
Financial statements of
St. Mary's Hospital Foundation

March 31, 2014

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Independent auditor's report

To the Members of
St. Mary's Hospital Foundation

We have audited the accompanying financial statements of St. Mary's Hospital Foundation, which comprise the balance sheet as at March 31, 2014, and the statements of income and expenditures, fund balances and cash flows for the year then ended, and 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.

Auditor's 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 the auditor's 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, the auditor considers 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, the Foundation derives part of its revenue from the general public in the form of donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our audit of these revenues was limited to the amounts recorded in the books of the Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to donation revenue and excess of income over expenditures and cash flows from operating activities for the years ended March 31, 2014 and 2013, and current assets as at March 31, 2014 and 2013, and fund balances as at March 31, 2014 and 2013, and April 1, 2012. Our report on the prior year financial statements had the same qualification.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of St. Mary's Hospital Foundation as at March 31, 2014, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which explains that certain comparative information for the year ended March 31, 2013 has been restated.

Deloitte LLP¹

June 10, 2014

¹ CPA auditor, CA, public accountancy permit No. A125888

St. Mary's Hospital Foundation
Statement of income and expenditures
Year ended March 31, 2014

	Notes	2014			2013
		Endowment Fund	Restricted Fund	General Fund	Total
		\$	\$	\$	\$
Income					
Donations		576,767	1,157,051	3,083,450	4,817,268
Investment income	3 and 4	617,775	258,704	1,328,820	2,205,299
		1,194,542	1,415,755	4,412,270	7,022,567
Expenditures					
Salaries		—	—	798,388	798,388
Expenses – Special events		106,911	28,816	440,223	575,950
Administrative and fundraising expenses		—	—	226,972	226,972
Investment expenses		—	—	47,071	47,071
Amortization of capital assets		—	—	3,216	3,216
		106,911	28,816	1,515,870	1,651,597
Excess of income over expenditures before the following items		1,087,631	1,386,939	2,896,400	5,370,970
Donations to St. Mary's Hospital Center – Schedule Chairs and Special Project		—	(648,284)	(2,935,000)	(3,583,284)
5300 Development Project	6	—	(132,995)	(400,000)	(532,995)
Excess (deficiency) of income over expenditures before net loss of a subsidiary		1,087,631	605,660	(438,600)	1,254,691
Net loss of a subsidiary	6	—	—	(331,042)	(331,042)
Excess (deficiency) of income over expenditures		1,087,631	605,660	(769,642)	923,649

The accompanying notes are an integral part of these financial statements.

St. Mary's Hospital Foundation

Statement of fund balances

Year ended March 31, 2014

	Notes	Endowment	Restricted Fund	Invested in capital assets	Unrestricted	Total
		\$	\$	\$	\$	\$
Balance as at April 1, 2012, as restated	2	5,089,825	3,933,453	5,452	2,391,135	11,419,865
Excess (deficiency) of income over expenditures		659,159	1,897,085	(2,352)*	(867,164)	1,686,728
Transfers between Funds	8	—	90,811	—	(90,811)	—
Balance as at March 31, 2013, as restated	2	5,748,984	5,921,349	3,100	1,433,160	13,106,593
Excess (deficiency) of income over expenditures		1,087,631	605,660	(3,216)	(766,426)	923,649
Acquisition of capital assets		—	—	41,576	(41,576)	—
Transfers between Funds	8	—	663	—	(663)	—
Balance as at March 31, 2014		6,836,615	6,527,672	41,460	624,495	14,030,242

The accompanying notes are an integral part of these financial statements.

St. Mary's Hospital Foundation

Balance sheet

As at March 31, 2014

	Notes	2014	2013
		\$	\$
Assets			
Current assets			
Cash		32,663	908,686
Accounts receivable		70,663	96,428
Prepaid expenses		15,595	31,977
		118,921	1,037,091
Portfolio investments	5	12,133,921	9,924,879
Investment in a subsidiary	6	1,904,907	2,442,899
Capital assets	7	41,460	3,100
		14,199,209	13,407,969
Liabilities			
Current liabilities			
Accounts payable and accruals		9,590	123,400
Due to St. Mary's Hospital Center		49,780	45,935
Unearned revenue		109,597	132,041
		168,967	301,376
Commitments	10		
Fund balances			
Endowment		6,836,615	5,748,984
Externally restricted		6,527,672	5,921,349
General			
Invested in capital assets		41,460	3,100
Unrestricted		624,495	1,433,160
		14,030,242	13,106,593
		14,199,209	13,407,969

The accompanying notes are an integral part of these financial statements.

Approved by the Board

_____, Director

_____, Director

St. Mary's Hospital Foundation

Statement of cash flows

Year ended March 31, 2014

	Notes	2014	2013
		\$	\$
Operating activities			
Excess of income over expenditures		923,649	1,686,728
Adjustments for			
Amortization of capital assets		3,216	2,352
Realized gains and losses		(454,094)	(443,198)
Change in fair value of investments		(1,327,527)	(809,691)
Net loss of a subsidiary	6	331,042	1,884,334
5300 Development Project	6	—	(2,855,984)
		(523,714)	(535,459)
Changes in non-cash operating working capital items			
Accounts receivable		25,765	15,459
Prepaid expenses		16,382	(20,373)
Accounts payable and accruals		(113,810)	(39,926)
Due to St. Mary's Hospital Center		3,845	2,502
Unearned revenue		(22,444)	34,141
		(613,976)	(543,656)
Investing activities			
Acquisition of capital assets		(41,576)	—
Variation of portfolio investments		(427,421)	2,057,040
Return from (investment in) a subsidiary	6	206,950	(707,838)
		(262,047)	1,349,202
Net (decrease) increase in cash		(876,023)	805,546
Cash, beginning of year		908,686	103,140
Cash, end of year		32,663	908,686

The accompanying notes are an integral part of these financial statements.

St. Mary's Hospital Foundation

Notes to the financial statements

March 31, 2014

1. Status and objectives of the Foundation

The current status of St. Mary's Hospital Foundation (the "Foundation") results from the merger of the Foundation with the Queen Elizabeth Hospital of Montreal Foundation on April 1, 2004 under the *Companies Act* (Québec). The object of the Foundation is to raise funds for the requirements of St. Mary's Hospital Center (the "Hospital") that are not funded by the Agence de la santé et des services sociaux de Montréal. Under the *Income Tax Act*, the Foundation is classified as a public foundation and is subject to the articles thereof.

2. Reclassification of comparative fund balance figures

In 2014, the Foundation reviewed its Capital Funds' Governance Policy and the allocations and presentation of investment income. Following the review certain allocations were reclassified, with the result that as at April 1, 2012, the endowment fund balance was overstated by \$310,699 (\$31,032 as at March 31, 2013), the externally restricted fund balance was understated by \$602,539 (\$806,703 as at March 31, 2013), and the unrestricted fund balance was overstated by \$291,540 (\$775,671 as at March 31, 2013). The fund balances presented as at April 1, 2012 and March 31, 2013 have been restated to reflect these reclassifications.

Previously, all investment income was presented in the general fund, and to the extent that it related to the restricted or endowment funds, it was transferred to those funds using an interfund transfer in the statement of fund balances. Commencing in 2014, the restricted investment income is presented directly in the restricted and endowment funds (Note 4), and no longer as a transfer from the general fund. The 2013 statement of fund balances reflects this change in presentation.

To provide a more meaningful and accurate presentation of the fund balances, the Foundation grouped together the amounts previously shown separately as unrestricted and internally restricted endowment. As a result, the internally restricted endowment classification is no longer presented and the unrestricted fund balance as at April 1, 2012 was increased by \$5,575,622 (\$6,294,276 as at March 31, 2013).

These reclassifications did not result in any changes to Foundation income, expenditures, assets or liabilities.

3. Accounting policies

The financial statements of the Foundation have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") using the restricted fund method. The significant accounting policies are:

Fund accounting

Donations and other income received by the Foundation are classified into three funds - the Endowment Fund, the Restricted Fund and the General Fund.

The Endowment Fund records donations that are subject to donor stipulations requiring the capital to be maintained. The fund balance consists of original endowment contributions plus cumulative investment income required to be reinvested in endowment capital as per the Foundation's current Capital Funds' Governance Policy.

3. Accounting policies (continued)

Fund accounting (continued)

The Restricted Fund includes resources that are subject to requirements specified by the donors, including investment income earned on endowment funds established for restricted purposes. The fund balance consists of restricted funds received but not yet spent.

The General Fund records all unrestricted activities, which includes sources of funds that are not subject to specific stipulation and are available for operations or as directed by the Board of Directors. Funds invested in capital assets report the capital assets less their accumulated amortization.

Investment income

Investment income is recorded when earned. Investment income is allocated in accordance with the Foundation's Capital Funds' Governance Policy. Unrestricted investment income is recorded in the General Fund. In order to preserve endowment capital against inflation, only a prescribed percentage, as determined by the Board, of the opening fair value of endowment capital is made available for spending and is recorded in the Restricted Fund. Any excess of actual investment income earned on endowments over the prescribed amount is recorded as investment income in the Endowment Fund. In the event of a shortfall, a negative investment income is recorded in the Endowment Fund drawing down on investment income previously accumulated.

Donations

Pledged donations are presented in the notes to the financial statements and are only recorded as income when received.

Donated goods and services

The value of donated goods and services is recorded as revenue and an expense in the financial statements when the fair value can be reasonably estimated and when the goods and services are normally purchased and would be paid for if not donated.

Furthermore, each year, many volunteers give a lot of their time to the Foundation to make sure that it can provide its services. Due to the difficulty in determining the fair value of the contributions received in the form of services, these services are not recognized in the financial statements.

Capital assets

Capital assets are recorded at cost. Amortization is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Office furniture and equipment	5 years
Leasehold improvements	10 years

3. Accounting policies (continued)

Investment in a subsidiary

The Foundation records its investment in its wholly-owned subsidiary, 9030-9329 Québec Inc., which owns the building located at 5300 Côte-des-Neiges, using the equity method.

The Foundation recognizes in net income an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the investee. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed in net earnings in the period the reversal occurs.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Foundation becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost except for investments, which are measured at fair value at the balance sheet date. The fair value of investments is based on closing prices. The fair value of the investment funds is based on fair value confirmation received from the fund manager with whom those instruments are negotiated. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Transaction costs related to financial instruments measured at fair value are expensed as incurred. Transaction costs related to the other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statement of operations as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Foundation recognizes in the statement of operations an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in statement of operations in the period the reversal occurs.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the balance sheet date. Revenues and expenses are translated at the exchange rates prevailing on the transaction dates. Realized and unrealized exchange gains and losses are included in earnings. The Foundation does not use derivative instruments to mitigate foreign exchange risk.

3. Accounting policies (continued)

Use of estimates

The preparation of financial statements, in conformity with Canadian ASNPO, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Main estimates consist of, the fair value of investments and the recoverable amount of the investment in a subsidiary. Actual results could differ from these estimates.

4. Investment income

Investment income is composed of:

	2014	2013
	\$	\$
Interest	103,658	209,401
Dividends and other distributions	320,020	206,870
Realized gains and losses	454,094	443,198
Unrealized change in fair value	1,327,527	366,493
	2,205,299	1,225,962

The allocation of investment income is made in accordance with the Foundation's Capital Funds' Governance policy described in Note 3, resulting in the presentation of investment income in the statement of income and expenditures as follows:

	2014	2013
	\$	\$
Endowment Fund	617,775	344,079
Restricted Fund	258,704	229,118
General Fund	1,328,820	652,765
	2,205,299	1,225,962

5. Portfolio investments

	2014	2013
	\$	\$
Cash and cash equivalents	151,648	235,405
Bonds – Canadian	3,634,786	2,977,377
Shares – Canadian	2,845,714	2,137,391
Shares – foreign	5,501,773	4,574,706
	12,133,921	9,924,879

5. Portfolio investments (continued)

Market risk

The Foundation is subject to market risk, which is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security of its issuer or factors affecting all securities traded in the market. These risks include exposure to fluctuations in interest rates and in foreign currencies. The concentration of risk is minimized because of the Foundation's diversification of its investment portfolio.

Currency risk

The Foundation has investments in foreign currencies and is accordingly subject to risk arising from currency rate changes. The fair value of US shares is translated at the currency rate as of March 31, which was 1.1053 in 2014 (1.0156 in 2013).

Interest rate risk

The interest rates and terms of bonds are summarized at their fair values as follows:

	Maturity			Total
	0-5 years	6-10 years	+10 years	
	\$	\$	\$	\$
As at March 31, 2014 – Canadian bonds				
1.32%-6.75%	2,393,597	—	—	2,393,597
1.40%-11.00%	—	1,241,189	—	1,241,189
	2,393,597	1,241,189	—	3,634,786

	Maturity			Total
	0-5 years	6-10 years	+10 years	
	\$	\$	\$	\$
As at March 31, 2013 – Canadian bonds				
1.41%-6.75%	1,980,218	—	—	1,980,218
2.10%-11.00%	—	997,159	—	997,159
	1,980,218	997,159	—	2,977,377

Credit risk

Credit risk concentration exists where a significant portion of the portfolio is invested in securities which have comparable characteristics or obey similar variations relating to economic or political conditions. The credit risk is mainly due to the fact that the foundation owns bonds. There is a risk that the issuer will be unable to pay their obligations towards the Foundation. The Foundation mitigates this risk through the diversification of its investment portfolio.

St. Mary's Hospital Foundation
Notes to the financial statements
 March 31, 2014

6. Investment in a subsidiary

	2014	2013
	\$	\$
9030-9329 Quebec Inc., wholly-owned		
Advance, non-interest bearing and without specific terms of repayment	4,386,312	4,593,262
Shares, at equity value	(2,481,405)	(2,150,363)
	1,904,907	2,442,899

For the past few years, the Foundation has been acting as an agent on behalf of its subsidiary for certain activities. As part of these activities, the Foundation had been providing assistance in terms of project management oversight and financing of the subsidiary's building improvements and its pre-development expenses related to the planning and construction of a new medical building at 5300 Côte-des-Neiges ("5300 Development Project"). Previously, expenditures related to these activities were expensed by the Foundation. In 2013, the cumulative expenditures related to these activities were formally transferred to the subsidiary for whom they were undertaken and a receivable for these amounts was set up. The result to the Foundation was to record a recovery of \$2,855,984 in 2013 for amounts previously expensed, partially offset by the Foundation recording the net loss of the subsidiary, which results from the pre-development and other amounts required to be expensed by the subsidiary.

The subsidiary is not consolidated in the Foundation's financial statements. The financial summary of the subsidiary as at March 31, 2014 and March 31, 2013 and for the years then ended is as follows:

	2014	2013
	\$	\$
Total assets	1,978,215	2,523,565
Total liabilities	4,459,620	4,673,928
Shareholder's deficiency	(2,481,405)	(2,150,363)
Total income	488,193	478,171
Total expenditures	819,235	2,362,505
Net loss	(331,042)	(1,884,334)

	2014	2013
	\$	\$
Cash inflows (outflows)		
Total operating activities	(65,038)	(1,904,648)
Total investing activities	(23,694)	(1,638,152)
Total financing activities	(206,950)	3,565,064
Net (decrease) increase in cash	(295,682)	22,264

St. Mary's Hospital Foundation
Notes to the financial statements
 March 31, 2014

7. Capital assets

	2014			2013
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Office furniture and equipment	147,113	136,258	10,855	3,100
Leasehold improvements	31,525	920	30,605	—
	178,638	137,178	41,460	3,100

8. Transfers between Funds

In accordance with the Foundation's Capital Funds' Governance Policy, transfers between Funds are made on a quarterly basis to allocate investment income and related fees. In addition, the Board of Directors of the St. Mary's Hospital Foundation may authorize, from time to time, transfers between Funds in accordance with the Hospital's strategic direction. The interfund transfers consist primarily of funds collected through the Foundation's fundraising events that are allocated to specific internal and external projects.

9. Pledges receivable

At year-end, the Foundation had pledges receivable totalling \$9,265,933, which are receivable up to 2023 as follows:

	\$
2015	1,726,366
2016	1,376,367
2017	1,503,200
2018	880,000
2019	880,000
2020	800,000
2021	800,000
2022	800,000
2023	500,000
	<u>9,265,933</u>

10. Commitments

At year-end, the Foundation's outstanding commitments to the Hospital were as follows:

	\$
Ophthalmology	136,000
Women's Health Initiative	165,000
CT Scan for Emergency Room	500,000
McGill Chair	227,500
Rosy Cancer Network	3,300,000
Medical research, support and grants	1,935,000
West wing expansion	10,000,000
	<u>16,263,500</u>

The timing of disbursement of these commitments will depend on the timing of the Hospital's execution of its plans in these areas and subject to the disposable net income of the Foundation. In addition, the Foundation has an annual commitment to support research chairs up to \$250,000.

11. Financial instruments

Credit risk

The Foundation is exposed to credit risk to the extent that its donors and debtors may experience financial difficulty and would be unable to meet their obligations. However, the Foundation has a large number of diverse donors and debtors which minimizes concentration of credit risk.

Liquidity risk

The Foundation's objective is to have sufficient liquidity to meet its liabilities when due. The Foundation monitors its cash balances and cash flows generated from operations to meet its requirements. As at March 31, 2014, the most significant financial liabilities are accounts payable and accruals and due to St. Mary's Hospital Center.

St. Mary's Hospital Foundation

Schedule of donations made to St. Mary's Hospital Center

Year ended March 31, 2014

	2014	2013
	\$	\$
From restricted funds		
Primary care/Cancer care	251,190	157,705
Medicine	91,943	66,993
Pharmacy fund	34,221	67,358
Day Surgery unit	—	1,509
Professional advancement	72,163	96,532
Psychiatry	3,900	13,440
Renal dialysis	3,937	5,620
Ophthalmology	8,597	3,046
Intensive care unit	380	—
Geriatrics	8,824	3,125
Family Medicine	2,811	6,633
Clinical teaching unit – 5 south	21,712	3,745
Other projects – outside event	9,100	5,035
Diabetic clinic	3,500	8,782
Women's Wellness Initiative	136,006	220,035
Auxiliary of St. Mary's Hospital	—	3,959
	648,284	663,517
From unrestricted general funds		
Medical research, support and grants	1,935,000	1,755,000
Equipment and construction	1,000,000	2,636,503
	2,935,000	4,391,503
	3,583,284	5,055,020