

Financial Statements

Alberta Children's Hospital Foundation

March 31, 2016



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, 2016, 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, 2016, 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.

Calgary, Canada
June 23, 2016

Ernst & Young LLP

Chartered Professional Accountants

Alberta Children's Hospital Foundation

STATEMENT OF FINANCIAL POSITION

(thousands of dollars)

As at March 31

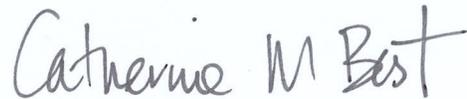
	Total	
	2016	2015
	\$	\$
ASSETS		
Current		
Cash	17,968	24,775
Accounts receivable and accrued interest	67	83
Prepaid expenses	158	185
Total current assets	18,193	25,043
Investments <i>[note 3]</i>	181,105	179,370
Other assets <i>[note 4]</i>	143	132
Property and equipment <i>[note 5]</i>	299	297
	199,740	204,842
LIABILITIES AND FUND BALANCES		
Current		
Accounts payable and accrued liabilities <i>[note 11]</i>	4,137	4,270
Total current liabilities	4,137	4,270
Commitments <i>[note 9]</i>		
Fund balances		
Operating <i>[notes 6 and 7]</i>	36,149	31,020
Restricted <i>[note 6]</i>	41,833	53,490
Endowments - externally restricted <i>[note 6]</i>	72,951	71,392
Endowments - internally restricted <i>[note 7]</i>	44,670	44,670
	195,603	200,572
	199,740	204,842

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	Restricted	Endowment	Total	
	Fund	Fund	Fund	2016	2015
	\$	\$	\$	\$	\$
REVENUE					
Fundraising <i>[note 8]</i>	9,004	16,249	1,359	26,612	39,035
Investment and other income <i>[notes 3 and 10]</i>	7,311	4,748	—	12,059	9,124
	16,315	20,997	1,359	38,671	48,159
EXPENSES					
Grants and hospital funding <i>[note 11]</i>					
Childhood cancer centre	—	1,913	—	1,913	3,955
Clinical	125	5,158	—	5,283	7,325
Education and other	—	1,746	—	1,746	2,278
Family centred care	—	3,141	—	3,141	2,837
Research	35	15,441	—	15,476	12,595
	160	27,399	—	27,559	28,990
Operating <i>[notes 11 and 13]</i>	6,204	755	—	6,959	7,560
Total expenses	6,364	28,154	—	34,518	36,550
Excess (deficiency) of revenue over expenses before unrealized gain (loss)	9,951	(7,157)	1,359	4,153	11,609
Unrealized gain (loss) <i>[notes 3, 4 and 10]</i>	(4,193)	(4,929)	—	(9,122)	16,637
Excess (deficiency) of revenue over expenses	5,758	(12,086)	1,359	(4,969)	28,246
Fund balances, beginning of year	31,020	53,490	116,062	200,572	172,326
Interfund transfers <i>[notes 6 and 7]</i>	(629)	429	200	—	—
Fund balances, end of year	36,149	41,833	117,621	195,603	200,572

See accompanying notes

Alberta Children's Hospital Foundation

STATEMENT OF CASH FLOWS

(thousands of dollars)

Year ended March 31

	2016	2015
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	(4,969)	28,246
Adjustments to reconcile net cash from (used in) operating activities		
Endowment contributions	(1,359)	(3,323)
Amortization of property and equipment	106	70
Unrealized (gain) loss	9,122	(16,637)
Gain on sale of investments <i>[note 3]</i>	(3,590)	(3,310)
	(690)	5,046
Changes in non-cash working capital		
Accounts receivable and accrued interest	16	17
Prepaid expenses	27	63
Accounts payable and accrued liabilities	(133)	1,988
Cash provided by (used in) operating activities	(780)	7,114
INVESTING ACTIVITIES		
Purchase of investments <i>[note 3]</i>	(22,962)	(19,134)
Proceeds on sale of investments <i>[note 3]</i>	15,684	14,180
Purchase of property and equipment	(108)	(325)
Cash used in investing activities	(7,386)	(5,279)
FINANCING ACTIVITIES		
Endowment contributions	1,359	3,323
Cash provided by financing activities	1,359	3,323
Net increase (decrease) in cash during the year	(6,807)	5,158
Cash, beginning of year	24,775	19,617
Cash, end of year	17,968	24,775

See accompanying notes

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2016
(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, 2016
(thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[b] Financial instruments

Financial instruments are recorded at fair value on initial recognition. Purchases of equity and fixed income instruments quoted on an active market are recorded at settlement date. 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, 2016
(thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[e] Revenue recognition

The Foundation uses the restricted fund method of accounting for contributions. All contributions are recorded 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 in the operating fund.

Restricted contributions are recognized as revenue of the appropriate restricted fund.

Endowment contributions are recognized as revenue of the endowment fund.

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 based on the purpose of the endowment. Unrestricted investment income earned on endowment fund resources is recognized as revenue of the operating fund and investment income externally restricted for reinvestment is recognized as revenue of the endowment fund. All other 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.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2016
(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 has a stated objective that the 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	2016	2015
	\$	\$	\$	\$	\$
Balance, beginning of year	1,205	109,196	68,969	179,370	154,480
Sale of investments	(3,902)	(11,559)	(223)	(15,684)	(14,180)
Purchase of investments	3,792	15,830	3,340	22,962	19,134
Realized gain on sale	—	3,572	18	3,590	3,310
Change in unrealized gain (loss)	7	(6,016)	(3,124)	(9,133)	16,626
Balance, end of year	1,102	111,023	68,980	181,105	179,370

Cash included in investments is held in short-term money market instruments and consequently was subject to recurring reinvestment resulting in \$3,792 of purchases and \$3,902 of sales. The gain on sales of short-term money market instruments is due to foreign exchange.

	2016	2015
	\$	\$
Opening accumulated unrealized gains	45,638	29,012
Realized gains recognized in investment and other income	(3,590)	(3,310)
Unrealized gain (loss) in the year	(5,543)	19,936
Ending accumulated unrealized gains	36,505	45,638

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2016
(thousands of dollars)

3. INVESTMENTS (CONTINUED)

	2016		2015	
	Cost \$	Fair value \$	Cost \$	Fair value \$
Fixed income	64,863	68,980	61,731	68,969
Canadian equities	33,771	45,013	28,016	42,380
Foreign equities	44,887	66,010	42,798	66,816
Cash and short-term investments	1,079	1,102	1,187	1,205
	144,600	181,105	133,732	179,370

[a] Foreign currency risk

Foreign currency exposure arises from the Foundation's holdings of foreign equity securities. As at March 31, 2016, total foreign equity holdings were 36.5% [2015 – 37.25%] 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.

[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 0.75% and 11.77% and have maturities ranging from 2016 to 2067.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2016
(thousands of dollars)

4. OTHER ASSETS

	2016	2015
	\$	\$
Cash surrender value of donated life insurance policies	143	132

Donated life insurance policies are recorded at their cash surrender value; face value of the policies is \$353 [2015 – \$353]. Changes in cash surrender value are reflected in the statement of operations and changes in fund balances.

5. PROPERTY AND EQUIPMENT

	2016		2015	
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Office equipment	128	33	95	2
Computer hardware	424	264	160	231
Computer software	156	112	44	64
	708	409	299	297

6. EXTERNALLY RESTRICTED NET ASSETS AND INTERFUND TRANSFERS

During fiscal 2016, interfund transfers of externally restricted net assets occurred as a result of:

- \$10,254 of funds were transferred from the operating fund to the restricted fund to bridge donor funding;
- \$9,625 of funds previously used to bridge donor funding were returned to the operating fund from the restricted fund; and
- \$200 of funds received in the restricted fund in a previous year were endowed by donors in 2016 and transferred to the endowment fund.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2016
(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. 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 \$1,289 [2015 – \$1,263]. 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 \$89 [2015 – \$122] 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	1,568
Clinical	7,623
Education and other	1,360
Family centred care	2,028
Research	16,030
	<u>28,609</u>

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2016
(thousands of dollars)

9. COMMITMENTS (CONTINUED)

The above funding comprises:

- An annual commitment of \$4,000 in support of the Alberta Children's Hospital Research Institute for Child and Maternal Health until 2021; and
- \$1,693 available to the University of Calgary for approved chairs and professorships contingent on successful recruitment to the positions.

10. INVESTMENT AND OTHER INCOME

During the year, the Foundation earned realized investment and other income in the amount of \$12,059 [2015 – \$9,124] and unrealized losses in the amount of \$9,122 [2015 – gain of \$16,637]. Realized investment income earned on the externally restricted endowment funds comprised \$4,564 [2015 – \$3,415]. Unrealized losses earned on the externally restricted endowment funds comprised \$3,965 [2015 – gain of \$6,759]. This income and loss were distributed between the operating and restricted funds based on stipulations of the individual endowments. Realized investment income earned on the internally restricted endowment funds was \$2,864 [2015 – \$2,412] and was 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.

	2016			2015	
	Investment and other income \$	Internally restricted allocation \$	Externally restricted allocation \$	Total \$	Total \$
Operating fund	3,348	3,774	189	7,311	5,840
Restricted fund	1,283	(910)	4,375	4,748	3,284
Endowment fund	7,428	(2,864)	(4,564)	—	—
	12,059	—	—	12,059	9,124

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2016
(thousands of dollars)

11. RELATED PARTY TRANSACTIONS

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

All related party transactions are recorded at fair value.

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 \$16,002 [2015 – \$17,485]. This amount includes unpaid balances recorded in accounts payable and accrued liabilities of \$1,541 [2015 – \$3,428]. 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 \$15,840 [2015 – \$15,976]. This amount includes unpaid balances recorded in accounts payable and accrued liabilities of \$2,423 [2015 – \$680].

During the year the Foundation paid, in the ordinary course of business, \$1 [2015 – \$5] 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, \$13 [2015 – \$15] 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 donation 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 \$285 [2015 – \$1,388] 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, 2016
(thousands of dollars)

12. CONTINGENT LIABILITIES

During the course of the year, the Foundation repaid \$1,000 of previously recorded conditional gifts due to the uncertainty of the ability to meet the conditions of the gifts. The conditions were external to the Foundation. In conjunction with this repayment, conditions were removed from all remaining contingent gifts. During the year, the Foundation received nil [2015 – \$400] in conditional gifts.

13. 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, which were \$3,924 [2015 – \$4,361]. This amount includes total remuneration paid to employees of the Foundation whose principal duties involve fundraising of \$1,623 [2015 – \$1,583]. 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 2016 or 2015.

Given the Foundation follows restricted fund accounting, regular day-to-day operating expenses incurred for fundraising and management of the operations of the Foundation are not allowed for in the restricted fund. As such, these expenses are recorded in the operating fund as part of the normal course of business.

