Financial Statements of

CANADA'S CHILDREN'S HOSPITAL FOUNDATIONS

Period from February 24, 2017
(date of incorporation) to December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Canada's Children's Hospital Foundations

We have audited the accompanying financial statements of Canada's Children's Hospital Foundations, which comprise the statement of financial position as at December 31, 2017, the statements of operations, changes in net assets and cash flows for the period from February 24, 2017 (date of incorporation) to December 31, 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canada's Children's Hospital Foundation as at December 31, 2017, and its results of operations and its cash flows for the period from February 24, 2017 (date of incorporation) to December 31, 2017 in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 20, 2018
Vaughan, Canada

CANADA'S CHILDREN'S HOSPITAL FOUNDATIONS

Statement of Financial Position

December 31, 2017

Assets

Current assets:		
Cash and cash equivalents (note 2)	$	6,656,122
Contributions receivable (note 3)		3,090,752
Other receivables (note 4)		97,346
Due from Children's Miracle Network Hospitals (note 5)		1,762,581
Prepaid expenses		26,031
		11,632,832
Capital assets (note 6)		35,277
	$	11,668,109

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$	513,332
Deferred revenue (note 8)		1,013,579
Member escrows (note 3)		9,350,253
		10,877,164
Net assets:		
Internally restricted (note 9)		755,668
Invested in capital assets (note 9)		35,277
		790,945
Commitments (note 10)		
	$	11,668,109

See accompanying notes to financial statements.

On behalf of the Board:

_______________________________ Director

_______________________________ Director

CANADA'S CHILDREN'S HOSPITAL FOUNDATIONS

Statement of Operations

Period from February 24, 2017 (date of incorporation) to December 31, 2017

Revenue:	
Membership fees	$ 2,370,522
Activation and sponsorship	47,716
Investment income	50,737
Other income (note 4)	200,809
	2,669,784
Expenses:	
Salaries and benefits	651,772
Marketing	487,127
Licensing fees (note 5)	315,125
Donation fees	183,492
Office and general administration	153,919
Professional fees	61,047
Member costs	16,628
Amortization	9,729
	1,878,839
Excess of revenue over expenses	$ 790,945

See accompanying notes to financial statements.

CANADA'S CHILDREN'S HOSPITAL FOUNDATIONS

Statement of Changes in Net Assets

Period from February 24, 2017 (date of incorporation) to December 31, 2017

	Invested in capital assets	Internally restricted	Unrestricted	Total
Balance, beginning of period	$ –	$ –	$ –	$ –
Excess of revenue over expenses	(9,729)	–	800,674	790,945
Investment in capital assets	45,006	–	(45,006)	–
Interfund transfer (note 9)	–	755,668	(755,668)	–
Balance, end of period	$ 35,277	$ 755,668	$ –	$ 790,945

See accompanying notes to financial statements.

CANADA'S CHILDREN'S HOSPITAL FOUNDATIONS

Statement of Cash Flows

Period from February 24, 2017 (date of incorporation) to December 31, 2017

Cash provided by (used in):	
Operating activities:	
Excess of revenue over expenses	$ 790,945
Amortization that does not involve cash	9,729
Change in non-cash operating working capital:	
Contributions receivable	(3,090,752)
Other receivables	(97,346)
Due from Children's Miracle Network Hospitals	(1,762,581)
Prepaid expenses	(26,031)
Accounts payable and accrued liabilities	513,332
Deferred revenue	1,013,579
Member escrows	9,350,253
	6,701,128
Investing activities:	
Capital assets additions	(45,006)
Increase in cash and cash equivalents, being cash and cash equivalents, end of period	$ 6,656,122

See accompanying notes to financial statements.

Canada's Children's Hospital Foundations ("CCHF" or the “Organization”) is a not-for-profit corporation incorporated on February 24, 2017 without share capital under the Canada Not-For-Profit Corporations Act. CCHF’s purpose is to advance children's health in Canada by receiving and providing funds to public hospital foundations and other organizations engaged in support of children’s health which are qualified donees within the meaning of Income Tax Act (Canada) and being a national voice for children's health in Canada. CCHF works with corporate partners (“Partners”) to undertake fundraising activities, and distribute the contributions collected to the member hospital foundations (“Members”).

As a registered not-for-profit organization under the Income Tax Act (Canada), CCHF is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants of Canada Handbook.

(a) Revenue recognition:

The Organization follows the deferral method of accounting for contributions. Unrestricted contributions, which include activation and sponsorship, are recognized when they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Membership fees are reported as revenue in the year to which they relate.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate of the related capital assets.

Contributions from Partners (note 3) collected for the purpose of disbursement to Members are not revenue of CCHF and accordingly, are not recorded in the statement of operations.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposits which are highly liquid with original maturities of less than three months at the date of acquisition. These financial assets are convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

1. Significant accounting policies (continued):

(c) Capital assets:

Purchased capital assets are stated at cost less accumulated amortization. Amortization of capital assets is calculated on a straight-line basis over the estimated useful lives as follows:

Computers	3 years
Furniture and fixtures	5 years

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition and are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Organization has not elected to carry any such financial instruments at fair value.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal period if there are indicators of impairment. If there is an indicator of impairment, CCHF determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount CCHF expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

CCHF does not enter into any derivative financial instruments for speculative purposes.

(e) Contributed materials and services:

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

1. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of the financial statements 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 financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Cash and cash equivalents:

Included in cash and cash equivalents is $3 million invested in guaranteed investment certificates with a maturity date of February 14, 2018 and yielding an interest rate of 1.45%.

Guaranteed investment certificates are subject to interest rate risk as the value of the investment will generally increase if interest rates falls and decrease if the interest rates rise. There is no interest rate risk when a guaranteed investment certificate is held to maturity.

3. Contributions receivable:

Contributions receivable are comprised of contributions from partners pertaining to fiscal 2017 activities, received by the Organization in 2018. Included in member escrows of $9,350,253 are 2017 fiscal quarter four contributions, either received or receivable from partners, disbursed in 2018. Total member disbursements in relation to 2017 activities are $28,137,324, which includes the year end balance of member escrows distributed to members subsequent to year end. Contributions receivable were received by the Organization and disbursed to the Members subsequent to year end.

4. Contributed materials and services:

During 2017, the Members collectively set aside $355,000 to pay for the start-up costs of CCHF. A total of $148,498 of legal services and $112,975 of other services were paid for by the Members using these funds. These contributed expenditures and services are not recognized on the statement of operations.

The remaining $93,527 was determined to be contributed to CCHF, which was recorded as other income and is reported in other receivables at year end.

5. Children's Miracle Network Hospitals:

Effective July 1, 2017, the Organization entered into a Master Agreement (the "Agreement") with Children's Miracle Network Hospitals ("CMNH"), whereby CCHF is required to pay a licensing fee to CMNH. Fiscal 2017 license fees were $250,000 U.S. Dollars. The Organization has agreed to pay license fees of $500,000 U.S. Dollars in 2018 with an annual increase of 1.5% commencing January 1, 2019, until the end of the term of the Agreement, which is December 31, 2021. The Organization is required to make an additional 3.5% payment to CMNH if various performance metrics are met, as set out in the Agreement. The parties have agreed that future payments will be adjusted if the exchange rate varies by more than 10% from an exchange rate of 1 Canadian Dollar to 0.75 U.S. Dollars. The payment will be adjusted by an amount equal to 50% of the amount attributable to such variance over the base of 10%.

As at December 31, 2017, there is a balance of $1,762,581 due from CMNH. This is comprised of contribution payments from partners, made to CMNH of $1,556,486. These contributions are to be disbursed by CCHF to the Members. The remainder of the amount due from CMNH is $206,095 arising from the Asset Purchase Agreement between CCHF and CMNH, dated July 1, 2017.

Included in professional fees is $22,114 for consulting services provided by CMNH.

Included in accounts payable is $76,156 payable to CMNH.

6. Capital assets:

	Cost	Accumulated amortization	Net book value
Computers	$ 37,349	$ 25,538	$ 11,811
Furniture and fixtures	55,108	31,642	23,466
	$ 92,457	$ 57,180	$ 35,277

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $217,998 which includes amounts payable for harmonized sales tax and payroll related taxes.

8. Deferred revenue:

Membership fees	$ 1,013,579

The deferred membership fees are membership fees related to the first quarter of 2018, received in 2017.

9. Internally restricted net assets:

The internally restricted net assets represents amounts that have been designated by the Board of Directors for specific initiatives. The amount of internally restricted net assets balance is set in proportion to risk and economic conditions and manages fund restrictions to ensure CCHF mission and strategic plans are accomplished.

Internally restricted net assets are not available for use by CCHF for any purpose other than those outlined above, without prior approval by the Board of Directors. The internally restricted net assets consist of the following:

Approved strategic plan initiatives	$ 550,000
Operating reserve	205,668
	$ 755,668

10. Commitments:

CCHF has future premise lease commitments as follows:

2018	$ 157,000
2019	157,000
2020	26,000
	$ 340,000

11. Financial risks:

Unless otherwise noted, it is management's opinion that CCHF is not exposed to significant liquidity, currency, market or credit risk arising from financial instruments.