

Royal Victoria Hospital Foundation
Combined Financial Statements
For the year ended March 31, 2018

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Independent Auditor's Report

To the Board of Directors of Royal Victoria Hospital Foundation

We have audited the accompanying combined financial statements of Royal Victoria Hospital Foundation (the "Foundation"), which comprise the combined statement of financial position as at March 31, 2018, and the combined statements of revenue and expenditures, changes in 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 Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.



Independent Auditor's Report

Basis for Qualified Opinion

As explained in Note 4, the Foundation had not taken amortization on the building in prior years. Following commencement of capital repayments on the debt associated with the acquisition of the building, the Foundation reduces the cost of the land and building by the amount of the capital repayments made in the year. The cost of the building was therefore reduced by an amount equal to the capital repayments on the associated debt, being \$1,102,530 (2017 - \$1,042,718), which has not been reflected in the statements of revenue and expenditures and changes in fund balances. These treatments are not in accordance with Canadian accounting standards for not-for-profit organizations. Had amortization been taken in accordance with Canadian accounting standards for not-for-profit organizations, the charge to the statement of revenue and expenditures would have been \$818,491 (2017 - \$818,491). The net cumulative effect of these two items would be a decrease in net assets of \$4,827,578 (2017 - \$5,111,618).

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the combined financial statements present fairly, in all material respects, the financial position of Royal Victoria Hospital Foundation as at March 31, 2018, 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.

BDO Canada s.r.l./S.E.N.C.R.L./LLP¹

Montréal, Québec
June 20, 2018

¹ CPA auditor, CGA, public accountancy permit No. A121744, through BDO & Company LLP/s.r.l./S.E.N.C.R.L. which provides accounting, assurance, taxation and other professional services to BDO Canada s.r.l./S.E.N.C.R.L./LLP

Royal Victoria Hospital Foundation Combined Statement of Financial Position

March 31

2018

2017

	General Funds	Trust, Special and Capital Campaign Funds	General Endowment Funds	Total	Total
Assets					
Current					
Cash	\$ -	\$ 560,057	\$ 394	\$ 560,451	\$ 899,753
Other receivables	42,254	23,357	-	65,611	51,163
Due from the McGill University Health Centre Foundation (Note 2)	186,793	-	-	186,793	40,531
Due from other funds (Note 6)	1,505,357	4,060,867	-	5,566,224	4,965,690
	1,734,404	4,644,281	394	6,379,079	5,957,137
Investments (Note 3)	-	6,823,879	91,335,085	98,158,964	97,042,968
Leasehold improvements , net of accumulated amortization of \$134,532 (2017 - \$39,456)	110,923	-	-	110,923	205,169
Land and building (Note 4)	-	36,414,934	-	36,414,934	37,517,464
	\$ 1,845,327	\$ 47,883,094	\$ 91,335,479	\$ 141,063,900	\$ 140,722,738
Liabilities and Capital					
Current					
Accounts payable and accrued liabilities	\$ -	\$ 233,105	\$ 88,414	\$ 321,519	\$ 497,240
Payable to the MUHC, non-interest bearing, due on demand	-	10,000	-	10,000	448,884
Due to other funds (Note 6)	-	-	5,566,224	5,566,224	4,965,690
	-	243,105	5,654,638	5,897,743	5,911,814
Mortgage on land and building (Note 4)	-	36,414,934	-	36,414,934	37,517,464
	-	36,658,039	5,654,638	42,312,677	43,429,278
Capital					
Fund balances	1,845,327	11,225,055	76,881,825	89,952,207	88,391,746
Funds held by Trustees					
Lord Mount Stephen and Lord Strathcona Donations	-	-	7,635,680	7,635,680	7,821,638
Sir Herbert S. Holt Foundation	-	-	1,163,336	1,163,336	1,080,076
	1,845,327	11,225,055	85,680,841	98,751,223	97,293,460
	\$ 1,845,327	\$ 47,883,094	\$ 91,335,479	\$ 141,063,900	\$ 140,722,738

Subsequent Event (Note 10)

On behalf of the Board

Director

Director

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

Royal Victoria Hospital Foundation Combined Statement of Revenue and Expenditures

For the year ended March 31

2018

2017

	General Funds	Trust, Special and Capital Campaign Funds	General Endowment Funds	Total	Total
Revenue					
Donations and grants	\$ 640,018	\$ 4,390,409	\$ -	\$ 5,030,427	\$ 5,196,432
Estates	781,954	806,729	-	1,588,683	1,155,078
Investment income (Note 5)	-	354,733	4,115,177	4,469,910	9,845,466
Activities	-	110,200	-	110,200	59,042
Other	203,533	28,606	-	232,139	206,574
	1,625,505	5,690,677	4,115,177	11,431,359	16,462,592
Expenditures					
Administrative and fundraising costs	1,201,484	-	-	1,201,484	1,375,311
Investment management fees	-	17,899	275,670	293,569	332,254
	1,201,484	17,899	275,670	1,495,053	1,707,565
Excess of revenue over expenditures before the following	424,021	5,672,778	3,839,507	9,936,306	14,755,027
Distributions for the benefit of the MUHC	-	(8,351,292)	-	(8,351,292)	(9,226,822)
Other distribution	-	-	(127,251)	(127,251)	-
Excess (deficiency) of revenue over expenditures for the year	\$ 424,021	\$ (2,678,514)	\$ 3,712,256	\$ 1,457,763	\$ 5,528,205

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

Royal Victoria Hospital Foundation Combined Statement of Changes in Fund Balances

For the year ended March 31	2018				2017
	General Funds	Trust, Special and Capital Campaign Funds	General Endowment Funds	Total	Total
Fund balances , beginning of year	\$ 627,240	\$ 11,747,711	\$ 84,918,509	\$ 97,293,460	\$ 91,765,255
Excess (deficiency) of revenue over expenditures for the year	424,021	(2,678,514)	3,712,256	1,457,763	5,528,205
Interfund transfers (Note 6)	794,066	2,155,858	(2,949,924)	-	-
Fund balances , end of year	\$ 1,845,327	\$ 11,225,055	\$ 85,680,841	\$ 98,751,223	\$ 97,293,460

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

Royal Victoria Hospital Foundation Combined Statement of Cash Flows

For the year ended March 31	2018	2017
Cash flows from operating activities		
Contributions received from individuals, corporations, estates and events	\$ 6,947,001	\$ 6,820,077
Interest and investment income	3,652,034	2,697,079
	<u>10,599,035</u>	<u>9,517,156</u>
Office administration, investment management fees and fundraising expenses paid	(1,849,211)	(1,009,026)
Grants and transfers	(8,790,176)	(10,302,475)
	<u>(10,639,387)</u>	<u>(11,311,501)</u>
	<u>(40,352)</u>	<u>(1,794,345)</u>
Cash flows from investment activities*		
Purchase of investments	(103,383,727)	(4,585,348)
Proceeds on sale of investments	103,085,607	6,857,332
Disbursements for leasehold improvements	(830)	(169,499)
	<u>(298,950)</u>	<u>2,102,485</u>
(Decrease) increase in cash during the year	(339,302)	308,140
Cash, beginning of year	899,753	591,613
Cash, end of year	\$ 560,451	\$ 899,753

* Purchase of investments and the proceeds on sale of investments represent, in large part, the periodic rollover of funds in investments pending distribution to the MUHC.

Royal Victoria Hospital Foundation

Notes to Combined Financial Statements

March 31, 2018

1. Significant Accounting Policies

Nature of Operations

The Royal Victoria Hospital Foundation's mission is to raise, manage and steward funds primarily in support of the priorities of the MUHC, for the advancement of patient care, research and medical education, to the benefit of the Montreal community and beyond. The Foundation is a not-for-profit organization incorporated under the laws of Québec and is a registered charity under the *Income Tax Act* (Canada).

Basis of Accounting

These financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Combined Financial Statements

These financial statements combine the accounts of the Royal Victoria Hospital Foundation and those of Lord Mount Stephen and Lord Strathcona Donations and the Sir Herbert S. Holt Foundation. Although the Royal Victoria Hospital Foundation does not own the assets of these two last funds, it is the sole beneficiary of the income earned by these funds. All significant interorganization transactions and balances have been eliminated on combination.

Fund Accounting and Fund Balances

The Royal Victoria Hospital Foundation follows the restricted fund method of accounting for contributions.

The Trust, Special and Capital Campaign Funds include donations from individuals, grants from corporations and foundations and donations designated for the MUHC's Best Care for Life Campaign. Funds are spent primarily on research, teaching, patient care and the construction of the new hospital. These funds include externally restricted funds from donations that must be spent according to the donors' wishes and also include funds that are internally restricted by the Board.

The General Endowment Funds, primarily legacies and bequests, are given to the Foundation on the understanding that generally, the principal will be retained and the income they generate will be spent in conformity with the testator's wishes, if specified. The amount of the funds externally restricted is not readily determinable.

General funds are unrestricted and include donations that are not restricted by donors' wishes.

Revenue Recognition

Unrestricted and restricted donations and grants, endowments and estate contributions are recognized as revenue in the appropriate fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Donations in kind are recorded at fair value when such value can reasonably be determined. Proceeds from fundraising activities are recognized as revenue when received. Income on invested funds and expenditures are recorded on an accrual basis. Other revenues are recognized as revenue when received.

Royal Victoria Hospital Foundation

Notes to Combined Financial Statements

March 31, 2018

1. Significant Accounting Policies (Continued)

Land and Building

Land and building are recorded at cost. Due to the special terms and conditions with the MUHC as per Note 4, the Foundation has elected not to provide for any amortization on the building. The cost of the building is reduced annually by an amount equivalent to the amount of capital repayments made by the Foundation on the associated mortgage.

Pledges

Pledges are recorded as donations when the funds are received unless conditions for recognition are met.

Contributed Services

Every year, volunteers contribute many hours to assist the Royal Victoria Hospital Foundation in carrying out its activities. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, receipt and disbursement is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current period.

Financial Instruments

Measurement of Financial Instruments

The Foundation initially measures its financial assets and liabilities at fair value. The Foundation subsequently measures all its financial assets and liabilities at amortized cost with the exception of investments which are subsequently measured at fair value based on closing prices.

Financial assets measured at amortized cost include cash, other receivables and due from the McGill University Health Centre Foundation (MUHCF).

Financial liabilities measured at amortized cost include accounts payable, payable to the MUHC and mortgage on land and building.

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is not greater than the amount that would have been reported at the date of reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the combined statement of revenue and expenditures.

Royal Victoria Hospital Foundation Notes to Combined Financial Statements

March 31, 2018

1. Significant Accounting Policies (Continued)

Unrealized (losses) gains on investments, which are measured at fair value, are recognized in the combined statement of revenue and expenditures.

Transaction Costs

The Foundation recognizes its transaction costs for financial instruments at fair value in statement of revenue and expenditures in the period incurred. Financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

2. Related Party

McGill University Health Centre Foundation (MUHCF)

The Foundation and the MUHCF have a common Board of Directors and a single President overseeing the activities of both Foundations. It is presumed that each of the two foundations exerts control over the operations of the other.

The MUHCF is incorporated under the laws of Québec and is a registered charity under the *Income Tax Act* (Canada). Its mission is to receive and invest funds and apply them to health care activities for the benefit of the MUHC.

The MUHCF has not been consolidated in these financial statements. A financial summary for the MUHCF as at March 31, 2018 and 2017 and for the years then ended is as follows:

	2018	2017
Total assets	\$ 26,104,667	\$ 17,078,042
Total liabilities	\$ 4,154,600	\$ 3,255,195
Total fund balances	21,950,067	13,822,847
	\$ 26,104,667	\$ 17,078,042
	2018	2017
Revenue	\$ 17,482,046	\$ 11,498,253
Expenses and distributions to MUHC	9,354,826	7,485,904
Excess of revenue over expenditures	\$ 8,127,220	\$ 4,012,349
Cash flows from operations	\$ 8,566,040	\$ 4,147,106
Cash used for investing activities	\$ (8,761,979)	\$ (1,428,807)

Royal Victoria Hospital Foundation Notes to Combined Financial Statements

March 31, 2018

2. Related Party (Continued)

Fund balances included restricted Trust, Special and Capital Campaign funds in the amount of \$20,518,747 (2017 - \$12,576,189) and endowments of \$4,253,103 (2017 - \$2,693,211). In addition, total assets include \$1,096,789 (2017 - \$1,752,574) representing funds held on behalf of a third party, the corresponding liability of which is included in liabilities.

The balance due from MUHCF presented in the statement of financial position is comprised of amounts paid by the Foundation on behalf of the MUHCF. These amount are non-interest bearing, have no specific terms of repayment and are due on demand.

3. Investments

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Pooled funds	\$ 98,158,964	\$ 100,090,481	\$ 97,042,968	\$ 92,721,328

4. Land and Building and Related Mortgage

On July 31, 2006, the Foundation purchased the building located at 5100 de Maisonneuve Boulevard West, Montréal, Québec for an amount of \$41,000,000. The Foundation has a mortgage in the same amount with Desjardins Financial Security Life Assurance Company ("Desjardins") which is secured by a \$49,200,000 debenture and by the land and building with a net book value of \$36,414,934 (2017 - \$37,517,464).

The mortgage interest is based on the government of Canada bond yield plus 1.25%, resulting in a mortgage interest of 5.66% per annum. Monthly payments for the first seven years were \$191,142 and \$264,375 thereafter until August 5, 2036. Based on the terms of the mortgage, payments consisted entirely of interest until September 5, 2013.

The MUHC has leased the property from the Foundation for consideration equal to the amount required to repay the \$41,000,000 and has agreed to indemnify the Foundation for any losses, damages or any potential liabilities arising from the use of property.

The MUHC remits monthly payments directly to Desjardins representing interest and capital payments on the mortgage. This rental income and offsetting interest expense amounted to \$2,069,968 (2017 - \$2,129,779). Principal repayments for 2018 amounted to \$1,102,530 (2017 - \$1,042,718). These transactions are non-cash in nature for the purpose of the cash flow statement.

Royal Victoria Hospital Foundation Notes to Combined Financial Statements

March 31, 2018

4. Land and Building and Related Mortgage (Continued)

The Foundation does not amortize the building. Starting September 2013, the Foundation began reducing the original cost of the land and building by an amount equivalent to the amount of capital repayments on the associated debt. For the year ended March 31, 2018, the cost of the land and building has therefore been reduced by \$1,102,530 (2017 - \$1,042,718). These amounts have not been reflected in the statements of revenue and expenditures and changes in fund balances. Had amortization been recorded as per Canadian accounting standards for not-for-profit organizations, the charge to the statements of revenue and expenditures and changes in fund balances would have been \$818,491 (2017 - \$818,491). The net cumulative effect of these two items would be a decrease in net assets of \$4,827,578 (2017 - \$5,111,618).

Capital repayments over the next five years and thereafter are as follows:

2019	\$ 1,164,537
2020	1,231,382
2021	1,302,064
2022	1,376,804
2023	1,455,834
Thereafter	<u>29,884,313</u>
	<u>\$ 36,414,934</u>

5. Investment Income

Investment income is comprised of the following:

	2018	2017
Interest and dividends	\$ 3,652,036	\$ 2,697,079
Capital gains	7,071,031	2,081,173
Change in unrealized (loss) gain on investments	(6,253,157)	5,067,214
	<u>\$ 4,469,910</u>	<u>\$ 9,845,466</u>

Royal Victoria Hospital Foundation Notes to Combined Financial Statements

March 31, 2018

6. Interfund Transfers and Balances

				2018	2017
	General Funds	Trust, Special and Capital Campaign Funds	General Endowment Funds	Total	Total
Transfer to (from) other funds	\$ 355,796	\$ 188,519	\$ (544,315)	\$ -	\$ -
Allocation of investment income	438,270	1,967,339	(2,405,609)	-	-
	\$ 794,066	\$ 2,155,858	\$ (2,949,924)	\$ -	\$ -

Interfund balances are non-interest bearing, have no specific terms of repayment and are due on demand.

7. Commitments

As of year-end, the Foundation has commitments of \$2,500,000 (2017 - \$2,200,000) related to various board-approved projects to benefit the MUHC.

The Foundation has entered into a lease agreement for premises expiring in May 2019. Minimum annual lease payments for the next two years are as follows:

2019	\$ 139,000
2020	23,000
	\$ 162,000

8. Pension Plan

The Foundation sponsors a defined contribution plan, the Royal Victoria Hospital Foundation Group Savings Plan (the "Plan"), whereby it matches qualified employees' contributions into the Plan to a maximum of 5% of the employees' salary. The pension plan expense for the year ended March 31, 2018 is \$76,116 (2017 - \$74,247).

Royal Victoria Hospital Foundation

Notes to Combined Financial Statements

March 31, 2018

9. Financial Instruments

The Foundation is exposed to various risks by virtue of holding financial instruments. There have been no changes to the Foundation's exposure to those risks nor in how those risks are managed since the previous year.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Foundation is exposed to credit risk in relation to cash and fixed-term securities held through its investment in pooled funds. The Foundation mitigates the risk by dealing with creditworthy financial institutions and counterparties.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Foundation will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable, due to the MUHC and mortgage on land and building.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises three types of risk: interest rate risk, other price risk and currency risk. Each of these risks is discussed hereafter.

Interest Rate Risk

The Foundation is exposed to financial risks that arise from fluctuations of interest rates and the degree of volatility of these rates. The Foundation is exposed to interest rate risk with respect to its investments. The fixed-term securities held both inside the units of the pooled funds earn interest at various coupon rates ranging between 0.75% and 6.90% (2017 - 0.50% and 6.90%) and mature at various dates up to 2048 (2017 - 2048).

Other Price Risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Foundation's exposure to price risk relates to changes in market prices of its investment portfolio. The Foundation moderates this risk through the selection and diversification of securities within its pooled fund portfolio. The Foundation's investment guidelines allow for investments in certain "permitted investments". The target allocation is currently set at 60% fixed income, 30% Canadian equities and 10% international equities.

Royal Victoria Hospital Foundation Notes to Combined Financial Statements

March 31, 2018

9. Financial Instruments (Continued)

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Foundation owns investments denominated in various foreign currencies.

The market value of securities in foreign currencies at March 31, 2018 was \$8,066,479 (2017 - \$18,637,652).

10. Subsequent Event

Effective April 1, 2018, the Foundation and the McGill University Health Centre Foundation were amalgamated. The charity registration number of the McGill University Health Centre Foundation was retained on amalgamation.
