

Financial Statements of

**STOLLERY CHILDREN'S
HOSPITAL FOUNDATION**

Year ended March 31, 2017





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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, 2017, 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.



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, 2017, 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 13, 2017
Edmonton, Canada

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Financial Statements

Year ended March 31, 2017

Financial Statements

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STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Statement of Financial Position

March 31, 2017, with comparative information for 2016

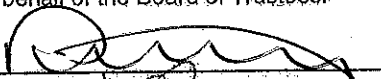
	2017	2016
Assets		
Current assets:		
Cash	\$ 11,854,865	\$ 10,752,587
Joint venture investment (note 2)	323,680	387,712
Accounts receivable	443,244	372,120
Prepaid expenses	475,990	115,630
Inventory	121,753	119,132
	<u>13,219,532</u>	<u>11,727,181</u>
Long term receivable	376,826	372,321
Portfolio investments (note 3)	54,068,577	47,355,347
Capital assets (note 4)	494,916	539,652
	<u>\$ 68,159,851</u>	<u>\$ 59,994,501</u>

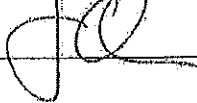
Liabilities and Fund Balances

Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 1,825,969	\$ 1,547,170
Deferred revenue	98,093	31,420
	<u>1,924,062</u>	<u>1,578,590</u>
Fund balances:		
Externally restricted	8,981,223	11,152,057
Internally restricted	24,053,544	21,925,792
Unrestricted	33,201,022	25,338,062
	<u>66,235,789</u>	<u>58,415,911</u>
Commitments (note 5)		
	<u>\$ 68,159,851</u>	<u>\$ 59,994,501</u>

See accompanying notes to financial statements.

On behalf of the Board of Trustees:





Chair **Richard Kirby, Chair**
SCHF 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, 2017, with comparative information for 2016

	Externally restricted fund	Internally restricted fund	Unrestricted fund	Total 2017	Total 2016
Revenue:					
Fundraising projects and contributions	\$ 2,119,666	\$ -	\$ 21,999,685	\$ 24,119,351	\$ 22,019,862
Mighty Millions Lottery	-	-	6,969,993	6,969,993	6,339,875
Investment income (Schedule A)	-	-	3,128,312	3,128,312	599,345
Merchandising	-	-	359,957	359,957	304,313
	2,119,666	-	32,457,947	34,577,613	29,263,395
Expenditures:					
Fundraising	-	-	5,378,874	5,378,874	4,914,808
Mighty Millions Lottery	-	-	5,951,059	5,951,059	5,854,377
Administration	-	-	2,301,123	2,301,123	2,254,859
Merchandising	-	-	383,081	383,081	337,584
	-	-	14,014,137	14,014,137	13,361,628
Excess of revenue over expenditures before grants	2,119,666	-	18,443,810	20,563,476	15,901,767
Grants to the Stollery Children's Hospital	4,290,500	8,453,098	-	12,743,598	11,145,760
Excess of revenue over expenditures	(2,170,834)	(8,453,098)	18,443,810	7,819,878	4,756,007
Fund balances, beginning of year	11,152,057	21,925,792	25,338,062	58,415,911	53,659,904
Transfers	-	10,580,850	(10,580,850)	-	-
Fund balances, end of year	\$ 8,981,223	\$ 24,053,544	\$ 33,201,022	\$ 66,235,789	\$ 58,415,911

See accompanying notes to financial statements.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by operations:		
Excess of revenue over expenditures	\$ 7,819,878	\$ 4,756,007
Unrealized (gain) loss on portfolio investments	(1,274,131)	1,142,607
Items not involving cash:		
Amortization of capital assets	76,671	64,208
Joint venture investment income	(301,000)	(367,712)
Realized gain on portfolio investments	(317,295)	(366,543)
Change in non-cash operating working capital:		
Increase in accounts receivable	(71,124)	(63,938)
Increase in prepaid expenses	(360,360)	(50,691)
Increase in inventory	(2,621)	(16,370)
Increase in long term receivable	(4,505)	(4,505)
Increase in accounts payable and accrued liabilities	278,799	840,379
Increase (decrease) in deferred revenue	66,673	(29,080)
	5,910,985	5,904,362
Cash flows used in investing activities:		
Acquisition of portfolio investments, net	(5,121,804)	(6,064,444)
Acquisition of capital assets	(31,935)	(492,026)
Distributions received from joint venture	367,712	513,892
Contributions to joint venture	(22,680)	-
	(4,808,707)	(6,042,578)
Increase (decrease) in cash	1,102,278	(138,216)
Cash, beginning of year	10,752,587	10,890,803
Cash, end of year	\$ 11,854,865	\$ 10,752,587

See accompanying notes to financial statements.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements

Year ended March 31, 2017

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 funds in support of the Stollery Children's Hospital (the "Hospital") in the pursuit of excellence and to transform children's health care by educating communities on needs, thanking donors who support the Foundation and sharing 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) Externally restricted fund - consists of funds which restrictions have been imposed by the donor
- 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 by upon which the Board has placed restrictions for specific priority programs at the Hospital.
- iii) 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.

(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, 2017

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, 2017

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, 2017

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	2017	2016
Current assets	\$ 777,720	\$ 904,736
Liabilities	173,132	181,835
Net assets	\$ 604,588	\$ 722,901
Foundation's share of net assets	\$ 323,680	\$ 367,712
Year ended March 31	2017	2016
Revenues	\$ 902,716	\$ 1,043,047
Expenditures	300,716	307,622
Excess of revenue over expenditures	\$ 602,000	\$ 735,425
Foundation's share of excess of revenue over expenditures	\$ 301,000	\$ 367,712

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, 2017

3. Portfolio investments:

	2017	2016
Fixed-income, measured at fair value:		
Term deposit	\$ 4,037,186	\$ 5,035,560
Government and government backed bonds	14,107,546	12,300,346
Corporate bonds	14,816,513	12,441,722
	32,961,245	29,777,628
Equities, measured at fair value:		
Canadian	9,060,564	7,406,531
United States	7,512,462	5,806,325
International	1,622,918	1,485,020
	18,195,944	14,697,876
Cash and equivalents	2,911,388	2,879,843
	\$ 54,068,577	\$ 47,355,347

The term deposits carry coupon rates of 1.64% and 2.00% and maturity dates of July 2017 to October 2017, respectively.

Government and government backed bonds carry coupon rates of 1.20% to 5.65% (2016 - 0.46% to 3.35%) with maturity dates from June 2017 to June 2031 (2016 - May 2016 to September 2029) and a principal amount of \$13,968,883 (2016 - \$12,032,243).

Corporate bonds carry coupon rates of 1.60% to 11.77% (2016 - 1.03% to 5.46%) with maturity dates from March 2018 to June 2031 (2016 - August 2017 to June 2031) and a principal amount of \$14,637,895 (2016 - \$12,235,368).

Approximately 33.00% (2016 - 31.00%) of the fixed-income investments mature within the next fiscal year, 16.00% (2016 - 25.00%) 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, 2017

4. Capital assets:

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
Equipment	\$ 265,433	\$ 237,601	\$ 27,832	\$ 26,046
Furniture and fixtures	341,223	187,288	153,935	168,786
Computer software	176,323	173,301	3,022	4,173
Leasehold improvements	335,429	75,302	260,127	290,647
Works of art	50,000	-	50,000	50,000
	\$ 1,168,408	\$ 673,492	\$ 494,916	\$ 539,652

Amortization of \$76,671 is included in administration expenditures (2016 - \$64,208).

5. Commitments:

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

2018	18,575
2019	18,575
2020	18,575
2021	12,003
2022	1,796
Thereafter	-

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

5. Commitments (continued):

- b) The Foundation has approved cumulative funding commitments of \$24,053,544 (2016 - \$21,925,792) which will be carried forward to future years.
- c) The Foundation has received pledges of \$1,780,833 (2016 - \$2,599,780) 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	\$	1,074,884
2018		316,167
2019		187,616
2020		73,000
Thereafter		129,166

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

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:

	2017	2016
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, 2016 was not available at the time of preparing these financial statements (2015 – actuarial deficit of \$923 billion). The Foundation contributed a total of \$352,113 for the year ended March 31, 2017 (2016 - \$342,270), which has been recorded within administrative expenditures in the statement of operations. The Foundation had 39 (2015 – 35) contributing members in the plan which has a total of 253,862 (2015 - 244,620) members at December 31, 2016.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

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, 2017, accounts payable and accrued liabilities include \$1,392,632 (2016 - \$1,125,000) 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, 2017, with comparative information for 2016

	2017	2016
Dividends	\$ 485,400	\$ 477,675
Interest	1,051,486	897,734
Realized gains on portfolio investments	317,295	366,543
Unrealized gains (losses) on portfolio investments	1,274,131	(1,142,607)
	<u>\$ 3,128,312</u>	<u>\$ 599,345</u>