Financial Statements

The Sunshine Foundation of Canada

August 31, 2015

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 August 31, 2015 and the statements of operations and changes in fund balances 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.

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 in our audit is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

In common with many charitable organizations, **The Sunshine Foundation of Canada** 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 of revenue over expenditures, cash and fund balances.

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 Sunshine Foundation of Canada** as at August 31, 2015 and the results of its operations and changes in fund balances and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

London, Canada
9 November 2015

The Sunshine Foundation of Canada

STATEMENT OF FINANCIAL POSITION

As at August 31

	2015	2014
	$	$
ASSETS		
Current		
Cash	**187,964**	153,751
Accounts receivable	**1,171,632**	1,131,990
Prepaid expenses	**75,274**	211,700
Investments – short-term *[note 3]*	**83,000**	158,000
Total current assets	**1,517,870**	1,655,441
Investments – long-term *[note 3]*	**3,133,503**	3,443,979
Capital assets, net *[note 4]*	**122,456**	105,335
Total assets	**4,773,829**	5,204,755
LIABILITIES AND FUND BALANCES		
Current		
Accounts payable and accrued liabilities	**107,848**	185,629
Deferred contributions – short-term *[note 5]*	**160,040**	92,565
Total current liabilities	**267,888**	278,194
Deferred contributions – long-term *[note 5]*	**147,686**	151,791
Total liabilities	**415,574**	429,985
Commitments *[note 7]*		
Fund balances *[note 6]*		
Operating Fund	**1,677,899**	2,080,910
Endowment Fund	**2,680,356**	2,693,860
Total fund balances	**4,358,255**	4,774,770
	4,773,829	5,204,755

See accompanying notes

Approved by the Board:

President   Treasurer

Secretary

The Sunshine Foundation of Canada

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

Year ended August 31

	2015			2014		
	Operating Fund	**Endowment Fund**	**Total**	**Operating Fund**	**Endowment Fund**	**Total**
	$	$	$	$	$	$
REVENUE						
Donations *[note 8]*	**2,733,780**	**20**	**2,733,800**	2,701,652	—	2,701,652
Amortization of deferred contributions *[note 5]*	**131,867**	**—**	**131,867**	462,252	—	462,252
Investment income (loss), net *[note 3]*	**32,027**	**6,148**	**38,175**	44,817	422,710	467,527
	2,897,674	**6,168**	**2,903,842**	3,208,721	422,710	3,631,431
Fundraising expenses *[note 9]*	**1,057,482**	**—**	**1,057,482**	1,130,847	—	1,130,847
	1,840,192	**6,168**	**1,846,360**	2,077,874	422,710	2,500,584
EXPENDITURES						
Programs *[note 9]*	**1,857,877**	**—**	**1,857,877**	2,282,399	—	2,282,399
Administration *[note 9]*	**404,998**	**—**	**404,998**	386,106	—	386,106
	2,262,875	**—**	**2,262,875**	2,668,505	—	2,668,505
Excess (deficiency) of revenue over expenditures for the year	**(422,683)**	**6,168**	**(416,515)**	(590,631)	422,710	(167,921)
Fund balances, beginning of year	**2,080,910**	**2,693,860**	**4,774,770**	2,280,717	2,661,974	4,942,691
Inter-fund transfer *[note 6]*	**19,672**	**(19,672)**	**—**	390,824	(390,824)	—
Fund balances, end of year	**1,677,899**	**2,680,356**	**4,358,255**	2,080,910	2,693,860	4,774,770

See accompanying notes

The Sunshine Foundation of Canada

STATEMENT OF CASH FLOWS

Year ended August 31

	2015	2014
	$	$
OPERATING ACTIVITIES		
Deficiency of revenue over expenditures	**(416,515)**	(167,921)
Add (deduct) items not affecting cash		
Unrealized losses (gains) on investments, net	**396,069**	(279,937)
Accrued interest	**(17,469)**	2,299
Amortization of capital assets	**26,231**	29,754
	(11,684)	(415,805)
Net change in non-cash working capital balances related to operations *[note 10]*	**19,003**	(271,887)
Increase (decrease) in deferred contributions, net	**63,370**	(181,923)
Cash provided by (used in) operating activities	**70,689**	(869,615)
INVESTING ACTIVITIES		
Purchase of capital assets	**(43,352)**	(49,819)
Purchase of investments, net of proceeds	**6,876**	348,758
Cash provided by (used in) investing activities	**(36,476)**	298,939
Net increase (decrease) in cash during the year	**34,213**	(570,676)
Cash, beginning of year	**153,751**	724,427
Cash, end of year	**187,964**	153,751

See accompanying notes

The Sunshine Foundation of Canada

NOTES TO FINANCIAL STATEMENTS

August 31, 2015

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 Chartered Professional Accountants of Canada ["CPA Canada"] Handbook – 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.

[a] 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. According to the agreement with the County Heritage/ Stevenson Hunt Golf Classic Endowment Fund ["CH/SH Endowment"], any amounts in excess of the endowed amount plus the inflationary adjustment as at December 31 of each year can be transferred to the Operating Fund. Should the CH/SH Endowment incur a realized or unrealized loss, no further transfers may be made to the Operating Fund until the deficiency is replaced by subsequent returns. According to the agreement with the Mio/Manz Sunshine Endowment Fund, any amounts in excess of $1 million as at December 31 of each year can be transferred to the Operating Fund. 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. Investment income, which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains or losses earned from reserve and general funds, as well as unrestricted donations, are reported in the Operating Fund. Expenditures of the Operating Fund are financed primarily by donor contributions directed to general operations.

[b] Capital 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%

[c] 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, 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.

[d] 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.

[e] 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 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, building space occupied or percentage of overall operating costs incurred.

[f] 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.

[g] Use of estimates

The preparation of financial statements in conformity with 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.

[h] 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.

3. INVESTMENTS

Investments consist of the following:

	2015 $	**2014** $
Income investments	**1,925,994**	2,030,402
Equity investments	**1,290,509**	1,571,577
	3,216,503	3,601,979
Less investments classified as short-term investments	**83,000**	158,000
Long-term investments	**3,133,503**	3,443,979

Short-term investments represent the expected amount to be required for the dream program for the upcoming fiscal year.

Investment income, net consists of the following:

	2015			2014
	Operating Fund $	**Endowment Fund** $	**Total** $	**Total** $
Interest income	**29,650**	**59,009**	**88,659**	81,589
Dividend income	**–**	**24,312**	**24,312**	35,313
Realized gains, net	**20,730**	**317,087**	**337,817**	97,962
Investment management fees	**(2,976)**	**(13,568)**	**(16,544)**	(27,274)
Unrealized gains (losses), net	**(15,377)**	**(380,692)**	**(396,069)**	279,937
	32,027	**6,148**	**38,175**	467,527

Bonds bear interest at varying rates between 2.05% and 5.68%. The bonds mature at varying dates between January 25, 2017 and September 10, 2025. Investment management fees on any mutual or segregated funds are not separated from interest and dividend income.

4. CAPITAL ASSETS

Capital assets consist of the following:

	2015		
	Cost $	**Accumulated amortization** $	**Net book value** $
Tangible			
Leasehold improvements	**9,941**	**6,641**	**3,300**
Office furniture and fixtures	**107,467**	**50,784**	**56,683**
Computer systems	**168,238**	**138,696**	**29,542**
Telephone systems	**41,763**	**34,410**	**7,353**
Intangible			
Website development costs	**60,063**	**34,485**	**25,578**
	387,472	**265,016**	**122,456**

	2014		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Tangible			
Leasehold improvements	9,941	5,305	4,636
Office furniture and fixtures	98,549	44,201	54,348
Computer systems	159,645	129,326	30,319
Telephone systems	41,501	31,853	9,648
Intangible			
Website development costs	34,485	28,101	6,384
	344,121	238,786	105,335

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:

	2015	**2014**
	$	$
Deferred contributions, beginning of year	**244,356**	426,279
Add amounts received related to subsequent years	**195,237**	280,329
Less amounts recognized as revenue during the year	**131,867**	462,252
Deferred contributions, end of year	**307,726**	244,356
Less short-term portion	**160,040**	92,565
	147,686	151,791

NOTES TO FINANCIAL STATEMENTS

August 31, 2015

6. OPERATING AND ENDOWMENT FUNDS

The Operating and Endowment Funds consist of the following:

	2015 $	2014 $
Operating Fund [a]		
Dreams Program	**1,159,000**	1,124,000
Reserve	**235,000**	441,000
Capital assets	**42,200**	19,500
Undesignated	**241,699**	496,410
	1,677,899	2,080,910
Endowment Fund [b]		
County Heritage/Stevenson Hunt Golf Classic Endowment Fund	**1,509,354**	1,520,855
Mio/Manz Sunshine Endowment Fund	**1,000,000**	1,000,000
Bill White Memorial Dream Endowment Fund	**171,002**	173,005
	2,680,356	2,693,860

[a] 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 Dream Program, represents three to six months of the budgeted for the upcoming fiscal year.

The Foundations' 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.

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 a future year after the income has been realized.

[b] 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 such time as specified minimum capital levels agreed to with the third-party donors have been achieved. Once the minimum capital level is achieved, investment income, in excess of an allocation for inflation [where required], is transferred to the Operating Fund to be used for dream fulfillment in a future year.

During the year, $19,672 of investment income earned by the Endowment Fund was transferred to the Operating Fund [2014 – $390,824].

NOTES TO FINANCIAL STATEMENTS

August 31, 2015

7. LEASE COMMITMENTS

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

	$
2016	67,334
2017	67,334
2018	18,159

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:

	2015 $	**2014** $
Break Open Tickets gross revenue	**168,315**	150,747
Break Open Tickets net proceeds	**71,539**	61,161

These net proceeds are used to fund Dream 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:

	2015 $	**2014** $
Fundraising	**528,999**	476,899
Programs	**362,053**	435,112
Administration	**289,475**	284,146
	1,180,527	1,196,157

NOTES TO FINANCIAL STATEMENTS

August 31, 2015

10. STATEMENT OF CASH FLOWS

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

	2015 $	2014 $
Decrease (increase) in current assets		
Accounts receivable	**(39,642)**	(225,556)
Prepaid expenses	**136,426**	12,015
	96,784	(213,541)
Decrease in current liabilities		
Accounts payable and accrued liabilities	**(77,781)**	(58,346)
	19,003	(271,887)

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 foreign currency risk with respect to 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 or currency risks] 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.