Financial Statements of

CANADA'S CHILDREN'S HOSPITAL FOUNDATIONS

And Independent Auditors' Report thereon

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Canada's Children's Hospital Foundations (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the 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 opinion.

KPMG

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

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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.

- 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 20, 2019

CANADA'S CHILDREN'S HOSPITAL FOUNDATIONS

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 6,299,987	$ 6,656,122
Short term investments (note 3)	920,835	–
Contributions receivable (note 4)	6,508,826	3,090,752
Interest receivable (note 3)	10,090	–
Other receivables (note 5)	–	97,346
Due from Children's Miracle Network Hospitals (note 6)	1,454,473	1,762,581
Prepaid expenses	24,526	26,031
	15,218,737	11,632,832
Capital assets (note 7)	46,470	35,277
	$ 15,265,207	$ 11,668,109
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (notes 6 and 8)	$ 259,348	$ 513,332
Deferred revenue (note 9)	742,309	1,013,579
Member escrows (note 4)	12,715,269	9,350,253
	13,716,926	10,877,164
Deferred capital contributions (note 10)	9,450	–
Net assets:		
Internally restricted (note 11)	757,095	755,668
Invested in capital assets	46,470	35,277
Unrestricted	735,266	–
	1,538,831	790,945
Commitments (note 12)		
	$ 15,265,207	$ 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

Year ended December 31, 2018, with comparative information for the
period from February 24, 2017 (date of incorporation) to December 31, 2017

	2018	2017
Revenue:		
Membership fees	$ 4,617,805	$ 2,370,522
Activation and sponsorship	381,938	47,716
Investment income	125,594	50,737
Donations in kind	53,163	–
Amortization of deferred capital contributions (note 10)	1,050	–
Other income (note 5)	–	200,809
	5,179,550	2,669,784
Expenses:		
Salaries and benefits	1,642,373	651,772
Marketing	1,157,329	503,755
Licensing fees (note 6)	680,949	315,125
Event costs	317,430	–
Office and general administration	286,519	153,919
Donation fees	163,530	183,492
Professional fees (note 6)	161,522	61,047
Amortization	22,012	9,729
	4,431,664	1,878,839
Excess of revenue over expenses	$ 747,886	$ 790,945

See accompanying notes to financial statements.

CANADA'S CHILDREN'S HOSPITAL FOUNDATIONS

Statement of Changes in Net Assets

Year ended December 31, 2018, with comparative information for the period from February 24, 2017 (date of incorporation) to December 31, 2017

	Invested in capital assets	Internally restricted	Unrestricted	2018 Total	2017 Total
Balance, beginning of period	$ 35,277	$ 755,668	$ –	$ 790,945	$ –
Excess of revenue over expenses	(22,012)	–	769,898	747,886	790,945
Investment in capital assets	33,205	–	(33,205)	–	–
Expenditures on strategic initiatives (note 11)	–	(198,573)	198,573	–	–
Interfund transfer (note 11)	–	200,000	(200,000)	–	–
Balance, end of period	$ 46,470	$ 757,095	$ 735,266	$ 1,538,831	$ 790,945

See accompanying notes to financial statements.

CANADA'S CHILDREN'S HOSPITAL FOUNDATIONS

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for the
period from February 24, 2017 (date of incorporation) to December 31, 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 747,886	$ 790,945
Items not involving cash:		
Amortization of capital assets	22,012	9,729
Amortization of deferred capital contributions	(1,050)	–
Contribution of capital assets	10,500	–
Change in non-cash operating working capital:		
Contributions receivable	(3,418,074)	(3,090,752)
Short term investments	(920,835)	–
Interest and other receivables	83,437	(97,346)
Due from Children's Miracle Network Hospitals	308,108	(1,762,581)
Prepaid expenses	1,505	(26,031)
Accounts payable and accrued liabilities	(253,984)	513,332
Deferred revenue	(271,270)	1,013,579
Member escrows	3,368,835	9,350,253
	(322,930)	6,701,128
Investing activities:		
Capital assets additions	(33,205)	(45,006)
Increase (decrease) in cash and cash equivalents	(356,135)	6,656,122
Cash and cash equivalents, beginning of period	6,656,122	–
Cash and cash equivalents, end of period	$ 6,299,987	$ 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 4) collected for the purpose of disbursement to Members are not revenue of CCHF and accordingly, are not recorded in the statement of operations.

Investment income relates to interest earned on guaranteed investment certificates and is recognized with the passage of time as the income is earned.

1. Significant accounting policies (continued):

(b) 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.

Contributed materials, being items used in operating activities, are recognized as revenue when received, and when fair value can be reasonably estimated, when the materials are used in the normal course of the Organization's operations and would otherwise have been purchased. During the year, contributed materials in the amount of $53,163 (2017 - nil) were recorded as revenue.

(c) 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.

(d) 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

(e) 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.

1. Significant accounting policies (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year 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 year, 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.

(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 $4.5 million (2017 - $3 million) invested in Canadian Dollar guaranteed investment certificates with a maturity date of February 14, 2019 and yielding interest rates from 2.35 to 2.36% (2017 - 1.45%).

3. Short term investments:

Included in short term investments is $675,000 (2017 - nil) invested in U.S. Dollar guaranteed investment certificates with a maturity dates ranging from February 14, 2019 to September 18, 2019 and yielding interest rates from 2.35% to 2.80% (2017 - nil).

Interest receivable consists of $10,090 (2017 - nil) which is related to guaranteed investment certificates included in cash and cash equivalents and short term investments.

3. Short term investments (continued):

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.

4. Contributions receivable:

Contributions receivable are comprised of contributions due from Partners pertaining to fiscal 2018 activities. Included in member escrows of $12,715,269 (2017 - $9,350,253) are 2018 fiscal quarter four contributions, either received or receivable from Partners, disbursed in 2019. Total member disbursements in relation to 2018 activities are $32,497,138 (2017 - $28,137,324), which includes the year end balance of member escrows distributed to Members subsequent to year end.

5. Contributed materials and services:

In 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 was reported in other receivables in 2017.

6. 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 2018 license fees were $500,000 U.S. Dollars (2017 - $250,000 U.S. Dollars). An annual increase of 1.5% commences 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%.

6. Children's Miracle Network Hospitals (continued):

As at December 31, 2018, there is a balance of $1,454,473 (2017 - $1,762,581) due from CMNH. This is comprised of contribution payments from Partners, made to CMNH of $1,454,473 (2017 - $1,556,486). These contributions are to be disbursed by CCHF to the Members.

Included in professional fees is $45,503 (2017 - $22,114) for consulting services provided by CMNH.

Included in accounts payable is $23,874 (2017 - $76,156) payable to CMNH.

7. Capital assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Computers	$ 60,054	$ 35,478	$ 24,576	$ 11,811
Furniture and fixtures	65,608	43,714	21,894	23,466
	$ 125,662	$ 79,192	$ 46,470	$ 35,277

8. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $71,375 (2017 - $217,998) which includes amounts payable for harmonized sales tax and payroll related taxes.

9. Deferred revenue:

	2018	2017
Membership fees	$ 726,988	$ 1,013,579
Sponsorship	15,321	–
	$ 742,309	$ 1,013,579

10. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of funding and contributions received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The change in the deferred contributions balance are as follows:

	2018	2017
Balance, beginning of year	$ –	$ –
Additions	10,500	–
Amortization as revenue	(1,050)	–
Balance, end of year	$ 9,450	$ –

11. 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:

	2018	2017
Approved strategic plan initiatives	$ 351,427	$ 550,000
Operating reserve	405,668	205,668
	$ 757,095	$ 755,668

During the year, the Organization spent $198,573 (2017 - nil) on approved strategic plan initiatives, and transferred $200,000 (2017 - $205,668) from unrestricted net assets to the operating reserve and nil (2017 - $550,000) from unrestricted net assets to approved strategic plan initiatives.

12. Commitments:

CCHF has future premise lease commitments as follows:

2019	$ 158,000
2020	26,000
	$ 184,000

13. 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.

14. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.