

Financial Statements

Alberta Children's Hospital Foundation

March 31, 2017



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, 2017, 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, 2017, 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 22, 2017

Ernst + Young LLP

Chartered Professional Accountants

Alberta Children's Hospital Foundation

STATEMENT OF FINANCIAL POSITION

(thousands of dollars)

As at March 31

| | Total | |
|---|----------------|----------------|
| | 2017 | 2016 |
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | 12,183 | 17,968 |
| Accounts receivable and accrued interest | 51 | 67 |
| Prepaid expenses | 129 | 158 |
| Total current assets | 12,363 | 18,193 |
| Investments <i>[note 3]</i> | 199,764 | 181,105 |
| Other assets <i>[note 4]</i> | 185 | 143 |
| Property and equipment <i>[note 5]</i> | 189 | 299 |
| | 212,501 | 199,740 |
| LIABILITIES AND FUND BALANCES | | |
| Current | | |
| Accounts payable and accrued liabilities <i>[note 11]</i> | 1,141 | 4,137 |
| Total current liabilities | 1,141 | 4,137 |
| Commitments <i>[note 9]</i> | | |
| Fund balances | | |
| Operating <i>[notes 6 and 7]</i> | 44,318 | 36,149 |
| Restricted <i>[note 6]</i> | 48,467 | 41,833 |
| Endowments - externally restricted <i>[note 6]</i> | 73,905 | 72,951 |
| Endowments - internally restricted <i>[note 7]</i> | 44,670 | 44,670 |
| | 211,360 | 195,603 |
| | 212,501 | 199,740 |

See accompanying notes

On behalf of the Board:

Director



Karen Radford,
Board Chair

Director



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 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ | \$ |
| REVENUE | | | | | |
| Fundraising <i>[note 8]</i> | 7,341 | 16,930 | 819 | 25,090 | 26,612 |
| Investment and other income <i>[notes 3 and 10]</i> | 5,261 | 5,083 | — | 10,344 | 12,059 |
| | <u>12,602</u> | <u>22,013</u> | <u>819</u> | <u>35,434</u> | <u>38,671</u> |
| EXPENSES | | | | | |
| Grants and hospital funding <i>[note 11 and 13]</i> | | | | | |
| Childhood cancer centre | — | 2,137 | — | 2,137 | 1,913 |
| Clinical | 62 | 5,976 | — | 6,038 | 5,283 |
| Education and other | — | 645 | — | 645 | 1,746 |
| Family centred care | — | 1,528 | — | 1,528 | 3,141 |
| Research | — | 12,498 | — | 12,498 | 15,476 |
| | <u>62</u> | <u>22,784</u> | <u>—</u> | <u>22,846</u> | <u>27,559</u> |
| Operating <i>[notes 11 and 13]</i> | 6,258 | 788 | — | 7,046 | 6,959 |
| Total expenses | <u>6,320</u> | <u>23,572</u> | <u>—</u> | <u>29,892</u> | <u>34,518</u> |
| Excess (deficiency) of revenue over expenses before unrealized gain (loss) | 6,282 | (1,559) | 819 | 5,542 | 4,153 |
| Unrealized gain (loss) <i>[notes 3, 4 and 10]</i> | 3,668 | 6,547 | — | 10,215 | (9,122) |
| Excess (deficiency) of revenue over expenses | <u>9,950</u> | <u>4,988</u> | <u>819</u> | <u>15,757</u> | <u>(4,969)</u> |
| Fund balances, beginning of year | 36,149 | 41,833 | 117,621 | 195,603 | 200,572 |
| Interfund transfers <i>[notes 6 and 7]</i> | (1,781) | 1,646 | 135 | — | — |
| Fund balances, end of year | <u>44,318</u> | <u>48,467</u> | <u>118,575</u> | <u>211,360</u> | <u>195,603</u> |

See accompanying notes

Alberta Children's Hospital Foundation

STATEMENT OF CASH FLOWS

(thousands of dollars)

Year ended March 31

| | 2017 | 2016 |
|---|----------------------|----------------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Excess (deficiency) of revenue over expenses | 15,757 | (4,969) |
| Adjustments to reconcile net cash from (used in) operating activities | | |
| Endowment contributions | (819) | (1,359) |
| Amortization of property and equipment | 110 | 106 |
| Unrealized (gain) loss | (10,215) | 9,122 |
| (Gain) loss on sale of investments <i>[note 3]</i> | (2,815) | (3,590) |
| | <u>2,018</u> | <u>(690)</u> |
| Changes in non-cash working capital | | |
| Accounts receivable and accrued interest | 16 | 16 |
| Prepaid expenses | 29 | 27 |
| Accounts payable and accrued liabilities | (2,996) | (133) |
| Cash used in operating activities | <u>(933)</u> | <u>(780)</u> |
| INVESTING ACTIVITIES | | |
| Purchase of investments <i>[note 3]</i> | (19,978) | (22,962) |
| Proceeds on sale of investments <i>[note 3]</i> | 14,307 | 15,684 |
| Purchase of property and equipment | — | (108) |
| Cash used in investing activities | <u>(5,671)</u> | <u>(7,386)</u> |
| FINANCING ACTIVITIES | | |
| Endowment contributions | 819 | 1,359 |
| Cash provided by financing activities | <u>819</u> | <u>1,359</u> |
| Net increase (decrease) in cash during the year | (5,785) | (6,807) |
| Cash, beginning of year | 17,968 | 24,775 |
| Cash, end of year | <u>12,183</u> | <u>17,968</u> |

See accompanying notes

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2017
(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 unrestricted contributions as well as the Foundation's general, fundraising, and administrative expenses incurred in the course of managing the Foundation's operations.
- [ii] The restricted fund reports contributions that are externally restricted by donors in support of child health programs, equipment, research, and education priorities. Expenses related to these priorities and incurred as part of honoring the donor's restrictions are recorded as expenses of the restricted fund. Investment income earned on externally restricted fund balances and the related management investment 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. 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.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2017
(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 funding commitments.

[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 initially recorded at settlement date. Freestanding derivative instruments that are not in a qualifying hedging relationship and fixed income 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, which are amortized using the straight-line method over the term of the instrument.

Financial assets carried at 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, 2017
(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 at 25% per annum.

[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 designated 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 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, 2017
(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 \$ | 2017 \$ | 2016 \$ |
|----------------------------------|---|----------------|-----------------------|----------------|----------------|
| Balance, beginning of year | 1,102 | 111,023 | 68,980 | 181,105 | 179,370 |
| Sale of investments | (3,310) | (10,769) | (228) | (14,307) | (15,684) |
| Purchase of investments | 2,855 | 13,479 | 3,644 | 19,978 | 22,962 |
| Realized gain on sale | - | 2,801 | 14 | 2,815 | 3,590 |
| Change in unrealized gain (loss) | 28 | 11,744 | (1,599) | 10,173 | (9,133) |
| Balance, end of year | 675 | 128,278 | 70,811 | 199,764 | 181,105 |

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

| | 2017 \$ | 2016 \$ |
|--|---------------|---------------|
| Opening accumulated unrealized gains | 36,505 | 45,638 |
| Realized (gain) loss recognized in investment and other income | (2,815) | (3,590) |
| Unrealized gain (loss) in the year | 12,988 | (5,543) |
| Ending accumulated unrealized gains | 46,678 | 36,505 |

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2017
(thousands of dollars)

3. INVESTMENTS (CONTINUED)

| | 2017 | | 2016 | |
|---------------------------------|----------------|---------------------|------------|---------------------|
| | Cost \$ | Fair value \$ | Cost \$ | Fair value \$ |
| Fixed income | 68,294 | 70,811 | 64,863 | 68,980 |
| Canadian equities | 35,164 | 51,800 | 33,771 | 45,013 |
| Foreign equities | 49,005 | 76,478 | 44,887 | 66,010 |
| Cash and short-term investments | 623 | 675 | 1,079 | 1,102 |
| | 153,086 | 199,764 | 144,600 | 181,105 |

[a] Foreign currency risk

Foreign currency exposure arises from the Foundation's holdings of foreign equity securities. As at March 31, 2017, total foreign equity holdings were 38.29% [2016 – 36.5%] 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 0.50% and 11.77% and have maturities ranging from 2017 to 2068.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2017
(thousands of dollars)

4. OTHER ASSETS

| | 2017 | 2016 |
|---|-------------|-------------|
| | \$ | \$ |
| Cash surrender value of donated life insurance policies | 185 | 143 |

Donated life insurance policies are recorded at their cash surrender value; face value of the policies is \$453 [2016 – \$353]. Changes in cash surrender value are reflected in the statement of operations and changes in fund balances.

5. PROPERTY AND EQUIPMENT

| | 2017 | | 2016 | |
|-------------------|-------------|-------------------------------------|---------------------------|---------------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| | \$ | \$ | \$ | \$ |
| Office equipment | 127 | 60 | 67 | 95 |
| Computer hardware | 424 | 329 | 95 | 160 |
| Computer software | 156 | 129 | 27 | 44 |
| | 707 | 518 | 189 | 299 |

6. EXTERNALLY RESTRICTED NET ASSETS AND INTERFUND TRANSFERS

During fiscal 2017, interfund transfers of externally restricted net assets occurred:

- \$8,402 of funds were transferred from the operating fund to the restricted fund to bridge donor funding;
- \$6,621 of funds previously used to bridge donor funding were returned to the operating fund from the restricted fund; and
- \$135 of funds received in the restricted fund in a previous year were endowed by donors in 2017; therefore transferred from the restricted fund to the endowment fund.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2017
(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 \$1,173 [2016 – \$1,289]. 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 \$98 [2016 – \$89] 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 | 2,561 |
| Clinical | 7,672 |
| Education and other | 1,025 |
| Family centred care | 2,163 |
| Research | 17,487 |
| | <u>30,908</u> |

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2017
(thousands of dollars)

9. COMMITMENTS (CONTINUED)

The above funding comprises:

- A commitment of \$5,075 in support of the Alberta Children's Hospital Research Institute for Child and Maternal Health; and
- \$1,667 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 \$10,344 [2016 – \$12,059] and unrealized gains in the amount of \$10,215 [2016 – loss of \$9,122].

Realized investment income earned on the endowment funds included \$4,214 [2016 – \$4,564] on the externally restricted fund and \$2,333 [2016 – \$2,864] on the internally restricted fund and was allocated to the operating and restricted funds. Unrealized gains earned on the externally restricted endowment funds included \$4,870 [2016 – loss of \$3,965]. 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.

| | 2017 | | | 2016 | |
|-----------------|-----------------------------|----------------------------------|----------------------------------|---------------|---------------|
| | Investment and other income | Internally restricted allocation | Externally restricted allocation | Total | Total |
| | \$ | \$ | \$ | \$ | \$ |
| Operating fund | 1,006 | 4,084 | 171 | 5,261 | 7,311 |
| Restricted fund | 2,791 | (1,751) | 4,043 | 5,083 | 4,748 |
| Endowment fund | 6,547 | (2,333) | (4,214) | — | — |
| | 10,344 | — | — | 10,344 | 12,059 |

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2017
(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 \$14,128 [2016 – \$16,002]. This amount includes unpaid balances recorded in accounts payable and accrued liabilities of \$906 [2016 – \$1,541]. In addition, Alberta Health Services provides the Foundation with office space at the Alberta Children's Hospital. A single grant of \$2,647 or 10.4% of gross contributions was also made during the fiscal year.

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 \$12,986 [2016 – \$15,840]. This amount includes unpaid balances recorded in accounts payable and accrued liabilities of \$90 [2016 – \$2,423].

During the year the Foundation paid, in the ordinary course of business, \$2 [2016 – \$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, \$8 [2016 – \$13] 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 \$322 [2016 – \$285] from the Foundation's Board of Directors, spouses, their related companies and management employees.

Alberta Children's Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

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(thousands of dollars)

12. CONTINGENT LIABILITIES

During fiscal 2017 the Foundation did not receive any conditional gifts. In fiscal 2016 the Foundation repaid \$1,000 of previously received conditional gifts. The Foundation currently has no conditional gifts outstanding.

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 \$4,002 [2016 – \$3,924]. This amount includes total remuneration paid to employees of the Foundation whose principal duties involve fundraising of \$1,554 [2016 – \$1,623]. These amounts are included as part of the Foundation's operating expenses.

During the year the Foundation paid one grant in the amount \$2,647 or 10.4% (equal to or greater than 10% as noted in the standards) of gross contributions [2016 – nil].

