
Financial statements of
The Montreal Children's Hospital
Foundation

March 31, 2023

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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, 2023, 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, 2023, 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

June 21, 2023

¹ CPA auditor, public accountancy permit No. A120628

The Montreal Children's Hospital Foundation
Statement of operations and changes in fund balances
Year ended March 31, 2023

		2023				2022			
Notes		Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total
		\$	\$	\$	\$	\$	\$	\$	\$
Revenue									
	Donations	10,150,370	21,547,375	1,077,845	32,775,590	9,991,621	23,295,381	2,179,836	35,466,838
	Interest, dividends and mutual fund distributions – net	3,165,609	3,129,386	—	6,294,995	2,781,501	4,206,971	—	6,988,472
	Government subsidy	—	—	—	—	245,033	—	—	245,033
		13,315,979	24,676,761	1,077,845	39,070,585	13,018,155	27,502,352	2,179,836	42,700,343
Expenses									
	Salaries and benefits	4,607,685	—	—	4,607,685	4,041,969	—	—	4,041,969
	Direct fundraising costs	959,072	263,489	—	1,222,561	642,532	183,345	—	825,877
	Publicity and donor recognition	633,296	—	—	633,296	613,671	—	—	613,671
	General and administrative	592,128	—	—	592,128	472,324	—	—	472,324
	Professional and consulting	931,661	—	—	931,661	508,237	—	—	508,237
	Rent	326,391	—	—	326,391	318,587	—	—	318,587
	Amortization of capital assets	62,183	89,122	—	151,305	76,219	24,331	—	100,550
		8,112,416	352,611	—	8,465,027	6,673,539	207,676	—	6,881,215
	Excess of revenue over expenses before other elements	5,203,563	24,324,150	1,077,845	30,605,558	6,344,616	27,294,676	2,179,836	35,819,128
	Contributions	1,525,739	21,633,726	—	23,159,465	1,723,579	18,146,626	—	19,870,205
	Excess of revenue over expenses before change in fair value of investments	3,677,824	2,690,424	1,077,845	7,446,093	4,621,037	9,148,050	2,179,836	15,948,923
	Change in fair value of investments	(1,312,710)	(2,379,929)	—	(3,692,639)	(489,006)	(910,335)	—	(1,399,341)
	Excess of revenue over expenses	2,365,114	310,495	1,077,845	3,753,454	4,132,031	8,237,715	2,179,836	14,549,582
	Fund balances, beginning of year	20,399,509	74,501,283	61,810,538	156,711,330	16,467,265	66,287,461	59,407,022	142,161,748
	Interfund transfers	(222,413)	(773,214)	995,627	—	(199,787)	(23,893)	223,680	—
	Fund balances, end of year	22,542,210	74,038,564	63,884,010	160,464,784	20,399,509	74,501,283	61,810,538	156,711,330

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, 2023

		2023				2022			
Notes	Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total	
	\$	\$	\$	\$	\$	\$	\$	\$	
Assets									
	16,973,115	26,342	679,258	17,678,715	38,553,612	24,494	560,001	39,138,107	
Cash									
Restricted cash	6	7,093,962	—	7,093,962	—	7,565,738	—	7,565,738	
Receivables		—	—	720,349	234,285	—	—	234,285	
Receivable by Special Fund		61,189,604*	—	—	—	54,687,081*	—	—	
Prepaid expenses		396,708	277,887	674,595	108,168	132,500	—	240,668	
Investments	8	31,365,853	11,295,265	98,622,244	141,283,362	1,320,939	15,261,965	97,323,831	
Capital assets	9	1,072,183	4,100	—	1,076,283	856,075	6,834	—	
		50,528,208	79,887,160	99,301,502	168,527,266	41,073,079	77,678,612	97,883,832	
								161,948,442	
Liabilities									
Accounts payable and accrued liabilities		984,740	2,288,988	—	3,273,728	877,546	1,878,304	—	
Contributions payable – Montreal Children's Hospital		655,760	3,559,608	—	4,215,368	694,924	1,299,025	—	
Deferred revenue	2(iii)	573,386	—	—	573,386	487,313	—	—	
Due to Special Fund		25,772,112*	—	35,417,492*	—	18,613,787*	—	36,073,294*	
		27,985,998	5,848,596	35,417,492	8,062,482	20,673,570	3,177,329	36,073,294	
								5,237,112	
Commitments	11								
Fund balances									
Invested in capital assets		1,072,183	4,100	—	1,076,283	856,075	6,834	—	
Externally restricted	10	—	74,034,464	53,332,608	127,367,072	—	74,494,449	51,259,136	
Internally restricted	11	4,700,000	—	10,551,402	15,251,402	4,500,000	—	10,551,402	
Unrestricted surplus		16,770,027	—	—	16,770,027	15,043,434	—	—	
		22,542,210	74,038,564	63,884,010	160,464,784	20,399,509	74,501,283	61,810,538	
		50,528,208	79,887,160	99,301,502	168,527,266	41,073,079	77,678,612	97,883,832	
								156,711,330	
								161,948,442	

* 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, 2023

	2023	2022
	\$	\$
Operating activities		
Excess of revenue over expenses	3,753,454	14,549,582
Adjustments for:		
Change in fair value of investments	3,692,639	1,399,341
Amortization of capital assets	151,305	100,550
	7,597,398	16,049,473
Net changes in non-cash operating working capital items		
Receivables	(486,064)	273,410
Prepaid expenses	(433,927)	90,654
Accounts payable and accrued liabilities	517,878	1,734,506
Contributions payable – Montreal Children's Hospital	2,221,419	(520,971)
Deferred revenue	86,073	333,904
	1,905,379	1,911,503
	9,502,777	17,960,974
Financing activities		
Net change in restricted cash	471,776	(2,070,645)
Net change in investments	(31,069,266)	(2,935,072)
Acquisition of capital assets	(364,679)	(444,982)
	(30,962,169)	(5,450,699)
Net (decrease) increase in cash	(21,459,392)	12,510,277
Cash, beginning of year	39,138,107	26,627,830
Cash, end of year	17,678,715	39,138,107

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

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2023

1. Purpose of the Foundation

The Montreal Children's Hospital Foundation (the "Foundation") is devoted to raising funds for health care, research and teaching activities for children and pregnant women primarily for the benefit of the McGill University Health Centre (the "Montreal Children's Hospital") and qualified donees. 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. 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 and changes in fund balances in following years.

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.

2. 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

Initial measurement

Financial assets and financial liabilities originated or exchanged in arm's length transactions are initially recognized at fair value when the Foundation becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities originated or exchanged in related party transactions are initially recognized at cost.

The cost of a financial instrument in a related party transaction depends on whether the instrument has repayment terms. The cost of financial instruments with repayment terms is determined using its undiscounted cash flows, excluding interest payments, less any impairment losses previously recognized by the transferor. The cost of financial instruments without repayment terms is determined using the consideration transferred or received by the Foundation in the transaction.

Subsequent measurement

All financial instruments are subsequently measured at amortized cost, except for investments that are recognized at fair value at the date of the financial statements. Fair value fluctuations, which include interest earned, accrued interests, realized gain and loss and unrealized gain and loss, are included in the investment revenue.

Transaction costs

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.

Depreciation

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.

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2023

2. 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 life 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.

Write-down of capital assets

Where circumstances indicate that a capital asset has been depreciated, its net book value must be reduced to fair value or the cost of replacing the asset. Capital value reductions must be recorded as expenses in the statement of operations and changes in fund balances. A reduction in value should not be taken back.

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 of management and custodian fees, is detailed as follows:

	2023	2022
	\$	\$
Interest, dividends and mutual fund distributions	6,743,622	7,366,913
Management and custodian fees	(448,627)	(378,441)
Interest, dividends and mutual fund distributions – net	6,294,995	6,988,472
Net gain on disposal of investments	1,863,783	5,349,584
Change in unrealized fair value of investments	(5,556,422)	(6,748,925)
	(3,692,639)	(1,399,341)
	2,602,356	5,589,131

3. Investment income – net (continued)

Net investment income is recorded as follows:

	2023	2022
	\$	\$
Operating Fund*		
Resources held by the Endowment Fund	373,858	2,131,327
Resources held by the Operating Fund	1,479,041	161,168
	1,852,899	2,292,495
Special Fund**		
Resources held by the Endowment Fund	579,087	3,396,822
Resources held by the Special Fund	170,370	(100,186)
	749,457	3,296,636
	2,602,356	5,589,131

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

	2023	2022
	\$	\$
Interest, dividends and mutual fund distributions	1,895,053	2,657,368
Management and custodian fees	(164,824)	(137,582)
Net gain on disposal of investments	717,298	2,066,170
Change in unrealized fair value of investments	(2,073,669)	(2,454,629)
	373,858	2,131,327

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

	2023	2022
	\$	\$
Interest, dividends and mutual fund distributions	1,447,059	274,931
Management and custodian fees	(11,679)	(13,216)
Net (loss) gain on disposal of investments	(67)	1,753
Change in unrealized fair value of investments	43,728	(102,300)
	1,479,041	161,168

3. Investment income – net (continued)

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

	2023	2022
	\$	\$
Interest, dividends and mutual fund distributions	3,038,747	4,211,229
Management and custodian fees	(264,298)	(218,032)
Net gain on disposal of investments	1,150,198	3,274,336
Change in unrealized fair value of investments	(3,345,560)	(3,870,711)
	579,087	3,396,822

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

	2023	2022
	\$	\$
Interest, dividends and mutual fund distributions	362,763	223,385
Management and custodian fees	(7,826)	(9,611)
Net (loss) gain on disposal of investments	(3,646)	7,325
Change in unrealized fair value of investments	(180,921)	(321,285)
	170,370	(100,186)

4. Contributions

	2023	2022
	\$	\$
Montreal Children's Hospital	11,812,068	11,866,607
The Research Institute of the McGill University Health Centre	9,017,631	5,511,912
McGill University – pediatric mission	2,094,300	1,406,693
Other	235,466	1,084,993
	23,159,465	19,870,205

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 \$96,326 for the year ended March 31, 2023 (\$30,300 in 2022), is not recorded in these financial statements.

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2023

7. Donation pledges

The Foundation has received donation pledges in the amount of \$32,667,598: \$31,157,471 in support of specific projects, \$130,000 for endowments and \$1,380,127 for operating funds. These pledges are supported by written documentation and are to be received in the forthcoming years as follows:

	2024	2025	2026	2027	2028 and thereafter	Total
	\$	\$	\$	\$	\$	\$
Special Fund	9,757,174	7,313,451	5,139,423	2,545,885	6,401,538	31,157,471
Endowment Fund	60,000	45,000	10,000	15,000	—	130,000
Operating Fund	596,927	392,200	191,000	105,000	95,000	1,380,127
	10,414,101	7,750,651	5,340,423	2,665,885	6,496,538	32,667,598

These figures do not include verbal pledges.

These donation pledges will be recorded as revenue when collected.

8. Investments

	2023		2022	
	\$	%	\$	%
Cash, money market funds and treasury bills	7,821,458	6	7,639,915	7
Fixed income and fixed income funds	48,851,978	35	23,311,225	21
Canadian equities funds	24,629,040	17	25,421,468	22
International equities funds	59,980,886	42	57,534,127	50
	141,283,362	100	113,960,735	100

9. Capital assets

	2023			2022
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Construction in progress	700,850	—	700,850	340,606
Furniture and equipment	828,765	461,961	366,804	490,630
Network	97,204	88,575	8,629	23,737
Leasehold improvements	102,392	102,392	—	—
	1,729,211	652,928	1,076,283	854,973
Website	176,354	176,354	—	7,936
	1,905,565	829,282	1,076,283	862,909

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2023

10. Special Fund – externally restricted

The Special Fund includes the following externally restricted donations:

	2023	2022
	\$	\$
Capital Campaign Fund	258,663	263,544
Best Care for Children Fund	8,964,018	13,002,139
Other external restrictions	64,811,783	61,228,766
	74,034,464	74,494,449

11. Commitments

- i) Pursuant to various operating leases and renewal options that expire through April 2026, the Foundation has lease commitments relating to its own premises and MUHC activities that require the following annual payments:

	\$
2024	295,454
2025	191,802
2026	138,821
2027	5,387
	<u>631,464</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 total commitment for subsequent years of \$8,440,000 requires the following annual payments:

	\$
2024	4,220,000
2025	4,220,000
	<u>8,440,000</u>

- iii) The Foundation has signed an Offer to Purchase in relation to offices and temporary accommodations for families of patients of the Montreal Children's Hospital. The structure will be built over the next year for a total estimated cost of \$4.7M. The Board has internally restricted \$4.7M of the Operating Fund for this investment.

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.

12. Financial instruments (continued)

Investment policy (continued)

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 that the fair value or future cash flows of the Foundation's financial instruments will fluctuate due to changes in market prices. Market risk includes currency risk, interest rate risk and other price risk. The Foundation is exposed to some of these risks, as described in the following paragraphs.

a) Currency risk

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

b) Interest rate risk

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

c) 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 currency risk), whether those variations are caused by factors specific to the instrument in question or its issuer, or by factors affecting all similar financial instruments traded on the market. The Foundation is exposed to other price risk through its investments in pooled funds for which the value fluctuates with the quoted market price.

Credit risk

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

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.