Friends of Saskatchewan Children Inc.

Financial Statements

December 31, 2016

Contents

For the year ended December 31, 2016

Management's Responsibility

To the Members of Friends of Saskatchewan Children Inc.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian accounting standards for not-for-profit organizations. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is composed entirely of individuals who are neither management nor employees of the Organization. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board to audit the financial statements and report directly to the members; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

Chief Executive Officer

Independent Auditors' Report

To the Members of Friends of Saskatchewan Children Inc.:

We have audited the accompanying financial statements of Friends of Saskatchewan Children Inc., 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.

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 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 statement.

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, the Organization derives revenue from the general public in the form of fundraising activities and donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Organization. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising and donation revenue, excess of revenue over expenses and cash flows from operations for the years ended December 31, 2016 and 2015, current assets and net assets as at December 31, 2016 and 2015. 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 Friends of Saskatchewan Children Inc. 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.

Saskatoon, Saskatchewan

MNP LLP

April 19, 2017

Chartered Professional Accountants

Friends of Saskatchewan Children Inc.
Statement of Financial Position
As at December 31, 2016

	2016	*2015*
Assets		
Current		
Cash and cash equivalents	**3,026,852**	2,126,494
Accounts receivable	**18,960**	96,895
Goods and Services Tax receivable	**12,662**	8,450
Accrued interest	**5,759**	6,285
Short-term investments *(Note 3)*	**1,847,085**	1,683,047
Prepaid expenses	**732**	14,593
	4,912,050	3,935,764
Long-term investments *(Note 4)*	**1,046,183**	1,133,020
Capital assets *(Note 5)*	**11,397,532**	11,035,972
	17,355,765	16,104,756
Liabilities		
Current		
Accounts payable and accruals	**75,418**	61,714
Deferred contributions - operating *(Note 6)*	**288,241**	203,667
Current portion of deferred contributions - capital *(Note 7)*	**540,209**	519,076
	903,868	784,457
Deferred contributions - adopt-a-room *(Note 6)*	**-**	106,852
Deferred contributions - capital *(Note 7)*	**9,097,685**	8,538,374
	10,001,553	9,429,683
Net Assets		
Invested in capital assets *(Note 8)*	**1,759,638**	1,978,522
Internally restricted *(Note 8)*	**3,777,574**	3,020,551
Unrestricted *(Note 8)*	**1,817,000**	1,676,000
	7,354,212	6,675,073
	17,355,765	16,104,756

Approved on behalf of the Board of Directors

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The accompanying notes are an integral part of these financial statements

Friends of Saskatchewan Children Inc.
Statement of Operations
For the year ended December 31, 2016

	2016	*2015*
Revenue		
Donations, memorials and bequests	**1,031,679**	579,012
Deferred contributions recognized - capital *(Note 7)*	**585,050**	564,346
Adopt-A-Room contributions recognized *(Note 6)*	**261,350**	250,000
Ronald McDonald House Charities grant	**239,335**	204,472
Signature fundraising events	**370,628**	289,815
Third-party fundraising	**143,966**	126,803
Room fees	**87,710**	81,120
Fundraising - capital campaign	**-**	12,721
	2,719,718	2,108,289
Expenses		
Salaries and benefits	**857,570**	661,521
Amortization	**591,647**	611,770
Signature fundraising events	**187,860**	102,103
Utilities	**69,817**	73,578
Property tax	**68,521**	66,940
Repairs and maintenance	**66,448**	26,704
Night security	**62,833**	42,003
Publicity and promotion	**43,370**	46,425
Guest services	**41,441**	21,258
Donations (mail out)	**39,933**	24,282
Office	**38,557**	30,216
Telephone	**27,286**	23,935
Professional fees	**25,558**	20,610
Household supplies	**13,393**	5,291
Volunteer	**11,711**	15,545
Conferences	**10,136**	13,993
Insurance	**1,750**	1,750
Fundraising - capital campaign	**-**	12,721
Bad debts	**-**	670
	2,157,831	1,801,315
Excess of revenue over expenses before other items	**561,887**	306,974
Other items		
Investment income	**108,129**	145,053
Unrealized gain on fair value of investments	**43,073**	18,762
Gain on disposal of investments	**8,553**	15,322
Investment management fees	**(42,503)**	(39,687)
	117,252	139,450
Excess of revenue over expenses	**679,139**	446,424

The accompanying notes are an integral part of these financial statements

Friends of Saskatchewan Children Inc.
Statement of Changes in Net Assets
For the year ended December 31, 2016

	Invested in capital assets	*Internally restricted*	*Unrestricted*	***2016***	*2015*
Net assets, beginning of year	**1,978,522**	**3,020,551**	**1,676,000**	**6,675,073**	6,228,649
Excess (deficiency) of revenue over expenses	**(6,597)**	**6,597**	**679,139**	**679,139**	446,424
	1,971,925	**3,027,148**	**2,355,139**	**7,354,212**	6,675,073
Capital asset purchases	**953,207**	**(953,207)**	**-**	**-**	-
Capital asset funding received	**(1,165,494)**	**1,165,494**	**-**	**-**	-
Transfer between funds *(Note 8)*	**-**	**538,139**	**(538,139)**	**-**	-
Net assets, end of year	**1,759,638**	**3,777,574**	**1,817,000**	**7,354,212**	6,675,073

The accompanying notes are an integral part of these financial statements

Friends of Saskatchewan Children Inc.
Statement of Cash Flows
For the year ended December 31, 2016

	2016	*2015*
Cash provided by (used for) the following activities		
Operating		
Excess of revenue over expenses	**679,139**	446,424
Amortization	**591,647**	611,770
Unrealized gain on fair value of investments	**(43,073)**	(18,762)
Gain on disposal of investments	**(8,553)**	(15,322)
Capital campaign contributions - fundraising	**-**	(12,721)
Deferred contributions - capital recognized *(Note 7)*	**(585,050)**	(564,346)
Deferred contributions - operating recognized *(Note 6)*	**(300,335)**	(250,000)
	333,775	197,043
Changes in working capital accounts		
Accounts receivable	**77,935**	(93,905)
Accrued interest	**526**	174
Goods and Services Tax receivable	**(4,212)**	35,601
Prepaid expenses	**13,861**	(14,276)
Accounts payable and accruals	**13,704**	28,522
	435,589	153,159
Financing		
Restricted contributions received for operations *(Note 6)*	**278,057**	167,386
Restricted contributions received for capital assets *(Note 7)*	**1,165,494**	1,439,055
Repayment of term loan due on demand	**-**	(982,454)
	1,443,551	623,987
Investing		
Purchases of capital assets	**(953,207)**	(327,802)
Purchase of investments	**(271,364)**	(506,912)
Proceeds on disposal of investments	**245,789**	428,279
	(978,782)	(406,435)
Increase in cash and cash equivalents	**900,358**	370,711
Cash and cash equivalents, beginning of year	**2,126,494**	1,755,783
Cash and cash equivalents, end of year	**3,026,852**	2,126,494

The accompanying notes are an integral part of these financial statements

1. Incorporation and nature of the organization

Friends of Saskatchewan Children Inc. (the “Organization”) was incorporated under the laws of the Province of Saskatchewan on December 14, 1982 and is a registered charity and thus is exempt from income taxes under the Income Tax Act.

The Organization operates as Ronald McDonald House Charities Saskatchewan and provides housing and other assistance for young patients and their families during periods of treatment at a Saskatoon hospital.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

Revenue recognition

The Organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. 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.

Room fees are recognized when services are provided, the price is determinable and collection is reasonable assured.

Revenue from third-party fundraising is recognized when received.

Donations, memorials and bequests, and grants are recognized as revenue when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Contributed materials and services

Contributions of materials are recognized both as contributions and expenses in the statement of operations when a fair value can be reasonably estimated and when the materials are used in the normal course of the Organization's operations and would otherwise have been purchased. Volunteers contribute many hours to assist the Organization, however, because of the difficulty in determining their fair value, volunteer hours are not recognized in the financial statements.

Financial instruments

The Organization recognizes its financial instruments when the Organization becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management.

At initial recognition, the Organization may irrevocably elect to subsequently measure any financial instrument at fair value. The Organization has elected to measure all investments at fair value.

The Organization subsequently measures all investments at fair value. Fair value is determined by published price quotations. All other financial assets and liabilities are subsequently measured at amortized cost.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in the excess of revenues over expenses for the current period. Conversely, transaction costs and financing fees are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

Financial asset impairment

The Organization assesses impairment of all of its financial assets measured at cost or amortized cost. When there is an indication of impairment, the Organization determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, the Organization reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current year excess of revenues over expenses.

2. Significant accounting policies *(Continued from previous page)*

The Organization reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in the excess of revenue over expenses in the year the reversal occurs.

Cash and cash equivalents

Cash and cash equivalents include cash and money market funds with maturities of three months or less.

Investments

All investments are measured at fair value. Any changes in fair value are recorded immediately in the excess of revenues over expenses.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution if fair value can be reasonably determined.

Amortization is provided using the declining balance method at rates intended to amortize the cost of assets over their estimated useful lives. Land is not amortized.

	Rate
Buildings	5 %
Computer equipment	30 %
Furniture and fixtures	20 %
Signage	20 %
Paved surfaces	20 %

Long-lived assets

Long-lived assets consist of capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

When the Organization determines that a long-lived asset no longer has any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Write-downs are not reversed.

Measurement uncertainty

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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of capital assets.

These estimates and assumptions are reviewed periodically and as adjustments become necessary they are reported in excess of revenues over expenses in the periods in which they become known.

Deferred contributions related to capital assets

Deferred contributions related to capital assets represent the unamortized portion of contributed capital assets and restricted contributions that were used to purchase the Organization’s building and equipment. Recognition of these amounts as revenue is deferred to periods when the related capital assets are amortized.

Allocation of expenses

The Organization engages in fundraising programs. The costs of each program include the costs of personnel, premises and other expenses that are directly related to providing the program. The Organization also incurs a number of general support expenses that are common to the administration of the Organization and each of its programs.

2. Significant accounting policies *(Continued from previous page)*

Fundraising revenue and expenses related to operations and the capital campaign are reported as separate line items on the statement of operations. General fundraising is done to assist with the operations of the Organization. Capital campaign fundraising relates to funds raised for the expansion.

3. Short-term investments

	2016	*2015*
Short-term investments recorded at fair market value:		
Equity funds (book value: 2016 - $1,650,884, 2015 - $1,609,832)	**1,772,947**	1,683,047
Fixed maturity debt instruments (book value: 2016 - $74,098)	**74,138**	-
	1,847,085	1,683,047

Bond and equity funds are recorded as short term due to the ability of the Organization to dispose of the investments at any time. Fixed maturity debt instruments consists of a bond yielding 2.36% maturing September 2017.

4. Long-term investments

	2016	*2015*
Long-term investments recorded at fair value:		
Fixed maturity debt instruments (book value: 2016 - $1,000,236, 2015 - $1,061,904)	**1,046,183**	1,133,020

Fixed maturity debt instruments consist of bonds and notes yielding between 2.25% and 7.05% (2015 - between 2.25% and 7.05%) with maturities ranging from March 2018 to December 2045 (2015 - August 2017 to December 2045).

5. Capital assets

	Cost	***Accumulated amortization***	***2016 Net book value***	*2015 Net book value*
Land	**1,554,476**	**-**	**1,554,476**	1,001,951
Buildings	**11,744,688**	**2,358,302**	**9,386,386**	9,493,530
Computer equipment	**83,636**	**61,924**	**21,712**	22,666
Furniture and fixtures	**665,854**	**258,955**	**406,899**	445,855
Signage	**20,174**	**17,309**	**2,865**	3,581
Computer software	**8,195**	**-**	**8,195**	8,195
Paved surfaces	**23,610**	**6,611**	**16,999**	21,249
Assets under construction	**-**	**-**	**-**	38,945
	14,100,633	**2,703,101**	**11,397,532**	11,035,972

Interest capitalized to capital assets during the year totaled $nil (2015 – $6,136).

Included in land is a deposit of $552,525 on a parcel of land with a possession date of January 2, 2017.

6. Deferred contributions - operating

Deferred contributions consist of contributions received for the adopt-a-room campaign, the RBC Mental Health Wellness campaign, and the operations of the Prince Albert family room. Recognition of these amounts as revenue is deferred over the term of the commitments or when the specified expenditures are made. Changes in the deferred contribution balance are as follows:

	2016	*2015*
Deferred contribution - adopt a room		
Balance, beginning of year	**310,519**	393,133
Contributions received during the year	**94,727**	167,386
Less: Contributions recognized as revenue	**(261,350)**	(250,000)
	143,896	310,519
Less: Long term portion	**-**	106,852
Balance, end of year	**143,896**	203,667
Deferred contribution - RBC Mental Health Wellness		
Contributions received during the year	**48,000**	-
Less: Contributions recognized as revenue	**(12,000)**	-
Balance, end of year	**36,000**	-
Deferred contribution - Prince Albert family room		
Contributions received during the year	**135,330**	-
Less: Contributions recognized as revenue	**(26,985)**	-
Balance, end of year	**108,345**	-
Total deferred contributions - operating	**288,241**	203,667

7. Deferred contributions - capital

Deferred capital contributions consist of the unamortized contributions received for the purchase of capital assets relating to the house expansion, the Prince Albert family room, and the playground. Recognition of these amounts as revenue is deferred to periods when the related capital assets are amortized. Changes in deferred capital contributions are as follows:

	2016 ***Capital Campaign***	***2016*** ***Prince Albert Family Room***	***2016*** ***Playground***	***2016*** ***Total***	*2015* *Total*
Balance, beginning of year	**9,057,450**	**-**	**-**	**9,057,450**	8,195,462
Contributions received during the year	**896,494**	**210,000**	**59,000**	**1,165,494**	1,439,055
Less: Contributions recognized as revenue relating to fundraising expenses	**-**	**-**	**-**	**-**	(12,721)
Less: Contributions recognized as revenue	**(572,365)**	**(12,685)**	**-**	**(585,050)**	(564,346)
Balance, end of year	**9,381,579**	**197,315**	**59,000**	**9,637,894**	9,057,450
Less: Current portion	**528,596**	**11,613**	**-**	**540,209**	519,076
	8,852,983	**185,702**	**59,000**	**9,097,685**	8,538,374

8. Restrictions on net assets

Invested in capital assets

The Board of Directors has internally restricted net assets invested in capital assets of $1,759,638 (2015 – $1,978,522).

Internally restricted net assets

During the year, the Organization's Board of Directors approved the transfer of $538,139 (2015 - $47,424) in order to internally restrict $3,777,574 (2015 – $3,020,551) of unrestricted net assets to be held for unexpected shortfalls or specific future causes, as well as investment in major capital expenditures.

Unrestricted net assets

It is the policy of the Board of Directors to retain approximately two times the budgeted amount of annual Organization operating and administration expenses for the next fiscal year (not including fundraising expenses, etc.), less annual budgeted Ronald McDonald House Charities grant and room fee revenue, in unrestricted net assets at the end of each fiscal year. Any excess amount or shortfall at year end will be transferred into or will be replenished from internally restricted net assets.

9. Financial instruments

The Organization, as part of its operations, carries a number of financial instruments. It is management's opinion that the Organization is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

The Organization is exposed to interest rate cash flow risk with respect to its investments including bonds and notes which are subject to fixed interest rates ranging from 2.25% to 7.05% (2015 - 2.25% to 7.05%). In seeking to minimize the risks from interest rate fluctuations, the Organization manages its exposure by selecting investments with a variety of rates of return and maturity dates.

Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with financial liabilities. The Organization's exposure to liquidity risk is dependent on the collection of accounts, purchasing commitments and obligations or raising funds to meet commitments and sustain operations.

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 foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Organization's investments in equity funds, bond funds, bonds and notes expose the Organization to price risk as these investments are subject to price changes in an open market due to a variety of reasons including changes in market rates of interest, general economic indicators and restrictions on credit markets.

Credit concentration

As at December 31, 2016, one donor accounted for 54% (2015 - one event, 89%) of accounts receivable. The Organization believes that there is no unusual exposure associated with the collection of these receivables. The Organization performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

10. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.