
Financial statements of
The Montreal Children's Hospital
Foundation

March 31, 2015

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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, 2015, 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, 2015, 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.

Other Matter

Without modifying our opinion, we draw attention to Note 2 of the financial statements, which explains that some of the comparative figures for the year ended March 31, 2014, have been restated.

Deloitte LLP¹

September 28, 2015

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, 2015

Notes	2015				2014			
	Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total
	\$	\$	\$	\$	(Restated) (Note 2)	(Restated) (Note 2)	(Restated) (Note 2)	\$
Revenue								
Donations	6,521,711	8,514,478	3,188,417	18,224,606	7,084,477	10,337,128	913,559	18,335,164
Opération Enfant Soleil	—	2,708,195	—	2,708,195	—	2,758,123	—	2,758,123
	6,521,711	11,222,673	3,188,417	20,932,801	7,084,477	13,095,251	913,559	21,093,287
Investment income – net	3,121,186	3,749,300	3,669	6,874,155	4,314,255	4,504,972	173,530	8,992,757
	9,642,897	14,971,973	3,192,086	27,806,956	11,398,732	17,600,223	1,087,089	30,086,044
Expenses								
Salaries and benefits	2,460,066	260,234	—	2,720,300	2,299,684	340,000	—	2,639,684
Direct campaign costs	1,074,010	328,703	—	1,402,713	983,672	256,880	—	1,240,552
Publicity and donor recognition	99,854	35,940	—	135,794	75,634	54,415	—	130,049
General and administrative	406,751	19,353	—	426,104	407,770	4,459	—	412,229
Professional and consulting	285,712	—	—	285,712	277,887	9,200	—	287,087
Rent	227,482	32,526	—	260,008	251,585	44,889	—	296,474
Amortization of fixed assets	57,896	9,799	—	67,695	48,181	9,799	—	57,980
	4,611,771	686,555	—	5,298,326	4,344,413	719,642	—	5,064,055
Excess of revenue over expenses before contributions	5,031,126	14,285,418	3,192,086	22,508,630	7,054,319	16,880,581	1,087,089	25,021,989
Contributions to the Montreal Children's Hospital								
Hospital equipment and services	620,753	1,174,280	—	1,795,033	784,072	1,008,858	—	1,792,930
Research equipment and services	2,074,884	3,365,552	—	5,440,436	2,844,857	4,291,893	—	7,136,750
Other restricted contributions	—	1,753,551	—	1,753,551	43,638	1,598,495	—	1,642,133
Renovations, rent and other priorities	—	3,491,915	—	3,491,915	630	1,510,197	—	1,510,827
	2,695,637	9,785,298	—	12,480,935	3,673,197	8,409,443	—	12,082,640
Excess of revenue over expenses	2,335,489	4,500,120	3,192,086	10,027,695	3,381,122	8,471,138	1,087,089	12,939,349
Fund balances, beginning of year	(2,637,000)	58,198,460	45,276,677	100,838,137	(7,815,504)	52,663,251	43,051,041	87,898,788
Interfund transfers	(42,659)	(58,201)	100,860	—	1,797,382	(2,935,929)	1,138,547	—
Fund balances, end of year	(344,170)	62,640,379	48,569,623	110,865,832	(2,637,000)	58,198,460	45,276,677	100,838,137

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

The Montreal Children's Hospital Foundation

Balance sheet

As at March 31, 2015

		2015				2014			
Notes	Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total	
	\$	\$	\$	\$	(Restated) (Note 2)	(Restated) (Note 2)	(Restated) (Note 2)	\$	
Assets									
	2,116,672	15,574,001	128,591	17,819,264	2,052,467	16,561,480	60,962	18,674,909	
6	—	21,839,522	—	21,839,522	—	19,320,774	—	19,320,774	
	215,605	9,453	—	225,058	206,764	1,312	—	208,076	
	—	22,166,428*	—	—	—	20,336,628*	—	—	
8	2,415,947	3,454,507	66,094,017	71,964,471	2,367,463	3,390,413	59,195,826	64,953,702	
9	87,847	31,030	—	118,877	80,633	40,829	—	121,462	
	57,713	—	—	57,713	45,204	—	—	45,204	
	4,893,784	63,074,941	66,222,608	112,024,905	4,752,531	59,651,436	59,256,788	103,324,127	
Liabilities									
	608,987	164,290	—	773,277	727,314	392,901	—	1,120,215	
	115,524	270,272	—	385,796	305,700	1,060,075	—	1,365,775	
	4,513,443*	—	17,652,985*	—	6,356,517*	—	13,980,111*	—	
	5,237,954	434,562	17,652,985	1,159,073	7,389,531	1,452,976	13,980,111	2,485,990	
11	Commitments								
Fund balances									
	87,847	31,030	—	118,877	80,633	40,829	—	121,462	
10	—	62,609,349	38,018,221	100,627,570	—	58,157,631	34,725,275	92,882,906	
	—	—	10,551,402	10,551,402	—	—	10,551,402	10,551,402	
	(432,017)	—	—	(432,017)	(2,717,633)	—	—	(2,717,633)	
	(344,170)	62,640,379	48,569,623	110,865,832	(2,637,000)	58,198,460	45,276,677	100,838,137	
	4,893,784	63,074,941	66,222,608	112,024,905	4,752,531	59,651,436	59,256,788	103,324,127	

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

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

Approved by the Board of Directors

_____, Director

_____, Director

The Montreal Children's Hospital Foundation

Statement of cash flows

Year ended March 31, 2015

	2015	2014
	\$	\$
Operating activities		
Excess of revenue over expenses	10,027,695	12,939,349
Adjustments for		
Change in fair value of investments	(3,149,467)	(6,776,273)
Amortization of fixed assets	67,695	57,980
	6,945,923	6,221,056
Net change in non-cash operating working capital items		
Accounts receivable	(16,982)	12,507
Prepaid expenses	(12,509)	(4,409)
Accounts payable and accrued liabilities	(346,938)	(547,936)
Contributions payable – Montreal Children's Hospital	(979,979)	443,311
	(1,356,408)	(96,527)
	5,589,515	6,124,529
Financing activities		
Variation in restricted cash	(2,518,748)	(2,758,122)
Net variation in investments	(3,861,302)	(2,250,661)
Acquisition of fixed assets	(65,110)	(51,496)
	(6,445,160)	(5,060,279)
(Decrease) increase in cash	(855,645)	1,064,250
Cash, beginning of year	18,674,909	17,610,659
Cash, end of year	17,819,264	18,674,909

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

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2015

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. Restatement

Management performed an analysis of donations received from the prior years. As a result thereof, the Foundation reclassified some donations from the Special Fund to the Operating Fund as there were no specific external restriction made on those donations. In addition, some investment income from prior years should have been capitalized in the Endowment Fund rather than being recorded as income in the Operating Fund or the Special Fund. The global impact of the restatement of the last year financial statements is a decrease of the unrestricted deficit for an amount of \$2,378,242 and a decrease of the externally restricted fund balances for the same amount. In detail, the financial statements of the Foundation have been restated as follows:

	Balance previously stated	Restatement	Restated balance
	\$	\$	\$
Operating Fund			
Donations	6,886,584	197,893	7,084,477
Investment income – net	4,322,829	(8,574)	4,314,255
Excess of revenue over expenses	3,191,803	189,319	3,381,122
Fund balance as at April 1, 2013	(10,004,427)	2,188,923	(7,815,504)
Fund balance as at March 31, 2014	(5,015,242)	2,378,242	(2,637,000)
Due to Special Fund	8,734,759	(2,378,242)	6,356,517
Fund balances as at March 31, 2014 – unrestricted deficit	(5,095,875)	2,378,242	(2,717,633)
Special Fund			
Donations	10,535,021	(197,893)	10,337,128
Investment income – net	4,669,928	(164,956)	4,504,972
Excess of revenue over expenses	8,833,987	(362,849)	8,471,138
Fund balance as at April 1, 2013	55,528,615	(2,865,364)	52,663,251
Fund balance as at March 31, 2014	61,426,673	(3,228,213)	58,198,460
Receivable by Special Fund	23,564,841	(3,228,213)	20,336,628
Fund balances as at March 31, 2014 – externally restricted	61,385,844	(3,228,213)	58,157,631

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2015

2. Restatement (continued)

	Balance initially recorded	Restatement	Restated balance
	\$	\$	\$
Endowment Fund			
Investment income – net	—	173,530	173,530
Excess of revenue over expenses	913,559	173,530	1,087,089
Fund balances as at April 1, 2013	42,374,600	676,441	43,051,041
Fund balances as at March 31, 2014	44,426,706	849,971	45,276,677
Due to Special Fund	14,830,082	(849,971)	13,980,111
Fund balances as at March 31, 2014 – externally restricted	33,875,304	849,971	34,725,275

3. 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 10), 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 the Special Fund. Endowment donations are recognized as revenue in the Endowment Fund.

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2015

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. 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.

iv. Contributed services

In the course of its activities, the Foundation uses the services of volunteers. Due to 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. 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.

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2015

3. Significant accounting policies (continued)

Financial instruments (continued)

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/receivable by Special Fund

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

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.

4. Investment income – net

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

	2015	2014
	\$	\$
Interest and dividends	4,002,833	2,443,170
Net gains on disposal of investments	519,099	631,660
Change in unrealized fair value of investments	2,630,368	6,144,613
	7,152,300	9,219,443
Management and custodian fees	(278,145)	(226,686)
	6,874,155	8,992,757

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2015

4. Investment income – net (continued)

Investment income is recorded as follows:

	2015	2014
	\$	\$
		(Restated) (Note 2)
Operating Fund – resources held by the Endowment Fund*	3,102,867	4,269,971
Operating Fund – resources held by the Operating Fund	18,319	44,284
Special Fund – resources held by the Endowment Fund**	3,505,822	4,285,727
Special Fund – resources held by the Special Fund	243,478	219,245
Endowment Fund – resources held by the Endowment Fund	3,669	173,530
	6,874,155	8,992,757

* The net investment income of the Operating Fund derived from resources held as endowments for an amount of \$3,102,867 (\$4,269,971 in 2014), which consists of \$1,715,050 (\$1,032,850 in 2014) of interest and dividends, \$220,664 (\$481,747 in 2014) of net gain on disposal of investments and \$1,298,508 (\$2,874,412 in 2014) of change in fair value of investments, net of investment and custodian fees of \$131,355 (\$119,038 in 2014).

** The net investment income of the Special Fund derived from resources held as endowments for an amount of \$3,505,822 (\$4,285,727 in 2014), which consists of \$2,035,778 (\$954,060 in 2014) of interest and dividends, \$300,692 (\$117,374 in 2014) of net gain on disposal of investments and \$1,307,865 (\$3,310,919 in 2014) of change in fair value of investments, net of investment and custodian fees of \$138,513 (\$96,626 in 2014).

5. Interfund transfers

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

6. 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 \$385,513 for the year ended March 31, 2015 (\$321,435 in 2014), is not recorded in the Foundation's financial statements.

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2015

7. 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 \$8,431,433. Amounts to be received in the forthcoming years are as follows:

	2016	2017	2018	2019	2020 and thereafter	Total
	\$	\$	\$	\$	\$	\$
Special Fund	3,021,312	1,932,496	1,359,119	2,108,506	10,000	8,431,433

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

The donation pledges will be recorded as revenues when collected.

8. Investments

	2015	2014
	\$	\$
Cash	178,476	528,715
Money market and Treasury bills	4,205,194	3,011,942
Canadian bonds, par value of \$11,271,747 (\$10,125,000 in 2014)	12,064,568	10,739,373
Pooled Canadian Bond Funds	932,886	890,493
Canadian Equities	8,249,133	8,200,037
Pooled Canadian Equity Funds	—	911,723
Canadian Balanced Fund	30,723,944	27,099,235
U.S. Equities	7,477,052	6,287,565
International Equities	6,979,736	7,284,619
Emerging Market Equity Fund	1,153,482	—
	71,964,471	64,953,702

9. Fixed assets

	2015			2014
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Office furniture	58,803	44,768	14,035	5,544
Computer equipment	397,934	324,122	73,812	75,089
Other equipment	97,987	66,957	31,030	40,829
	554,724	435,847	118,877	121,462

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2015

10. Special Fund – externally restricted

The Special Fund includes the following externally restricted donations:

	2015	2014
	\$	\$
		(Restated)
		(Note 2)
Capital Campaign Fund	1,763,217	2,588,051
Best Care for Children Fund	37,599,351	37,047,281
Other external restrictions	23,246,781	18,522,299
	<u>62,609,349</u>	<u>58,157,631</u>

11. 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:

	\$
2016	472,193
2017	430,500
2018	430,500
2019	107,625
	<u>1,440,818</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:

	\$
2016	124,956
2017	124,956
2018	124,956
2019	20,826
	<u>395,694</u>

As at March 31, the Foundation has also pledged \$785,943 to the Montreal Children's Hospital.

12. Financial instruments

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.

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2015

12. Financial instruments (continued)

Credit risk

The Foundation's investment assets include bonds. As result, 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 1.38% to 11.00% (1.39% to 11.00% in 2014), and mature from 2015 to 2036 (2014 to 2023 in 2014).

Currency risk

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

The balance sheet includes \$8,371,997 (\$6,893,841 in 2014) of investments denominated in U.S. dollars, \$3,218,635 (\$3,206,428 in 2014) denominated in Euros and \$2,865,662 (\$2,917,858 in 2014) 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.

13. 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.