Financial Statements of

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Year ended March 31, 2018

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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, 2018, the statement 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, 2018 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 19, 2018
Edmonton, Canada

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Financial Statements

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Financial Statements

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash	$ 9,081,195	$ 11,854,865
Accounts receivable	386,010	443,244
Prepaid expenses	413,261	475,990
Inventory	154,726	121,753
Joint venture investment (note 2)	-	323,680
	10,035,192	13,219,532
Long term receivable	436,357	376,826
Portfolio investments (note 3)	59,828,465	54,068,577
Capital assets (note 4)	452,820	494,916
	$ 70,752,834	$ 68,159,851
Liabilities and Fund Balances		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 1,665,467	$ 1,830,969
Deferred revenue	134,803	93,093
	1,800,270	1,924,062
Fund balances:		
Externally restricted	6,608,126	8,981,223
Internally restricted	36,663,201	24,053,544
Unrestricted	25,681,237	33,201,022
	68,952,564	66,235,789
Commitments (note 5)		
	$ 70,752,834	$ 68,159,851

See accompanying notes to financial statements.

On behalf of the Board of Trustees:

Chair

Chair of Finance and Audit Committee

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Statement of Operations and Changes in Fund Balances

Year ended March 31, 2018, with comparative information for 2017

	Externally restricted fund	Internally restricted fund	Unrestricted fund	Total 2018	Total 2017
Revenue:					
Fundraising projects and contributions	$ 1,259,131	$ -	$ 20,497,859	$ 21,756,990	$ 24,119,351
Mighty Millions Lottery	-	-	7,564,479	7,564,479	6,969,993
Investment income (Schedule A)	-	-	1,174,023	1,174,023	3,128,312
Merchandising	-	-	417,873	417,873	359,957
	1,259,131	-	29,654,234	30,913,365	34,577,613
Expenditures:					
Fundraising	-	-	5,986,699	5,986,699	5,378,874
Mighty Millions Lottery	-	-	6,012,515	6,012,515	5,951,059
Administration	-	-	2,410,323	2,410,323	2,301,123
Merchandising	-	-	420,342	420,342	383,081
	-	-	14,829,879	14,829,879	14,014,137
Excess of revenue over expenditures before grants	1,259,131	-	14,824,355	16,083,486	20,563,476
Grants to the Stollery Children's Hospital	3,632,228	9,734,483	-	13,366,711	12,743,598
Excess of revenue over expenditures	(2,373,097)	(9,734,483)	14,824,355	2,716,775	7,819,878
Fund balances, beginning of year	8,981,223	24,053,544	33,201,022	66,235,789	58,415,911
Transfers	-	22,344,140	(22,344,140)	-	-
Fund balances, end of year	$ 6,608,126	$ 36,663,201	$ 25,681,237	$ 68,952,564	$ 66,235,789

See accompanying notes to financial statements.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

		2018		2017
Cash provided by operations:				
Excess of revenue over expenditures	$	2,716,775	$	7,819,878
Items not involving cash:				
Unrealized loss (gain) on portfolio investments		1,400,928		(1,274,131)
Realized gain on portfolio investments		(820,898)		(317,295)
Amortization of capital assets		69,314		76,671
Joint venture investment income		-		(301,000)
Change in non-cash operating working capital:				
Decrease (increase) in accounts receivable		57,234		(71,124)
Decrease (increase) in prepaid expenses		62,729		(360,360)
Increase in inventory		(32,973)		(2,621)
Increase in long term receivable		(59,531)		(4,505)
(Decrease) increase in accounts payable and accrued liabilities		(165,502)		283,799
Increase in deferred revenue		41,710		61,673
		3,269,786		5,910,985
Cash flows used in investing activities:				
Acquisition of portfolio investments, net		(6,339,918)		(5,121,804)
Acquisition of capital assets		(27,218)		(31,935)
Distributions received from joint venture		323,680		367,712
Contributions to joint venture		-		(22,680)
		(6,043,456)		(4,808,707)
Increase (decrease) in cash		(2,773,670)		1,102,278
Cash, beginning of year		11,854,865		10,752,587
Cash, end of year	$	9,081,195	$	11,854,865

See accompanying notes to financial statements.

Stollery Children's Hospital Foundation (the "Foundation") operates 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 of Trustees (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. These funds are managed in accordance with general Board policies and may be internally restricted through Board motion.

(b) 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.

(c) Joint venture investment:

The Foundation records its joint venture investment in the Hair Massacure 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.

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	Term of Lease

(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 projects 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.

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.

2. Joint venture investment:

The Foundation had a sublicence arrangement with Make A Wish Northern Alberta to jointly organize and administer the Hair Massacure event. This agreement permitted the use of the trademark to promote the event and to sell associated merchandise. The Foundation and Make A Wish Northern Alberta did not renew the agreement for the 2018 fiscal year; as such, all liabilities were satisfied and the net assets distributed to the parties to the joint venture.

As at March 31	2018	2017
Current assets	$ -	$ 777,720
Liabilities	-	173,132
Net assets	$ -	$ 604,588
Foundation's share of net assets	$ -	$ 323,680

Year ended March 31	2018	2017
Revenues	$ -	$ 902,716
Expenditures	-	300,716
Excess of revenue over expenditures	$ -	$ 602,000
Foundation's share of excess of revenue over expenditures	$ -	$ 301,000

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

3. Portfolio investments:

	2018	2017
Fixed-income, measured at fair value:		
Term deposit	$ 10,240,480	$ 4,037,186
Government and government backed bonds	13,813,806	14,107,546
Corporate bonds	14,982,327	14,816,513
	39,036,613	32,961,245
Equities, measured at fair value:		
Canadian	9,136,362	9,060,564
United States	5,336,722	7,512,462
International	5,022,963	1,622,918
	19,496,047	18,195,944
Cash and equivalents	1,295,805	2,911,388
	$ 59,828,465	$ 54,068,577

The term deposits carry coupon rates of 1.35%, 1.46%, 1.50% and 1.68% and maturity dates of August 2018 to December 2018.

Government and government backed bonds carry coupon rates of 1.15% to 5.75% (2017 - 1.20% to 5.65%) with maturity dates from June 2018 to June 2033 (2017 - June 2017 to June 2031) and a principal amount of $13,962,931 (2017 - $13,968,883).

Corporate bonds carry coupon rates of 1.74% to 7.10% (2017 - 1.6% to 11.77%) with maturity dates from April 2019 to Jun 2031 (2017 – March 2018 to June 2031) and a principal amount of $15,180,754 (2017 - $14,637,895).

Approximately 33.00% (2017 - 33.00%) of the fixed-income investments mature within the next fiscal year, 17.00% (2017 - 16.00%) 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.

4. Capital assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Equipment	$ 111,985	$ 84,227	$ 27,758	$ 27,832
Furniture and fixtures	202,148	65,639	136,509	153,935
Computer software	46,636	46,067	569	3,022
Leasehold improvements	312,061	74,077	237,984	260,127
Works of art	50,000	-	50,000	50,000
	$ 722,830	$ 270,010	$ 452,820	$ 494,916

Amortization of $69,314 is included in administration expenditures (2017 - $76,671).

5. Commitments:

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

2019	$ 18,575
2020	18,575
2021	12,003
2022	1,796
2023	-
Thereafter	-

b) The Foundation has approved cumulative funding commitments of $36,759,205 (2017 - $24,053,544) which will be carried forward to future years.

5. Commitments (continued):

c) The Foundation has received pledges of $1,271,823 (2017 - $1,780,833) from donors which have not been recognized as revenue at year-end. Payment of the amounts pledged is expected by the Foundation as follows:

2018	$ 630,541
2019	297,666
2020	168,950
2021	70,666
Thereafter	104,000

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:

	2018	2017
Employer		
Pensionable earnings up to the maximum under the Canada Pension Plan	10.39%	11.39%
Pensionable earnings in excess of the maximum under the Canada Pension Plans	14.84%	15.84%
Employee		
Pensionable earnings up to the maximum under the Canada Pension Plan	9.39%	10.39%
Pensionable earnings in excess of the maximum under the Canada Pension Plan	13.84%	14.84%

Information for the year ended December 31, 2017 was not available at the time of preparing these financial statements (2016 - actuarial deficit of $637 billion). The Foundation contributed a total of $368,240 for the year ended March 31, 2018 (2017 - $352,113), which has been recorded within administrative expenditures in the statement of operations. The Foundation had 31 (2016 - 39) contributing members in the plan which has a total of 253,862 (2015 - 244,620) members at December 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, 2018, accounts payable and accrued liabilities include $1,025,177 (2017 - $1,392,632) 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, 2018, with comparative information for 2017

	2018	2017
Dividends	$ 586,310	$ 485,400
Interest	1,167,743	1,051,486
Realized gains on portfolio investments	820,898	317,295
Unrealized gains (losses) on portfolio investments	(1,400,928)	1,274,131
	$ 1,174,023	$ 3,128,312