

Financial Statements

Alberta Children's Hospital Foundation

March 31, 2020

Independent auditor's report

To the Members of
Alberta Children's Hospital Foundation

Opinion

We have audited the financial statements of **Alberta Children's Hospital Foundation** [the "Foundation"], which comprise the statement of financial position as at March 31, 2020, and the statement of operations and changes in fund balances and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Calgary, Canada
June 18, 2020

Ernst & Young LLP

Chartered Professional Accountants



Alberta Children's Hospital Foundation

STATEMENT OF FINANCIAL POSITION

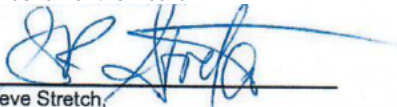
(thousands of dollars)

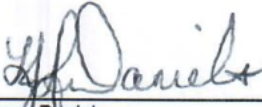
As at March 31

	Total	
	2020	2019
	\$	\$
ASSETS		
Current		
Cash	29,796	24,721
Accounts receivable and accrued income	172	197
Prepaid expenses	196	233
Total current assets	30,164	25,151
Investments <i>[note 3]</i>	205,594	206,716
Other assets <i>[note 4]</i>	387	359
Property and equipment <i>[note 5]</i>	51	59
	236,196	232,285
LIABILITIES AND FUND BALANCES		
Current		
Accounts payable and accrued liabilities <i>[note 14]</i>	1,249	919
Total current liabilities	1,249	919
Commitments <i>[note 9]</i>		
Fund balances		
Operating <i>[notes 6 and 7]</i>	45,770	48,460
Restricted <i>[note 6]</i>	68,103	62,406
Endowments - externally restricted <i>[notes 3 and 6]</i>	76,404	75,830
Endowments - internally restricted <i>[notes 3 and 7]</i>	44,670	44,670
	234,947	231,366
	236,196	232,285

See accompanying notes

On behalf of the Board:


 Steve Stretch,
 Board Chair


 Laura Daniels,
 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	2020	2019
	\$	\$	\$	\$	\$
REVENUE					
Fundraising <i>[notes 8 and 11]</i>	7,248	30,854	500	38,602	32,876
Investment and other income	6,371	5,437	—	11,808	15,793
	13,619	36,291	500	50,410	48,669
EXPENSES					
Child health funding <i>[note 14]</i>					
Clinical	—	11,982	—	11,982	7,877
Education and other	50	1,217	—	1,267	1,140
Family centred care	—	2,006	—	2,006	2,131
Research	—	12,140	—	12,140	17,430
	50	27,345	—	27,395	28,578
Operating <i>[notes 8, 11, 12, 13 and 14]</i>	7,178	1,366	—	8,544	8,081
Total expenses	7,228	28,711	—	35,939	36,659
Excess of revenue over expenses before unrealized loss	6,391	7,580	500	14,471	12,010
Unrealized loss <i>[notes 3 and 4]</i>	(6,139)	(4,751)	—	(10,890)	(984)
Excess of revenue over expenses	252	2,829	500	3,581	11,026
Fund balances, beginning of year	48,460	62,406	120,500	231,366	220,340
Interfund transfers <i>[note 6]</i>	(2,942)	2,868	74	—	—
Fund balances, end of year	45,770	68,103	121,074	234,947	231,366

See accompanying notes

Alberta Children's Hospital Foundation

STATEMENT OF CASH FLOWS

(thousands of dollars)

Year ended March 31

	2020	2019
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses	3,581	11,026
Adjustments to reconcile net cash from (used in) operating activities		
Endowment contributions	(500)	(867)
Amortization of property and equipment	31	78
Unrealized loss	10,890	984
Realized gain on sale of investments	(2,786)	(8,017)
	<u>11,216</u>	<u>3,204</u>
Changes in non-cash working capital		
Accounts receivable and accrued income	25	(41)
Prepaid expenses	37	(1)
Accounts payable and accrued liabilities	330	(1,325)
Cash provided by operating activities	<u>11,608</u>	<u>1,837</u>
INVESTING ACTIVITIES		
Purchase of investments	(20,745)	(29,982)
Proceeds on sale of investments	13,735	31,388
Purchase of property and equipment	(23)	(28)
Cash provided by (used in) investing activities	<u>(7,033)</u>	<u>1,378</u>
FINANCING ACTIVITIES		
Endowment contributions	500	867
Cash provided by financing activities	<u>500</u>	<u>867</u>
Net increase in cash during the year	5,075	4,082
Cash, beginning of year	<u>24,721</u>	<u>20,639</u>
Cash, end of year	<u>29,796</u>	<u>24,721</u>

See accompanying notes

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2020
(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 CPA 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.

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, endowment or operating funds. Internally restricted funds are not available for unrestricted purposes without prior approval of the Board of Directors.

- [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.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2020
(thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[iii] The endowment fund reports amounts which are restricted, either internally or externally, for endowment and intended 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.

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.

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.

[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.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2020
(thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[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 over four 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 recorded as revenue until the donation has been received by the Foundation.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2020
(thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[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 these 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] 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

Investments consist of the following:

	2020		2019	
	Cost \$	Fair value \$	Cost \$	Fair value \$
Fixed income	84,355	88,974	81,943	85,167
Canadian equities	36,107	41,297	32,523	44,379
Foreign equities	49,438	73,427	46,280	75,926
Cash and short-term investments	1,883	1,896	1,241	1,244
	171,783	205,594	161,987	206,716

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.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2020
(thousands of dollars)

3. INVESTMENTS (CONTINUED)

Cash included in investments includes cash on deposit with the investment broker and cash held in short-term money market instruments.

Certain investments are restricted for endowments as follows:

	2020 \$	2019 \$
Endowments – externally restricted		
Investment income is restricted for specific purposes	71,261	70,687
Investment income is unrestricted	5,143	5,143
Endowments – internally restricted		
Investment income is unrestricted	44,670	44,670
	121,074	120,500

4. OTHER ASSETS

	2020 \$	2019 \$
Cash surrender value of donated life insurance policies	387	359

Donated life insurance policies are recorded at their cash surrender value. The face value of the policies is \$404 [2019 – \$430]. Changes in the cash surrender value are reflected in the statement of operations and changes in fund balances.

5. PROPERTY AND EQUIPMENT

	2020		2019	
	Cost \$	Accumulated amortization \$	Net book value \$	Net book value \$
Office equipment	141	128	13	14
Computer hardware	449	431	18	14
Computer software	200	180	20	31
	790	739	51	59

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

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6. INTERFUND TRANSFERS

During fiscal 2020, interfund transfers occurred as follows:

- \$3,488 of funds were transferred from the operating fund to the restricted fund to cover unfunded child health funding expenditures;
- \$546 of funds previously used to bridge donor contributions for child health funding were returned to the operating fund from the restricted fund; and
- \$74 of funds previously recognized in the restricted fund were transferred to the endowment fund.

7. INTERNALLY RESTRICTED NET ASSETS

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 prior years, the Board of Directors internally restricted operating funds of \$2,251 to ensure that the Foundation is able to meet its funding commitments. This amount may be utilized in a year when investment income is insufficient to meet the commitments. During 2020 and 2019, no internally restricted funds were utilized and no additional funds were internally restricted.

8. DONATIONS IN KIND

During the year, the Foundation received gifts in kind of goods and services totaling \$1,146 [2019 – \$1,657]. 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 \$92 [2019 – \$72] 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.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2020
(thousands of dollars)

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:

	<u>\$</u>
Clinical	16,492
Education and other	482
Family centred care	2,508
Research	10,434
	<u>29,916</u>

In addition to the above, the Foundation has also committed \$20,370 to fund capital projects over the next 2 to 3 years.

10. FINANCIAL INSTRUMENTS

[a] Foreign currency risk

The Foundation is exposed to fair value risk from foreign currency exposure related to its holdings of foreign equity securities. As at March 31, 2020, total foreign equity holdings were 35.74% [2019 – 36.73%] of the Foundation's investments on a fair value basis. The Foundation is exposed to cash flow risk related to its investment income from the interest or dividends received from these foreign equity securities. 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.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2020
(thousands of dollars)

10. FINANCIAL INSTRUMENTS (CONTINUED)

[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 0.50% and 11.77% and have maturities ranging from 2020 to 2067.

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, \$6 [2019 – \$nil] 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.

During the year the Foundation incurred, in the ordinary course of business, \$9 [2019 – \$12] 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 Chairman 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 \$232 [2019 – \$575] 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, 2020
(thousands of dollars)

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 \$4,837 [2019 – \$4,539]. This amount includes total remuneration paid to employees of the Foundation whose principal duties involve fundraising of \$1,934 [2019 – \$1,681]. 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 [2019 – \$nil].

13. MULTIEMPLOYER PENSION PLAN VALUATION

The most recent valuation for financial reporting purposes completed by the Local Authority Pension Plan as at December 31, 2018 disclosed net assets available for benefits of \$44,469 with pension obligations of \$40,999 resulting in a surplus of \$3,469. The plan had a total of 265,813 members as of that date.

During the year ended March 31, 2020, the Foundation contributed \$408 [2019 – \$437] to the plan. These amounts are included in operating expenses. The Foundation has 43 [2019 – 42] contributing members in the plan. Contribution requirements for the Foundation are as follows:

	2020	2019
Employer		
Pensionable earnings up to the year's maximum pensionable earnings	9.39%	9.39%
Pensionable earnings over the year's maximum pensionable earnings	13.84%	13.84%
Employee		
Pensionable earnings up to the year's maximum pensionable earnings	8.39%	8.39%
Pensionable earnings over the year's maximum pensionable earnings	12.84%	12.84%

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2020
(thousands of dollars)

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 and other child health needs within Southern Alberta.

During the year the Foundation paid child health funding and operating expenses, in the ordinary course of business, to Alberta Health Services in the amount of \$20,782 [2019 – \$16,477]. This amount includes unpaid balances recorded in accounts payable and accrued liabilities of \$900 [2019 – \$618]. In addition, Alberta Health Services provides the Foundation with office space at the Alberta Children's Hospital.

During the year the Foundation paid child health funding in the ordinary course of business, to the University of Calgary in the amount of \$11,564 [2019 – \$17,009]. This amount includes unpaid balances recorded in accounts payable and accrued liabilities of \$110 [2019 – \$nil].

15. SUBSEQUENT EVENT

In March 2020, the World Health Organization announced a global pandemic in relation to the Coronavirus disease ("COVID-19"). Governments around the world implemented emergency measures to control the spread of the virus. These measures, which include travel bans, physical distancing, self-isolation and quarantine periods have caused significant disruption to businesses and material volatility in markets globally resulting in an economic slowdown.

The events are expected to have an impact on the financial activities of the Foundation specifically the Foundation's fundraising revenues and expenses as well as the fair value of its investments. However, at the time of reporting, it is not possible to estimate what impact COVID-19 could have as it will depend on length and severity of future developments which are highly uncertain and cannot be predicted at this time.