Financial statements of

The Montreal Children's Hospital Foundation

March 31, 2018

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Independent Auditor's Report

To the Members of
The Montreal Children's Hospital Foundation

We have audited the financial statements of The Montreal Children's Hospital Foundation, which comprise the statement of financial position as at March 31, 2018, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Montreal Children's Hospital Foundation as at March 31, 2018, 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.

Deloitte LLP[1]

June 19, 2018

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[1] CPA auditor, CA, public accountancy permit No. A120628

The Montreal Children's Hospital Foundation

Statement of operations and changes in fund balances

Year ended March 31, 2018

	Notes	2018 Operating Fund	2018 Special Fund	2018 Endowment Fund	2018 Total	2017 Operating Fund	2017 Special Fund	2017 Endowment Fund	2017 Total
		$	$	$	$	$	$	$	$
Revenue									
Donations		**12,214,554**	**12,021,567**	**1,446,181**	**25,682,302**	7,359,506	12,889,947	1,805,244	22,054,697
Interest and dividends – net	3	**1,075,077**	**3,225,592**	**—**	**4,300,669**	843,710	2,143,237	—	2,986,947
		13,289,631	**15,247,159**	**1,446,181**	**29,982,971**	8,203,216	15,033,184	1,805,244	25,041,644
Expenses									
Salaries and benefits		**3,007,220**	**103,126**	**—**	**3,110,346**	2,751,245	202,471	—	2,953,716
Direct campaign costs		**909,130**	**220,998**	**—**	**1,130,128**	931,959	486,423	—	1,418,382
Publicity and donor recognition		**144,413**	**772**	**—**	**145,185**	112,464	31,722	—	144,186
General and administrative		**474,613**	**4,844**	**—**	**479,457**	474,431	2,035	—	476,466
Professional and consulting		**208,589**	**—**	**—**	**208,589**	248,878	1,857	—	250,735
Rent		**327,016**	**20,651**	**—**	**347,667**	254,785	18,235	—	273,020
Amortization of capital assets		**86,392**	**9,799**	**—**	**96,191**	72,317	9,799	—	82,116
		5,157,373	**360,190**	**—**	**5,517,563**	4,846,079	752,542	—	5,598,621
Excess of revenue over expenses before other elements		**8,132,258**	**14,886,969**	**1,446,181**	**24,465,408**	3,357,137	14,280,642	1,805,244	19,443,023
Contributions	4	**3,007,046**	**15,062,341**	**—**	**18,069,387**	2,763,385	14,059,768	—	16,823,153
Excess (deficiency) of revenue over expenses before change in fair value of investments		**5,125,212**	**(175,372)**	**1,446,181**	**6,396,021**	593,752	220,874	1,805,244	2,619,870
Change in fair value of investments	3	**633,217**	**(257,148)**	**—**	**376,069**	3,068,148	4,825,154	—	7,893,302
Excess (deficiency) of revenue over expenses		**5,758,429**	**(432,520)**	**1,446,181**	**6,772,090**	3,661,900	5,046,028	1,805,244	10,513,172
Fund balances, beginning of year		**1,105,442**	**63,501,560**	**52,814,283**	**117,421,285**	(3,564,720)	59,553,513	50,919,320	106,908,113
Interfund transfers	5	**106,247**	**(183,972)**	**77,725**	**—**	1,008,262	(1,097,981)	89,719	—
Fund balances, end of year		**6,970,118**	**62,885,068**	**54,338,189**	**124,193,375**	1,105,442	63,501,560	52,814,283	117,421,285

The accompanying notes are an integral part of the financial statements.

The Montreal Children's Hospital Foundation

Statement of financial position

As at March 31, 2018

	Notes	2018 Operating Fund	2018 Special Fund	2018 Endowment Fund	2018 Total	2017 Operating Fund	2017 Special Fund	2017 Endowment Fund	2017 Total
		$	$	$	$	$	$	$	$
Assets									
Cash		**11,142,599**	**33,543**	**321,189**	**11,497,331**	5,280,712	116,720	257,826	5,655,258
Restricted cash	6	**—**	**6,066,881**	**—**	**6,066,881**	—	4,873,059	—	4,873,059
Sales taxes receivable and other		**161,197**	**—**	**—**	**161,197**	231,769	—	—	231,769
Receivable by Special Fund		**—**	**28,303,017***	**—**	**—**	—	27,419,580*	—	—
Investments	8	**1,271,423**	**30,688,884**	**78,615,723**	**110,576,030**	2,453,593	32,405,547	73,871,310	108,730,450
Capital assets	9	**308,693**	**1,634**	**—**	**310,327**	212,063	11,433	—	223,496
Prepaid expenses		**144,126**	**143,489**	**—**	**287,615**	57,535	—	—	57,535
		13,028,038	**65,237,448**	**78,936,912**	**128,899,381**	8,235,672	64,826,339	74,129,136	119,771,567
Liabilities									
Accounts payable and accrued liabilities		**1,270,630**	**323,839**	**—**	**1,594,469**	700,401	241,035	—	941,436
Contributions payable – Montreal Children's Hospital		**734,237**	**2,028,541**	**—**	**2,762,778**	325,102	1,083,744	—	1,408,846
Deferred revenue	2(iii)	**348,759**	**—**	**—**	**348,759**	—	—	—	—
Due to Special Fund		**3,704,294***	**—**	**24,598,723***	**—**	6,104,727*	—	21,314,853*	—
		6,057,920	**2,352,380**	**24,598,723**	**4,706,006**	7,130,230	1,324,779	21,314,853	2,350,282
Commitments	11								
Fund balances									
Invested in capital assets		**308,693**	**1,634**	**—**	**310,327**	212,063	11,433	—	223,496
Externally restricted	10	**—**	**62,883,434**	**43,786,787**	**106,670,221**	—	63,490,127	42,262,881	105,753,008
Internally restricted		**—**	**—**	**10,551,402**	**10,551,402**	—	—	10,551,402	10,551,402
Unrestricted surplus		**6,661,425**	**—**	**—**	**6,661,425**	893,379	—	—	893,379
		6,970,118	**62,885,068**	**54,338,189**	**124,193,375**	1,105,442	63,501,560	52,814,283	117,421,285
		13,028,038	**65,237,448**	**78,936,912**	**128,899,381**	8,235,672	64,826,339	74,129,136	119,771,567

* These items are not included in the total column since they offset each other.

The accompanying notes are an integral part of the financial statements.

Approved by the Board of Directors

_____, Director

_____, Director

The Montreal Children's Hospital Foundation

Statement of cash flows

Year ended March 31, 2018

	2018	2017
	$	$
Operating activities		
Excess of revenue over expenses	**6,772,090**	10,513,172
Adjustments for:		
Change in fair value of investments	**(376,069)**	(7,893,302)
Amortization of capital assets	**96,191**	82,116
	6,492,212	2,701,986
Net changes in non-cash operating working capital items		
Sales taxes receivable and other	**70,572**	(26,934)
Prepaid expenses	**(230,080)**	2,763
Accounts payable and accrued liabilities	**653,033**	263,755
Contributions payable – Montreal Children's Hospital	**1,353,932**	352,307
Deferred revenue	**348,759**	—
	2,196,216	591,891
	8,688,428	3,293,877
Financing activities		
Net change in restricted cash	**(1,193,822)**	(1,018,489)
Net change in investments	**(1,469,511)**	(18,489,025)
Acquisition of capital assets	**(183,022)**	(116,234)
	(2,846,355)	(19,623,748)
Net increase (decrease) in cash	**5,842,073**	(16,329,871)
Cash, beginning of year	**5,655,258**	21,985,129
Cash, end of year	**11,497,331**	5,655,258

The accompanying notes are an integral part of the financial statements.

1. Purpose of the Foundation

The Montreal Children's Hospital Foundation (the "Foundation") is devoted to raising funds for research, teaching and clinical support for the benefit of the Montreal Children's Hospital of the McGill University Health Centre (the "Montreal Children's Hospital"). The Foundation, is a not-for-profit organization incorporated in 1973 under the laws of the Province of Quebec and is recognized as a registered charity under the *Income Tax Act*.

2. Significant accounting policies

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

Fund accounting

The Foundation follows the restricted fund method of accounting:

i) Operating Fund

The Foundation's general fundraising and administrative activities are presented in the Operating Fund.

ii) Special Fund

The Special Fund represents externally restricted donations (Note 10), other than endowments.

iii) Endowment Fund

The Endowment Fund includes accumulated donations subject to restrictions imposed by donors specifying that the capital be maintained in perpetuity, as well as interfund transfers from the Operating Fund authorized by the Board of Directors and which cannot be used without the prior consent of the Board of Directors.

Revenue recognition

i) Restricted donations

Restricted donations related to general operations are recognized as revenue of the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other restricted donations are recognized as revenue of the Special Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment donations are recognized as revenue in the Endowment Fund.

ii) Unrestricted donations

Unrestricted donations are recognized as revenue of the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

iii) Deferred revenue

Revenues related to fundraising events that take place after year-end are deferred and reported in the statement of operations in the following year.

2. Significant accounting policies (continued)

Revenue recognition (continued)

iv) Investment income

Investment income is recognized when earned. Investment income on Endowment Fund resources that must be spent on donors restricted activities is recognized in the Special Fund. Unrestricted investment income on Endowment Fund resources is recognized in the Operating Fund.

v) Contributed services

In the course of its activities, the Foundation uses the services of volunteers. Due to the difficulty in determining their respective fair value, these contributed services are not recognized in these financial statements.

vi) Gifts in kind

Gifts in kind are recorded at fair value.

Expense sharing

The expenses of the Best Care for Children Fund, included in the Special Fund, are comprised of directly attributable expenses, a transfer of a portion of rent expenses of the Operating Fund related to the additional rental space required for the activities of the Best Care for Children Fund, and a portion of salaries and benefits.

Contributions to the Montreal Children's Hospital

The contributions to the Montreal Children's Hospital are recorded in the statement of operations and changes in fund balances in the year in which they are paid or become payable.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Foundation becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost except for investments, which are measured at fair value at the statement of financial position date. Fair value fluctuations including interest earned and accrued interest, gains and losses realized on disposal of investments and unrealized gains and losses are presented as investment income.

Transaction costs related to financial instruments measured at fair value are expensed as incurred. Transaction costs related to the other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statement of operations and changes in fund balances as investment income.

2. Significant accounting policies (continued)

Financial instruments (continued)

With respect to financial assets measured at cost or amortized cost, the Foundation recognizes in the statement of operations and changes in fund balances an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decrease and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the statement of operations and changes in fund balances in the period the reversal occurs.

Receivable by/due to Special Fund

These amounts bear no interest and have no specific terms of repayment.

Capital assets

Fixed assets are recorded at cost and amortized over their useful lives using the straight-line method over the following periods:

Office furniture	5 years
Computer equipment	3 years
Network	5 years
Leasehold improvements	5 years
Other equipment	10 years
Website	5 years

Foreign currency translation

Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical rates. Revenue and expenses are translated at average rates prevailing during the year. Translation gains and losses are reflected in the statement of operations and changes in fund balances.

Use of estimates

The preparation of these financial statements, in conformity with Canadian accounting standards for not-for-profit organizations, require 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. Investment income – net

Investment income – net is detailed as follows:

	2018	2017
	$	$
Interest and dividends	**4,720,180**	3,313,345
Management and custodian fees	**(419,511)**	(326,398)
Interest and dividends – net	**4,300,669**	2,986,947
Change in unrealized fair value of investments	**(7,532,289)**	7,015,744
Net gain on disposal of investments	**7,908,358**	877,558
	376,069	7,893,302
	4,676,738	10,880,249

Net investment income is recorded as follows:

	2018	2017
	$	$
Operating Fund		
Resources held by the Endowment Fund*	**1,638,472**	3,851,710
Resources held by the Operating Fund	**69,822**	60,148
	1,708,294	3,911,858
Special Fund		
Resources held by the Endowment Fund**	**2,483,156**	5,902,966
Resources held by the Special Fund	**485,288**	1,065,425
	2,968,444	6,968,391
	4,676,738	10,880,249

* Net investment income of the Operating Fund derived from resources held as endowments:

	2018	2017
	$	$
Interest and dividends	**1,060,792**	900,751
Management and custodian fees	**(133,497)**	(116,351)
Net gain on disposal of investments	**3,144,372**	346,343
Change in unrealized fair value of investments	**(2,433,195)**	2,720,967
	1,638,472	3,851,710

3. Investment income – net (continued)

** Net investment income of the Special Fund derived from resources held as endowments:

	2018	2017
	$	$
Interest and dividends	**1,607,666**	1,377,280
Management and custodian fees	**(202,321)**	(162,361)
Net gain on disposal of investments	**4,765,400**	529,571
Change in unrealized fair value of investments	**(3,687,589)**	4,158,476
	2,483,156	5,902,966

4. Contributions

	2018	2017
	$	$
Montreal Children's Hospital	**12,689,740**	12,449,286
The Research Institute of the McGill University Health Centre	**3,600,086**	2,642,906
McGill University – pediatric mission	**1,779,561**	1,730,961
	18,069,387	16,823,153

5. Interfund transfers

Interfund transfers are executed in accordance with donor instructions and with Board of Directors' approval.

6. Restricted cash

The use of restricted cash is subject to approval by Opération Enfant Soleil.

Under a fund management agreement effective April 1, 2007, these amounts can be paid to the Montreal Children's Hospital only when Opération Enfant Soleil confirms that the conditions for the projects associated with these payments are met. In addition, interest generated by restricted cash (and investments, if applicable), are the property of Opération Enfant Soleil. Consequently, interest earned of $48,534 for the year ended March 31, 2018 ($53,567 in 2017), is not recorded in these financial statements.

7. Donation pledges

The Foundation has received donation pledges in the approximate amount of $10,237,000: $2,041,000 in support of the building of the new Montreal Children's Hospital (Best Care for Children (BCC) Fund), $4,518,000 in support of other specific projects, $3,311,000 for endowments and $367,000 for Operating Fund. These pledges are supported by signed agreements and will be recorded as revenue when collected.

8. Investments

	2018		2017	
	$	%	$	%
Cash, money market and Treasury bills	**5,986,674**	**5**	9,904,631	9
Fixed income	**41,523,028**	**38**	45,257,592	42
Canadian equities	**18,824,694**	**17**	22,643,951	21
International equities	**44,241,634**	**40**	30,924,276	28
	110,576,030	**100**	108,730,450	100

9. Capital assets

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Office furniture	**64,286**	**57,516**	**6,770**	13,312
Computer equipment	**480,862**	**441,486**	**39,376**	40,533
Network	**72,890**	**1,215**	**71,675**	—
Leasehold improvements	**102,391**	**50,838**	**51,553**	70,922
Other equipment	**97,987**	**96,353**	**1,634**	11,433
	818,416	**647,408**	**171,008**	136,200
Website	**176,353**	**37,034**	**139,319**	87,296
	994,769	**684,442**	**310,327**	223,496

10. Special Fund – externally restricted

The Special Fund includes the following externally restricted donations:

	2018	2017
	$	$
Capital Campaign Fund	**242,391**	310,054
Best Care for Children Fund	**29,415,130**	31,628,305
Other external restrictions	**33,225,913**	31,551,768
	62,883,434	63,490,127

11. Commitments

i) Pursuant to various operating leases expiring through May 2021, the Foundation has lease commitments relating to its own premises that require the following annual payments:

	$
2019	145,089
2020	160,442
2021	112,775
2022	14,824
	433,130

ii) Under a signed agreement between the McGill University Health Centre and the ministère de la Santé et des Services Sociaux in respect of the Glen site, the Foundation's share of this undertaking amounted to a total of $42,200,000 payable over 10 years. The balance payable of $29,540,000 requires the following annual payments:

	$
2019	4,220,000
2020	4,220,000
2021	4,220,000
2022	4,220,000
2023	4,220,000
2024 and thereafter	8,440,000
	29,540,000

12. Financial instruments

Investment policy

Investments must be managed in adherence to the principles of consistency and continuity. The principle of conservatism predominates when the investment committee and advisers are engaged in decision-making and applying strategies.

The objective is to optimize the return on the investments while considering the risk that the Foundation is prepared to assume along with its specific constraints as set out in the investment policy. Risk stems from the uncertainty inherent to several factors (loss in value of specific investments, decrease in fair value caused by financial market fluctuations, etc.), the combined actions of which could have consequences on the Foundation's ability to meet its commitments.

Return is optimized through a suitable combination of financial assets, diversification and sufficient latitude to use investment vehicles with higher return potential depending on the periods.

12. Financial instruments (continued)

The Foundation is exposed to the following risks due to its investments:

Market risk

Market risk is the risk of loss that results from fluctuations in equity prices, interest and exchange rates. The Foundation is exposed to market risk from its investment activities. The level of risk to which the Foundation is exposed varies depending on market conditions and the composition of the asset mix.

Credit risk

The Foundation's investments include pooled funds that hold bonds. As a result, there is a credit risk that the bond issuer will be unable to pay its obligations, which will have an impact on the assets of the Foundation.

Interest rate risk

The investments include pooled funds that hold bonds bearing fixed interest rates. Consequently, a change in the market interest rate would have an impact on the fair value of these investments.

Currency risk

The Foundation holds investments in foreign currencies and related income and is therefore exposed to currency fluctuations.

The balance sheet includes $22,455,233 ($24,172,423 in 2017) of investments denominated in U.S. dollars, $10,068,120 ($4,661,066 in 2017) denominated in euros and $7,970,822 ($6,816,266 in 2017) denominated in other foreign currencies.

13. Related party transactions

Transactions with the Montreal Children's Hospital, as well as the assets and liabilities relating to this related party, are presented separately in these financial statements or in the notes to these financial statements.

These transactions are within the normal course of operations and are measured at their exchange amounts.