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Financial statements of  
The Montreal Children's Hospital  
Foundation

March 31, 2017

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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 statement of financial position as at March 31, 2017, 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, 2017, 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 LLP*<sup>1</sup>

June 20, 2017

<sup>1</sup> 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, 2017

	Notes	2017				2016			
		Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total
		\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>									
Donations		7,359,506	12,889,947	1,805,244	22,054,697	6,818,927	11,676,307	2,233,976	20,729,210
Interest and dividends – net	3	843,710	2,143,237	—	2,986,947	868,421	2,217,339	3,070	3,088,830
		<b>8,203,216</b>	<b>15,033,184</b>	<b>1,805,244</b>	<b>25,041,644</b>	<b>7,687,348</b>	<b>13,893,646</b>	<b>2,237,046</b>	<b>23,818,040</b>
<b>Expenses</b>									
Salaries and benefits		2,751,245	202,471	—	2,953,716	2,640,684	292,924	—	2,933,608
Direct campaign costs		931,959	486,423	—	1,418,382	1,006,895	312,959	—	1,319,854
Publicity and donor recognition		112,464	31,722	—	144,186	126,254	32,648	—	158,902
General and administrative		474,431	2,035	—	476,466	451,777	16,826	—	468,603
Professional and consulting		248,878	1,857	—	250,735	164,890	7,661	—	172,551
Rent		254,785	18,235	—	273,020	204,485	30,215	—	234,700
Amortization of capital assets		72,317	9,799	—	82,116	60,493	9,799	—	70,292
		<b>4,846,079</b>	<b>752,542</b>	<b>—</b>	<b>5,598,621</b>	<b>4,655,478</b>	<b>703,032</b>	<b>—</b>	<b>5,358,510</b>
Excess of revenue over expenses before others elements		<b>3,357,137</b>	<b>14,280,642</b>	<b>1,805,244</b>	<b>19,443,023</b>	<b>3,031,870</b>	<b>13,190,614</b>	<b>2,237,046</b>	<b>18,459,530</b>
<b>Contributions to the Montreal Children's Hospital</b>									
Hospital equipment and services		896,929	2,297,877	—	3,194,806	753,380	1,693,072	—	2,446,452
Research equipment and services		1,866,456	2,784,879	—	4,651,335	2,306,449	1,804,421	—	4,110,870
Other restricted contributions		—	3,786,760	—	3,786,760	—	2,540,132	—	2,540,132
Renovations, rent and other priorities		—	5,190,252	—	5,190,252	—	7,832,282	—	7,832,282
		<b>2,763,385</b>	<b>14,059,768</b>	<b>—</b>	<b>16,823,153</b>	<b>3,059,829</b>	<b>13,869,907</b>	<b>—</b>	<b>16,929,736</b>
<b>Excess (deficiency) of revenue over expenses before change in fair value of investments</b>		<b>593,752</b>	<b>220,874</b>	<b>1,805,244</b>	<b>2,619,870</b>	<b>(27,959)</b>	<b>(679,293)</b>	<b>2,237,046</b>	<b>1,529,794</b>
Change in fair value of investments	3	3,068,148	4,825,154	—	7,893,302	(2,131,590)	(3,355,923)	—	(5,487,513)
<b>Excess (deficiency) of revenue over expenses</b>		<b>3,661,900</b>	<b>5,046,028</b>	<b>1,805,244</b>	<b>10,513,172</b>	<b>(2,159,549)</b>	<b>(4,035,216)</b>	<b>2,237,046</b>	<b>(3,957,719)</b>
Fund balances, beginning of year		(3,564,720)	59,553,513	50,919,320	106,908,113	(1,387,596)	63,683,805	48,569,623	110,865,832
Interfund transfers	4	1,008,262	(1,097,981)	89,719	—	(17,575)	(95,076)	112,651	—
<b>Fund balances, end of year</b>		<b>1,105,442</b>	<b>63,501,560</b>	<b>52,814,283</b>	<b>117,421,285</b>	<b>(3,564,720)</b>	<b>59,553,513</b>	<b>50,919,320</b>	<b>106,908,113</b>

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, 2017

		2017				2016			
Notes	Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total	
	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Assets</b>									
	5,280,712	116,720	257,826	5,655,258	3,246,850	18,563,705	174,574	21,985,129	
Cash									
Restricted cash	5	—	4,873,059	—	4,873,059	—	3,854,570	—	3,854,570
Sales taxes receivable and other		231,769	—	—	231,769	204,835	—	—	204,835
Receivable by Special Fund		—	27,419,580*	—	—	—	21,581,791*	—	—
Investments	7	2,453,593	32,405,547	73,871,310	108,730,450	2,428,112	16,104,557	63,815,454	82,348,123
Capital assets	8	212,063	11,433	—	223,496	168,146	21,232	—	189,378
Prepaid expenses		57,535	—	—	57,535	60,298	—	—	60,298
	<b>8,235,672</b>	<b>64,826,339</b>	<b>74,129,136</b>	<b>119,771,567</b>	<b>6,108,241</b>	<b>60,125,855</b>	<b>63,990,028</b>	<b>108,642,333</b>	
<b>Liabilities</b>									
Accounts payable and accrued liabilities		700,401	241,035	—	941,436	653,908	23,773	—	677,681
Contributions payable – Montreal Children's Hospital		325,102	1,083,744	—	1,408,846	507,970	548,569	—	1,056,539
Due to Special Fund		6,104,727*	—	21,314,853*	—	8,511,083*	—	13,070,708*	—
	<b>7,130,230</b>	<b>1,324,779</b>	<b>21,314,853</b>	<b>2,350,282</b>	<b>9,672,961</b>	<b>572,342</b>	<b>13,070,708</b>	<b>1,734,220</b>	
Commitments	10								
<b>Fund balances</b>									
Invested in capital assets		212,063	11,433	—	223,496	168,146	21,232	—	189,378
Externally restricted	9	—	63,490,127	42,262,881	105,753,008	—	59,532,281	40,367,918	99,900,199
Internally restricted		—	—	10,551,402	10,551,402	—	—	10,551,402	10,551,402
Unrestricted surplus (deficit)		893,379	—	—	893,379	(3,732,866)	—	—	(3,732,866)
	<b>1,105,442</b>	<b>63,501,560</b>	<b>52,814,283</b>	<b>117,421,285</b>	<b>(3,564,720)</b>	<b>59,553,513</b>	<b>50,919,320</b>	<b>106,908,113</b>	
	<b>8,235,672</b>	<b>64,826,339</b>	<b>74,129,136</b>	<b>119,771,567</b>	<b>6,108,241</b>	<b>60,125,855</b>	<b>63,990,028</b>	<b>108,642,333</b>	

\* 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, 2017

	2017	2016
	\$	\$
<b>Operating activities</b>		
Excess (deficiency) of revenue over expenses	10,513,172	(3,957,719)
Adjustments for:		
Change in fair value of investments	(7,893,302)	5,487,513
Amortization of capital assets	82,116	70,292
	<b>2,701,986</b>	<b>1,600,086</b>
Net changes in non-cash operating working capital items		
Sales taxes receivable and other	(26,934)	20,223
Prepaid expenses	2,763	(2,585)
Accounts payable and accrued liabilities	263,755	(95,596)
Contributions payable – Montreal Children's Hospital	352,307	670,743
	<b>591,891</b>	<b>592,785</b>
	<b>3,293,877</b>	<b>2,192,871</b>
<b>Financing activities</b>		
Variation in restricted cash	(1,018,489)	17,984,952
Net variation in investments	(18,489,025)	(15,871,165)
Acquisition of capital assets	(116,234)	(140,793)
	<b>(19,623,748)</b>	<b>1,972,994</b>
Net (decrease) increase in cash	<b>(16,329,871)</b>	<b>4,165,865</b>
Cash, beginning of year	<b>21,985,129</b>	<b>17,819,264</b>
<b>Cash, end of year</b>	<b>5,655,258</b>	<b>21,985,129</b>

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

# The Montreal Children's Hospital Foundation

## Notes to the financial statements

March 31, 2017

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### 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

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 9), other than endowments.

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 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) 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.

iv) 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.

v) Gifts in kind

Gifts in kind are recorded at fair value.

# The Montreal Children's Hospital Foundation

## Notes to the financial statements

March 31, 2017

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### 2. Significant accounting policies (continued)

#### *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 related 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 in 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 balance sheet date. Fair value fluctuations including interest earned and accrued interest, gains and losses realized on disposal of investments and unrealized gains and losses are presented as investment income.

Transaction costs related to financial instruments measured at fair value are expensed as incurred. Transaction costs related to the other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statement of operations and changes in fund balances as investment income.

With respect to financial assets measured at cost or amortized cost, the Foundation recognizes in the statement of operations and changes in fund balances an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decrease and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the statement of operations and changes in fund balances in the period the reversal occurs.

#### *Receivable by/due to Special Fund*

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

#### *Capital assets*

Fixed assets are recorded at cost and amortized over their useful lives using the straight-line method over the following periods:

Office furniture	5 years
Computer equipment	3 years
Leasehold improvements	5 years
Other equipment	10 years
Website	5 years



# The Montreal Children's Hospital Foundation

## Notes to the financial statements

March 31, 2017

### 2. Significant accounting policies (continued)

#### *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 is detailed as follows:

	2017	2016
	\$	\$
Interest and dividends	3,313,345	3,364,243
Management and custodian fees	(326,398)	(275,413)
Interest and dividends – net	2,986,947	3,088,830
Change in unrealized fair value of investments	7,015,744	(6,236,015)
Net gain on disposal of investments	877,558	748,502
	7,893,302	(5,487,513)
	10,880,249	(2,398,683)

Net investment income is recorded as follows:

	2017	2016
	\$	\$
Operating Fund		
Resources held by the Endowment Fund*	3,851,710	(1,400,187)
Resources held by the Operating Fund	60,148	137,018
	3,911,858	(1,263,169)
Special Fund		
Resources held by the Endowment Fund**	5,902,966	(1,194,538)
Resources held by the Special Fund	1,065,425	55,954
	6,968,391	(1,138,584)
Endowment Fund		
Resources held by the Endowment Fund	—	3,070
	10,880,249	(2,398,683)

## The Montreal Children's Hospital Foundation

### Notes to the financial statements

March 31, 2017

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#### 3. Investment income – net (continued)

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

	2017	2016
	\$	\$
Interest and dividends	900,751	1,215,192
Management and custodian fees	(116,351)	(101,849)
Net gain on disposal of investments	346,343	285,068
Change in unrealized fair value of investments	2,720,967	(2,798,598)
	<b>3,851,710</b>	<b>(1,400,187)</b>

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

	2017	2016
	\$	\$
Interest and dividends	1,377,280	1,909,225
Management and custodian fees	(162,361)	(157,030)
Net gain on disposal of investments	529,571	456,832
Change in unrealized fair value of investments	4,158,476	(3,403,565)
	<b>5,902,966</b>	<b>(1,194,538)</b>

#### 4. Interfund transfers

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

#### 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 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 \$53,567 for the year ended March 31, 2017 (\$433,183 in 2016), is not recorded in these financial statements.

# The Montreal Children's Hospital Foundation

## Notes to the financial statements

March 31, 2017

### 6. Donation pledges

The Foundation has received donation pledges in the amount of \$9,684,000: \$3,559,000 in support of the building of the new Montreal Children's Hospital (Best Care for Children (BCC) Fund), \$3,966,000 in support of other specific projects, \$1,765,000 for endowments and \$394,000 for operating Fund. These pledges are supported by signed agreements and are to be received in the forthcoming years as follows:

	2018	2019	2020	2021	2022 and thereafter	Total
	\$	\$	\$	\$	\$	\$
Special Fund (BCC)	1,697,000	1,006,000	499,000	205,000	152,000	3,559,000
Special Fund (Other)	1,361,000	876,000	651,000	428,000	650,000	3,966,000
Endowment Fund	460,000	430,000	325,000	225,000	325,000	1,765,000
Operating Fund	85,000	55,000	50,000	51,000	153,000	394,000
	<b>3,603,000</b>	<b>2,367,000</b>	<b>1,525,000</b>	<b>909,000</b>	<b>1,280,000</b>	<b>9,684,000</b>

These figures do not include verbal pledges.

These donation pledges will be recorded as revenue when collected.

### 7. Investments

	2017	2016
	\$	\$
Cash, money market and treasury bills	9,904,631	13,912,016
Fixed income	45,257,592	29,217,369
Canadian equities	22,643,951	16,336,088
International equities	30,924,276	22,882,650
	<b>108,730,450</b>	<b>82,348,123</b>

### 8. Capital assets

	2017			2016
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Office furniture	64,286	50,974	13,312	17,544
Computer equipment	451,162	410,629	40,533	59,416
Leasehold improvements	101,319	30,397	70,922	91,187
Other equipment	97,987	86,554	11,433	21,231
	<b>714,754</b>	<b>578,554</b>	<b>136,200</b>	<b>189,378</b>
Website	96,995	9,699	87,296	—
	<b>811,749</b>	<b>588,253</b>	<b>223,496</b>	<b>189,378</b>

# The Montreal Children's Hospital Foundation

## Notes to the financial statements

March 31, 2017

### 9. Special Fund – externally restricted

The Special Fund includes the following externally restricted donations:

	2017	2016
	\$	\$
Capital Campaign Fund	310,054	1,216,959
Best Care for Children Fund	31,628,305	32,937,724
Other external restrictions	31,551,768	25,377,598
	<u>63,490,127</u>	<u>59,532,281</u>

### 10. Commitments

- i) The Foundation leases a premise on behalf of the Montreal Children's Hospital. This lease expires in May 2017 and requires payment of \$71,750.
- ii) Pursuant to various operating leases expiring through August 2020, the Foundation has lease commitments relating to its own premises that require the following annual payments:

	\$
2018	157,266
2019	85,794
2020	71,500
2021	23,833
	<u>338,393</u>

- iii) Under a signed agreement between the McGill University Health Centre and the ministère de la Santé et des Services Sociaux in respect of the Glen site, the Foundation's share of this undertaking amounted to a total of \$42,200,000 payable over 10 years. The balance payable of \$33,760,000 requires the following annual payments:

	\$
2018	4,220,000
2019	4,220,000
2020	4,220,000
2021	4,220,000
2022	4,220,000
2023 and thereafter	12,660,000
	<u>33,760,000</u>

### 11. Financial instruments

The Foundation is exposed to the following risks due to its investments:

#### *Market risk*

Market risk is the risk of loss that results from fluctuations in equity prices, interest and exchange rates. The Foundation is exposed to market risk from its investment activities. The level of risk to which the Foundation is exposed varies depending on market conditions and the composition of the asset mix.

## **11. Financial instruments (continued)**

### *Credit risk*

The Foundation's investment assets include bonds. As a 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 1.11% to 11.00% (1.11% to 11.00% in 2016) and mature from 2017 to 2027 (2016 to 2036 in 2016).

### *Currency risk*

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

The balance sheet includes \$24,172,423 (\$14,141,914 in 2016) of investments denominated in U.S. dollars, \$4,661,066 (\$3,176,218 in 2016) denominated in Euros and \$6,816,266 (\$4,375,616 in 2016) 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 and advisers are engaged in decision-making and applying strategies.

The objective is to optimize the return on the investments while considering the risk that the Foundation is prepared to assume along with its specific constraints as set out in the investment policy. Risk stems from the uncertainty inherent to several factors (loss in value of specific investments, decrease in fair value caused by financial market fluctuations, etc.), the combined actions of which could have consequences on the Foundation's ability to meet its commitments.

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

## **12. 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.