

**McGill University Health Centre  
Foundation**  
Combined Financial Statements  
For the year ended March 31, 2019

**McGill University Health Centre Foundation**  
**Combined Financial Statements**  
For the year ended March 31, 2019

**Contents**

---

<b>Independent Auditor's Report</b>	<b>2</b>
<b>Combined Financial Statements</b>	
Statement of Financial Position	<b>5</b>
Statement of Revenue and Expenditures	<b>6</b>
Statement of Changes in Fund Balances	<b>7</b>
Statement of Cash Flows	<b>8</b>
Notes to Combined Financial Statements	<b>9</b>

---

## Independent Auditor's Report

---

To the Board of Directors of  
McGill University Health Centre Foundation

### Qualified Opinion

We have audited the combined financial statements of McGill University Health Centre Foundation (the "Foundation"), which comprise the combined statement of financial position as at March 31, 2019, and the combined statements of revenue and expenditures, changes in fund balances and cash flows for the year then ended, and notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Foundation as at March 31, 2019, and its combined results of operations and its combined cash flows for the year ended in accordance with Canadian accounting standards for non-for-profit organizations.

### Basis for Qualified Opinion

As explained in Note 3, 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 \$1,165,771 (2018 - \$1,102,530), 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 combined statement of revenue and expenditures would have been \$818,491 (2018 - \$818,491). The net cumulative effect of these two items would be a decrease in net assets of \$4,480,298 (2018 - \$4,827,578).

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

---

## Independent Auditor's Report

---

### **Responsibilities of Management and Those Charged with Governance for the Combined Financial Statements**

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with 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.

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

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

### **Auditor's Responsibilities for the Audit of the Combined Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

---

## Independent Auditor's Report

---

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities combined within the Foundation to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

*BDO Canada s.r.l./S.E.N.C.R.L./LLP,*

Montréal, Québec  
June 20, 2019

---

<sup>1</sup> 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

## McGill University Health Centre Foundation Combined Statement of Financial Position

March 31

2019

2018

	General Fund	Trust, Special and Capital Campaign Funds	Endowment Fund	Total	Total
<b>Assets</b>					
<b>Current</b>					
Cash	\$ 355	\$ 10,596,597	\$ 394	\$ 10,597,346	\$ 10,117,415
Other receivables	20,490	1,012,651	-	1,033,141	68,086
Investments (Note 2)	1,133,521	-	-	1,133,521	1,096,789
Due from other funds (Note 6)	424,986	4,889,912	-	5,314,898	6,882,634
Prepaid expenses and other assets	74,967	89,663	-	164,630	98,499
	<b>1,654,319</b>	<b>16,588,823</b>	<b>394</b>	<b>18,243,536</b>	<b>18,263,423</b>
Investments (Note 2)	-	20,298,345	95,877,837	116,176,182	111,083,392
Leasehold improvements, net of accumulated amortization of \$239,798 (2018 - \$134,532)	82,100	-	-	82,100	110,923
Land and building (Note 3)	-	35,249,163	-	35,249,163	36,414,934
	<b>\$ 1,736,419</b>	<b>\$ 72,136,331</b>	<b>\$ 95,878,231</b>	<b>\$ 169,750,981</b>	<b>\$ 165,872,672</b>
<b>Liabilities and Capital</b>					
<b>Current</b>					
Accounts payable and accrued liabilities	\$ -	\$ 713,811	\$ 167,782	\$ 881,593	\$ 563,609
Funds payable to the Research Institute (Note 4)	1,133,521	-	-	1,133,521	1,096,789
Payable to the MUHC, non-interest bearing, due on demand	-	809,412	-	809,412	213,416
Due to other funds (Note 6)	-	-	5,314,898	5,314,898	6,882,634
	<b>1,133,521</b>	<b>1,523,223</b>	<b>5,482,680</b>	<b>8,139,424</b>	<b>8,756,448</b>
Mortgage on land and building (Note 3)	-	35,249,163	-	35,249,163	36,414,934
	<b>1,133,521</b>	<b>36,772,386</b>	<b>5,482,680</b>	<b>43,388,587</b>	<b>45,171,382</b>
<b>Capital</b>					
Fund balances					
Unrestricted	602,898	-	-	602,898	(976,456)
Restricted	-	35,363,945	81,996,881	117,360,826	112,878,730
Funds held by Trustees					
Lord Mount Stephen and Lord Strathcona Donations	-	-	7,490,519	7,490,519	7,635,680
Sir Herbert S. Holt Foundation	-	-	908,151	908,151	1,163,336
	<b>602,898</b>	<b>35,363,945</b>	<b>90,395,551</b>	<b>126,362,394</b>	<b>120,701,290</b>
	<b>\$ 1,736,419</b>	<b>\$ 72,136,331</b>	<b>\$ 95,878,231</b>	<b>\$ 169,750,981</b>	<b>\$ 165,872,672</b>

On behalf of the Board

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

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

## McGill University Health Centre Foundation Combined Statement of Revenue and Expenditures

**For the year ended March 31**

**2019**

**2018**

	General Fund	Trust, Special and Capital Campaign Funds	Endowment Fund	Total	Total
<b>Revenue</b>					
Donations and grants	\$ 1,427,901	\$ 18,135,682	\$ 661,145	\$ 20,224,728	\$ 20,952,858
Estates	2,774,150	3,354,001	-	6,128,151	1,879,427
Activities	-	1,391,556	-	1,391,556	996,075
	<b>4,202,051</b>	<b>22,881,239</b>	<b>661,145</b>	<b>27,744,435</b>	<b>23,828,360</b>
<b>Expenditures</b>					
Administrative costs	4,327,553	-	-	4,327,553	3,556,530
Fundraising and campaign costs	484,139	389,291	-	873,430	685,407
	<b>4,811,692</b>	<b>389,291</b>	<b>-</b>	<b>5,200,983</b>	<b>4,241,937</b>
<b>Other income (expenditures)</b>					
Investment income (Note 5)	372,183	521,809	3,549,067	4,443,059	4,852,907
Investment management fees	(52,717)	(47,247)	(499,228)	(599,192)	(314,993)
Other income	190,112	50,810	-	240,922	232,138
	<b>509,578</b>	<b>525,372</b>	<b>3,049,839</b>	<b>4,084,789</b>	<b>4,770,052</b>
<b>Excess (deficiency) of revenue over expenditures before the following</b>	<b>(100,063)</b>	<b>23,017,320</b>	<b>3,710,984</b>	<b>26,628,241</b>	<b>24,356,475</b>
<b>Distributions for the benefit of the MUHC</b>	<b>(99,221)</b>	<b>(20,867,916)</b>	<b>-</b>	<b>(20,967,137)</b>	<b>(14,644,241)</b>
<b>Other distribution</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(127,251)</b>
<b>(Deficiency) excess of revenue over expenditures for the year</b>	<b>\$ (199,284)</b>	<b>\$ 2,149,404</b>	<b>\$ 3,710,984</b>	<b>\$ 5,661,104</b>	<b>\$ 9,584,983</b>

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

## McGill University Health Centre Foundation Combined Statement of Changes in Fund Balances

<b>For the year ended March 31</b>				<b>2019</b>	2018
	General Fund	Trust, Special and Capital Campaign Funds	Endowment Fund	Total	Total
<b>Fund balances</b> , beginning of year	\$ (976,456)	\$ 31,743,802	\$ 89,933,944	\$ 120,701,290	\$ 111,116,307
<b>(Deficiency) excess of revenue over expenditures for the year</b>	(199,284)	2,149,404	3,710,984	5,661,104	9,584,983
<b>Interfund transfers</b> (Note 6)	1,778,638	1,470,739	(3,249,377)	-	-
<b>Fund balances</b> , end of year	\$ 602,898	\$ 35,363,945	\$ 90,395,551	\$ 126,362,394	\$ 120,701,290

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



## McGill University Health Centre Foundation Combined Statement of Cash Flows

For the year ended March 31	2019	2018
<b>Cash flows from operating activities</b>		
Contributions received from individuals, corporations, and events	\$ 27,145,302	\$ 24,053,512
Interest and investment income	3,031,840	3,992,238
	<b>30,177,142</b>	28,045,750
Office administration, investment management fees and fundraising expenses paid	(5,443,056)	(4,640,353)
Grants and transfers	(20,496,141)	(14,879,709)
	<b>(25,939,197)</b>	(19,520,062)
	<b>4,237,945</b>	8,525,688
<b>Cash flows from investment activities*</b>		
Purchase of investments	(5,412,019)	(117,749,836)
Proceeds on sale of investments	1,730,448	108,689,737
Disbursements for leasehold improvements	(76,443)	(830)
	<b>(3,758,014)</b>	(9,060,929)
<b>Increase (decrease) in cash during the year</b>	<b>479,931</b>	<b>(535,241)</b>
<b>Cash, beginning of year</b>	<b>10,117,415</b>	10,652,656
<b>Cash, end of year</b>	<b>\$ 10,597,346</b>	\$ 10,117,415

\* 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.

---

# McGill University Health Centre Foundation

## Notes to Combined Financial Statements

March 31, 2019

---

### 1. Significant Accounting Policies

#### Nature of Operations and Amalgamation

The McGill University Health Centre Foundation's mission is to receive and invest funds and apply them to health care activities for the benefit of the McGill University Health Centre and related institutions. 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).

Effective April 1, 2018, the Foundation and the Royal Victoria Hospital Foundation were amalgamated. The charity registration number of the McGill University Health Centre Foundation was retained on amalgamation. Prior to the amalgamation, the foundations were related by virtue of a common board of directors. The transaction was accounted for as a pooling of interests and the comparative figures were adjusted to reflect the amalgamated amounts, recorded at their carrying values.

#### Basis of Accounting

These combined 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 McGill University Health Centre Foundation and those of Lord Mount Stephen and Lord Strathcona Donations and the Sir Herbert S. Holt Foundation. Although the McGill University Health Centre 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 McGill University Health Centre Foundation follows the restricted fund method of accounting for contributions.

The General Fund includes all unrestricted resources. It includes operating expenditures, unrestricted investment income and unrestricted donations. The fund balance represents net assets that are not subject to internally or externally imposed restrictions.

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. Income generated from investments held in this Fund is recognized as income of the General Fund, unless otherwise specified by the donor.

The Endowment Fund consists of donations, including legacies and bequests, received from donors requesting that their donations be retained permanently. The income generated from these donations is spent in accordance with the donor's specifications.

---

# McGill University Health Centre Foundation

## Notes to Combined Financial Statements

March 31, 2019

---

### 1. Significant Accounting Policies (Continued)

#### 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. Revenue from 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.

#### Land and Building

Land and building are recorded at cost. Due to the special terms and conditions with the MUHC as per Note 3, 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, in which case they are accounted for as other receivables on the balance sheet.

#### Contributed Services

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

#### Use of Estimates

The preparation of combined financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenues and expenditures during the reporting period. Significant items subject to estimates and assumptions include, but are not limited to, estimated useful life of assets and impairment of long-lived assets. Actual results could differ from management's best estimates as additional information becomes available in the future.

#### Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expenditures 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.

---

# McGill University Health Centre Foundation

## Notes to Combined Financial Statements

March 31, 2019

---

### 1. Significant Accounting Policies (Continued)

#### 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 and other receivables.

Financial liabilities measured at amortized cost include accounts payable, funds payable to the Research Institute, 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.

Unrealized gains (losses) 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 combined 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.

---

## McGill University Health Centre Foundation Notes to Combined Financial Statements

**March 31, 2019**

### 2. Investments

	2019		2018	
	Fair Value	Cost	Fair Value	Cost
Pooled funds <sup>(1)</sup>	\$ 117,309,703	\$ 119,319,735	\$ 112,180,181	\$ 114,232,292
Less: current portion - investments held on behalf of the Research Institute	1,133,521	1,121,417	1,096,789	1,084,674
Long-term portion	<b>\$ 116,176,182</b>	<b>\$ 118,198,318</b>	\$ 111,083,392	\$ 113,147,618

<sup>(1)</sup> Pooled funds include cash of \$Nil (2018 - \$7,000,000) transferred to the investment accounts for which the related units had not yet been purchased.

### 3. 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 \$8,260,371 and \$26,988,792 respectively (2018 - \$8,260,371 and \$28,154,563 respectively).

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 \$2,163,360 (2018 - \$2,069,968). Principal repayments for 2019 amounted to \$1,165,771 (2018 - \$1,102,530). These transactions are non-cash in nature for the purpose of the statement of cash flows.

---

## McGill University Health Centre Foundation Notes to Combined Financial Statements

**March 31, 2019**

---

### **3. 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, 2019, the cost of the land and building has therefore been reduced by \$1,165,771 (2018 - \$1,102,530). These amounts have not been reflected in the combined 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 combined statement of revenue and expenditures and changes in fund balances would have been \$818,491 (2018 - \$818,491). The net cumulative effect of these two items would be a decrease in net assets of \$4,480,298 (2018 - \$4,827,578).

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

2020	\$ 1,231,382
2020	1,302,064
2021	1,376,804
2023	1,455,834
2024	1,539,400
Thereafter	<u>28,343,679</u>
	<u>\$ 35,249,163</u>

---

### **4. Funds Payable to the Research Institute**

In 2013, the Foundation and the Research Institute of the McGill University Health Centre (the "Institute") signed a memorandum of understanding whereby the Foundation would manage funds amounting to \$5,000,000 on behalf of the Institute. Under this agreement, all investment income generated by these funds will be payable to the Institute. As at March 31, 2019, an amount of \$1,133,521 was included in the current liabilities (2018 - \$1,096,789). The assets that have been restricted in the General Fund include investments at fair value of \$1,133,521 (2018 - \$1,096,789).

---

---

## McGill University Health Centre Foundation Notes to Combined Financial Statements

**March 31, 2019**

---

### 5. Investment Income

Investment income is comprised of the following:

	2019	2018
Interest and dividends	\$ 3,035,423	\$ 3,992,240
Gain on sale of investments	1,364,939	7,474,289
Change in unrealized gain (loss) on investments	42,697	(6,613,622)
	\$ 4,443,059	\$ 4,852,907

---

### 6. Interfund Transfers and Balances

				2019	2018
	General Funds	Trust, Special and Capital Campaign Funds	General Endowment Funds	Total	Total
Transfer to (from) other funds	\$ 821,808	\$ (88,139)	\$ (733,669)	\$ -	\$ -
Allocation of investment income	956,830	1,558,878	(2,515,708)	-	-
	\$ 1,778,638	\$ 1,470,739	\$ (3,249,377)	\$ -	\$ -

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 \$1,500,000 (2018 - \$2,500,000) related to various board-approved projects to benefit the MUHC.

The Foundation has entered into a lease agreement for premises expiring in May 2021. Minimum annual lease payments for the next three years are as follows:

2020	\$ 148,144
2021	150,040
2022	25,006
	\$ 323,190

---

---

# McGill University Health Centre Foundation Notes to Combined Financial Statements

**March 31, 2019**

---

## **8. Pension Plan**

The Foundation sponsors a defined contribution plan, the McGill University Health Centre 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, 2019 is \$ 92,741 (2018 - \$ 76,116 ).

---

## **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, except as noted hereafter.

### *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, amounts receivable 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 arises from accounts payable, funds payable to the Research Institute, payable 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. In 2019, the Foundation is not exposed to interest rate risk with respect to its investments as fixed-term securities with interest rates are not held inside the units of the pooled funds. In 2018, the Foundation was exposed to interest rate risk due to fixed-income securities with interest rates held within the pooled funds. These fixed-income securities earned interest at various coupon rates ranging between 0.75% and 6.90% with maturity dates at various dates up to 2048.



---

## McGill University Health Centre Foundation Notes to Combined Financial Statements

March 31, 2019

---

### 9. Financial Instruments (Continued)

#### *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 in its investment portfolio. The Foundation moderates this risk through the selection and diversification of securities within its portfolio. The Foundation's investment guidelines allow for investments in certain "permitted investments". The target allocation is currently set at 60% fixed income, 30% equities and 10% international equities.

#### *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 pooled funds owned by the Foundation hold positions denominated in various foreign currencies traded on foreign stock exchanges. The market value of securities in foreign currencies within the pooled funds at March 31, 2019 was \$9,901,781 (2018 - \$9,218,711).

---

### 10. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

---