
Financial statements of
The Montreal Children's Hospital
Foundation

March 31, 2019

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Independent Auditor's Report

To the Members of
The Montreal Children's Hospital Foundation

Opinion

We have audited the financial statements of The Montreal Children's Hospital Foundation (the "Foundation"), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and changes in fund balances and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2019, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). 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 audit opinion.

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 opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS 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 GAAS, 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 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 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.

Deloitte LLP¹

June 18, 2019

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, 2019

	Notes	2019				2018			
		Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total
		\$	\$	\$	\$	\$	\$	\$	\$
Revenue									
Donations		8,395,003	13,491,752	2,597,048	24,483,803	12,214,554	12,021,567	1,446,181	25,682,302
Interest and dividends – net	3	1,588,036	2,824,105	—	4,412,141	1,075,077	3,225,592	—	4,300,669
		9,983,039	16,315,857	2,597,048	28,895,944	13,289,631	15,247,159	1,446,181	29,982,971
Expenses									
Salaries and benefits		3,174,403	—	—	3,174,403	3,007,220	103,126	—	3,110,346
Direct campaign costs		1,027,046	217,258	—	1,244,304	909,130	220,998	—	1,130,128
Publicity and donor recognition		219,694	—	—	219,694	144,413	772	—	145,185
General and administrative		524,654	7,363	—	532,017	474,613	4,844	—	479,457
Professional and consulting		188,508	—	—	188,508	208,589	—	—	208,589
Rent		291,476	—	—	291,476	327,016	20,651	—	347,667
Amortization of capital assets		101,521	1,634	—	103,155	86,392	9,799	—	96,191
		5,527,302	226,255	—	5,753,557	5,157,373	360,190	—	5,517,563
Excess of revenue over expenses before other elements		4,455,737	16,089,602	2,597,048	23,142,387	8,132,258	14,886,969	1,446,181	24,465,408
Contributions	4	2,034,635	16,034,002	—	18,068,637	3,007,046	15,062,341	—	18,069,387
Excess (deficiency) of revenue over expenses before change in fair value of investments		2,421,102	55,600	2,597,048	5,073,750	5,125,212	(175,372)	1,446,181	6,396,021
Change in fair value of investments	3	(754,314)	(1,148,481)	—	(1,902,795)	633,217	(257,148)	—	376,069
Excess (deficiency) of revenue over expenses		1,666,788	(1,092,881)	2,597,048	3,170,955	5,758,429	(432,520)	1,446,181	6,772,090
Fund balances, beginning 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
Interfund transfers	5	2,296,986	(467,712)	170,726	—	106,247	(183,972)	77,725	—
Fund balances, end of year		8,933,892	61,324,475	57,105,963	127,364,330	6,970,118	62,885,068	54,338,189	124,193,375

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, 2019

		2019				2018			
Notes	Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total	
	\$	\$	\$	\$	\$	\$	\$	\$	
Assets									
	16,224,327	229,933	372,260	16,826,520	11,142,599	33,543	321,189	11,497,331	
	—	3,870,630	—	3,870,630	—	6,066,881	—	6,066,881	
6	201,319	236,847	—	438,166	161,197	—	—	161,197	
	—	31,080,190*	—	—	—	28,303,017*	—	—	
	153,500	194,486	—	347,986	144,126	143,489	—	287,615	
8	1,305,022	27,149,178	80,217,347	108,671,547	1,271,423	30,688,884	78,615,723	110,576,030	
9	240,633	—	—	240,633	308,693	1,634	—	310,327	
	18,124,801	62,761,264	80,589,607	130,395,482	13,028,038	65,237,448	78,936,912	128,899,381	
Liabilities									
	936,938	65,663	—	1,002,601	1,270,630	323,839	—	1,594,469	
	470,561	1,371,126	—	1,841,687	734,237	2,028,541	—	2,762,778	
2(iii)	186,864	—	—	186,864	348,759	—	—	348,759	
	7,596,546*	—	23,483,644*	—	3,704,294*	—	24,598,723*	—	
	9,190,909	1,436,789	23,483,644	3,031,152	6,057,920	2,352,380	24,598,723	4,706,006	
Commitments									
11									
Fund balances									
	240,633	—	—	240,633	308,693	1,634	—	310,327	
10	—	61,324,475	46,554,561	107,879,036	—	62,883,434	43,786,787	106,670,221	
	2,601,689	—	10,551,402	13,153,091	—	—	10,551,402	10,551,402	
	6,091,570	—	—	6,091,570	6,661,425	—	—	6,661,425	
	8,933,892	61,324,475	57,105,963	127,364,330	6,970,118	62,885,068	54,338,189	124,193,375	
	18,124,801	62,761,264	80,589,607	130,395,482	13,028,038	65,237,448	78,936,912	128,899,381	

* 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, 2019

	2019	2018
	\$	\$
Operating activities		
Excess of revenue over expenses	3,170,955	6,772,090
Adjustments for:		
Change in fair value of investments	1,902,795	(376,069)
Amortization of capital assets	103,155	96,191
	5,176,905	6,492,212
Net changes in non-cash operating working capital items		
Receivables	(276,969)	70,572
Prepaid expenses	(60,371)	(230,080)
Accounts payable and accrued liabilities	(591,868)	653,033
Contributions payable – Montreal Children's Hospital	(921,091)	1,353,932
Deferred revenue	(161,895)	348,759
	(2,012,194)	2,196,216
	3,164,711	8,688,428
Financing activities		
Net change in restricted cash	2,196,251	(1,193,822)
Net change in investments	1,688	(1,469,511)
Acquisition of capital assets	(33,461)	(183,022)
	2,164,478	(2,846,355)
Net increase in cash	5,329,189	5,842,073
Cash, beginning of year	11,497,331	5,655,258
Cash, end of year	16,826,520	11,497,331

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

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2019

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 which may specify 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.

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.

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2019

2. Significant accounting policies (continued)

Revenue recognition (continued)

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.

Contributions

Contributions 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.

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

Capital 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

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2019

2. Significant accounting policies (continued)

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:

	2019	2018
	\$	\$
Interest and dividends	4,795,988	4,720,180
Management and custodian fees	(383,847)	(419,511)
Interest and dividends – net	4,412,141	4,300,669
Net (loss) gain on disposal of investments	(698,578)	7,908,358
Change in unrealized fair value of investments	(1,204,217)	(7,532,289)
	(1,902,795)	376,069
	2,509,346	4,676,738

Net investment income is recorded as follows:

	2019	2018
	\$	\$
Operating Fund *		
Resources held by the Endowment Fund	434,359	1,638,472
Resources held by the Operating Fund	399,363	69,822
	833,722	1,708,294
Special Fund **		
Resources held by the Endowment Fund	712,050	2,483,156
Resources held by the Special Fund	963,574	485,288
	1,675,624	2,968,444
	2,509,346	4,676,738

3. Investment income – net (continued)

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

	2019	2018
	\$	\$
Interest and dividends	1,423,636	1,060,792
Management and custodian fees	(126,652)	(133,497)
Net gain on disposal of investments	282,091	3,144,372
Change in unrealized fair value of investments	(1,144,716)	(2,433,195)
	434,359	1,638,472

Net investment income of the Operating Fund derived from resources held by the Operating Fund:

	2019	2018
	\$	\$
Interest and dividends	302,034	160,985
Management and custodian fees	(10,982)	(13,204)
Net (loss) gain on disposal of investments	(176,337)	40
Change in unrealized fair value of investments	284,648	(77,999)
	399,363	69,822

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

	2019	2018
	\$	\$
Interest and dividends	2,333,792	1,607,666
Management and custodian fees	(207,623)	(202,321)
Net gain on disposal of investments	462,436	4,765,400
Change in unrealized fair value of investments	(1,876,555)	(3,687,589)
	712,050	2,483,156

Net investment income of the Special Fund derived from resources held by the Special Fund:

	2019	2018
	\$	\$
Interest and dividends	736,526	1,890,737
Management and custodian fees	(38,590)	(70,489)
Net loss on disposal of investments	(1,266,768)	(1,454)
Change in unrealized fair value of investments	1,532,406	(1,333,506)
	963,574	485,288

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2019

4. Contributions

	2019	2018
	\$	\$
Montreal Children's Hospital	10,898,146	12,689,740
The Research Institute of the McGill University Health Centre	4,781,290	3,600,086
McGill University – pediatric mission	1,885,161	1,779,561
Other	504,040	—
	18,068,637	18,069,387

5. Interfund transfers

Interfund transfers are executed in accordance with donor instructions or 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 July 1, 2017, 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 \$44,947 for the year ended March 31, 2019 (\$48,534 in 2018), is not recorded in these financial statements.

7. Donation pledges

The Foundation has received donation pledges in the approximate amount of \$10,595,000: \$1,092,000 in support of the building of the new Montreal Children's Hospital (Best Care for Children (BCC) Fund), \$7,496,000 in support of other specific projects, \$1,385,000 for endowments and \$622,000 for Operating Fund. These pledges are supported by signed agreements and will be recorded as revenue when collected.

8. Investments

	2019		2018	
	\$	%	\$	%
Cash, money market and Treasury bills	9,993,068	9	5,986,674	5
Fixed income	40,527,268	37	41,523,028	38
Canadian equities	16,694,198	16	18,824,694	17
International equities	41,457,013	38	44,241,634	40
	108,671,547	100	110,576,030	100

9. Capital assets

	2019			2018
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Office furniture	71,179	63,484	7,695	6,770
Computer equipment	492,499	465,075	27,424	39,376
Network	87,819	17,286	70,533	71,675
Leasehold improvements	102,392	71,460	30,932	51,553
Other equipment	97,987	97,987	—	1,634
	851,876	715,292	136,584	171,008
Website	176,354	72,305	104,049	139,319
	1,028,230	787,597	240,633	310,327

10. Special Fund – externally restricted

The Special Fund includes the following externally restricted donations:

	2019	2018
	\$	\$
Capital Campaign Fund	256,204	242,391
Best Care for Children Fund	26,517,595	29,415,130
Other external restrictions	34,550,676	33,225,913
	61,324,475	62,883,434

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:

	\$
2020	322,319
2021	323,501
2022	32,527
	<u>678,347</u>

- 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 \$25,320,000 requires the following annual payments:

	\$
2020	4,220,000
2021	4,220,000
2022	4,220,000
2023	4,220,000
2024 and thereafter	8,440,000
	<u>25,320,000</u>

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.

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 statement of financial position includes \$20,162,910 (\$22,455,233 in 2018) of investments denominated in U.S. dollars, \$7,728,323 (\$10,068,120 in 2018) denominated in euros and \$9,130,421 (\$7,970,822 in 2018) 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.