

Financial Statements

Alberta Children's Hospital Foundation

March 31, 2018

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, 2018, 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, 2018, 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 21, 2018

Ernst + Young LLP
Chartered Professional Accountants

Alberta Children's Hospital Foundation

STATEMENT OF FINANCIAL POSITION

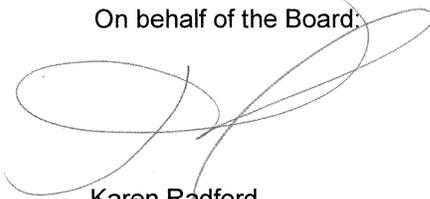
(thousands of dollars)

As at March 31

	Total	
	2018	2017
	\$	\$
ASSETS		
Current		
Cash	20,639	12,183
Accounts receivable and accrued interest	156	51
Prepaid expenses	232	129
Total current assets	21,027	12,363
Investments <i>[note 3]</i>	201,257	199,764
Other assets <i>[note 4]</i>	191	185
Property and equipment <i>[note 5]</i>	109	189
	222,584	212,501
LIABILITIES AND FUND BALANCES		
Current		
Accounts payable and accrued liabilities <i>[notes 11 and 14]</i>	2,244	1,141
Total current liabilities	2,244	1,141
Commitments <i>[note 9]</i>		
Fund balances		
Operating <i>[notes 6 and 7]</i>	36,144	44,318
Restricted <i>[note 6]</i>	64,571	48,467
Endowments - externally restricted <i>[note 6]</i>	74,955	73,905
Endowments - internally restricted <i>[note 7]</i>	44,670	44,670
	220,340	211,360
	222,584	212,501

See accompanying notes

On behalf of the Board:



Karen Radford
Board Chair



Mike Shaikh
Finance & Audit
Committee Chair

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	2018	2017
	\$	\$	\$	\$	\$
REVENUE					
Fundraising <i>[notes 8 and 11]</i>	7,401	21,238	1,050	29,689	25,090
Investment and other income <i>[notes 3 and 10]</i>	8,252	7,105	—	15,357	10,344
	15,653	28,343	1,050	45,046	35,434
EXPENSES					
Grants and hospital funding <i>[notes 12 and 14]</i>					
Childhood cancer centre	—	1,145	—	1,145	2,137
Clinical	—	7,463	—	7,463	6,038
Education and other	10	822	—	832	645
Family centred care	—	2,209	—	2,209	1,528
Research	—	15,828	—	15,828	12,498
	10	27,467	—	27,477	22,846
Operating <i>[notes 11, 12 and 14]</i>	6,878	920	—	7,798	7,046
Total expenses	6,888	28,387	—	35,275	29,892
Excess (deficiency) of revenue over expenses before unrealized gain (loss)	8,765	(44)	1,050	9,771	5,542
Unrealized (loss) gain <i>[notes 3, 4 and 10]</i>	(34)	(757)	—	(791)	10,215
Excess (deficiency) of revenue over expenses	8,731	(801)	1,050	8,980	15,757
Fund balances, beginning of year	44,318	48,467	118,575	211,360	195,603
Interfund transfers <i>[notes 6 and 7]</i>	(16,905)	16,905	—	—	—
Fund balances, end of year	36,144	64,571	119,625	220,340	211,360

See accompanying notes

Alberta Children's Hospital Foundation

STATEMENT OF CASH FLOWS

(thousands of dollars)

Year ended March 31

	2018	2017
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	8,980	15,757
Adjustments to reconcile net cash from (used in) operating activities		
Endowment contributions	(1,050)	(819)
Amortization of property and equipment	112	110
Unrealized loss (gain)	791	(10,215)
Gain on sale of investments <i>[note 3]</i>	(7,346)	(2,815)
	<u>1,487</u>	<u>2,018</u>
Changes in non-cash working capital		
Accounts receivable and accrued interest	(105)	16
Prepaid expenses	(103)	29
Accounts payable and accrued liabilities	1,103	(2,996)
Cash provided by (used in) operating activities	<u>2,382</u>	<u>(933)</u>
INVESTING ACTIVITIES		
Purchase of investments <i>[note 3]</i>	(23,008)	(19,978)
Proceeds on sale of investments <i>[note 3]</i>	28,064	14,307
Purchase of property and equipment	(32)	—
Cash provided by (used in) investing activities	<u>5,024</u>	<u>(5,671)</u>
FINANCING ACTIVITIES		
Endowment contributions	1,050	819
Cash provided by financing activities	<u>1,050</u>	<u>819</u>
Net increase (decrease) in cash during the year	8,456	(5,785)
Cash, beginning of year	12,183	17,968
Cash, end of year	<u>20,639</u>	<u>12,183</u>

See accompanying notes

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2018
(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 inspire our community to invest in excellence in child health, research and family centred care at the Alberta Children's Hospital and for other child health needs primarily in Southern Alberta.

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 unrestricted contributions as well as the majority of the Foundation's fundraising, administrative, and general expenses incurred in the course of conducting and managing the Foundation's day to day business.
- [ii] The restricted fund reports contributions that are externally restricted by donors in support of child health programs, equipment, research, and education priorities. Certain expenses directly related to these priorities and incurred as part of honouring the donor's restrictions are recorded as expenses of the restricted fund. Investment income earned on externally restricted or endowed fund balances and a portion of the related investment management and administration fees are recorded in the restricted fund to the extent that the investment income has also been restricted by the donor.
- [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 endowment fund balance represents contributions endowed by donors. Contributions 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.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2018
(thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Internally restricted endowment funds are initially 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 operating and funding commitments.

[b] Financial instruments

Financial instruments are recorded at fair value on initial recognition. Purchases of equity and fixed income securities quoted on an active market are initially recorded at trade date at fair market value. Freestanding derivative instruments that are not in a qualifying hedging relationship and fixed income and equity securities 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, which are amortized using the straight-line method over the term of the instrument.

Financial assets carried at cost and amortized cost 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.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2018
(thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[d] Property and equipment

Property and equipment are recorded at cost less accumulated amortization, with amortization provided on a straight-line basis over 4 years.

[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 in the restricted fund.

Endowment contributions are recognized as revenue in the endowment fund.

Investment income includes dividend and interest income and realized gains or losses on the sale of investments. Investment income earned on externally restricted endowment fund resources that is available for allocation is recognized as revenue of the restricted or operating fund based on the designated purpose of the endowment. Unrestricted investment income earned on internally restricted endowment fund resources is recognized as revenue of the operating fund. 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 received.

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, 2018
(thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[g] Multiemployer pension plan contributions

The Foundation's eligible employees participate in the Local Authority Pension Plan, a multiemployer pension plan. This multiemployer defined benefit pension plan is accounted for consistent with defined contribution plans since the Foundation has insufficient information to apply defined benefit plan accounting. Contributions to this multiemployer pension plan are expensed on an accrual basis and included within operating expenses.

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	2018	2017
	\$	\$	\$	\$	\$
Balance, beginning of year	675	128,278	70,811	199,764	181,105
Sale of investments	(2,818)	(25,015)	(231)	(28,064)	(14,307)
Purchase of investments	2,841	18,047	2,120	23,008	19,978
Realized gain on sale	—	7,339	7	7,346	2,815
Change in unrealized gain (loss)	(54)	369	(1,112)	(797)	10,173
Balance, end of year	644	129,018	71,595	201,257	199,764

Cash included in investments is held in short-term money market instruments and consequently was subject to recurring reinvestment resulting in \$2,841 of purchases [2017 – \$2,855] and \$2,818 of sales [2017 – \$3,310]. The gain (loss) on sales of short-term money market instruments is due to foreign exchange.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2018
(thousands of dollars)

3. INVESTMENTS (CONTINUED)

	2018 \$	2017 \$
Opening accumulated unrealized gains	46,678	36,505
Realized gain recognized in investment and other income	(7,346)	(2,815)
Unrealized gain in the year	6,549	12,988
Ending accumulated unrealized gains	45,881	46,678

	2018		2017	
	Cost \$	Fair value \$	Cost \$	Fair value \$
Fixed income	70,192	71,595	68,294	70,811
Canadian equities	38,621	53,427	35,164	51,800
Foreign equities	45,919	75,591	49,005	76,478
Cash and short-term investments	644	644	623	675
	155,376	201,257	153,086	199,764

[a] Foreign currency risk

Foreign currency exposure arises from the Foundation's holdings of foreign equity securities. As at March 31, 2018, total foreign equity holdings were 37.56% [2017 – 38.29%] 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.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2018
(thousands of dollars)

3. INVESTMENTS (CONTINUED)

[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 0.50% and 11.77% and have maturities ranging from 2018 to 2068.

4. OTHER ASSETS

	2018 \$	2017 \$
Cash surrender value of donated life insurance policies	191	185

Donated life insurance policies are recorded at their cash surrender value; face value of the policies is \$424 [2017 – \$453]. Changes in cash surrender value are reflected in the statement of operations and changes in fund balances.

5. PROPERTY AND EQUIPMENT

	2018		2017	
	Cost \$	Accumulated amortization \$	Net book value \$	Net book value \$
Office equipment	128	87	41	67
Computer hardware	424	392	32	95
Computer software	187	151	36	27
	739	630	109	189

6. EXTERNALLY RESTRICTED NET ASSETS AND INTERFUND TRANSFERS

During fiscal 2018, interfund transfers occurred as follows:

- \$26,878 of funds were transferred from the operating fund to the restricted fund to cover grants and hospital funding; and
- \$9,973 of funds previously used to bridge donor funding for grants and hospital funding were returned to the operating fund from the restricted fund.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2018
(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 may be utilized in a year when investment income is insufficient to meet the commitments.
- [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 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 \$1,071 [2017 – \$1,173]. 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 \$81 [2017 – \$98] of donated goods and services it would otherwise have paid for, and accordingly, this amount is included in both fundraising revenue and operating expenses 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	2,478
Clinical	11,080
Education and other	1,055
Family centred care	2,188
Research	15,420
	<u>32,221</u>

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2018
(thousands of dollars)

9. COMMITMENTS (CONTINUED)

The above funding comprises:

- A commitment of \$4,968 in support of the Alberta Children's Hospital Research Institute for Child and Maternal Health; and
- \$1,928 available to the University of Calgary for approved chairs and professorships contingent on successful recruitment to the open positions.

In addition, the Foundation has committed \$26,000 to \$32,000 to fund capital projects over the next 3 to 5 years.

10. INVESTMENT AND OTHER INCOME

During the year, the Foundation earned realized investment and other income in the amount of \$15,357 [2017 – \$10,344] and an unrealized loss in the amount of \$791 [2017 – gain of \$10,215].

Realized investment income earned on the endowment funds included \$7,363 [2017 – \$4,214] on the externally restricted fund and \$3,746 [2017 – \$2,333] on the internally restricted fund. This investment income was allocated to the operating and restricted funds. Unrealized losses earned on the externally restricted endowment funds were \$439 [2017 – gain of \$4,870]. This income was distributed between the operating and restricted funds based on stipulations of the individual endowments.

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.

	2018			2017	
	Investment and other income	Internally restricted allocation	Externally restricted allocation	Total	Total
	\$	\$	\$	\$	\$
Operating fund	1,982	5,977	293	8,252	5,261
Restricted fund	2,266	(2,231)	7,070	7,105	5,083
Endowment fund	11,109	(3,746)	(7,363)	—	—
	15,357	—	—	15,357	10,344

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2018
(thousands of dollars)

11. RELATED PARTY TRANSACTIONS

All related party transactions are recorded at the agreed upon exchange amount.

During the year the Foundation paid, in the ordinary course of business, \$50 [2017 – \$nil] for consulting services to an assurance and consulting firm of which a member of the Foundation's Board of Directors is a partner. No portion of the fees paid to the firm was in relation to work performed by the Board member. The firm is not the Foundation's auditor. This amount has been included in operating expenses.

During the year the Foundation paid, in the ordinary course of business, \$3 [2017 – \$2] 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, \$23 [2017 – \$8] 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 \$319 [2017 – \$322] from the Foundation's Board of Directors, spouses, their related companies and management employees.

12. 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 \$4,532 [2017 – \$4,002]. This amount includes total remuneration paid to employees of the Foundation whose principal duties involve fundraising of \$1,762 [2017 – \$1,554]. 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 during the year [2017 – \$2,647 or 10.4%].

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2018
(thousands of dollars)

13. MULTIEMPLOYER PENSION PLAN VALUATION

The most recent valuation for financial reporting purposes completed by the Local Authority Pension Plan as at December 31, 2016 disclosed net assets available for benefits of \$37,720,000 with pension obligation of \$38,360,000 resulting in a deficit of \$64,000. The plan had a total of 253,862 members as of that date.

During the year ended March 31, 2018, the Foundation contributed \$392 [2017 – \$400] to the plan. These amounts are included in operating expenses. The Foundation has 37 [2017 – 38] contributing members in the plan. Contributions requirements for the Foundation are as follows:

	<u>2018</u>	<u>2017</u>
Employer		
Pensionable earnings up to the year's maximum pensionable earnings	10.39%	11.39%
Pensionable earnings over the year's maximum pensionable earnings	14.84%	15.84%
Employee		
Pensionable earnings up to the year's maximum pensionable earnings	9.39%	10.39%
Pensionable earnings over the year's maximum pensionable earnings	13.84%	14.84%

14. TRANSACTIONS WITH FUNDING PARTNERS

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 \$16,803 [2017 – \$14,128]. This amount includes unpaid balances recorded in accounts payable and accrued liabilities of \$1,865 [2017 – \$906]. In addition, Alberta Health Services provides the Foundation with office space at the Alberta Children's Hospital. No single disposition of contributions equaled or exceeded 10% of the gross contributions received in the year [2017 – \$2,647 or 10.4%].

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 \$15,117 [2017 – \$12,986]. This amount includes unpaid balances recorded in accounts payable and accrued liabilities of \$nil [2017 – \$90].