

Financial Statements

Alberta Children's Hospital Foundation

March 31, 2015



Building a better
working world

INDEPENDENT AUDITORS' REPORT

To the Members of
Alberta Children's Hospital Foundation

We have audited the accompanying financial statements of **Alberta Children's Hospital Foundation**, which comprise the statement of financial position as at March 31, 2015, the statements of operations and changes in fund balances and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider 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 **Alberta Children's Hospital Foundation** as at March 31, 2015, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Other Matter

The financial statements of Alberta Children's Hospital Foundation as at and for the year ended March 31, 2014, were audited by another auditor who expressed an unmodified opinion on those financial statements.

Calgary, Canada
June 18, 2015

Ernst & Young LLP

Chartered Accountants

Alberta Children's Hospital Foundation

STATEMENT OF FINANCIAL POSITION

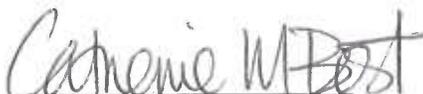
(thousands of dollars)

As at March 31

	Total	
	2015	2014
	\$	\$
ASSETS		
Current		
Cash	24,775	19,617
Accounts receivable and accrued interest	83	100
Prepaid expenses	185	248
Total current assets	25,043	19,965
Investments <i>[note 3]</i>	179,370	154,480
Other assets <i>[note 4]</i>	132	121
Property and equipment <i>[note 5]</i>	297	42
	204,842	174,608
LIABILITIES AND FUND BALANCES		
Current		
Accounts payable and accrued liabilities <i>[note 11]</i>	4,270	2,282
Total current liabilities	4,270	2,282
Commitments <i>[note 9]</i>		
Fund balances		
Operating - internally restricted <i>[note 7]</i>	31,020	25,431
Restricted <i>[note 6]</i>	53,490	34,063
Endowments - externally restricted <i>[note 6]</i>	71,392	68,162
Endowments - internally restricted <i>[note 7]</i>	44,670	44,670
	200,572	172,326
	204,842	174,608

See accompanying notes

On behalf of the Board:


Director


Director

Alberta Children's Hospital Foundation

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

(thousands of dollars)

Year ended March 31

	Operating Fund \$	Restricted Fund \$	Endowment Fund \$	Total	
				2015 \$	2014 \$
REVENUE					
Fundraising <i>[note 8]</i>	8,917	26,795	3,323	39,035	34,271
Investment and other income <i>[notes 3 and 10]</i>	5,840	3,284	—	9,124	12,254
	14,757	30,079	3,323	48,159	46,525
EXPENSES					
Grants and hospital funding <i>[note 11]</i>					
Childhood cancer centre	—	3,955	—	3,955	3,399
Clinical	181	7,144	—	7,325	7,036
Education and other	15	2,263	—	2,278	479
Family centred care	—	2,837	—	2,837	2,276
Research	—	12,595	—	12,595	9,508
	196	28,794	—	28,990	22,698
Operating <i>[notes 11 and 14]</i>	6,737	823	—	7,560	6,554
Total expenses	6,933	29,617	—	36,550	29,252
Excess of revenue over expenses before unrealized gain	7,824	462	3,323	11,609	17,273
Change in unrealized gain <i>[notes 3 and 4]</i>	9,220	7,417	—	16,637	12,298
Excess of revenue over expenses	17,044	7,879	3,323	28,246	29,571
Fund balances, beginning of year	25,431	34,063	112,832	172,326	142,755
Interfund transfers <i>[notes 6 and 7]</i>	(11,455)	11,548	(93)	—	—
Fund balances, end of year	31,020	53,490	116,062	200,572	172,326

Alberta Children's Hospital Foundation

STATEMENT OF CASH FLOWS

(thousands of dollars)

Year ended March 31

	2015	2014
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses	28,246	29,571
Adjustments to reconcile net cash from operating activities		
Endowment contributions	(3,323)	(4,117)
Amortization of property and equipment	70	52
Change in unrealized gain	(16,637)	(12,298)
Gain on sale of investments <i>[note 3]</i>	(3,310)	(7,806)
	<u>5,046</u>	<u>5,402</u>
Changes in non-cash working capital		
Accounts receivable and accrued interest	17	510
Prepaid expenses	63	(8)
Accounts payable and accrued liabilities	1,988	(481)
Cash provided by operating activities	<u>7,114</u>	<u>5,423</u>
INVESTING ACTIVITIES		
Purchase of investments <i>[note 3]</i>	(19,134)	(41,140)
Proceeds on sale of investments <i>[note 3]</i>	14,180	37,430
Purchase of property and equipment	(325)	—
Cash used in investing activities	<u>(5,279)</u>	<u>(3,710)</u>
FINANCING ACTIVITIES		
Endowment contributions	3,323	4,117
Cash provided by financing activities	<u>3,323</u>	<u>4,117</u>
Net increase in cash during the year	5,158	5,830
Cash, beginning of year	19,617	13,787
Cash, end of year	<u>24,775</u>	<u>19,617</u>

See accompanying notes

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
(thousands of dollars)

1. GENERAL

The Alberta Children's Hospital Foundation [the "Foundation"] was incorporated under The Societies Act of the Province of Alberta to support excellence in pediatric health care, services, facilities, education and research in Southern Alberta primarily at the Alberta Children's Hospital.

The Foundation is a registered charitable organization and is income tax exempt under Section 149 of the Income Tax Act (Canada).

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Part III of the Chartered Professional Accountants of Canada Accounting Handbook – Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada ["GAAP"] and include the significant accounting policies described hereafter.

[a] Fund accounting

Activities of the Foundation are segregated into the following funds:

- [i] The Operating Fund reports the Foundation's annual fundraising and administrative activities and reports unrestricted resources.
- [ii] The Restricted Fund reports amounts which are restricted externally by donors in support of child health programs, equipment, research and education.
- [iii] The Endowment Fund reports amounts which are restricted, either internally or externally, for endowment and are meant to be held permanently. The externally restricted fund balance represents contributions endowed by donors. Amounts specifically identified as endowments by donors are included in revenue of the Endowment Fund, and investment income earned is allocated in accordance with the Foundation's Endowment Policy, which is agreed to by the donors at the time the contribution is endowed. Amounts which are internally restricted are recorded in the Endowment Fund by way of interfund transfers and investment income earned is recorded in the Operating Fund. Internally restricted endowment funds are intended to exist in perpetuity with the annual investment return utilized towards the Foundation's annual funding commitments.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
(thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[b] 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. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the 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 financial costs, which are amortized using the straight-line method.

Financial assets with indicators of impairment are assessed for impairment on an annual basis at the end of the fiscal year. 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.

[c] Foreign currency

All foreign currency denominated investments are translated into Canadian dollars at the rate of exchange in effect on the date of the statement of financial position. Investment income from these securities is translated into Canadian dollars at the rate of exchange in effect when realized. Unrealized gains and losses on foreign currency denominated investments are translated into Canadian dollars at the rate of exchange in effect on the date of the statement of financial position.

[d] Property and equipment

Property and equipment are recorded at cost less accumulated amortization, with amortization provided on a straight-line basis at 25% per annum.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
(thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[e] Revenue recognition

The Foundation uses the restricted fund method of accounting for contributions. Restricted contributions are recognized as revenue of the appropriate restricted fund.

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

Investment income includes dividend and interest income and realized gains or losses on the sale of investments. Investment income earned on Endowment Fund resources that is available for allocation is recognized as revenue of the Restricted or Operating Fund. Unrestricted investment income earned on Endowment Fund resources is recognized as revenue of the Operating Fund and investment income earned to reinvest is recognized as revenue of the Endowment Fund. All restricted investment income earned is recognized as revenue of the appropriate restricted fund in which it is earned. All unrestricted investment income earned is recognized as revenue in the Operating Fund.

Pledges are not booked as revenue until the donation has been received by the Foundation.

[f] Donations of materials and services

Contributed materials and services that would otherwise be paid for by the Foundation are recorded at fair value when provided.

The work of the Foundation is dependent on the voluntary service of many individuals. As such services are not normally purchased by the Foundation, and because of the difficulty of determining their fair value, such donated services are not recognized in these financial statements.

[g] Use of estimates

The preparation of the financial statements in conformity with 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 dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, valuation allowances for accounts receivable, accrued liabilities and valuation of investments. Actual results could differ from those estimates.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
(thousands of dollars)

3. INVESTMENTS

The Foundation's investments are professionally managed, with fixed income and foreign equities, other than U.S. equities, managed as part of a pooled fund, and Canadian and U.S. equities managed on a segregated basis. The Foundation's Statement of Investment Policies and Procedures ensures its investment portfolio is managed with a primary emphasis on preservation and security of capital and a secondary emphasis on yield.

	Cash and short-term investments \$	Equities \$	Fixed income \$	2015 \$	2014 \$
Balance, beginning of year	329	91,643	62,508	154,480	130,677
Sale of investments	(3,572)	(10,429)	(179)	(14,180)	(37,430)
Purchase of investments	4,436	12,119	2,579	19,134	41,140
Realized gain on sale	—	3,295	15	3,310	7,806
Change in unrealized gain	12	12,568	4,046	16,626	12,287
	1,205	109,196	68,969	179,370	154,480

Cash included in investments is held in short-term money market instruments and consequently was subject to recurring reinvestment resulting in \$4,436 of purchases and \$3,572 of sales. The gain on sales of short-term money market instruments is due to foreign exchange.

	2015 \$	2014 \$
Opening accumulated unrealized gains	29,012	16,725
Realized gains recognized in investment and other income	(3,310)	(7,806)
Unrealized gains in the year	19,936	20,093
Ending accumulated unrealized gains	45,638	29,012

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
(thousands of dollars)

3. INVESTMENTS (CONTINUED)

	2015		2014	
	Cost \$	Fair value \$	Cost \$	Fair value \$
As at March 31				
Fixed income	61,731	68,969	59,314	62,508
Canadian equities	28,016	42,380	25,487	37,519
Foreign equities	42,798	66,816	40,342	54,124
Cash and short-term investments	1,187	1,205	325	329
	133,732	179,370	125,468	154,480

[a] Foreign currency risk

Foreign currency exposure arises from the Foundation's holdings of foreign equity securities. At March 31, 2015, total foreign equity holdings were 37.25% [2014 - 35.04%] of the Foundation's investments on a fair value basis. The Foundation's overall currency positions are monitored on a daily basis by the portfolio manager. In the year, the Foundation incurred foreign currency gains of \$551 [2014 - \$420].

[b] Credit risk

Credit risk arises from the potential for an investee to fail or for a counter-party to default on its contractual obligations to the Foundation. Credit risk is managed by the Foundation's investment managers in accordance with the Foundation's Statement of Investment Policies and Procedures established by the Board of Directors.

[c] Interest rate risk

Interest rate risk arises from the Foundation's holdings of fixed income securities. As interest rates fluctuate, the fair value of these securities will be impacted.

[d] Liquidity risk

The Foundation believes it is not exposed to significant liquidity risk as all investments are held in instruments that are highly liquid and can be disposed of to settle commitments. The fixed income securities yield interest between 1.33% and 11.77% and have maturities ranging from 2015 to 2049.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
(thousands of dollars)

4. OTHER ASSETS

	2015	2014
	\$	\$
Cash surrender value of donated life insurance policies	<u>132</u>	<u>121</u>

Donated life insurance policies are recorded at their cash surrender value; face value of the policies is \$353 [2014 - \$353]. Changes in cash surrender value are reflected in the statement of operations and changes in fund balances.

5. PROPERTY AND EQUIPMENT

	2015		2014	
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Office equipment	20	18	2	9
Computer hardware	424	193	231	28
Computer software	156	92	64	5
	<u>600</u>	<u>303</u>	<u>297</u>	<u>42</u>

6. EXTERNALLY RESTRICTED NET ASSETS AND INTERFUND TRANSFERS

During fiscal 2015, interfund transfers of externally restricted net assets occurred as a result of

- \$12,489 of funds were transferred from the Operating Fund to the Restricted Fund to bridge donor funding;
- \$1,036 of funds previously used to bridge donor funding were returned to the Operating Fund from the Restricted Fund;
- \$180 of externally restricted endowments were encroached upon for specific funding commitments of the Restricted Fund with the approval of the donors;
- \$85 of funds received in the Restricted Fund were endowed by donors in 2015 and transferred to the Endowment Fund; and
- \$2 of funds received in the Operating Fund were endowed by donors in 2015 and transferred to the Endowment Fund.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
(thousands of dollars)

7. INTERNALLY RESTRICTED NET ASSETS AND INTERFUND TRANSFERS

- [a] The Foundation's funding commitments are financed partly out of the investment income earned in any given year. Investment income is influenced by short-term market fluctuations and the timing on the realization of capital gains or losses upon the sale of investments. In order to ensure that the Foundation is able to meet its funding commitments, the Board of Directors has internally restricted funds that are to be utilized in a year when investment income is negatively impacted by market fluctuations and the timing of the sale of investments.
- [b] At the end of each fiscal year, the Board of Directors may, at its discretion, internally restrict any excess revenue over expenses in the Operating Fund to support the projects and activities of the Endowment, Restricted or Operating Funds. In 2015, \$5,589 [2014 - \$12,914] was placed into internally restricted funds. Internally restricted funds are not available for unrestricted purposes without prior approval of the Board of Directors.

8. DONATIONS IN KIND

During the year, the Foundation received gifts in kind of goods and services totaling \$1,263 [2014 - \$936]. Although these donations are an integral part of the Foundation's fundraising activities, the amounts related thereto are not reflected in the statement of operations and changes in fund balances as these goods and services would not otherwise be paid for by the Foundation. The Foundation also received \$122 [2014 - \$84] of donated goods and services it would otherwise have paid for, and accordingly, this amount is included in fundraising revenue in the statement of operations and changes in fund balances.

9. COMMITMENTS

Budgeted commitments of funding for the upcoming year to the Foundation's Child Health Funding Partners [primarily Alberta Health Services and the University of Calgary] include support for the following areas:

	\$
Childhood cancer centre	3,500
Clinical	7,974
Education and other	1,688
Family centered care	3,253
Research	11,066
	<u>27,481</u>

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
(thousands of dollars)

9. COMMITMENTS (CONTINUED)

The above Research funding comprises:

- An annual commitment of \$2,500 in support of the Alberta Children's Hospital Research Institute for Child and Maternal Health until 2016; and
- \$1,676 available to the University of Calgary for approved chairs and professorships contingent on successful recruitment to the positions.

10. INVESTMENT & OTHER INCOME

Over the course of the year, the Foundation earned realized investment and other income in the amount of \$9,124 and unrealized gains in the amount of \$16,637. Realized investment income and unrealized gains earned on the externally restricted endowment funds comprised \$3,415 and \$6,515 respectively. This income was distributed between the Operating and Restricted Funds based on stipulations of the individual endowments. Realized investment income earned on the internally restricted endowment funds were \$2,412 and were allocated to the Operating Fund.

In accordance with the Foundation's Endowment Policy, a portion of the income earned by the endowments may be capitalized (added) to the Endowment Fund in a future period to preserve the real purchasing power of principal and income.

	2015			2014	
	Investment and other income	Internally restricted allocation	Externally restricted allocation	Total	Total
	\$	\$	\$	\$	\$
Operating Fund	2,790	2,919	131	5,840	7,756
Restricted Fund	507	(507)	3,284	3,284	—
Endowment Fund	5,827	(2,412)	(3,415)	—	4,498
	9,124	—	—	9,124	12,254

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
(thousands of dollars)

11. RELATED PARTIES

Alberta Health Services and the University of Calgary are funding partners with the Foundation and work together to fund the Alberta Children's Hospital.

During the year the Foundation paid grants, hospital funding and operating expenses, in the ordinary course of business, to Alberta Health Services in the amount of \$17,485 [2014 - \$15,986]. This amount includes accounts payable and accrued liabilities of \$3,428 [2014 - \$1,391]. In addition, Alberta Health Services provides the Foundation with office space at the Alberta Children's Hospital.

During the year the Foundation paid grants and hospital funding, in the ordinary course of business, to the University of Calgary in the amount of \$15,976 [2014 - \$10,551]. This amount includes accounts payable and accrued liabilities of \$680 [2014 - \$687].

During the year the Foundation paid, in the ordinary course of business, \$5 [2014 - \$1] to a legal firm of which a member of the Foundation's Board of Directors is a partner. No portion of the fees paid to the legal firm was in relation to work performed by the Board member. This amount has been included in operating expenses.

During the year the Foundation incurred, in the ordinary course of business, \$15 [2014 - \$14] associated with the commissions charged for the sale of donated securities through an investment firm of which a member of the Foundation's Board of Directors is the President and CEO. The investment firm donates a portion of the commission fees as a donation in kind to the Foundation.

The full amount of the commissions at fair market value has been included in operating expenses with the donated portion of the fees reported as a donations in kind amount included in fundraising revenue. No portion of the fees paid for commissions was in relation to work performed by the Board member.

During the year, the Foundation received donations and sponsorships in the ordinary course of business, in the amount of \$1,388 [2014 - \$1,407] from the Foundation's Board of Directors, spouses, their related companies and management employees.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
(thousands of dollars)

12. FINANCIAL RISKS AND CONCENTRATION OF RISK

Financial risks

The Foundation manages its investment portfolio to earn investment income and invests according to a Statement of Investment Policy approved by the Board. The Foundation is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes.

The Foundation believes that it is not exposed to significant interest rate, market, credit, liquidity or cash flow risk arising from its financial instruments other than its investment portfolio [see note 3].

13. CONTINGENT LIABILITIES

During the course of the year, the Foundation received donations in the amount of \$400 [2014 - \$1,000], for a cumulative total of \$1,400 in conditional gifts received with specified repayment terms if the conditions are not met by a stated future date. The conditions are external to the Foundation. In the event the conditions are not met, repayment of the donations plus interest calculated at 4% per annum is required. As at March 31, 2015, the Foundation was meeting the conditions.

Subsequent to March 31, 2015, the Foundation will repay \$1,000 of the above noted conditional gifts in the upcoming fiscal year due to the future uncertainty of the ability to meet the conditions of the gifts.

14. FUNDRAISING EXPENSES AND OTHER

As required under Section 7(2) of the Charitable Fundraising Act Regulation of Alberta, the Foundation discloses the expenses incurred for the purposes of soliciting contributions were \$4,361 [2014 - \$3,720]. The total amount paid as remuneration to employees of the Foundation whose principal duties involve fundraising was \$1,583 [2014 - \$1,370]. These amounts are included as part of the Foundation's operating expenses.

No single disposition of contributions equaled or exceeded 10% of the gross contributions received in either fiscal 2015 or 2014.

15. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable to conform to presentation used in the current year. The changes do not affect prior year excess of revenue over expenses or total fund balances.

