
Financial statements of
The Montreal Children's Hospital
Foundation

March 31, 2020

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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, 2020, 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, 2020, 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 LLP

August 27, 2020

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, 2020

Notes	2020				2019			
	Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Donations	10,824,160	15,419,678	1,105,697	27,349,535	8,395,003	13,491,752	2,597,048	24,483,803
Interest and dividends – net	1,726,512	2,800,078	—	4,526,590	1,588,036	2,824,105	—	4,412,141
	12,550,672	18,219,756	1,105,697	31,876,125	9,983,039	16,315,857	2,597,048	28,895,944
Expenses								
Salaries and benefits	3,415,182	—	—	3,415,182	3,174,403	—	—	3,174,403
Direct campaign costs	1,029,536	301,634	—	1,331,170	1,027,046	217,258	—	1,244,304
Publicity and donor recognition	462,011	1,609	—	463,620	219,694	—	—	219,694
General and administrative	490,508	903	—	491,411	524,654	7,363	—	532,017
Professional and consulting	582,059	—	—	582,059	188,508	—	—	188,508
Rent	327,604	—	—	327,604	291,476	—	—	291,476
Amortization of capital assets	96,162	1,367	—	97,529	101,521	1,634	—	103,155
	6,403,062	305,513	—	6,708,575	5,527,302	226,255	—	5,753,557
Excess of revenue over expenses before other elements	6,147,610	17,914,243	1,105,697	25,167,550	4,455,737	16,089,602	2,597,048	23,142,387
Contributions	2,355,938	16,205,785	—	18,561,723	2,034,635	16,034,002	—	18,068,637
Excess of revenue over expenses before change in fair value of investments	3,791,672	1,708,458	1,105,697	6,605,827	2,421,102	55,600	2,597,048	5,073,750
Change in fair value of investments	(5,305,386)	(8,938,597)	—	(14,243,983)	(754,314)	(1,148,481)	—	(1,902,795)
(Deficiency) excess of revenue over expenses	(1,513,714)	(7,230,139)	1,105,697	(7,638,156)	1,666,788	(1,092,881)	2,597,048	3,170,955
Fund balances, beginning 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
Interfund transfers	(36,658)	367,151	(330,493)	—	296,986	(467,712)	170,726	—
Fund balances, end of year	7,383,520	54,461,487	57,881,167	119,726,174	8,933,892	61,324,475	57,105,963	127,364,330

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, 2020

		2020				2019			
Notes	Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total	
	\$	\$	\$	\$	\$	\$	\$	\$	
Assets									
	24,430,453	23,648	430,223	24,884,324	16,224,327	229,933	372,260	16,826,520	
Cash									
Restricted cash	7	4,221,058	—	4,221,058	—	3,870,630	—	3,870,630	
Receivables		—	—	372,996	201,319	236,847	—	438,166	
Receivable by Special Fund		29,696,439*	—	—	—	31,080,190*	—	—	
Prepaid expenses		187,288	—	344,342	153,500	194,486	—	347,986	
Investments	9	23,551,412	69,934,077	94,809,171	1,305,022	27,149,178	80,217,347	108,671,547	
Capital assets	10	12,301	—	247,863	240,633	—	—	240,633	
	26,519,747	57,692,146	70,364,300	124,879,754	18,124,801	62,761,264	80,589,607	130,395,482	
Liabilities									
Accounts payable and accrued liabilities		1,578,147	—	2,207,906	936,938	65,663	—	1,002,601	
Contributions payable – Montreal Children's Hospital		1,652,512	—	2,735,883	470,561	1,371,126	—	1,841,687	
Deferred revenue	3(iii)	209,791	—	209,791	186,864	—	—	186,864	
Due to Special Fund		17,213,306*	12,483,133*	—	7,596,546*	—	23,483,644*	—	
	19,136,227	3,230,659	12,483,133	5,153,580	9,190,909	1,436,789	23,483,644	3,031,152	
Commitments	12								
Fund balances									
Invested in capital assets		12,301	—	247,863	240,633	—	—	240,633	
Externally restricted	11	54,449,186	47,329,765	101,778,951	—	61,324,475	46,554,561	107,879,036	
Internally restricted		4,500,000	10,551,402	15,051,402	2,601,689	—	10,551,402	13,153,091	
Unrestricted surplus		2,647,958	—	2,647,958	6,091,570	—	—	6,091,570	
	7,383,520	54,461,487	57,881,167	119,726,174	8,933,892	61,324,475	57,105,963	127,364,330	
	26,519,747	57,692,146	70,364,300	124,879,754	18,124,801	62,761,264	80,589,607	130,395,482	

* 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, 2020

	2020	2019
	\$	\$
Operating activities		
(Deficiency) excess of revenue over expenses	(7,638,156)	3,170,955
Adjustments for:		
Change in fair value of investments	14,243,983	1,902,795
Amortization of capital assets	97,529	103,155
	6,703,356	5,176,905
Net changes in non-cash operating working capital items		
Receivables	65,170	(276,969)
Prepaid expenses	3,644	(60,371)
Accounts payable and accrued liabilities	1,205,305	(591,868)
Contributions payable – Montreal Children's Hospital	894,196	(921,091)
Deferred revenue	22,927	(161,895)
	2,191,242	(2,012,194)
	8,894,598	3,164,711
Financing activities		
Net change in restricted cash	(350,428)	2,196,251
Net change in investments	(381,607)	1,688
Acquisition of capital assets	(104,759)	(33,461)
	(836,794)	2,164,478
Net increase in cash	8,057,804	5,329,189
Cash, beginning of year	16,826,520	11,497,331
Cash, end of year	24,884,324	16,826,520

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

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2020

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 Québec and is recognized as a registered charity under the *Income Tax Act*.

2. COVID-19

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 are unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results of the Foundation in future periods. However, in relation to the year ended March 31, 2020:

- The Foundation suffered some losses on investments and reduction in fair value of the portfolio due to the investment market downturn in February and March 2020.
- The Foundation's fundraising efforts were not impacted significantly as most fundraising initiatives and efforts were almost completed before the pandemic outbreak.

While investment markets remain volatile, as of June 30, 2020, the market value of the Foundation's investments has increased by 9% or approximately \$8,000,000.

3 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 11), 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.

3. Significant accounting policies (continued)

Revenue recognition (continued)

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.

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.

3. Significant accounting policies (continued)

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 of 5 years except for computer equipment which is over 3 years.

Construction in progress is comprised of development costs for the Foundation's new offices.

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.

4. Investment income – net

Investment income, net of management and custodian fees, is detailed as follows:

	2020	2019
	\$	\$
Interest and dividends	4,909,996	4,795,988
Management and custodian fees	(383,406)	(383,847)
Interest and dividends – net	4,526,590	4,412,141
Net gain (loss) on disposal of investments	587,643	(698,578)
Change in unrealized fair value of investments	(14,831,626)	(1,204,217)
	(14,243,983)	(1,902,795)
	(9,717,393)	2,509,346

4. Investment income – net (continued)

Net investment income is recorded as follows:

	2020	2019
	\$	\$
Operating Fund *		
Resources held by the Endowment Fund	(3,819,049)	434,359
Resources held by the Operating Fund	240,175	399,363
	(3,578,874)	833,722
Special Fund **		
Resources held by the Endowment Fund	(6,884,991)	712,050
Resources held by the Special Fund	746,472	963,574
	(6,138,519)	1,675,624
	(9,717,393)	2,509,346

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

	2020	2019
	\$	\$
Interest and dividends	1,395,664	1,423,636
Management and custodian fees	(123,018)	(126,652)
Net gain on disposal of investments	210,797	282,091
Change in unrealized fair value of investments	(5,302,492)	(1,144,716)
	(3,819,049)	434,359

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

	2020	2019
	\$	\$
Interest and dividends	466,176	302,034
Management and custodian fees	(12,310)	(10,982)
Net loss on disposal of investments	(1,711)	(176,337)
Change in unrealized fair value of investments	(211,980)	284,648
	240,175	399,363

4. Investment income – net (continued)

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

	2020	2019
	\$	\$
Interest and dividends	2,516,106	2,333,792
Management and custodian fees	(221,777)	(207,623)
Net gain on disposal of investments	380,025	462,436
Change in unrealized fair value of investments	(9,559,345)	(1,876,555)
	(6,884,991)	712,050

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

	2020	2019
	\$	\$
Interest and dividends	532,050	736,526
Management and custodian fees	(26,301)	(38,590)
Net loss on disposal of investments	(1,468)	(1,266,768)
Change in unrealized fair value of investments	242,191	1,532,406
	746,472	963,574

5. Contributions

	2020	2019
	\$	\$
Montreal Children's Hospital	12,897,978	10,898,146
The Research Institute of the McGill University Health Centre	3,927,647	4,781,290
McGill University – pediatric mission	1,647,742	1,885,161
Other	88,356	504,040
	18,561,723	18,068,637

6. Interfund transfers

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

7. 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 \$44,636 for the year ended March 31, 2020 (\$44,947 in 2019), is not recorded in these financial statements.

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2020

8. Donation pledges

The Foundation has received donation pledges in the approximate amount of \$16,691,000: \$947,000 in support of the building of the new Montreal Children's Hospital (Best Care for Children (BCC) Fund), \$13,946,000 in support of other specific projects, \$800,000 for endowments and \$998,000 for Operating Fund. These pledges are supported by signed agreements and will be recorded as revenue when collected.

9. Investments

	2020		2019	
	\$	%	\$	%
Cash, money market and treasury bills	1,709,146	2	9,993,068	9
Fixed income	46,587,767	49	40,527,268	37
Canadian equities	11,870,726	13	16,694,198	16
International equities	34,641,532	36	41,457,013	38
	94,809,171	100	108,671,547	100

Some securities are held directly while others are held indirectly via mutual funds.

10. Capital assets

	2020			2019
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Construction in progress	69,572	—	69,572	—
Office furniture	74,921	66,334	8,587	7,695
Computer equipment	117,226	97,574	19,652	27,424
Network	87,819	34,850	52,969	70,533
Leasehold improvements	102,392	92,081	10,311	30,932
Other equipment	118,771	100,777	17,994	—
	570,701	391,616	179,085	136,584
Website	176,354	107,576	68,778	104,049
	747,055	499,192	247,863	240,633

11. Special Fund – externally restricted

The Special Fund includes the following externally restricted donations:

	2020	2019
	\$	\$
Capital Campaign Fund	258,339	256,204
Best Care for Children Fund	22,669,253	26,517,595
Other external restrictions	31,521,594	34,550,676
	54,449,186	61,324,475

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2020

12. Commitments

- i) Pursuant to various operating leases and renewal option signed in April 2020 that expire through May 2023, the Foundation has lease commitments relating to its own premises that require the following annual payments:

	\$
2021	312,368
2022	326,478
2023	326,478
2024	163,841
2025	76,600
	<u>1,205,765</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 \$21,100,000 requires the following annual payments:

	\$
2021	4,220,000
2022	4,220,000
2023	4,220,000
2024	4,220,000
2025	4,220,000
	<u>21,100,000</u>

13. 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.

13. Financial instruments (continued)

Credit risk

Credit risk arises from the fact that the Foundation holds investments in bonds and mutual funds including bonds. As a result, there is a risk that a bond issuer will default on its obligations to the Foundation, which would affect the assets of the Foundation.

Interest rate risk

The investments include bonds and 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 \$15,839,306 (\$20,162,910 in 2019) of investments denominated in U.S. dollars, \$6,028,235 (\$7,728,323 in 2019) denominated in euros and \$9,417,657 (\$9,130,421 in 2019) denominated in other foreign currencies.

14. 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.