
Financial statements of St. Mary's Hospital Foundation

March 31, 2016

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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, 2016, 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 this revenue 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, 2016 and 2015, and current assets as at March 31, 2016 and 2015, and fund balances as at March 31, 2016, 2015 and April 1, 2014. 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, 2016, 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.

Deloitte LLP¹

June 3, 2016

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

St. Mary's Hospital Foundation
Statement of income and expenditures
Year ended March 31, 2016

		2016			2015
Notes		Endowment Fund	Restricted Fund	General Fund	Total
		\$	\$	\$	\$
Income					
		14,440	1,547,315	3,474,989	5,036,744
		(261,881)	—	(62,507)	(324,388)
		(247,441)	1,547,315	3,412,482	4,712,356
Expenditures					
		—	—	784,083	784,083
		—	29,717	607,307	637,024
		—	—	311,523	311,523
		—	—	51,270	51,270
		—	—	9,859	9,859
		—	29,717	1,764,042	1,793,759
		(247,441)	1,517,598	1,648,440	2,918,597
		—	(296,094)	(2,150,000)	(2,446,094)
		—	(133,732)	(300,000)	(433,732)
		—	—	—	—
		(247,441)	1,087,772	(801,560)	38,771
		—	—	(17,318)	(17,318)
		(247,441)	1,087,772	(818,878)	21,453

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

St. Mary's Hospital Foundation

Statement of fund balances

Year ended March 31, 2016

	Notes	Endowment	Restricted Fund	Invested in capital assets	Unrestricted	Total
		\$	\$	\$	\$	\$
Balance as at March 31, 2014		6,836,615	6,527,672	41,460	624,495	14,030,242
Excess (deficiency) of income over expenditures		492,442	888,595	(8,240)	(738,433)	634,364
Acquisition of capital assets		—	—	16,104	(16,104)	—
Transfers between Funds	7	—	1,220	—	(1,220)	—
Balance as at March 31, 2015		7,329,057	7,417,487	49,324	(131,262)	14,664,606
(Deficiency) excess of income over expenditures		(247,441)	1,087,772	(9,859)	(809,019)	21,453
Balance as at March 31, 2016		7,081,616	8,505,259	39,465	(940,281)	14,686,059

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

St. Mary's Hospital Foundation

Balance sheet

As at March 31, 2016

	Notes	2016	2015
		\$	\$
Assets			
Current assets			
Cash		2,440,616	509,928
Accounts receivable		123,009	73,367
Prepaid expenses		39,829	27,473
		2,603,454	610,768
Portfolio investments	4	12,433,247	12,686,084
Investment in a subsidiary	5	1,508,023	1,507,478
Capital assets	6	39,465	49,324
		16,584,189	14,853,654
Liabilities			
Current liabilities			
Accounts payable and accruals		42,383	6,355
Due to St. Mary's Hospital Center		1,743,572	49,604
Unearned revenue		112,175	133,089
		1,898,130	189,048
Pledges payable	11		
Fund balances			
Endowment	8	7,081,616	7,329,057
Externally restricted	9	8,505,259	7,417,487
General			
Invested in capital assets		39,465	49,324
Unrestricted		(940,281)	(131,262)
		14,686,059	14,664,606
		16,584,189	14,853,654

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

Approved by the Board

_____, Director

_____, Director

St. Mary's Hospital Foundation

Statement of cash flows

Year ended March 31, 2016

	Notes	2016	2015
		\$	\$
Operating activities			
Excess of income over expenditures		21,453	634,364
Adjustments for			
Amortization of capital assets		9,859	8,240
Realized gains on investments		(268,348)	(540,702)
Change in fair value of investments		1,007,161	(317,423)
Net loss of a subsidiary	5	17,318	110,861
		787,443	(104,660)
Changes in non-cash operating working capital items			
Accounts receivable		(49,642)	(2,704)
Prepaid expenses		(12,356)	(11,878)
Accounts payable and accruals		36,028	(3,235)
Due to St. Mary's Hospital Center		1,693,968	176
Unearned revenue		(20,914)	23,492
		2,434,527	(98,809)
Investing activities			
Acquisition of capital assets		—	(16,104)
Variation of portfolio investments		(485,976)	305,962
(Advance to) return from a subsidiary		(17,863)	286,568
		(503,839)	576,426
Net increase in cash		1,930,688	477,265
Cash, beginning of year		509,928	32,663
Cash, end of year		2,440,616	509,928

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

1. Nature of the activities of the Foundation

The objective of the Foundation is to raise funds for the needs of St. Mary's Hospital Center (the "Hospital"), a McGill affiliated CHAU accredited community hospital, that is not funded by the Ministère de la santé et des services sociaux. Under the *Income Tax Act*, the Foundation is classified as a public foundation and is subject to the articles thereof.

2. 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.

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.

2. Accounting policies (continued)

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

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, except due to St. Mary's Hospital Center, 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 portfolio 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 portfolio investments 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.

2. Accounting policies (continued)

Financial instruments (continued)

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 the 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. Revenue 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.

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.

3. Investment income

Investment income is composed of:

	2016	2015
	\$	\$
Interest	118,084	126,388
Dividends and other distributions	296,341	226,769
Realized gains and losses	268,348	540,702
Unrealized change in fair value	(1,007,161)	317,423
	(324,388)	1,211,282

3. Investment income (continued)

The allocation of investment income is made in accordance with the Foundation's Capital Funds' Governance policy described in Note 2, resulting in the presentation of investment income in the statement of income and expenditures as follows:

	2016	2015
	\$	\$
Endowment Fund	(261,881)	183,286
Restricted Fund	—	307,648
General Fund	(62,507)	720,348
	(324,388)	1,211,282

4. Portfolio investments, at fair value

	2016	2015
	\$	\$
Cash and cash equivalents	529,713	612,312
Bonds – Canadian	4,083,433	3,903,712
Shares – Canadian	3,002,886	2,715,152
Shares – foreign	4,817,215	5,454,908
	12,433,247	12,686,084

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 mitigated 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 at March 31, which was 1.2971 in 2016 (1.2683 in 2015).

4. Portfolio investments, at fair value (continued)

Interest rate risk

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

	Maturity			
	0-5 years	6-10 years	+10 years	Total
	\$	\$	\$	\$
As at March 31, 2016 – Canadian bonds				
0.92% – 6.75%	3,389,024	—	—	3,389,024
1.55% – 10.95%	—	694,411	—	694,411
	3,389,024	694,411	—	4,083,435

	Maturity			
	0-5 years	6-10 years	+10 years	Total
	\$	\$	\$	\$
As at March 31, 2015 – Canadian bonds				
1.24% – 6.75%	3,197,284	—	—	3,197,284
1.48% – 11.00%	—	706,428	—	706,428
	3,197,284	706,428	—	3,903,712

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.

5. Investment in a subsidiary

	2016	2015
	\$	\$
9030-9329 Quebec Inc., wholly-owned		
Advance, non-interest-bearing and without specific terms of repayment	4,117,607	4,099,744
Shares, at equity value	(2,609,584)	(2,592,266)
	1,508,023	1,507,478

St. Mary's Hospital Foundation
Notes to the financial statements
March 31, 2016

5. Investment in a subsidiary (continued)

The subsidiary is not consolidated in the Foundation's financial statements. The financial summary of the subsidiary as at March 31, 2016 and March 31, 2015, and for the years then ended is as follows:

	2016	2015
	\$	\$
Total assets	2,444,606	1,655,309
Total liabilities	5,054,190	4,247,575
Shareholder's deficiency	(2,609,584)	(2,592,266)
Total income	510,042	518,697
Total expenses	527,360	629,558
Net loss	(17,318)	(110,861)

	2016	2015
	\$	\$
Cash inflows (outflows)		
Total operating activities	201,457	220,192
Total investing activities	(937,174)	64,779
Total financing activities	725,451	(286,568)
Net decrease in cash	(10,266)	(1,597)

6. Capital assets

	2016			2015
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Office furniture and equipment	163,216	147,556	15,660	22,119
Leasehold improvements	31,525	7,721	23,804	27,205
	194,741	155,277	39,465	49,324

7. Transfers between Funds

The Board of Directors of the 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.

8. Endowment

	2016	2015
	\$	\$
McGill Chair – Family & Community Medicine Research	2,130,224	2,209,147
McGill Chair – Community Cancer Care	3,087,059	3,201,332
Family Medicine	78,859	81,781
Oncology	180,375	187,058
Helene Derouin Renaud	212,644	220,266
Johnson Fund for Geriatrics	146,160	146,442
Edward Tinmouth	264,291	274,083
Gail Hutchison	206,078	204,275
St George's Lodge	114,751	119,002
Renal Dialysis	195,150	202,380
Hingston Grant/Med Leadership	106,615	110,566
J. Desmarais Fund for Nurses	62,541	64,858
I.C.U. Fund	78,175	81,072
Ophthalmology	62,541	64,858
Governors of St. Mary's Legacy	10,976	11,382
Arvind K. Joshi Nursing Research Fellowship	145,177	150,555
	7,081,616	7,329,057

9. Externally restricted

	2016	2015
	\$	\$
Campus Development Project	5,723,816	4,263,460
Disbursable Endowment Interest	589,872	666,104
Cancer Care Program	340,990	675,360
Medicine	522,006	513,360
Women Health and Wellness Initiative	148,788	144,748
Professional Advancement	218,139	252,292
Heart & Stroke	116,930	87,679
Orthopaedic Fellowship	120,887	125,845
Healthexperiences.ca	29,750	29,938
Pulmonary General	16,483	16,383
Radiology Fund	24,610	24,560
Vascular Lab	17,529	17,064
Orthopedic	19,844	30,030
Anaesthesia – Acute Pain Control	14,648	14,843
Urology	58,889	55,897
Pharmacy	50,379	93,704
Rheumatology Education	14,489	14,359
Psychiatry Department	34,635	28,180
Emergency	33,109	15,742
Renal Dialysis	15,982	16,213
Ophthalmology Staff Development	21,943	26,878
Ophthalmology	47,446	47,071
Intensive Care Unit	8,401	10,404
Geriatrics	31,928	20,946
Family Medicine	49,026	43,004
Recreation Therapy	19,520	18,653
Breast Diagnostic Center SMH	4,355	10,119
Other	210,865	154,651
	8,505,259	7,417,487

10. Pledges receivable

At year-end, the Foundation had pledges receivable totalling \$8,453,189, which are receivable up to 2025 as follows:

	\$
2017	2,170,255
Thereafter	<u>6,282,934</u>

11. Pledges payable

At year-end, the Foundation's outstanding pledges to the St. Mary's Hospital Center (the "Hospital") were as follows:

	\$
5 th Floor In-Patient Cancer Case Renovation	1,300,000
Women's Health Initiative	29,750
McGill Chair	235,000
Rossey Cancer Network	2,700,000
Medical research, support and grants	840,000
	<u>5,104,750</u>

The timing of disbursement of these pledges 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 pledged up to \$10,000,000 related to the West Wing Expansion project, should it occur. The exact amount to be disbursed may vary from the amount pledged.

12. 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, 2016, 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, 2016

	2016	2015
	\$	\$
From restricted funds		
Cancer care	165,788	400,644
Medicine	15,078	104,447
Pharmacy fund	43,375	29,579
Professional advancement	44,520	49,440
Psychiatry	—	200
Emergency	—	10,000
Renal dialysis	4,765	20,855
Ophthalmology	9,735	12,753
Intensive care unit	2,152	—
Geriatrics	893	2,421
Family Medicine	500	12,318
Clinical teaching unit – 5 south	7,571	5,622
Surgery – 6 south	—	701
Other projects – outside event	1,017	506
Diabetic clinic	700	1,862
Women's Wellness Initiative	—	56,028
	296,094	707,376
From unrestricted general funds		
Medical research, support and grants	2,150,000	1,935,000
Equipment and construction	—	511,468
	2,150,000	2,446,468
	2,446,094	3,153,844