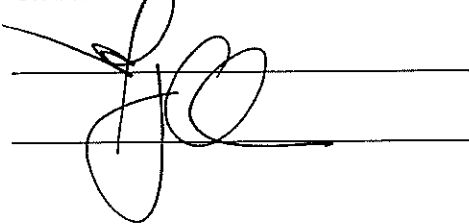
	2016	2015
Assets		
Current assets:		
Cash	\$ 10,752,587	\$ 10,890,803
Joint venture investment (note 2)	367,712	513,892
Accounts receivable	372,120	308,182
Prepaid expenses	115,630	64,939
Inventory	119,132	102,762
	<u>11,727,181</u>	<u>11,880,578</u>
Long term receivable	372,321	367,816
Portfolio investments (note 3)	47,355,347	42,066,967
Capital assets (note 4)	539,652	111,834
	<u>\$ 59,994,501</u>	<u>\$ 54,427,195</u>

Liabilities and Fund Balances

Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 1,547,170	\$ 706,791
Deferred revenue	31,420	60,500
	<u>1,578,590</u>	<u>767,291</u>
Fund balances:		
Externally restricted	11,152,057	9,835,729
Internally restricted	21,925,792	21,197,056
Unrestricted	25,338,062	22,627,119
	<u>58,415,911</u>	<u>53,659,904</u>
Commitments (note 5)		
	<u>\$ 59,994,501</u>	<u>\$ 54,427,195</u>

See accompanying notes to financial statements.

On behalf of the Board of Trustees:



Marshall Sadd,
Chair, Board of Trustees

Chair of Finance and Audit Committee

Jonathan Chia, Chair
Finance & Audit Committee

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Statement of Operations and Changes in Fund Balances

Year ended March 31, 2016, with comparative information for 2015

	Externally restricted fund	Internally restricted fund	Unrestricted fund	Total 2016	Total 2015
Revenue:					
Fundraising projects and contributions	\$ 3,195,851	\$ -	\$ 18,824,011	\$ 22,019,862	\$ 20,942,707
Mighty Millions Lottery	-	-	6,339,875	6,339,875	-
Investment income (Schedule A)	-	-	599,345	599,345	3,164,420
Merchandising	-	-	304,313	304,313	342,783
	3,195,851	-	26,067,544	29,263,395	24,449,910
Expenditures:					
Fundraising	-	-	4,914,808	4,914,808	5,116,547
Mighty Millions Lottery	-	-	5,854,377	5,854,377	-
Administration	-	-	2,254,859	2,254,859	2,195,812
Merchandising	-	-	337,584	337,584	274,962
	-	-	13,361,628	13,361,628	7,587,321
Excess of revenue over expenditures before grants	3,195,851	-	12,705,916	15,901,767	16,862,589
Grants to the Stollery Children's Hospital	2,254,523	8,891,237	-	11,145,760	10,997,202
Excess (deficiency) of revenue over expenditures	941,328	(8,891,237)	12,705,916	4,756,007	5,865,387
Fund balances, beginning of year	9,835,729	21,197,056	22,627,119	53,659,904	47,794,517
Transfers	375,000	9,619,973	(9,994,973)	-	-
Fund balances, end of year	\$ 11,152,057	\$ 21,925,792	\$ 25,338,062	\$ 58,415,911	\$ 53,659,904

See accompanying notes to financial statements.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	\$ 4,756,007	\$ 5,865,387
Unrealized loss (gain) on portfolio investments	1,142,607	(1,138,751)
Items not involving cash:		
Amortization of capital assets	64,208	49,650
Joint venture investment income	(367,712)	(513,892)
Realized gain on portfolio investments	(366,543)	(698,559)
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	(63,938)	247,509
Decrease (increase) in prepaid expenses	(50,691)	106,978
Increase in inventory	(16,370)	(29,699)
Increase in long term receivable	(4,505)	(4,505)
Increase (decrease) in accounts payable and accrued liabilities	840,379	(1,226,598)
Decrease in deferred revenue	(29,080)	(136,263)
	5,904,362	2,521,257
Cash flows from investing activities:		
Acquisition of portfolio investments, net	(6,064,444)	(5,959,599)
Acquisition of capital assets	(492,026)	(92,369)
Distributions received from joint venture	513,892	541,514
	(6,042,578)	(5,510,454)
Decrease in cash	(138,216)	(2,989,197)
Cash, beginning of year	10,890,803	13,880,000
Cash, end of year	\$ 10,752,587	\$ 10,890,803

See accompanying notes to financial statements.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements

Year ended March 31, 2016

Stollery Children's Hospital Foundation (the "Foundation") operated under the authority of the Provincial General Hospitals Act until March 31, 1995 at which time the Foundation was continued under the Regional Health Authorities Foundations Regulation. The Foundation is registered with the Canada Revenue Agency as a charitable organization and is exempt from income taxes.

The mission of the Foundation is to raise money in support of the Stollery Children's Hospital (the "Hospital") in the pursuit of excellence in children's health care, to thank the donors who support the Foundation and to communicate to donors the impact of their donation on the lives of children and their families.

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook.

(a) Fund accounting:

The Foundation follows the restricted fund method of accounting for contributions. The following funds have been established for financial reporting purposes:

- i) Unrestricted fund - consists of donations and investment income upon which no restrictions have been imposed by the donors or the Board of Trustees (the "Board"). These funds are managed in accordance with general Board policies and may be internally restricted through Board motion.
- ii) Internally restricted fund - consists of funds upon which restrictions have been imposed by the Board. These funds represent donations and income that were initially unrestricted but upon which the Board has placed restrictions for specific priority programs at the Hospital.
- iii) Externally restricted fund - consists of funds which restrictions have been imposed by the donor.

(b) Joint venture investment:

The Foundation records its joint venture investment in the Hair Massacre event using the equity method, whereby the value of the investment is adjusted annually to reflect the Foundation's proportionate share of excess of revenues over expenditures, less distributions received.

(c) Inventory:

Inventory consists of items held for resale and is valued at the lower of cost, measured on a first-in, first-out basis, and replacement cost. Merchandising expense represents the cost of inventory sold during the year.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(d) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Repairs and maintenance costs are expensed as incurred. Betterments which extend the useful life of an asset are capitalized. When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written down to its residual value. Capital assets include works of art which are not subject to amortization.

Capital assets are amortized on a straight-line basis as follows:

Asset	Useful Life
Equipment	3 years
Furniture and fixtures	10 years
Computer software	3 years
Leasehold improvements	5 years

(e) Revenue recognition:

Externally restricted contributions are recognized as revenue of the externally restricted fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income is recognized as revenue of the unrestricted fund when earned.

Fundraising and merchandising revenue are recognized in the year in which the event is held or goods are sold.

(f) Contributed materials and services:

Contributed materials and services are recorded at fair value when they would have otherwise been purchased and when a fair value can be reasonably estimated. Contributed services of volunteers are not recognized in these financial statements as their fair value cannot be reasonably determined.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. The Foundation does not use derivative financial instruments to alter the effects of market interest or foreign exchange fluctuations. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Foundation has elected to carry its fixed-income instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(h) Use of estimates:

The preparation of financial statements 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 date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(i) Employee future benefits:

The Foundation participates in the Local Authorities Pension Plan, which is a multi-employer defined benefit pension plan. As it is not practicable to separate the information in the plan that relates to the Foundation, it is accounted for as a defined contribution plan.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

2. Joint venture investment:

The Foundation has a sublicense arrangement with Make A Wish Northern Alberta to jointly organize and administer the Hair Massacure event. This agreement permits the use of the trademark to promote the event and to sell associated merchandise. The Foundation's equity interest in the joint venture includes:

As at March 31	2016	2015
Current assets	\$ 904,736	\$ 1,042,105
Liabilities	181,835	19,795
Net Assets	\$ 722,901	\$ 1,022,310
Foundation's share of net assets	\$ 367,712	\$ 513,892

Year ended March 31	2016	2015
Revenues	\$ 1,043,047	\$ 1,261,954
Expenditures	307,622	234,170
Excess of revenue over expenditures	\$ 735,425	\$ 1,027,784
Foundation's share of excess of revenue over expenditures	\$ 367,712	\$ 513,892

The Foundation's share of excess revenue over expenditures is recorded as fundraising projects and contributions revenue in the statement of operations.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

3. Portfolio investments:

	2016	2015
Fixed-income, measured at fair value:		
Term deposit	5,035,560	-
Government and government backed bonds	\$ 12,300,346	\$ 15,398,597
Corporate bonds	12,441,722	10,594,318
	29,777,628	25,992,915
Equities, measured at fair value:		
Canadian	7,406,531	6,592,106
United States	5,806,325	5,609,073
International	1,485,020	1,443,927
	14,697,876	13,645,106
Cash and equivalents	2,879,843	2,428,946
	\$ 47,355,347	\$ 42,066,967

The term deposit carries a coupon rate of 1.5% and a maturity date of September 2016.

Government and government backed bonds carry coupon rates of 0.46% to 3.35% (2015 - 0.50% to 3.35%) with maturity dates from May 2016 to September 2029 (2015 - June 2015 to October 2029) and a principal amount of \$12,032,243 (2015 - \$14,914,606).

Corporate bonds carry coupon rates of 1.03% to 5.46% (2015 - 0.90% to 5.27%) with maturity dates from August 2017 to June 2031 (2015 - May 2015 to July 2028) and a principal amount of \$12,235,368 (2015 - \$10,953,145).

Approximately 31.0% (2015 - 18%) of the fixed-income investments mature within the next fiscal year, 25% (2015 - 53%) mature within the next two to five years and the balance mature after five years.

Equities are comprised of publicly traded equities in Canadian, United States and International corporations.

Cash and equivalents are represented by cash on deposit with the Investment Broker for future investment purchases.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

4. Capital assets:

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
Equipment	\$ 239,525	\$ 213,479	\$ 26,046	\$ 37,413
Furniture and fixtures	338,191	169,405	168,786	14,384
Computer software	173,328	169,155	4,173	10,037
Leasehold improvements	335,429	44,782	290,647	-
Works of art	50,000	-	50,000	50,000
	\$1,136,473	\$ 596,821	\$ 539,652	\$ 111,834

Amortization of \$64,208 is included in administration expenditures (2015 - \$49,650).

5. Commitments:

- a) The Foundation is committed to future annual operating lease payments for office equipment as follows:

2017	18,575
2018	18,575
2019	18,575
2020	18,575
2021	12,003
Thereafter	1,796

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

5. Commitments (continued):

- b) The Foundation has approved cumulative funding commitments of \$21,794,792 (2015 - \$21,197,056) which will be carried forward to future years.

Included within the approved cumulative funding commitments, the Foundation has an arrangement to provide financial support for research, training and infrastructure in the area of women and children's health. As at March 31, 2016, the Foundation has future funding commitments related to this arrangement of \$5,152,123 (2015 - \$3,905,150).

- c) The Foundation has received pledges of \$2,599,780 (2015 - \$5,117,800) from donors which have not been recognized as revenue at year-end. Payment of the amounts pledged is expected by the Foundation as follows:

2017	\$	1,335,140
2018		931,690
2019		147,950
2020		35,000
Thereafter		150,000

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

6. Employee future benefits:

All eligible employees of the Foundation participate in the Local Authorities Pension Plan (LAPP) under the Public Sector Pension Plans Act. Contribution requirements for the Foundation are as follows:

	2016	2015
Employer		
Pensionable earnings up to the maximum under the Canada Pension Plan	11.39%	11.39%
Pensionable earnings in excess of the maximum under the Canada Pension Plans	15.84%	15.84%
Employee		
Pensionable earnings up to the maximum under the Canada Pension Plan	10.39%	10.39%
Pensionable earnings in excess of the maximum under the Canada Pension Plan	14.84%	14.84%

Information for the year ended December 31, 2015 was not available at the time of preparing these financial statements. At December 31, 2014, the LAPP disclosed an actuarial deficiency of \$2.455 billion. The Foundation contributed a total of \$342,270 for the year ended March 31, 2016 (2015 - \$312,196), which has been recorded within administrative expenditures in the statement of operations.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

7. Related party transactions:

The Foundation provides grants of money and services to the Hospital. These grants allow the Hospital to provide health services not funded from other sources.

Accommodation, furnishings and certain other overhead costs incurred in the administration of the Foundation provided by the Hospital and Alberta Health Services are not reasonably estimable and consequently are not reflected in these financial statements.

At March 31, 2016, accounts payable and accrued liabilities include \$1,125,000 (2015 - \$243,901) due to Alberta Health Services.

8. Financial risks:

Income and financial returns on investments are exposed to credit and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Price risk is comprised of interest rate, foreign exchange and market risk. Interest rate risk relates to the possibility that investments will change in value due to fluctuations in interest rates. Market and foreign exchange risk relates to the possibility that investments will change in value due to future fluctuations in market prices and foreign exchanges rates.

These risks are managed by the Foundation's investment policies, which prescribe the investment asset mix including the degree of liquidity and concentration and the amount of foreign content.

Changes in interest rates and credit ratings are the main cause of changes in the fair value of government securities and corporate bonds resulting in a favorable or unfavorable variance compared to book value. Credit risk is mitigated by investing in government securities and corporate bonds with a rating of A or better and diversifying the securities between government, government backed and corporate issuers. Interest rate risk is mitigated by managing maturity dates and payment frequency. The Foundation limits credit risk associated with other financial assets by dealing with counterparties that it believes are creditworthy. The fair value of equities is impacted by price risk.

The Foundation does not use derivative instruments to alter the effects of interest, market and foreign exchange risks.

9. Comparative information:

Certain comparative information have been reclassified to conform to current year's presentation.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Schedule A - Investment Income

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Dividends	\$ 477,675	\$ 398,218
Interest	897,734	928,892
Realized gains on portfolio investments	366,543	698,559
Unrealized (losses) gains on portfolio investments	(1,142,607)	1,138,751
	\$ 599,345	\$ 3,164,420

