The Sunshine Foundation of Canada

Financial statements

December 31, 2022

Building a better working world

Independent auditor's report

To the Board of Directors of
The Sunshine Foundation of Canada

Qualified opinion

We have audited the financial statements of **The Sunshine Foundation of Canada** [the "Foundation"], which comprise the statement of financial position as at December 31, 2022, and the statement of operations and changes in fund balances and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2022, 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.

Basis for qualified opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

In common with many charitable organizations, the Foundation 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 for the year, and cash and fund balances, end of year.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our qualified opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our qualified opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our qualified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

London, Canada
March 29, 2023

The Sunshine Foundation of Canada

Statement of financial position

As at December 31

	2022	2021
	$	$
Assets		
Current		
Cash	**886,579**	2,019,432
Investments *[note 3]*	**805,000**	—
Accounts receivable *[note 3]*	**124,700**	144,715
Prepaid expenses	**43,471**	29,402
Total current assets	**1,859,750**	2,193,549
Investments *[note 3]*	**2,946,205**	3,371,743
Capital assets, net *[note 4]*	**32,261**	41,027
	4,838,216	5,606,319
Liabilities and fund balances		
Current		
Accounts payable and accrued liabilities	**39,052**	25,397
Total current liabilities	**39,052**	25,397
Lease commitments *[note 6]*		
Fund balances *[note 5]*		
Operating Fund	**1,946,868**	2,286,087
Endowment Fund	**2,852,296**	3,294,835
Total fund balances	**4,799,164**	5,580,922
	4,838,216	5,606,319

See accompanying notes

Approved by the Board:

Director

Director

The Sunshine Foundation of Canada

Statement of operations and changes in fund balances

Year ended December 31

	2022			2021		
	Operating Fund	Endowment Fund	Total	Operating Fund	Endowment Fund	Total
	$	$	$	$	$	$
Revenue						
Donations *[note 7]*	**1,399,833**	—	**1,399,833**	1,941,617	—	1,941,617
Investment income (loss), net *[note 3]*	**11,861**	**(311,292)**	**(299,431)**	—	384,639	384,639
	1,411,694	**(311,292)**	**1,100,402**	1,941,617	384,639	2,326,256
Expenditures						
Fundraising expenses *[note 8]*	**683,235**	**—**	**683,235**	583,728	—	583,728
Programs *[note 8]*	**1,049,776**	**—**	**1,049,776**	680,575	—	680,575
Administration *[note 8]*	**149,149**	**—**	**149,149**	197,346	—	197,346
	1,882,160	**—**	**1,882,160**	1,461,649	—	1,461,649
Excess (deficiency) of revenue over expenditures for the year	**(470,466)**	**(311,292)**	**(781,758)**	479,968	384,639	864,607
Fund balances, beginning of year	**2,286,087**	**3,294,835**	**5,580,922**	1,684,740	3,031,575	4,716,315
Inter-fund transfer *[note 5]*	**131,247**	**(131,247)**	**—**	121,379	(121,379)	—
Fund balances, end of year	**1,946,868**	**2,852,296**	**4,799,164**	2,286,087	3,294,835	5,580,922

See accompanying notes

The Sunshine Foundation of Canada

Statement of cash flows

Year ended December 31

	2022	2021
	$	$
Operating activities		
Excess (deficiency) of revenue over expenditures for the year	**(781,758)**	864,607
Add (deduct) items not affecting cash		
Unrealized gains on investments, net	**438,725**	(172,784)
Loss on disposal of capital assets	**7,185**	—
Accrued interest, net	**—**	1,635
Gain on sale of investments	**(74,537)**	(154,201)
Amortization of capital assets	**16,639**	19,024
	(393,746)	558,281
Net change in non-cash working capital balances related to operations *[note 9]*	**19,601**	(32,161)
Cash provided by (used in) operating activities	**(374,145)**	526,120
Investing activities		
Purchase of capital assets	**(15,058)**	(3,027)
Purchase of investments	**(374,007)**	(1,971,321)
Purchase of Guaranteed Investment Certificates	**(805,000)**	—
Proceeds from sale of investments	**435,357**	2,052,502
Cash provided by (used in) investing activities	**(758,708)**	78,154
Net (decrease) increase in cash during the year	**(1,132,853)**	604,274
Cash, beginning of year	**2,019,432**	1,415,158
Cash, end of year	**886,579**	2,019,432

See accompanying notes

The Sunshine Foundation of Canada

Notes to financial statements

December 31, 2022

1. Nature of operations

The Sunshine Foundation of Canada [the "Foundation"] makes dreams come true for children and young adults living with severe physical disabilities.

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 *CPA Canada Handbook – Accounting*, "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.

Fund accounting

In order to ensure compliance with 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 Fund is externally restricted and was established, consistent with the mission of the Foundation, to fulfill the dreams of children and young adults living with severe physical disabilities. The Endowment Fund reports amounts that are required to be maintained by the Foundation on a permanent basis. Investment income, which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains or losses earned from investments is reported in the Endowment fund.

The Endowment Fund includes the County Heritage/Stevenson Hunt Golf Classic Endowment Fund, the Mio/Manz Sunshine Endowment Fund and the Bill White Memorial Dream Endowment Fund. According to the agreements with these funds, a fixed percentage of the opening balance of the market value of invested assets is transferred to the Operating Fund at each year-end.

The Operating Fund accounts for the Foundation's operational revenue and program and administrative expenditures. Unrestricted donations are reported in the Operating Fund. Expenditures of the Operating Fund are financed primarily by donor contributions directed to general operations.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at their estimated fair value at the date of donation. Amortization is provided using the declining balance method at the following rates:

Office furniture and fixtures	10%
Computer systems	20%
Telephone systems	20%

Leasehold improvements are amortized over the life of the related lease, plus any renewal terms.

Impairment of long-lived assets

Capital asset are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset to be held and used with the total of the undiscounted cash flows expected from its use and disposition. If the asset is impaired, the impairment loss to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value, generally determined on a discounted cash flow basis. Any impairment results in a write-down of the asset and a charge to income during the year. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

Financial instruments

Financial instruments originated, issued or assumed in an arm's length transaction are recorded at fair value on initial recognition. Transaction costs incurred on the acquisition of financial instruments are expensed as incurred. However, arm's length financial instruments that will not be subsequently measured at fair value are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

The Company subsequently measures financial instruments as follows:

- Investments in marketable securities are recorded at fair value;
- All other financial assets, including cash and accounts receivable, at amortized cost; and
- All financial liabilities, including accounts payable and accrued liabilities, at amortized cost.

Financial assets measured at cost and amortized cost 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 Company 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 following:

[i] For an arm's length financial asset, the present value of the cash flows expected to be generated by holding the asset, discounted using a current market rate of interest appropriate to that asset, and for a related party debt instrument, the undiscounted cash flows expected to be generated by holding the asset, excluding interest and dividend payments;

[ii] The amount that could be realized by selling the asset as at the balance sheet date; and

[iii] The amount the Company expects to realize by exercising its right to any collateral held to secure repayment of the asset, net of all costs necessary to exercise those rights.

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.

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 in the year received.

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 as identified in note 8.

The allocated expenses include those related to personnel, facility resources, insurance and amortization. These expenses are allocated proportionately based on personnel hours incurred or office space occupied.

Investments and investment income

Equity investments consist of marketable securities and fixed 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.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities 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 lives of capital assets.

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.

Government assistance

Amounts received or receivable resulting from government assistance programs or other benefits are reflected as a reduction of the cost of the assets or expenses to which they relate when the Company becomes eligible to accrue them, provided there is reasonable assurance the benefits will be realized or received. Amounts received from government assistance programs not designated for a specific expense or asset are recorded as an item of other income.

3. Investments

Investments consist of the following:

	2022	2021
	$	$
Current investments		
Guaranteed Investment Certificates	**805,000**	—
Long-term investments		
Fixed income investments	**1,258,582**	1,320,661
Equity investments	**1,687,623**	2,051,082
	2,946,205	3,371,743

Guaranteed Investment Certificates [“GICs”] mature at various times during 2023 earn interest at the Royal Bank of Canada prime rate minus 2.25%. As at December 31, 2022, the Royal Bank of Canada prime rate was 6.45%. Included in accounts receivable is $11,859 of interest receivable in relation to these GICs.

The Foundation’s fixed income investment is comprised of a fixed income fund in which the underlying investments have an average interest rate of 3.8% and an average maturity of 10.6 years. Investment management fees on any mutual or segregated funds are not separated from interest and dividend income.

Investment income (loss), net consists of the following:

	2022	2021
	$	$
Interest income	**52,703**	42,839
Dividend income	**41,900**	33,189
Realized gains, net	**74,537**	154,202
Investment management fees	**(29,849)**	(18,375)
Unrealized gain (loss), net	**(438,722)**	172,784
	(299,431)	384,639

4. Capital assets

Capital assets consist of the following:

	2022		
	Cost	Accumulated amortization	Net book value
	$	$	$
Office furniture and fixtures	**111,299**	**91,356**	**19,943**
Computer systems	**221,879**	**209,561**	**12,318**
	333,178	**300,917**	**32,261**

	2021		
	Cost	Accumulated amortization	Net book value
	$	$	$
Office furniture and fixtures	130,293	108,046	22,247
Computer systems	214,968	200,430	14,538
Leasehold improvements	14,936	12,117	2,819
Telephone system	41,763	40,340	1,423
	401,960	360,933	41,027

As at December 31, 2022, leasehold improvements and telephone system with an aggregate net book value of $3,242 were written off as they were deemed to be of no further use to the organization following relocation to a new premises.

Notes to financial statements

December 31, 2022

5. Operating Fund and Endowment Fund

The Operating Fund and Endowment Fund consist of the following:

	2022	2021
	$	$
Operating Fund		
Dreams Program	**400,000**	330,000
Reserve	**305,000**	305,000
Capital assets	**10,000**	20,000
Capital assets – new office	**—**	15,000
Undesignated	**1,231,868**	1,616,087
	1,946,868	2,286,087
Endowment Fund		
County Heritage/Stevenson Hunt Golf Classic Endowment Fund	**1,717,770**	1,959,626
Mio/Manz Sunshine Endowment Fund	**951,211**	1,115,332
Bill White Memorial Dream Endowment Fund	**183,315**	219,877
	2,852,296	3,294,835

Operating Fund

The Foundation's Dreams Program for a particular year is funded by surpluses earned in prior years. During the annual budgeting process, the Foundation allocates a portion of the previous year's 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 Dreams Program, represents three to six months of the budgeted expenses for the upcoming fiscal year.

The Foundation's capital asset acquisitions are funded by surpluses earned in prior years. During the annual budgeting process, the Foundation allocates a portion of previous year's Operating Fund surplus to be spent on capital assets in the upcoming year.

The undesignated portion of the Operating Fund comprises of a surplus invested in capital assets and prepaid expenses, and 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 future years after the income has been realized.

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 it is transferred to the Operating Fund in accordance with the disbursement policy agreed upon with the third-party donor to be used for dream fulfillment in a future year.

During the year ended December 31, 2022, $131,247 of investment income earned by the Endowment Fund was transferred to the Operating Fund [2021 – $121,379].

6. Commitments

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

	$
2023	52,631
2024	52,631
2025	55,342
2026	58,053
2027	58,335

7. 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:

	2022 $	**2021** $
Break Open Tickets gross revenue	**196,475**	198,080
Break Open Tickets net proceeds	**61,364**	70,757

These net proceeds are used to fund Dreams Programs in the Province of Ontario.

Notes to financial statements

December 31, 2022

8. Allocation of expenses

General support and administration costs have been allocated and included in the following categories of expenditures:

	2022	2021
	$	$
Fundraising	**323,511**	331,612
Programs	**421,603**	283,102
Administration	**117,092**	114,341
	862,206	729,055

9. Statement of cash flows

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

	2022	2021
	$	$
Increase (decrease) in current assets		
Accounts receivable	**20,015**	21,147
Prepaid expenses	**(14,069)**	(13,494)
	5,946	7,653
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**13,655**	(39,814)
	19,601	(32,161)

10. 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 currency risk with respect to its US dollar cash holdings and 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. As at December 31, 2022, amounts denominated in US dollars are as follows:

	2022	2021
	$US	$US
Cash	4,924	8,719
Investments	331,957	411,601

Credit risk

The Foundation is exposed to credit risk in connection with its accounts receivable 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 and fixed income investments.

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 risk or currency risk] 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.

11. Credit facility

The Royal Bank of Canada has provided the Foundation with access to an operating line of credit facility with a maximum available balance of $175,000. The facility bears interest at the bank's prime lending rate of 6.45% plus 1.40%. As at December 31, 2022, no amount has been drawn on this credit facility [2021 – nil].

As collateral for the credit facility, the Foundation has provided the bank with a general security agreement constituting a first ranking security interest in all property of the Foundation.

12. COVID-19 pandemic

The COVID-19 pandemic continued to impact upon the Foundation during the year ended December 31, 2022. This includes continued remote work arrangements, reductions in event-based fundraising, financial uncertainty with some partners and limitations to program delivery.

During the year ended December 31, 2021, the Foundation received $77,765 of support from the Canadian government under the Canada Emergency Wage Subsidy program; a wage subsidy designed to assist corporations negatively impacted by the pandemic to keep employees on payroll. The subsidy received is included as a reduction to salary and wage expense included in expenditures. No subsidy was earned during the year ended December 31, 2022.