

*Financial statements of*

**THE MONTREAL CHILDREN'S HOSPITAL  
FOUNDATION**

*March 31, 2012*

**THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION**  
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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, 2012, and the statement of operations and changes in fund balances 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 generally accepted accounting principles, 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, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Sansen Bélan / Deloitte & Touche p.e.n.c.r.l.<sup>1</sup>*

September 27, 2012

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<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, 2012

	Operating	Special	Endowment	Total	
	Fund	Fund	Fund	2012	2011
	\$	\$	\$	\$	\$
<b>Revenue</b>					
Donations	7,625,754	9,272,314	184,438	17,082,506	16,146,937
Telethon for research	-	545,056	-	545,056	785,000
Opération Enfant Soleil	-	2,611,522	-	2,611,522	2,311,036
	7,625,754	12,428,892	184,438	20,239,084	19,242,973
Investment income - net (Note 3)	335,168	307,300	-	642,468	4,313,796
	7,960,922	12,736,192	184,438	20,881,552	23,556,769
<b>Expenses</b>					
Salaries and benefits	1,779,906	378,444	-	2,158,350	1,910,175
Campaign costs	746,600	187,632	-	934,232	938,855
Publicity and donor recognition	79,970	78,998	-	158,968	169,178
General and administrative	336,066	135,275	-	471,341	471,539
Professional and consulting	209,942	9,076	-	219,018	127,080
Rent	194,984	83,650	-	278,634	259,929
Amortization of fixed assets	9,485	9,799	-	19,284	24,924
	3,356,953	882,874	-	4,239,827	3,901,680
Excess of revenue over expenses before contributions	4,603,969	11,853,318	184,438	16,641,725	19,655,089
Contributions to The Montreal Children's Hospital:					
Hospital equipment and services	1,163,240	-	-	1,163,240	1,453,222
Research equipment and services	3,788,326	3,957,648	-	7,745,974	5,269,978
Other restricted contributions	333,309	1,017,647	-	1,350,956	2,218,729
Renovations, rent and other priorities	13,752	2,051,989	-	2,065,741	3,605,564
	5,298,627	7,027,284	-	12,325,911	12,547,493
<b>Excess (deficiency) of revenue over expenses</b>	<b>(694,658)</b>	<b>4,826,034</b>	<b>184,438</b>	<b>4,315,814</b>	<b>7,107,596</b>
<b>Fund balances, beginning of year</b>					
As previously reported	(6,457,121)	40,155,355	40,282,632	73,980,866	66,873,270
Reclassification (Note 4)	142,529	(142,529)	-	-	-
As reclassified	(6,314,592)	40,012,826	40,282,632	73,980,866	66,873,270
Interfund transfers (Note 4)	(17,200)	(1,271,273)	1,288,473	-	-
<b>Fund balances, end of year</b>	<b>(7,026,450)</b>	<b>43,567,587</b>	<b>41,755,543</b>	<b>78,296,680</b>	<b>73,980,866</b>

# THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

## Balance sheet

as at March 31, 2012

	Operating Fund	Special Fund	Endowment Fund	Total	
				2012	2011
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash	1,437,128	12,340,650	9,727	13,787,505	13,027,618
Restricted cash (Note 5)	-	14,037,606	-	14,037,606	11,523,723
Accounts receivable	187,191	147,432	-	334,623	192,358
Due from other funds	-	12,131,437*	-	-	-
Investments (Note 7)	-	5,238,071	46,348,793	51,586,864	51,348,247
Fixed assets (Note 8)	14,730	60,426	-	75,156	80,971
Prepaid expenses	39,789	-	-	39,789	41,496
	<b>1,678,838</b>	<b>43,955,622</b>	<b>46,358,520</b>	<b>79,861,543</b>	<b>76,214,413</b>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	668,006	123,030	-	791,036	788,584
Contributions payable - Montreal Children's Hospital	508,822	265,005	-	773,827	1,444,963
Due to other Fund	7,528,460*	-	4,602,977*	-	-
	<b>8,705,288</b>	<b>388,035</b>	<b>4,602,977</b>	<b>1,564,863</b>	<b>2,233,547</b>
Commitments and guarantees (Note 10)					
<b>Fund balances</b>					
Invested in fixed assets	14,730	60,426	-	75,156	80,971
Externally restricted (Note 9)	4,164,548	43,507,161	23,451,923	71,123,632	65,597,403
Internally restricted	-	-	18,303,620	18,303,620	18,303,620
Unrestricted (deficit)	(11,205,728)	-	-	(11,205,728)	(10,001,128)
	<b>(7,026,450)</b>	<b>43,567,587</b>	<b>41,755,543</b>	<b>78,296,680</b>	<b>73,980,866</b>
	<b>1,678,838</b>	<b>43,955,622</b>	<b>46,358,520</b>	<b>79,861,543</b>	<b>76,214,413</b>

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

## Approved by the Board of Directors

.....Director

.....Director

# THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

## Notes to the financial statements

March 31, 2012

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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 a registered charity under the *Income Tax Act*.

In order to maintain its registered charity status, the Foundation must meet certain spending requirements ("minimum spending requirement") according to the *Income Tax Act*. The minimum spending requirement is a minimum amount that the registered charity must spend on charitable programs or as gifts to qualified donees. Failure to comply with this requirement could lead to a revocation of the Foundation's registered charity status. As at March 31, 2012, the Foundation complies with the requirement.

### 2. Significant accounting policies

The Foundation has elected to use the exemption provided by the Canadian Institute of Chartered Accountants ("CICA") permitting not-for-profit organizations not to apply Sections 3862 and 3863 of the CICA Handbook, which would otherwise have applied to the financial statements of the Foundation for the year ended March 31, 2012. The Foundation applies the requirements of Section 3861 of the CICA Handbook about disclosures and the presentation of financial instruments.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") 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. Externally restricted fund balances of the Operating Fund represent non-distributed externally restricted investment income related to endowment at the balance sheet date.

#### *ii) Special Fund*

The Special Fund represents externally restricted donations (see Note 9).

#### *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.

# THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

## Notes to the financial statements

March 31, 2012

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### 2. Significant 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. Other restricted donations are recognized as revenue of the appropriate restricted fund. Endowment donations are recognized as revenue in the Endowment Fund.

##### *ii) Unrestricted donations*

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

##### *iii) Investment income*

Investment income is recognized when earned. It is recorded in the various Funds except for investment income of the Endowment Fund, which is recorded in the Operating Fund, unless otherwise specified by donors.

##### *iv) Contributed services*

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

##### *v) Gifts-in-kind*

Gifts-in-kind are recorded at fair value.

#### *Expense sharing*

The expenses of the Best Care for Children Fund, included in the Special Fund, are comprised of 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 of the year in which they are paid or become payable.



# THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

## Notes to the financial statements

March 31, 2012

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### 2. Significant accounting policies (continued)

#### *Financial instruments*

The financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Foundation's designation of such instruments. Settlement date accounting is used.

#### Classification

Cash and restricted cash	Held for trading
Accounts receivable	Loans and receivables
Investments	Held for trading
Accounts payable and accrued liabilities	Other liabilities
Contributions payable - Montreal Children's Hospital	Other liabilities

#### Held for trading

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations are included in the results.

#### Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

#### Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method.

#### Transaction costs

Transaction costs related to held-for-trading financial assets are expensed as incurred.

#### Effective interest method

The Foundation uses the effective interest method to recognize interest revenue or expense, which includes transaction costs as well as fees, premiums and discounts earned or incurred on financial instruments.

#### *Due from/to other funds*

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

# THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

## Notes to the financial statements

March 31, 2012

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### 2. Significant accounting policies (continued)

#### *Fixed assets*

Fixed assets are recorded at cost and amortized based on their estimated 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 GAAP 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 these estimates.

#### *Future accounting changes - New accounting framework*

The CICA has approved a new accounting framework applicable to not-for-profit organizations. Effective for fiscal years beginning on January 1, 2012, not-for-profit organizations will have to choose between International Financial Reporting Standards ("IFRS") and new Canadian accounting standards for not-for-profit organizations. The Foundation currently plans to adopt the new Canadian accounting standards for not-for-profit organizations; however, the impact of this transition has not been determined.

### 3. Investment income - net

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

	<u>2012</u>	<u>2011</u>
	\$	\$
Interest and dividends	1,899,773	1,760,168
Net gain (losses) on disposal of investments	568,782	(342,881)
Change in unrealized fair value of investments*	(1,623,678)	3,067,018
	<u>844,877</u>	<u>4,484,305</u>
Management and custodian fees	(202,409)	(170,509)
	<u>642,468</u>	<u>4,313,796</u>

# THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

## Notes to the financial statements

March 31, 2012

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

Investment income is recorded as follows:

	<u>2012</u>	<u>2011</u>
	\$	\$
Operating Fund – resources held by the Endowment Fund**	<b>315,035</b>	4,036,309
Operating Fund – resources held by the Operating Fund	<b>20,133</b>	10,589
Special Fund	<b>307,300</b>	266,898
	<b>642,468</b>	4,313,796

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\* Change in fair value of investments, which is presented separately, is calculated as follows:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
	\$	\$	\$
Fair value	<b>51,586,864</b>	51,348,247	
Cost	<b>52,804,353</b>	50,942,058	
	<b>(1,217,489)</b>	406,189	(1,623,678)

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\*\*The net investment income of the Operating Fund includes primarily the income derived from resources held as endowments for an amount of \$315,035 (\$4,036,309 in 2011), which consists of \$1,635,657 (\$1,478,298 in 2011) of interest and dividends, \$549,082 of net gain on disposal of investments (net losses of \$143,853 in 2011) and \$1,675,900 of negative change in fair value of investments (positive change of \$2,862,337 in 2011), net of investment and custodian fees of \$193,804 (\$160,473 in 2011).

### 4. Reclassification and interfund transfers

#### *Reclassification*

During the year ended March 31, 2012, the Foundation received additional information about donations recognized for the previous years. Consequently, \$142,529 in donations were reclassified from the Special Fund to the Operating Fund.

#### *Interfund transfers*

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

# THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

## Notes to the financial statements

March 31, 2012

### 5. Restricted cash

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

Under a fund management agreement effective April 1, 2007, these amounts can be paid to The Montreal Children's Hospital only when Opération Enfant Soleil confirms that the acceptance conditions for the projects associated with these payments are met. In addition, interest generated by restricted cash (and investments, if applicable), are the property of Opération Enfant Soleil. Consequently, this interest of \$90,867 for the year ended March 31, 2012 (\$51,869 in 2011) is not recorded in the Foundation's financial statements.

### 6. Donation pledges

In addition to sums already received for this purpose since the creation of the Best Care for Children Fund, the Foundation has received donation pledges in support of the building of the new Montreal Children's Hospital. The total amount of pledges supported by signed agreement represents \$15,179,205. Amounts to be received in the forthcoming years are as follows:

	Year ending March 31					Total
	2013	2014	2015	2016	2017 and thereafter	
	\$	\$	\$	\$	\$	\$
Special Fund	2,331,995	2,144,097	1,931,929	1,625,607	7,145,577	15,179,205

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

The donation pledges will be recorded as revenues when collected.

### 7. Investments

	2012	2011
	\$	\$
Cash	422,661	113,136
Money market and Treasury bills	2,082,029	2,245,544
Canadian bonds, par value of \$8,984,000 (\$10,659,000 in 2011), interest from 1.20% to 11.00% (1.20% to 11.00% in 2011), maturing from 2012 to 2026 (2011 to 2026 in 2011)	9,717,955	11,404,412
Pooled Canadian Bond Funds	6,648,260	7,329,142
Canadian Equities	8,218,157	8,399,673
Pooled Canadian Equity Funds	5,566,621	5,138,607
US Equities	4,703,094	4,175,637
International Equities	7,814,726	7,171,577
Pooled US and International Equity Funds	6,413,361	5,370,519
	51,586,864	51,348,247

# THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

## Notes to the financial statements

March 31, 2012

### 8. Fixed assets

	2012			2011
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Office furniture	31,069	23,245	7,824	10,746
Computer equipment	222,640	215,734	6,906	-
Other equipment	97,987	37,561	60,426	70,225
	351,696	276,540	75,156	80,971

Fixed asset acquisitions for the year totaled \$13,469 (\$13,514 in 2011).

### 9. Special Fund - externally restricted

The Special Fund includes the following externally restricted donations:

	2012	2011
	\$	\$ (reclassified)
Capital Campaign Fund	4,210,964	5,192,260
The Montreal Children's Hospital Corporation Fund	1,798,271	1,741,970
Best Care for Children Fund	22,378,453	19,975,566
Other external restrictions	15,119,473	13,032,805
	43,507,161	39,942,601

### 10. Commitments and guarantees

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

	\$
2013	399,000
2014	399,000
2015	422,625
2016	430,500
2017	430,500
2018 and thereafter	538,125
	2,619,750

# THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

## Notes to the financial statements

March 31, 2012

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### 10. Commitments and guarantees (continued)

In addition, under operating leases expiring through 2016, the Foundation has lease commitments relating to its own premises that require the following annual payments:

	\$
2013	362,306
2014	376,124
2015	361,321
2016	138,840
	<u>1,238,591</u>

The Foundation has guaranteed a portion of the credit facility of the McGill University Health Centre Foundation for an amount of nil (\$200,000 in 2011). As at March 31, 2012, an amount of nil (\$195,239 in 2011) was used under this portion of the credit facility.

### 11. Financial instruments

Because of its financial assets and liabilities, the Foundation is exposed to the following risks:

#### *Market risk*

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

#### *Credit risk*

The credit risk is due to the fact that the Foundation owns bonds and bonds held in mutual funds. Therefore, there is a credit risk that the bond issuer will be unable to pay its obligations towards the Foundation, which will have an impact on the assets of the Foundation.

#### *Interest rate risk*

The investments in bonds and bonds held in mutual funds bear fixed interest rates. Consequently, a change in the market interest rate would have an impact on the fair value of these investments.

#### *Currency risk*

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

The balance sheet includes \$5,554,955 (\$6,094,895 in 2011) of investments denominated in United States dollars, \$3,449,919 (\$3,351,756 in 2011) denominated in Euros and \$3,216,026 (\$2,860,551 in 2011) denominated in other foreign currencies.

# THE MONTREAL CHILDREN'S HOSPITAL FOUNDATION

## Notes to the financial statements

March 31, 2012

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### 11. Financial instruments (continued)

#### *Market risk (continued)*

##### *Share price risk*

Share price risk is the risk that the fair value of an investment fluctuates due to changes in share prices. The Foundation uses asset diversification to manage this risk.

##### *Fair value*

The fair values of accounts receivable, accounts payable and accrued liabilities and contributions payable - Montreal Children's Hospital approximate their carrying value due to their short-term nature.

##### *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 an ideal 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, 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, except of a receivable amount of \$147,432 included in Special Fund accounts receivable.

These transactions are within the normal course of operations and are measured at the exchange amounts.

### 13. Statement of cash flows

A cash flow statement has not been prepared since the cash flow information is readily apparent from other financial statements and related notes.

### 14. Comparative figures

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