

Financial statements of

**THE MONTREAL CHILDREN'S HOSPITAL
FOUNDATION**

March 31, 2011

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION
Table of contents

Independent auditor's report.....1-2

Statement of operations and changes in fund balances..... 3

Balance sheet 4

Notes to the financial statements5-13

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 balance sheet as at March 31, 2011, and the statement of operations and changes in fund balances 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 generally accepted accounting principles, 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, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Sansan Bélan / Deloitte & Touche p.e.n.c.r.l.¹

September 26, 2011

¹Chartered accountant auditor permit No. 20238

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

Statement of operations and changes in fund balances

year ended March 31, 2011

	Operating	Special	Endowment	Total	
	Fund	Fund	Fund	2011	2010
	\$	\$	\$	\$	\$
Revenue					
Donations	7,123,783	8,842,651	180,503	16,146,937	16,085,990
Telethon for research	-	785,000	-	785,000	1,082,396
Opération Enfant Soleil	-	2,311,036	-	2,311,036	2,379,205
	7,123,783	11,938,687	180,503	19,242,973	19,547,591
Investment income - net (Note 3)	4,046,898	266,898	-	4,313,796	7,301,413
	11,170,681	12,205,585	180,503	23,556,769	26,849,004
Expenses					
Salaries and benefits	1,637,675	272,500	-	1,910,175	1,831,702
Campaign costs	733,396	205,459	-	938,855	864,805
Publicity and donor recognition	61,515	107,663	-	169,178	302,539
General and administrative	326,473	145,066	-	471,539	397,054
Professional and consulting	127,080	-	-	127,080	77,856
Rent	183,305	76,624	-	259,929	245,317
Amortization of fixed assets	15,125	9,799	-	24,924	44,618
	3,084,569	817,111	-	3,901,680	3,763,891
Excess of revenue over expenses before contributions	8,086,112	11,388,474	180,503	19,655,089	23,085,113
Contributions to The Montreal Children's Hospital:					
Hospital equipment and services	1,649,479	785,000	-	2,434,479	3,470,562
Research equipment and services	3,282,887	1,005,834	-	4,288,721	3,913,868
Other restricted contributions	982,100	1,236,629	-	2,218,729	2,365,159
Renovations, rent and other priorities	221,017	3,384,547	-	3,605,564	8,488,720
	6,135,483	6,412,010	-	12,547,493	18,238,309
Excess of revenue over expenses	1,950,629	4,976,464	180,503	7,107,596	4,846,804
Fund balances, beginning of year					
As previously reported	(14,600,555)	35,523,252	45,950,573	66,873,270	62,026,466
Reclassification (Note 4)	1,605,677	(252,064)	(1,353,613)	-	-
As reclassified	(12,994,878)	35,271,188	44,596,960	66,873,270	62,026,466
Interfund transfers (Note 4)	4,587,128	(92,297)	(4,494,831)	-	-
Fund balances, end of year	(6,457,121)	40,155,355	40,282,632	73,980,866	66,873,270

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

Balance sheet

as at March 31, 2011

	Operating Fund	Special Fund	Endowment Fund	Total	
				2011	2010
	\$	\$	\$	\$	\$
Assets					
Cash	1,219,502	11,808,116	-	13,027,618	10,892,548
Restricted cash (Note 5)	-	11,523,723	-	11,523,723	9,667,237
Accounts receivable	192,358	-	-	192,358	211,307
Due from other funds	-	11,520,826*	-	-	-
Investments (Note 7)	-	5,642,719	45,705,528	51,348,247	48,855,813
Fixed assets (Note 8)	10,746	70,225	-	80,971	92,381
Prepaid expenses	41,496	-	-	41,496	39,471
	1,464,102	40,565,609	45,705,528	76,214,413	69,758,757
Liabilities					
Accounts payable and accrued liabilities	672,125	116,459	-	788,584	490,665
Contributions payable - Montreal Children's Hospital	1,151,168	293,795	-	1,444,963	2,394,822
Due to other Fund	6,097,930*	-	5,422,896*	-	-
	7,921,223	410,254	5,422,896	2,233,547	2,885,487
Commitments and guarantees (Note 10)					
Fund balances					
Invested in fixed assets	10,746	70,225	-	80,971	92,381
Externally restricted (Note 9)	-	40,085,130	22,360,885	62,446,015	57,234,971
Internally restricted	-	-	17,921,747	17,921,747	24,158,830
Unrestricted (deficit)	(6,467,867)	-	-	(6,467,867)	(14,612,912)
	(6,457,121)	40,155,355	40,282,632	73,980,866	66,873,270
	1,464,102	40,565,609	45,705,528	76,214,413	69,758,757

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

Approved by the Board of Directors

.....Director

.....Director

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

Notes to the financial statements

March 31, 2011

1. Purpose of the Foundation

The Montreal Children's Hospital Foundation (the "Foundation") is devoted to raising funds for research, teaching and clinical support at 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 a registered charity under the *Income Tax Act*.

In order to maintain its registered charity status, the Foundation must meet certain spending requirements ("minimum spending requirement") according to the Canada Revenue Agency *Income Tax Act*. The minimum spending requirement is a minimum amount that the registered charity must spend on charitable programs or as gifts to qualified donees. Failure to comply with this requirement could lead to a revocation of the Foundation's registered charity status. As at March 31, 2011, the Foundation complies with the requirement.

2. Significant accounting policies

The Foundation has elected to use the exemption provided by the Canadian Institute of Chartered Accountants ("CICA") permitting not-for-profit organizations not to apply Sections 3862 and 3863 of the CICA Handbook, which would otherwise have applied to the financial statements of the Foundation for the year ended March 31, 2011. The Foundation applies the requirements of Section 3861 of the CICA Handbook about disclosures and the presentation of financial instruments.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the following significant accounting policies:

Fund accounting

The Foundation follows the restricted fund method of accounting for its operations.

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 (see Note 9).

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, subject to internal restrictions and which cannot be used without the prior consent of the Board of Directors.

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

Notes to the financial statements

March 31, 2011

2. Significant accounting policies (continued)

Revenue recognition

i) Restricted donations

Restricted donations related to general operations are recognized as revenue of the Operating Fund in the year received. Other restricted donations are recognized as revenue of the appropriate restricted fund. 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) Investment income

Investment income is recognized when earned. It is recorded as investment income of the various Funds except for investment income of the Endowment Fund, which is recorded in the Operating Fund, unless otherwise specified by donors.

iv) Contributed services

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

v) 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 which relate 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 of the year in which they are paid or become payable.

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

Notes to the financial statements

March 31, 2011

2. Significant accounting policies (continued)

Financial instruments

The financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Foundation's designation of such instruments. Settlement date accounting is used.

Classification

Cash and restricted cash	Held for trading
Accounts receivable	Loans and receivables
Investments	Held for trading
Accounts payable and accrued liabilities	Other liabilities
Contributions payable - Montreal Children's Hospital	Other liabilities

Held for trading

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations are included in the results.

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method.

Transaction costs

Transaction costs related to held-for-trading financial assets are expensed as incurred.

Effective interest method

The Foundation uses the effective interest method to recognize interest revenue or expense, which includes transaction costs as well as fees, premiums and discounts earned or incurred on financial instruments.

Due from/to other funds

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

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

Notes to the financial statements

March 31, 2011

2. Significant accounting policies (continued)

Fixed assets

Fixed assets are recorded at cost and amortized based on their estimated useful lives using the straight-line method and the following annual rates:

Office furniture	20%
Computer equipment	33%
Other equipment	10%

Foreign currency translation

Monetary assets and liabilities are translated into Canadian dollars 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 expenses.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Future accounting changes - New accounting framework

The CICA has approved a new accounting framework applicable to not-for-profit organizations. Effective for fiscal years beginning on January 1, 2012, not-for-profit organizations will have to choose between International Financial Reporting Standards ("IFRS") and new accounting standards for non-for-profit organizations. Early adoption of these standards is permitted. The Foundation has not determined which of the two accounting frameworks will be adopted.

3. Investment income - net

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

	<u>2011</u>	<u>2010</u>
	\$	\$
Interest and dividends	1,558,815	1,577,205
Net losses on disposal of investments	(141,528)	(400,774)
Change in unrealized gain on investments*	3,067,018	6,298,112
	4,484,305	7,474,543
Management and custodian fees	(170,509)	(173,130)
	4,313,796	7,301,413

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

Notes to the financial statements

March 31, 2011

3. Investment income - net (continued)

Investment income is recorded as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Operating Fund**	4,046,898	6,842,066
Special Fund	266,898	459,347
	4,313,796	7,301,413

* Change in unrealized gain on investments, which is presented separately, is calculated as follows:

	<u>2011</u>	<u>2010</u>	<u>Change</u>
	\$	\$	\$
Fair value	51,348,247	48,855,813	
Cost	50,942,058	51,516,642	
	406,189	(2,660,829)	3,067,018

**The net investment income of the Operating Fund includes primarily the income derived from resources held as endowments for an amount of \$4,036,309 (\$6,836,410 in 2010), which consists of \$1,478,298 (\$1,256,301 in 2010) of interest and dividends, \$143,853 (\$336,230 in 2010) of net losses on disposal of investments and \$2,862,337 (\$6,074,237 in 2010) of change in unrealized gain on investments, net of investment and custodian fees of \$160,473 (\$157,898 in 2010).

4. Reclassification and interfund transfers

Reclassification

During the year ended March 31, 2011, the Foundation received additional information about donations recognized for the previous years. Consequently, \$1,353,613 in donations were reclassified from the Endowment Fund to the Operating Fund. Also, an amount of \$252,064 has been reclassified from the Special Fund to the Operating Fund.

Interfund transfers

Interfund transfers are performed in accordance with donor instructions and with the Board of Directors' resolutions.

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

Notes to the financial statements

March 31, 2011

5. 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 acceptance 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, this interest of \$51,869 for the year ended March 31, 2011 (\$16,173 in 2010) is not recorded in the Foundation's financial statements.

6. Donation pledges

In addition to sums already received for this purpose since the creation of the Best Care for Children Fund, the Foundation has received donation pledges in support of the building of the new Montreal Children's Hospital. The total amount of pledges supported by signed agreement represents \$13,440,684. Amounts to be received in the forthcoming years are as follows:

	Year ending March 31					
	2012	2013	2014	2015	2016 and thereafter	Total
	\$	\$	\$	\$	\$	\$
Special Fund	2,511,988	2,241,207	1,610,293	3,351,824	3,725,372	13,440,684

The Foundation has also verbal pledges that are not included in this note.

The donation pledges will be recorded as revenues when collected.

7. Investments

	2011	2010
	\$	\$
Cash	113,136	176,002
Money market and Treasury bills	2,245,544	3,294,154
Canadian bonds, par value of \$10,659,000, (\$11,429,000 in 2010) interest from 1.2% to 11.0% (0.44% to 11.00% in 2010), maturing from 2011 to 2026 (2010 to 2026 in 2010)	11,404,412	12,227,690
Pooled Bond Funds	7,329,142	8,336,513
Canadian Equities	8,399,673	6,963,359
Pooled Canadian Equity Funds	5,138,607	4,138,707
US Equities	4,175,637	3,397,681
International Equities	7,171,577	5,360,958
Pooled US and International Equity Funds	5,370,519	4,960,749
	51,348,247	48,855,813

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

Notes to the financial statements

March 31, 2011

8. Fixed assets

	2011			2010
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Office furniture	27,959	17,213	10,746	8,308
Computer equipment	212,281	212,281	-	4,049
Other equipment	97,987	27,762	70,225	80,024
	338,227	257,256	80,971	92,381

Fixed asset acquisitions for the year totaled \$13,514 (\$2,574 in 2010).

9. Special Fund - externally restricted

The Special Fund includes the following externally restricted donations:

	2011	2010
	\$	\$ (as reclassified)
Capital Campaign Fund	5,192,260	6,788,003
The Montreal Children's Hospital Corporation Fund	1,741,970	1,705,711
Best Care for Children Fund	19,975,566	15,757,332
Other external restrictions	13,175,334	10,940,118
	40,085,130	35,191,164

10. Commitments and guarantees

The Foundation leases various premises on behalf of the Montreal Children's Hospital. These leases expire through 2019 and require annual payments as follows:

	\$
2012	947,637
2013	444,720
2014	399,000
2015	422,625
2016	430,500
2017 and thereafter	968,625
	3,613,107

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

Notes to the financial statements

March 31, 2011

10. Commitments and guarantees (continued)

In addition, under operating leases expiring through 2016, the Foundation has lease commitments relating to its own premises that require the following annual payments:

	\$
2012	355,638
2013	362,306
2014	376,124
2015	361,321
2016	138,840
	<u>1,594,229</u>

The Foundation has guaranteed a portion of the credit facility of the McGill University Health Centre Foundation for an amount of \$200,000 (\$315,000 in 2010). As at March 31, 2011, an amount of \$195,239 (\$315,000 in 2010) was used under this portion of the credit facility.

11. Financial instruments

Because of its financial assets and liabilities, the Foundation is exposed to the following risks:

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 investing 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 credit risk is due to the fact that the Foundation owns bonds. Therefore, there is a credit risk that the bond issuer will be unable to pay its obligations towards the Foundation, which will have an impact on the assets of the Foundation.

Interest rate risk

The investments in bonds and bonds held in mutual funds bear 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 \$6,094,895 (\$9,626,084 in 2010) of investments denominated in United States dollars, \$3,351,756 (\$2,437,284 in 2010) denominated in Euros and \$2,860,551 (\$2,035,534 in 2010) denominated in other foreign currencies.

THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

Notes to the financial statements

March 31, 2011

11. Financial instruments (continued)

Market risk (continued)

Share price risk

Share price risk is the risk that the fair value of an investment fluctuates due to changes in share prices. The Foundation uses asset diversification to manage this risk.

Fair value

The fair values of accounts receivable, accounts payable and accrued liabilities and contributions payable - Montreal Children's Hospital approximate their carrying value due to their short-term nature.

Investment policy

Investments must be managed in adherence to the principles of consistency and continuity. The principle of conservatism predominates when the investment committee, advisers, and securities custodians 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 an ideal combination of financial assets, diversification, and sufficient latitude to use investment vehicles with higher return potential depending on the periods.

12. Related party transactions

Transactions with the Montreal Children's Hospital, which is a related organization, as well as the assets and liabilities relating to them, are presented separately in the financial statements or in the notes to the financial statements.

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

13. Statement of cash flows

A cash flow statement has not been prepared since the cash flow information is readily apparent from other financial statements and related notes.