
Financial statements of
The Montreal Children's Hospital
Foundation

March 31, 2014

Independent auditor's report	1-2
Statement of operations and changes in fund balances	3
Balance sheet	4
Statement of cash flows	5
Notes to the financial statements	6-13



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Independent auditor's report

To the Members of
The Montreal Children's Hospital Foundation

We have audited the financial statements of The Montreal Children's Hospital Foundation, which comprise the balance sheet as at March 31, 2014, and the statements of operations and changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Montreal Children's Hospital Foundation as at March 31, 2014, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte S.E.N.C.R.C. /s.r.l.¹

September 23, 2014

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, 2014

Notes	Operating Fund	Special Fund	Endowment Fund	2014	Operating Fund	Special Fund	Endowment Fund	2013
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
	6,886,584	10,535,021	913,559	18,335,164	5,760,744	14,463,386	480,708	20,704,838
	—	2,758,123	—	2,758,123	—	2,525,045	—	2,525,045
	6,886,584	13,293,144	913,559	21,093,287	5,760,744	16,988,431	480,708	23,229,883
	4,322,829	4,669,928	—	8,992,757	2,446,059	2,550,345	—	4,996,404
	11,209,413	17,963,072	913,559	30,086,044	8,206,803	19,538,776	480,708	28,226,287
Expenses								
	2,299,684	340,000	—	2,639,684	2,122,158	332,530	—	2,454,688
	983,672	256,880	—	1,240,552	611,455	495,119	—	1,106,574
	75,634	54,415	—	130,049	83,893	87,248	—	171,141
	407,770	4,459	—	412,229	380,992	57,327	—	438,319
	277,887	9,200	—	287,087	178,410	4,058	—	182,468
	251,585	44,889	—	296,474	205,587	86,532	—	292,119
	48,181	9,799	—	57,980	23,833	9,799	—	33,632
	4,344,413	719,642	—	5,064,055	3,606,328	1,072,613	—	4,678,941
	6,865,000	17,243,430	913,559	25,021,989	4,600,475	18,466,163	480,708	23,547,346
Contributions to the Montreal Children's Hospital:								
	784,072	1,008,858	—	1,792,930	858,027	222,341	—	1,080,368
	2,844,857	4,291,893	—	7,136,750	3,174,186	5,080,968	—	8,255,154
	43,638	1,598,495	—	1,642,133	89,332	1,787,870	—	1,877,202
	630	1,510,197	—	1,510,827	12,075	2,720,439	—	2,732,514
	3,673,197	8,409,443	—	12,082,640	4,133,620	9,811,618	—	13,945,238
	3,191,803	8,833,987	913,559	12,939,349	466,855	8,654,545	480,708	9,602,108
	(10,004,427)	55,528,615	42,374,600	87,898,788	(10,444,475)	46,985,612	41,755,543	78,296,680
	1,797,382	(2,935,929)	1,138,547	—	(26,807)	(111,542)	138,349	—
	(5,015,242)	61,426,673	44,426,706	100,838,137	(10,004,427)	55,528,615	42,374,600	87,898,788

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

The Montreal Children's Hospital Foundation

Balance sheet

As at March 31, 2014

Notes	Operating Fund	Special Fund	Endowment Fund	2014	Operating Fund	Special Fund	Endowment Fund	2013
	\$	\$	\$	\$	\$	\$	\$	\$
Assets								
	2,052,467	16,561,480	60,962	18,674,909	4,416,633	13,174,708	19,318	17,610,659
Cash								
Restricted cash	—	19,320,774	—	19,320,774	—	16,562,652	—	16,562,652
Accounts receivable	206,764	1,312	—	208,076	217,418	3,165	—	220,583
Due to Special Fund	—	23,564,841*	—	—	—	21,312,224*	—	—
Investments	2,367,463	3,390,413	59,195,826	64,953,702	—	5,709,951	50,216,817	55,926,768
Fixed assets	80,633	40,829	—	121,462	77,318	50,628	—	127,946
Prepaid expenses	45,204	—	—	45,204	40,795	—	—	40,795
	4,752,531	62,879,649	59,256,788	103,324,127	4,752,164	56,813,328	50,236,135	90,489,403
Liabilities								
Accounts payable and accrued liabilities	727,314	392,901	—	1,120,215	826,338	841,813	—	1,668,151
Contributions payable – Montreal Children's Hospital	305,700	1,060,075	—	1,365,775	479,564	442,900	—	922,464
Due to Special Fund	8,734,759*	—	14,830,082*	—	13,450,689*	—	7,861,535*	—
	9,767,773	1,452,976	14,830,082	2,485,990	14,756,591	1,284,713	7,861,535	2,590,615
Commitments								
	80,633	40,829	—	121,462	77,318	50,628	—	127,946
Invested in fixed assets	—	61,385,844	33,875,304	95,261,148	—	55,477,987	31,823,198	87,301,185
Externally restricted	—	—	10,551,402	10,551,402	—	—	10,551,402	10,551,402
Internally restricted	(5,095,875)	—	—	(5,095,875)	(10,081,745)	—	—	(10,081,745)
Unrestricted deficit	(5,015,242)	61,426,673	44,426,706	100,838,137	(10,004,427)	55,528,615	42,374,600	87,898,788
	4,752,531	62,879,649	59,256,788	103,324,127	4,752,164	56,813,328	50,236,135	90,489,403

* 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, 2014

	2014	2013
	\$	\$
Operating activities		
Excess of revenue over expenses	12,939,349	9,602,108
Adjustments for:		
Change in fair value of investments	(6,776,273)	(3,109,465)
Amortization of fixed assets	57,980	33,632
	6,221,056	6,526,275
Net change in non-cash operating working capital items		
Accounts receivable	12,507	114,040
Prepaid expenses	(4,409)	(1,006)
Accounts payable and accrued liabilities	(547,936)	877,115
Contributions payable – Montreal Children's Hospital	443,311	148,637
	(96,527)	1,138,786
	6,124,529	7,665,061
Financing activities		
Variation in restricted cash	(2,758,122)	(2,525,046)
Net variation in investments	(2,250,661)	(1,230,439)
Acquisition of fixed assets	(51,496)	(86,422)
	(5,060,279)	(3,841,907)
Increase in cash	1,064,250	3,823,154
Cash, beginning of year	17,610,659	13,787,505
Cash, end of year	18,674,909	17,610,659

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

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2014

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

2. Significant accounting policies

The 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 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), other than endowment.

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.

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 Special 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. Investment income on Endowment Fund resources that must be spent on donor 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, 2014

2. Significant accounting policies (continued)

Revenue recognition (continued)

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, comprise 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 and changes in fund balances of the year in which they are paid or become payable.

Financial instruments

Financial assets and 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. The fair value of investments is based on closing bid prices. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are presented in the 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 statement of operations and changes in fund balances in the period the reversal occurs.

Due to/from Special Fund

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, 2014

2. Significant accounting policies (continued)

Fixed assets

Fixed assets are recorded at cost and amortized based on their 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 accounting standards for not-for-profit organizations 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 those estimates.

3. Investment income – net

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

	2014	2013
	\$	\$
Interest and dividends	2,443,170	2,120,414
Net gains (losses) on disposal of investments	631,660	(1,020,727)
Change in unrealized fair value of investments	6,144,613	4,130,192
	9,219,443	5,229,879
Management and custodian fees	(226,686)	(233,475)
	8,992,757	4,996,404

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2014

3. Investment income – net (continued)

Investment income is recorded as follows:

	2014	2013
	\$	\$
Operating Fund – resource held by the Endowment Fund*	4,278,545	2,414,227
Operating Fund – resource held by the Operating Fund	44,284	31,832
Special Fund – resource held by the Endowment Fund**	4,450,683	2,283,936
Special Fund – resource held by the Special Fund	219,245	266,409
	8,992,757	4,996,404

* The net investment income of the Operating Fund derived from resources held as endowments for an amount of \$4,278,545 (\$2,414,227 in 2013), which consists of \$1,041,424 (\$930,157 in 2013) of interest and dividends, \$481,747 of net gain on disposal of investments (net losses of \$519,454 in 2013) and \$2,874,412 (\$2,116,601 in 2013) of change in fair value of investments net of investment and custodian fees of \$119,038 (\$113,077 in 2013).

** The net investment income of the Special Fund derived from resources held as endowments for an amount of \$4,450,683 (\$2,283,936 in 2013), which consists of \$1,119,016 (\$939,854 in 2013) of interest and dividends, \$117,374 of net gain on disposal of investments (net losses of \$534,886 in 2013) and \$3,310,919 (\$1,991,218 in 2013), of change in fair value of investments net of investment and custodian fees of \$96,626 (\$112,250 in 2013).

4. Interfund transfers

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

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 \$321,435 for the year ended March 31, 2014 (\$102,552 in 2013), is not recorded in the Foundation's financial statements.

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2014

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 \$12,359,399. Amounts to be received in the forthcoming years are as follows:

	2015	2016	2017	2018	2019 and thereafter	Total
	\$	\$	\$	\$	\$	\$
Special Fund	4,198,051	2,738,808	1,951,656	1,364,319	2,106,565	12,359,399

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

	2014	2013
	\$	\$
Cash	528,715	314,583
Money market and Treasury bills	3,011,942	3,237,470
Canadian bonds, par value of \$10,125,000 (\$8,915,000 in 2013)	10,739,373	8,714,637
Pooled Canadian Bond Funds	890,493	1,403,728
Canadian Equities	8,200,037	7,045,933
Pooled Canadian Equity Funds	911,723	351,318
U.S. Equities	6,287,565	4,891,935
International Equities	7,284,619	6,312,186
Canadian balanced fund	27,099,235	23,654,978
	64,953,702	55,926,768

8. Fixed assets

	2014			2013
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Office furniture	42,683	37,139	5,544	3,539
Computer equipment	348,944	273,855	75,089	73,779
Other equipment	97,987	57,158	40,829	50,628
	489,614	368,152	121,462	127,946

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2014

9. Special Fund – externally restricted

The Special Fund includes the following externally restricted donations:

	2014	2013
	\$	\$
Capital Campaign Fund	2,588,051	3,364,575
Montreal Children's Hospital Corporation Fund	—	1,843,658
Best Care for Children Fund	37,047,281	33,226,614
Other external restrictions	21,750,512	17,043,140
	<u>61,385,844</u>	<u>55,477,987</u>

10. Commitments

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

	\$
2015	649,734
2016	430,500
2017	430,500
2018	430,500
2019	107,625
	<u>2,048,859</u>

In addition, under operating leases expiring through 2019, the Foundation has lease commitments relating to its own premises that require the following annual payments:

	\$
2015	124,956
2016	124,956
2017	124,956
2018	124,956
2019	20,826
	<u>520,650</u>

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2014

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 toward the Foundation, which will have an impact on the assets of the Foundation.

Interest rate risk

The investments in bonds bear fixed interest rates. Consequently, a change in the market interest rate would have an impact on the fair value of these investments. Bonds bear interest from 1.39% to 11.00% (1.20% to 11.00% in 2013), and mature from 2014 to 2023 (2013 to 2023 in 2013).

Currency risk

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

The balance sheet includes \$6,893,841 (\$5,640,497 in 2013) of investments denominated in U.S. dollars, \$3,206,428 (\$2,859,970 in 2013) denominated in Euros and \$2,917,858 (\$2,727,564 in 2013) denominated in other foreign currencies.

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

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2014

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. Figures from the previous year

Certain figures from the previous year have been reclassified to conform to the presentation adopted in the current year.