

**SHRINERS HOSPITALS FOR CHILDREN**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

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FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the Directors of  
Shriners Hospitals for Children

We have audited the accompanying financial statements of Shriners Hospitals for Children (the "Foundation"), which comprise the statement of financial position as at December 31, 2016, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*


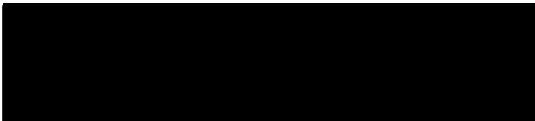
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that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

### *Auditor's 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 auditor's 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 auditor considers 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 qualified audit opinion.



*Basis for Qualified Opinion*

In common with many not-for-profit organizations, Shriners Hospitals for Children derives revenue from donations and fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to donation and fundraising revenues, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 2016 and 2015, current assets as at December 31, 2016 and 2015, and net assets as at January 1 and December 31 for both the 2016 and 2015 years. Our audit opinion on the financial statements for the year ended December 31, 2015 was modified accordingly because of the possible effects of this limitation in scope.

*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 Shriners Hospitals for Children as at December 31, 2016, 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.

[REDACTED]

[REDACTED], June 26, 2017

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. [REDACTED]

[REDACTED]

**SHRINERS HOSPITALS FOR CHILDREN  
STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2016**

	2016 \$	2015 \$
<b>ASSETS</b>		
Current		
Cash	9,708,856	5,186,285
Marketable securities (Note 3)	602,747	376,986
Accounts receivable (Note 4)	636,503	1,311,490
Loan receivable - related Organization (Note 5)	3,807	2,500
Prepaid and deposits	29,174	44,045
	<b>10,981,087</b>	6,921,306
Assets available for sale (Note 6)	5,731,812	5,731,812
Capital assets (Note 7)	126,548,074	126,929,188
	<b>143,260,973</b>	139,582,306
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Note 8)	828,009	5,075,102
Deferred revenues (Note 9)	50,000	-
Loan payable - related Organization	-	1,763,256
	<b>878,009</b>	6,838,358
Deferred contributions (Note 10)	108,574,446	107,955,168
	<b>109,452,455</b>	114,793,526
<b>NET ASSETS</b>		
Internally restricted	200,000	-
Unrestricted	33,608,518	24,788,780
	<b>33,808,518</b>	24,788,780
	<b>143,260,973</b>	139,582,306

On behalf of the Board,

\_\_\_\_\_, Director

\_\_\_\_\_, Director

**SHRINERS HOSPITALS FOR CHILDREN**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	2016	2015
	\$	\$
Contributions		
Allocations from Shriners Headquarters	8,574,666	1,577,368
Bequests	5,330,993	1,519,362
Donations	1,357,663	801,413
Donations - deferred contributions	2,783,960	542,488
McGill Research Chair revenues	120,277	201,283
Annual dues	67,246	74,863
	<b>18,234,805</b>	<b>4,716,777</b>
Fundraising activities (Note 11)		
Revenues	1,467,034	1,486,663
Expenses	(311,299)	(628,544)
	<b>1,155,735</b>	<b>858,119</b>
Investment activity		
Unrealized gain (loss) on marketable securities	70,189	(36,925)
Gain (loss) on disposal of marketable securities and foreign exchange	5,596	(53,988)
Interest and investment income	54,264	35,956
	<b>130,049</b>	<b>(54,957)</b>
	<b>19,520,589</b>	<b>5,519,939</b>
Expenses		
Amortization of capital assets	6,296,993	2,138,146
Utilities and maintenance	877,136	215,304
Professional fees	260,841	165,213
Insurance	80,735	162,095
Bank charges	10,945	13,743
Dedication ceremony	-	138,990
Loss on write-off of capital assets	-	630,637
	<b>7,526,650</b>	<b>3,464,128</b>
Excess of revenues over expenses from operations	<b>11,993,939</b>	<b>2,055,811</b>
Allocations to Shriners Hospital for Children (Québec) Inc.	<b>(2,800,000)</b>	-
Sales tax audit assessment	<b>(174,201)</b>	-
Excess of revenues over expenses	<b>9,019,738</b>	<b>2,055,811</b>

**SHRINERS HOSPITALS FOR CHILDREN  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Internally Restricted \$	Unrestricted \$	<b>2016 Total \$</b>	2015 Total \$
Balance, beginning of year	-	24,788,780	<b>24,788,780</b>	22,732,969
Excess of revenues over expenses	-	9,019,738	<b>9,019,738</b>	2,055,811
Interfund transfer (Note 12)	200,000	(200,000)	-	-
Balance, end of year	200,000	33,608,518	<b>33,808,518</b>	24,788,780

**SHRINERS HOSPITALS FOR CHILDREN  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	2016 \$	2015 \$
Operating activities		
Excess of revenues over expenses	9,019,738	2,055,811
Items not requiring cash		
Amortization of capital assets	6,296,993	2,138,146
(Gain) loss on disposal of marketable securities	(5,596)	53,988
Loss on write-off of capital assets	-	630,637
Unrealized (gain) loss on marketable securities	(70,189)	36,925
Donations in kind	(155,547)	(122,316)
Donations - deferred contributions	(2,783,960)	(542,488)
	12,301,439	4,250,703
Net change in non-cash items related to operating activities	(103,997)	56,220,559
	12,197,442	60,471,262
Investing activities		
Net acquisition of capital assets	(5,915,879)	(57,188,649)
Net (acquisition) proceeds from disposal of marketable securities	5,571	(53,979)
	(5,910,308)	(57,242,628)
Financing activities		
Loan receivable - related organization	(1,307)	-
Loan payable - related organization	(1,763,256)	895,867
	(1,764,563)	895,867
Increase in cash and cash equivalents	4,522,571	4,124,501
Cash and cash equivalents, beginning of year	5,186,285	1,061,784
Cash and cash equivalents, end of year	9,708,856	5,186,285

Cash and cash equivalents consist of cash.



**SHRINERS HOSPITALS FOR CHILDREN  
NOTES TO FINANCIAL STATEMENTS  
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**1. Statutes of incorporation and nature of activities**

Shriners Hospitals for Children is a federal not-for-profit organization whose mission is to maintain the assets and to generate funds that are allocated to the Shriners Hospitals for Children (Québec) Inc. or other not-for-profit organizations. The Foundation was incorporated on February 18, 1922 as a not-for-profit organization under Part II of the Canada Corporations Act. The Foundation is a charitable organization within the meaning of the Income Tax Act and as such is exempt from income taxes.

**2. Significant accounting policies**

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook – Accounting and include the following accounting policies:

**Use of estimates**

The preparation of these financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known.

**Revenue recognition**

The Foundation follows the deferral method of accounting for contributions.

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. Unrestricted contributions consist of bequests, donations, fundraising revenues and allocations from Shriners Headquarters.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions consist of the Capital Campaign, Gaitlab, McGill Research Chair and Shriners Headquarter projects. Restricted contributions for the construction of the capital assets that will be amortized are deferred and recognized as revenue on the same basis as the amortization expense related to the capital assets.

Bequests are recognized as revenue in the year that they are received.

Annual dues are recorded as revenue on an annual basis when received.

Golf tournament revenues, Gala fundraising revenues and Comedy night fundraising revenues are recognized in the year the event takes place and when collection is reasonably assured.

Investment income from equity investments is recognized as revenue when earned.

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**2. Significant accounting policies (continued)**

**Cash and cash equivalents**

The Foundation's policy is to disclose bank balances under cash and cash equivalents.

**Capital assets**

Capital assets are accounted for at cost. Amortization is calculated on their respective estimated useful lives using the straight-line method over the following periods:

	<u>Periods</u>
Building	40 years
Equipment	3 - 25 years

**Impairment of long-lived assets**

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

**Contributed services**

The Foundation receives services from volunteers. Due to the difficulty of determining the fair value of such contributed services, they are not recognized in these financial statements.

The Foundation holds all assets used by the Shriners Hospital for Children (Québec) Inc., thereby providing the Hospital with office space and equipment usage. These services provided by the Foundation are not recognized in the financial statements.

**Foreign currency transactions**

The Foundation uses the temporal method to translate its foreign currency transactions.

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated at the exchange rate in effect at the transaction date. Items appearing in the current year's income statement, except for depreciation translated at historic rate, are translated at average year rates. Exchange gains and losses are included in the Statement of Operations.

**Financial instruments**

**Measurement of financial instruments**

The Foundation initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions.

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**2. Significant accounting policies (continued)**

**Financial instruments (continued)**

The Foundation subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value and investments in mutual funds for which the Foundation chose to designate to be measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include cash, accounts receivable and loan receivable - related organization.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Financial assets measured at fair value include marketable securities.

**Impairment**

Financial assets measured at cost are tested for impairment when there are indicators of possible impairment. The Foundation determines whether a significant adverse change has occurred in the expected timing or amount of future cash flows from the financial asset. If this is the case, the carrying amount of the asset is reduced directly to the higher of the present value of the cash flows expected to be generated by holding the asset, and the amount that could be realized by selling the asset at the balance sheet date. The amount of the write-down is recognized in the Statement of Operations. The previously recognized impairment loss may be reversed to the extent of the improvement, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the Statement of Operations.

**Transaction costs**

The Foundation recognizes its transaction costs in net earnings in the period incurred. However, transaction costs related to financial instruments subsequently measured at amortized cost reduce the carrying amount of the financial asset or liability and are accounted for in excess of revenues over expenses.

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**3. Marketable securities**

	2016		2015	
	Cost	Market	Cost	Market
	\$	Value	\$	Value
Equities	404,553	467,276	306,941	312,066
Mutual funds	119,775	135,471	61,815	64,920
	<b>524,328</b>	<b>602,747</b>	<b>368,756</b>	<b>376,986</b>

During the year, the Foundation received \$155,547 (2015, \$122,316) of investments that were donated as gifts in kind and recorded as bequests on the Statement of Operations. The contributions were measured based on the market value of the investments at the time the donations were made.

**4. Accounts receivable**

	2016	2015
	\$	\$
Donations receivable	618,747	706,860
Accrued interest	17,756	2,174
Sales taxes	-	602,456
	<b>636,503</b>	<b>1,311,490</b>

**5. Loan receivable - related Organization**

	2016	2015
	\$	\$
Loan receivable from [REDACTED]	3,807	2,500

The related party is related by virtue of significant influence. The loan is non-interest bearing, unsecured and has no specific terms of repayment. The Foundation has demanded repayment prior to December 31, 2017.

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**6. Assets available for sale**

The Foundation maintains the capital assets of the Shriners Hospitals for Children (Quebec) Inc. In the prior year, the Shriners Hospital for Children (Quebec) Inc. has moved to the McGill University Health Centre's Glen superhospital site from its previous location.

The Foundation intends to sell the previous location which includes land, building and some equipment. A selling plan is in place and the assets are actively being marketed.

**7. Capital assets**

	Cost \$	Accumulated amortization \$	2016 Net book value \$	2015 Net book value \$
Land	1	-	1	1
Building	121,919,437	3,644,329	118,275,108	118,672,203
Equipment	12,635,778	4,362,813	8,272,965	8,256,984
	134,555,216	8,007,142	126,548,074	126,929,188

**8. Accounts payable and accrued liabilities**

	2016 \$	2015 \$
Accounts payable and accrued liabilities	127,484	5,075,102
Sales taxes	700,525	-
	828,009	5,075,102

**9. Deferred revenues**

During the year, the Foundation received \$50,000 (2015, \$Nil) for the 2017 Golf tournament.

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**10. Deferred contributions**

Deferred contributions relate to funds restricted for the construction of the hospital. The construction was completed in October 2015. Deferred contributions are amortized over the remaining useful life of the building.

	2016	2015
	\$	\$
Balance, beginning of year	107,955,168	54,594,264
Less : Amount recognized as revenues during the year	(2,783,960)	(542,488)
Plus: Amounts deferred during the year	3,403,238	53,903,392
Balance, end of year	108,574,446	107,955,168

**11. Fundraising activities**

	Revenues	Expenses	2016 Net	2015 Net
	\$	\$	\$	\$
Golf tournament	480,796	148,239	332,557	227,395
Comedy night	986,238	148,315	837,923	(20,057)
Gala	-	-	-	650,955
Expenses from prior year events	-	14,745	(14,745)	(174)
	1,467,034	311,299	1,155,735	858,119

**12. Interfund transfers**

During the year, \$200,000 was transferred from the unrestricted net assets to the internally restricted net assets for the future purchase of medical equipment.

**13. Related party transactions**

During the year, the Foundation earned revenue in the form of allocations from a related organization, Shriners Headquarters. Shriners Headquarters is related by virtue of significant influence. This transaction is concluded in the normal course of operations and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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**14. Financial instruments**

**Risks and concentration**

The Foundation is exposed to various risks through its financial instruments, without being exposed to concentrations of risk. The following analysis provides a measure of the Foundation's risk exposure at the balance sheet date of December 31, 2016.

**Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Foundation is exposed to this risk mainly in respect of its accounts payable and accrued liabilities.

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Foundation is mainly exposed to other price risk.

**Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Foundation is exposed to other price risk through its investments in quoted shares and mutual funds.

**15. Comparative figures**

Certain figures for 2015 have been reclassified to conform to the presentation adopted in 2016.