

Financial Statements of

**STOLLERY CHILDREN'S
HOSPITAL FOUNDATION**

Year ended March 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the Stollery Children's Hospital Foundation

Opinion

We have audited the financial statements of Stollery Children's Hospital Foundation which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations and changes in fund balances for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Stollery Children's Hospital Foundation at March 31, 2019, and its results of operations and 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. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of Stollery Children's Hospital 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 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 Stollery Children's Hospital 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 Stollery Children's Hospital Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Stollery Children's Hospital Foundation's financial reporting process.

Auditors' 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 auditors' 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 generally accepted auditing standards 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 the financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, 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 Stollery Children's Hospital 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 Stollery Children's Hospital 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 auditors' 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 auditors' report. However, future events or conditions may cause Stollery Children's Hospital 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.
- 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.

KPMG LLP

Chartered Professional Accountants

Edmonton, Canada

June 18, 2019

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Financial Statements

Year ended March 31, 2019

Financial Statements

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STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Statement of Financial Position

March 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 11,455,701	\$ 9,081,195
Accounts receivable	643,650	386,010
Prepaid expenses	459,600	413,261
<u>Inventory</u>	<u>169,429</u>	<u>154,726</u>
	12,728,380	10,035,192
Portfolio investments (note 2)	56,989,646	60,264,822
Capital assets (note 3)	454,412	452,820
	<u>\$ 70,172,438</u>	<u>\$ 70,752,834</u>

Liabilities and Fund Balances

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 2,513,948	\$ 1,665,467
<u>Deferred revenue</u>	<u>152,864</u>	<u>134,803</u>
	2,666,812	1,800,270
Fund balances:		
Externally restricted	5,416,060	6,608,126
Internally restricted (note 4)	42,623,830	36,663,201
<u>Unrestricted</u>	<u>19,465,736</u>	<u>25,681,237</u>
	67,505,626	68,952,564
Commitments (note 4)		
	<u>\$ 70,172,438</u>	<u>\$ 70,752,834</u>

See accompanying notes to financial statements.

On behalf of the Board of Trustees:



Chair



Chair of Finance and Audit Committee

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Statement of Operations and Changes in Fund Balances

Year ended March 31, 2019, with comparative information for 2018

	Externally restricted fund	Internally restricted fund	Unrestricted fund	Total 2019	Total 2018
Revenue:					
Fundraising projects and contributions	\$ 1,530,875	\$ -	\$ 18,604,576	\$ 20,135,451	\$ 21,756,990
Mighty Millions Lottery	-	-	8,701,974	8,701,974	7,564,479
Investment income (Schedule A)	-	-	2,534,706	2,534,706	1,174,023
Merchandising	-	-	463,546	463,546	417,873
	1,530,875	-	30,304,802	31,835,677	30,913,365
Expenditures:					
Fundraising	-	-	6,603,927	6,603,927	6,286,513
Mighty Millions Lottery	-	-	6,534,864	6,534,864	6,012,515
Administration	-	-	2,508,162	2,508,162	2,110,509
Merchandising	-	-	390,850	390,850	420,342
	-	-	16,037,803	16,037,803	14,829,879
Excess of revenue over expenditures before grants	1,530,875	-	14,266,999	15,797,874	16,083,486
Grants payments	2,722,941	14,521,871	-	17,244,812	13,366,711
(Deficiency) excess of revenue over expenditures	(1,192,066)	(14,521,871)	14,266,999	(1,446,938)	2,716,775
Fund balances, beginning of year	6,608,126	36,663,201	25,681,237	68,952,564	66,235,789
Transfers	-	20,482,500	(20,482,500)	-	-
Fund balances, end of year	\$ 5,416,060	\$ 42,623,830	\$ 19,465,736	\$ 67,505,626	\$ 68,952,564

See accompanying notes to financial statements.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by operations:		
(Deficiency) excess of revenue over expenditures	\$ (1,446,938)	\$ 2,716,775
Items not involving cash:		
Unrealized (gain) loss on portfolio investments	(955,574)	1,400,928
Realized loss (gain) on portfolio investments	290,204	(820,898)
Amortization of capital assets	74,341	69,314
Change in non-cash operating working capital:		
(Increase) decrease in accounts receivable	(257,640)	57,234
(Increase) decrease in prepaid expenses	(46,339)	62,729
Increase in inventory	(14,703)	(32,973)
Increase (decrease) in accounts payable and accrued liabilities	848,481	(165,502)
Increase in deferred revenue	18,061	41,710
	<u>(1,490,107)</u>	<u>3,329,317</u>
Cash flows used in investing activities:		
Sale (acquisition) of portfolio investments, net	3,940,546	(6,399,449)
Acquisition of capital assets	(75,933)	(27,218)
Distributions received from joint venture	-	323,680
	<u>3,864,613</u>	<u>(6,102,987)</u>
Increase (decrease) in cash	2,374,506	(2,773,670)
Cash, beginning of year	9,081,195	11,854,865
Cash, end of year	<u>\$ 11,455,701</u>	<u>\$ 9,081,195</u>

See accompanying notes to financial statements.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements

Year ended March 31, 2019

Stollery Children's Hospital Foundation (the "Foundation") operates under the Regional Health Authorities Foundations Regulation. The Foundation is registered with the Canada Revenue Agency as a charitable organization and is exempt from income taxes.

The mission of the Foundation is to enhance health services for children by raising money to support the Stollery Children's Hospital (the "Hospital") and programs that promote health, prevent disease and treat illness and injury. Funding provided by the Foundation supports health services for children through education, research, special services and acquisition of equipment. As well, the Foundation educates communities on needs, thanks donors who support the Foundation and shares the impact of their donation on the lives of children and their families.

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook.

(a) Fund accounting:

The Foundation follows the restricted fund method of accounting for contributions. The following funds have been established for financial reporting purposes:

- i) Externally restricted fund - consists of funds which restrictions have been imposed by the donor
- ii) Internally restricted fund – consists of funds upon which restrictions have been imposed by the Board of Trustees (the "Board"). These funds represent donations and income that were initially unrestricted by upon which the Board has placed restrictions for specific priority programs at the Hospital.
- iii) Unrestricted fund - consists of donations and investment income upon which no restrictions have been imposed by the donors or the Board. These funds are managed in accordance with general Board policies and may be internally restricted through Board motion.

(b) Inventory:

Inventory consists of items held for resale and is valued at the lower of cost, measured on a first-in, first-out basis, and replacement cost. Merchandising expense represents the cost of inventory sold during the year.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

(c) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Repairs and maintenance costs are expensed as incurred. Betterments which extend the useful life of an asset are capitalized. When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written down to its residual value. Capital assets include works of art which are not subject to amortization.

Capital assets are amortized on a straight-line basis as follows:

Asset	Useful Life
Equipment	3 years
Furniture and fixtures	10 years
Computer software	3 years
Leasehold improvements	Term of Lease

(d) Revenue recognition:

Externally restricted contributions are recognized as revenue of the externally restricted fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income is recognized as revenue of the unrestricted fund when earned.

Fundraising projects and merchandising revenue are recognized in the year in which the event is held or goods are sold.

(e) Contributed materials and services:

Contributed materials and services are recorded at fair value when they would have otherwise been purchased and when a fair value can be reasonably estimated. Contributed services of volunteers are not recognized in these financial statements as their fair value cannot be reasonably determined.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. The Foundation does not use derivative financial instruments to alter the effects of market interest or foreign exchange fluctuations. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Foundation has elected to carry its fixed-income instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(g) Use of estimates:

The preparation of financial statements 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 revenues and expenses during the year. Actual results could differ from those estimates.

(h) Employee future benefits:

The Foundation participates in the Local Authorities Pension Plan, which is a multi-employer defined benefit pension plan. As it is not practicable to separate the information in the plan that relates to the Foundation, it is accounted for as a defined contribution plan.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

2. Portfolio investments:

	2019	2018
Fixed-income, measured at fair value:		
Term deposit	\$ 5,336,707	\$ 10,240,480
Government and government backed bonds	14,029,610	13,813,806
Corporate bonds	16,163,240	14,982,327
	<u>35,529,557</u>	<u>39,036,613</u>
Equities, measured at fair value:		
Canadian	9,718,402	9,136,362
United States	5,424,288	5,336,722
International	4,971,303	5,022,963
	<u>20,113,993</u>	<u>19,496,047</u>
Cash surrender value of life insurance	224,842	436,357
Cash and equivalents	1,121,254	1,295,805
	<u>\$ 56,989,646</u>	<u>\$ 60,264,822</u>

The term deposits carry coupon rates of 2.00%, 2.05% and 3.05% and maturity dates of August 2019 to October 2020.

Government and government backed bonds carry coupon rates of 1.15% to 6.35% (2018 - 1.15% to 5.75%) with maturity dates from June 2019 to June 2031 (2018 - June 2018 to June 2033) and a principal amount of \$13,841,841 (2018 - \$13,962,931).

Corporate bonds carry coupon rates of 1.74% to 7.85% (2018 - 1.74% to 7.10%) with maturity dates from March 2020 to March 2044 (2018 - April 2019 to Jun 2031) and a principal amount of \$16,022,962 (2018 - \$15,180,754).

Approximately 36.00% (2018 - 33.00%) of the fixed-income investments mature within the next fiscal year, 25.00% (2018 - 17.00%) mature within the next two to five years and the balance mature after five years.

Equities are comprised of publicly traded equities in Canadian, United States and International corporations.

Cash and equivalents are represented by cash on deposit with the Investment Broker for future investment purchases.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

3. Capital assets:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Equipment	\$ 148,671	\$ 104,367	\$ 44,304	\$ 27,758
Furniture and fixtures	220,501	83,982	136,519	136,509
Computer software	55,185	48,299	6,886	569
Leasehold improvements	323,006	106,303	216,703	237,984
Works of art	50,000	-	50,000	50,000
	\$ 797,363	\$ 342,951	\$ 454,412	\$ 452,820

Amortization of \$74,341 (2018 - \$69,314) is included in administration expenditures.

4. Commitments:

- a) The Foundation is committed to future annual operating lease payments for office equipment as follows:

2020	\$ 18,575
2021	12,003
2022	1,796
2023	-
2024	-
Thereafter	-

- b) The Foundation has approved cumulative funding commitments of \$42,623,830 (2018 - \$36,663,201) which will be carried forward to future years. At March 31, 2019, \$22,159,206 (2018 - \$12,936,938) relates to commitments to the Stollery Children's Hospital that will be distributed upon request.

In addition to the approved funding commitments, the Foundation has entered into memorandums of understanding with various entities to provide financial support for children's health initiatives. As at March 31, 2019, the future funding commitments related to these arrangements are \$54,489,065 (2018 - \$32,000,000).

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

4. Commitments (continued):

	Women & Children's Health Research Institute	Alberta Health Services re Mental Health Centre	Mental Health Foundation	Grande Prairie Regional Hospital Foundation	Total
2021	\$ 5,000,000	\$ 3,000,000	\$ 1,000,000	\$ 489,065	\$ 9,489,065
2022	5,000,000	3,000,000	1,000,000	-	9,000,000
2023	5,000,000	5,000,000	1,000,000	-	11,000,000
Thereafter	12,000,000	13,000,000	-	-	25,000,000
	\$ 27,000,000	\$ 24,000,000	\$ 3,000,000	\$ 489,065	\$ 54,489,065

- c) The Foundation has received pledges of \$1,322,489 (2018 - \$1,271,823) from donors which have not been recognized as revenue at year-end. Payment of the amounts pledged is expected by the Foundation as follows:

2020	\$ 621,340
2021	524,982
2022	71,167
2023	26,000
Thereafter	79,000

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

5. Employee future benefits:

All eligible employees of the Foundation participate in the Local Authorities Pension Plan (LAPP) under the Public Sector Pension Plans Act. Contribution requirements for the Foundation are as follows:

	2019	2018
Employer		
Pensionable earnings up to the maximum under the Canada Pension Plan	9.39%	10.39%
Pensionable earnings in excess of the maximum under the Canada Pension Plans	13.84%	14.84%
Employee		
Pensionable earnings up to the maximum under the Canada Pension Plan	8.39%	9.39%
Pensionable earnings in excess of the maximum under the Canada Pension Plan	12.84%	13.84%

Information for the year ended December 31, 2018 was not available at the time of preparing these financial statements (2017 - actuarial surplus of \$4.84 billion). The Foundation contributed a total of \$452,537 for the year ended March 31, 2019 (2018 - \$368,240), which has been recorded within administrative expenditures in the statement of operations. The Foundation had 42 (2017 - 31) contributing members in the plan which has a total of 259,714 members at December 31, 2017 (2016 - 253,862).

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

6. Related party transactions:

The Foundation provides grants of money and services to the Hospital. These grants allow the Hospital to provide health services not funded from other sources.

Accommodation, furnishings and certain other overhead costs incurred in the administration of the Foundation provided by the Hospital and Alberta Health Services are not reasonably estimable and consequently are not reflected in these financial statements.

At March 31, 2019, accounts payable and accrued liabilities include \$775,443 (2018 - \$1,025,177) due to Alberta Health Services.

7. Financial risks:

Income and financial returns on investments are exposed to credit and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Price risk is comprised of interest rate, foreign exchange and market risk. Interest rate risk relates to the possibility that investments will change in value due to fluctuations in interest rates. Market and foreign exchange risk relates to the possibility that investments will change in value due to future fluctuations in market prices and foreign exchanges rates.

These risks are managed by the Foundation's investment policies, which prescribe the investment asset mix including the degree of liquidity and concentration and the amount of foreign content.

Changes in interest rates and credit ratings are the main cause of changes in the fair value of government securities and corporate bonds resulting in a favorable or unfavorable variance compared to book value. Credit risk is mitigated by investing in government securities and corporate bonds with a rating of A or better and diversifying the securities between government, government backed and corporate issuers. Interest rate risk is mitigated by managing maturity dates and payment frequency. The Foundation limits credit risk associated with other financial assets by dealing with counterparties that it believes are creditworthy. The fair value of equities is impacted by price risk.

The Foundation does not use derivative instruments to alter the effects of interest, market and foreign exchange risks.

8. Comparative information:

Certain comparative information have been reclassified to conform to current year's presentation.

STOLLERY CHILDREN'S HOSPITAL FOUNDATION

Schedule A - Investment Income

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Dividends	\$ 594,376	\$ 586,310
Interest	1,274,622	1,167,743
Realized (losses) gains on portfolio investments	(290,204)	820,898
Unrealized gains (losses) on portfolio investments	955,574	(1,400,928)
Foreign exchange gain	338	-
	\$ 2,534,706	\$ 1,174,023