
Financial statements of
The Montreal Children's Hospital
Foundation

March 31, 2021

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Independent Auditor's Report

To the Members of
The Montreal Children's Hospital Foundation

Opinion

We have audited the financial statements of The Montreal Children's Hospital Foundation (the "Foundation"), which comprise the statement of financial position as at March 31, 2021, and the statements of operations and changes in fund balances and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

June 22, 2021

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, 2021

		2021				2020			
Notes		Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total
		\$	\$	\$	\$	\$	\$	\$	\$
Revenue									
	Donations	8,714,611	13,624,248	1,810,056	24,148,915	10,824,160	15,419,678	1,105,697	27,349,535
	Interest and dividends – net	1,218,015	1,877,535	—	3,095,550	1,726,512	2,800,078	—	4,526,590
	Government subsidy	928,596	—	—	928,596	—	—	—	—
		10,861,222	15,501,783	1,810,056	28,173,061	12,550,672	18,219,756	1,105,697	31,876,125
Expenses									
	Salaries and benefits	3,702,667	—	—	3,702,667	3,415,182	—	—	3,415,182
	Direct campaign costs	527,646	149,186	—	676,832	1,029,536	301,634	—	1,331,170
	Publicity and donor recognition	715,424	—	—	715,424	462,011	1,609	—	463,620
	General and administrative	445,711	—	—	445,711	490,508	903	—	491,411
	Professional and consulting	534,202	—	—	534,202	582,059	—	—	582,059
	Rent	326,439	—	—	326,439	327,604	—	—	327,604
	Amortization of capital assets	87,503	2,734	—	90,237	96,162	1,367	—	97,529
		6,339,592	151,920	—	6,491,512	6,403,062	305,513	—	6,708,575
	Excess of revenue over expenses before other elements	4,521,630	15,349,863	1,810,056	21,681,549	6,147,610	17,914,243	1,105,697	25,167,550
	Contributions	2,146,123	15,637,061	—	17,783,184	2,355,938	16,205,785	—	18,561,723
	Excess (deficiency) of revenue over expenses before change in fair value of investments	2,375,507	(287,198)	1,810,056	3,898,365	3,791,672	1,708,458	1,105,697	6,605,827
	Change in fair value of investments	7,140,223	11,396,986	—	18,537,209	(5,305,386)	(8,938,597)	—	(14,243,983)
	Excess (deficiency) of revenue over expenses	9,515,730	11,109,788	1,810,056	22,435,574	(1,513,714)	(7,230,139)	1,105,697	(7,638,156)
	Fund balances, beginning of year	7,383,520	54,461,487	57,881,167	119,726,174	8,933,892	61,324,475	57,105,963	127,364,330
	Interfund transfers	(431,985)	716,186	(284,201)	—	(36,658)	367,151	(330,493)	—
	Fund balances, end of year	16,467,265	66,287,461	59,407,022	142,161,748	7,383,520	54,461,487	57,881,167	119,726,174

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, 2021

		2021				2020			
Notes		Operating Fund	Special Fund	Endowment Fund	Total	Operating Fund	Special Fund	Endowment Fund	Total
		\$	\$	\$	\$	\$	\$	\$	\$
Assets									
		26,101,199	24,406	502,225	26,627,830	24,430,453	23,648	430,223	24,884,324
	7	—	5,495,093	—	5,495,093	—	4,221,058	—	4,221,058
		498,185	9,510	—	507,695	372,996	—	—	372,996
			42,702,341 *	—	—	—	29,696,439 *	—	—
		148,822	182,500	—	331,322	157,054	187,288	—	344,342
	9	1,348,211	19,582,725	91,440,068	112,371,004	1,323,682	23,551,412	69,934,077	94,809,171
	10	508,910	9,567	—	518,477	235,562	12,301	—	247,863
		28,605,327	68,006,142	91,942,293	145,851,421	26,519,747	57,692,146	70,364,300	124,879,754
Liabilities									
		496,766	524,578	—	1,021,344	629,759	1,578,147	—	2,207,906
		1,320,817	1,194,103	—	2,514,920	1,083,371	1,652,512	—	2,735,883
	3(iii)	153,409	—	—	153,409	209,791	—	—	209,791
		10,167,070 *	—	32,535,271 *	—	17,213,306 *	—	12,483,133 *	—
		12,138,062	1,718,681	32,535,271	3,689,673	19,136,227	3,230,659	12,483,133	5,153,580
	12								
Fund balances									
		508,910	9,567	—	518,477	235,562	12,301	—	247,863
	11	—	66,277,894	48,855,620	115,133,514	—	54,449,186	47,329,765	101,778,951
		4,500,000	—	10,551,402	15,051,402	4,500,000	—	10,551,402	15,051,402
		11,458,355	—	—	11,458,355	2,647,958	—	—	2,647,958
		16,467,265	66,287,461	59,407,022	142,161,748	7,383,520	54,461,487	57,881,167	119,726,174
		28,605,327	68,006,142	91,942,293	145,851,421	26,519,747	57,692,146	70,364,300	124,879,754

* 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, 2021

	2021	2020
	\$	\$
Operating activities		
Excess (deficiency) of revenue over expenses	22,435,574	(7,638,156)
Adjustments for:		
Change in fair value of investments	(18,537,209)	14,243,983
Amortization of capital assets	90,237	97,529
	3,988,602	6,703,356
Net changes in non-cash operating working capital items		
Receivables	(134,699)	65,170
Prepaid expenses	13,020	3,644
Accounts payable and accrued liabilities	(1,186,562)	1,205,305
Contributions payable – Montreal Children's Hospital	(220,963)	894,196
Deferred revenue	(56,382)	22,927
	(1,585,586)	2,191,242
	2,403,016	8,894,598
Financing activities		
Net change in restricted cash	(1,274,035)	(350,428)
Net change in investments	975,376	(381,607)
Acquisition of capital assets	(360,851)	(104,759)
	(659,510)	(836,794)
Net increase in cash	1,743,506	8,057,804
Cash, beginning of year	24,884,324	16,826,520
Cash, end of year	26,627,830	24,884,324

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

The Montreal Children's Hospital Foundation

Notes to the financial statements

March 31, 2021

1. Purpose of the Foundation

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

2. COVID-19

The public measures put in place to combat the spread of COVID-19 have had a significant impact on the Foundation's operations and financial results. In regards to the year ended March 31, 2021:

- Fundraising involving gatherings of participants had to be canceled or carried out virtually;
- The Foundation's offices were closed to the public and workflows were reorganized to support remote working;
- The Foundation benefited a total amount of \$928,596 from the Canada Emergency Wage Subsidy program (CEWS) and the Canada Emergency Rent Subsidy (CERB);
- The market value of the Foundation's investments has increased and last year's unrealized loss has been recovered.

3. 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 11), other than endowments.

iii) Endowment Fund

The Endowment Fund includes accumulated donations subject to restrictions imposed by donors which may specify that the capital be maintained in perpetuity, as well as interfund transfers from the Operating Fund authorized by the Board of Directors and which cannot be used without the prior consent of the Board of Directors.

3. 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 or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other restricted donations are recognized as revenue of the Special Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment donations are recognized as revenue in the Endowment Fund.

ii) Unrestricted donations

Unrestricted donations are recognized as revenue of the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

iii) Deferred revenue

Revenues related to fundraising events that take place after year-end are deferred and reported in the statement of operations in following years.

iv) Investment income

Investment income is recognized when earned. Investment income on Endowment Fund resources that must be spent on donors restricted activities is recognized in the Special Fund. Unrestricted investment income on Endowment Fund resources is recognized in the Operating Fund.

v) Contributed services

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

vi) Gifts in kind

Gifts in kind are recorded at fair value.

Contributions

Contributions are recorded in the statement of operations and changes in fund balances in the year in which they are paid or become payable.

Financial instruments

Financial assets and financial 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 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.

3. 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 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

Capital assets are recorded at cost and amortized over their useful life using the straight-line method of 5 years except for computer equipment which is over 3 years.

Construction in progress is comprised of development costs for the Foundation's new offices.

Write-down of capital assets and intangible assets

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

Foreign currency translation

Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical rates. Revenue and expenses are translated at average rates prevailing during the year. Translation gains and losses are reflected in the statement of operations and changes in fund balances.

Use of estimates

The preparation of these financial statements, in conformity with Canadian accounting standards for not-for-profit organizations, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

4. Investment income – net

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

	2021	2020
	\$	\$
Interest and dividends	3,422,784	4,909,996
Management and custodian fees	(327,234)	(383,406)
Interest and dividends – net	3,095,550	4,526,590
Net (loss) gain on disposal of investments	(1,929,793)	587,643
Change in unrealized fair value of investments	20,467,002	(14,831,626)
	18,537,209	(14,243,983)
	21,632,759	(9,717,393)

Net investment income is recorded as follows:

	2021	2020
	\$	\$
Operating Fund *		
Resources held by the Endowment Fund	8,131,247	(3,819,049)
Resources held by the Operating Fund	226,991	240,175
	8,358,238	(3,578,874)
Special Fund **		
Resources held by the Endowment Fund	13,080,645	(6,884,991)
Resources held by the Special Fund	193,876	746,472
	13,274,521	(6,138,519)
	21,632,759	(9,717,393)

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

	2021	2020
	\$	\$
Interest and dividends	1,071,456	1,395,664
Management and custodian fees	(114,152)	(123,018)
Net (loss) gain on disposal of investments	(738,494)	210,797
Change in unrealized fair value of investments	7,912,437	(5,302,492)
	8,131,247	(3,819,049)

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

	2021	2020
	\$	\$
Interest and dividends	274,773	466,176
Management and custodian fees	(14,061)	(12,310)
Net loss on disposal of investments	(689)	(1,711)
Change in unrealized fair value of investments	(33,032)	(211,980)
	226,991	240,175

4. Investment income – net (continued)

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

	2021	2020
	\$	\$
Interest and dividends	1,723,155	2,516,106
Management and custodian fees	(179,939)	(221,777)
Net (loss) gain on disposal of investments	(1,187,675)	380,025
Change in unrealized fair value of investments	12,725,104	(9,559,345)
	13,080,645	(6,884,991)

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

	2021	2020
	\$	\$
Interest and dividends	353,400	532,050
Management and custodian fees	(19,082)	(26,301)
Net loss on disposal of investments	(2,935)	(1,468)
Change in unrealized fair value of investments	(137,507)	242,191
	193,876	746,472

5. Contributions

	2021	2020
	\$	\$
Montreal Children's Hospital	11,998,400	12,897,978
The Research Institute of the McGill University Health Centre	4,060,662	3,927,647
McGill University – pediatric mission	1,177,731	1,647,742
Other	546,391	88,356
	17,783,184	18,561,723

6. Interfund transfers

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

7. Restricted cash

The use of restricted cash is subject to approval by Opération Enfant Soleil.

Under a fund management agreement effective July 1, 2017, these amounts can be paid to the Montreal Children's Hospital only when Opération Enfant Soleil confirms that the conditions for the projects associated with these payments are met. In addition, interest generated by restricted cash (and investments, if applicable) are the property of Opération Enfant Soleil. Consequently, interest earned of \$37,021 for the year ended March 31, 2021 (\$44,636 in 2020), is not recorded in these financial statements.

8. Donation pledges

The Foundation has received donation pledges in the amount of \$33,834,000: \$31,348,000 in support of specific projects, \$1,216,000 for endowments and \$1,270,000 for operating funds. These pledges are supported by written documentation and are to be received in the forthcoming years as follows:

	2022	2023	2024	2025	2026 and thereafter	Total
	\$	\$	\$	\$	\$	\$
Special Fund	7,793,000	6,688,000	4,939,000	4,101,000	7,827,000	31,348,000
Endowment Fund	446,000	325,000	215,000	215,000	15,000	1,216,000
Operating Fund	313,000	205,000	180,000	197,000	375,000	1,270,000
	8,552,000	7,218,000	5,334,000	4,513,000	8,217,000	33,834,000

These figures do not include verbal pledges.

These donation pledges will be recorded as revenue when collected.

9. Investments

	2021		2020	
	\$	%	\$	%
Cash, money market and treasury bills	7,613,479	7	8,270,541	9
Fixed income	34,725,867	31	40,026,372	42
Canadian equities	21,897,331	19	11,870,726	12
International equities	48,134,327	43	34,641,532	37
	112,371,004	100	94,809,171	100

Some securities are held directly while others are held indirectly via mutual funds.

Certain investments held at March 31, 2020, have been reclassified.

10. Capital assets

	2021			2020
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Construction in progress	125,493	—	125,493	69,572
Furniture and equipment	603,848	279,777	324,071	46,233
Network	87,819	52,413	35,406	52,969
Leasehold improvements	102,392	102,392	—	10,311
	919,552	434,582	484,970	179,085
Website	176,354	142,847	33,507	68,778
	1,095,906	577,429	518,477	247,863

11. Special Fund – externally restricted

The Special Fund includes the following externally restricted donations:

	2021	2020
	\$	\$
Capital Campaign Fund	279,694	258,339
Best Care for Children Fund	17,472,660	22,669,253
Other external restrictions	48,525,540	31,521,594
	66,277,894	54,449,186

12. Commitments

- i) Pursuant to various operating leases and renewal options that expire through December 2025, the Foundation has lease commitments relating to its own premises that require the following annual payments:

	\$
2022	316,919
2023	336,804
2024	162,096
2025	127,155
2026	74,173
	<u>1,017,147</u>

- ii) Under a signed agreement between the McGill University Health Centre and the ministère de la Santé et des Services sociaux in respect of the Glen site, the Foundation's share of this undertaking amounted to a total of \$42,200,00 payable over 10 years. The balance payable of \$16,880,000 requires the following annual payments:

	\$
2022	4,220,000
2023	4,220,000
2024	4,220,000
2025	4,220,000
	<u>16,880,000</u>

- iii) The Foundation is presently negotiating an Offer to Purchase in relation to offices and temporary accommodations for families of patients of the Montreal Children's Hospital. This structure will be built over the next two years for a total estimated cost of \$4.5M payable as of March 31, 2023. The Board has internally restricted \$4.5M of the Operating Fund for this investment.

13. Financial instruments

Investment policy

Investments must be managed in adherence to the principles of consistency and continuity. The principle of conservatism predominates when the investment committee and advisers are engaged in decision-making and applying strategies.

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

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

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

Market risk

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

a) Currency risk

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

The statement of financial position includes \$22,901,414 (\$15,839,306 in 2020) of investments denominated in U.S. dollars, \$6,551,743 (\$6,028,235 in 2020) denominated in euros and \$16,578,589 (\$9,417,657 in 2020) denominated in other foreign currencies.

b) Interest rate risk

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

c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those variations are caused by factors specific to the instrument in question or its issuer, or by factors affecting all similar financial instruments traded on the market. The Foundation is exposed to other price risk through its investments in list shares and mutual funds for which the value fluctuates with the quoted market price.

Credit risk

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

14. 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.