
Financial statements of
The Foundation of Greater Montreal

December 31, 2018

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Independent Auditor's Report

To the Members of
The Foundation of Greater Montreal

Opinion

We have audited the financial statements of The Foundation of Greater Montreal (the "Foundation"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and changes in fund balances and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at December 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 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 audit opinion.

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 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 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 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 GAAS 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 financial statements.

As part of an audit in accordance with Canadian GAAS, 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 Foundation's internal controls.
- 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Debitte LLP¹

March 27, 2019

¹ CPA auditor, CA, public accountancy permit No. A120628

The Foundation of Greater Montreal
Statement of operations and changes in fund balances
Year ended December 31, 2018

				2018	2017
	Operating Fund	Distribution Fund	Endowment Fund	Total	Total
Notes	\$	\$	\$	\$	\$
Revenue					
8 Donations	43,431	18,685,024	14,979,001	33,707,456	35,938,730
Realized investment income	33,475	8,304,727	—	8,338,202	17,536,983
Management fees	1,300,455	(679,053)	—	621,402	591,377
Administration fees	1,453,070	(919,671)	—	533,399	605,195
Others	17,970	239,057	—	257,027	51,210
	2,848,401	25,630,084	14,979,001	43,457,486	54,723,495
Expenses					
Grants	—	8,497,178	—	8,497,178	14,930,282
Administration	1,154,549	—	—	1,154,549	897,065
Investment management and custodial fees	887,653	—	—	887,653	635,772
Community engagement	190,850	96,229	—	287,079	281,209
Life insurance premiums received in donations	—	24,029	—	24,029	24,029
Communications and marketing	303,790	60,224	—	364,014	431,359
Philanthropic development	258,007	—	—	258,007	261,525
Amortization of capital assets	7,646	—	—	7,646	50,300
	2,802,495	8,677,660	—	11,480,155	17,511,541
Excess of revenue over expenses before change in unrealized fair value of investments	45,906	16,952,424	14,979,001	31,977,331	37,211,954
Change in unrealized fair value of investments	(45,906)	(8,972,066)	—	(9,017,972)	(6,791,819)
Excess of revenue over expenses	—	7,980,358	14,979,001	22,959,359	30,420,135
Fund balances, beginning of year	1,068,014	60,137,273	108,081,386	169,286,673	138,866,538
Transfer of change in unrealized fair value of investments	—	8,705,608	(8,705,608)	—	—
Other transfers	—	1,687,918	(1,687,918)	—	—
Fund balances, end of year	1,068,014	78,511,157	112,666,861	192,246,032	169,286,673

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

The Foundation of Greater Montreal
Statement of financial position
As at December 31, 2018

Notes	2018				2017	
	Operating Fund	Distribution Fund	Endowment Fund	Total	Total	
	\$	\$	\$	\$	\$	
Assets						
Current assets						
	Cash	513,984	785,178	443,677	1,742,839	1,523,408
	Accounts receivable	1,177,772	—	2,000	1,179,772	910,132
	Amounts due from the Operating Fund	—	279,051*	—	—	—
	Amounts due from the Endowment Fund	—	23,447,513*	—	—	—
	Accrued interest and dividends	—	84,265	—	84,265	48,059
3	Investments	—	40,086,087	9,657	40,095,744	33,607,406
	Prepaid expenses	38,096	—	—	38,096	33,909
		1,729,852	64,682,094	455,334	43,140,716	36,122,914
3	Investments	675,377	14,223,746	135,659,040	150,558,163	134,052,113
	Capital assets	—	—	—	—	7,646
		2,405,229	78,905,840	136,114,374	193,698,879	170,182,673
Liabilities						
Current liabilities						
	Accounts payable and accrued liabilities	659,917	—	—	659,917	397,275
	Amounts due to the Distribution Fund	279,051*	—	23,447,513*	—	—
6	Deferred contributions	398,247	394,683	—	792,930	496,076
		1,337,215	394,683	23,447,513	1,452,847	893,351
	Deferred contributions related to capital assets	—	—	—	—	2,649
		1,337,215	394,683	23,447,513	1,452,847	896,000
11	Commitments	—	—	—	—	—
Fund balances						
7	Externally restricted	—	78,511,157	112,249,412	190,760,569	167,801,210
	Internally restricted	—	—	417,449	417,449	417,449
	Invested in capital assets	—	—	—	—	4,997
	Unrestricted	1,068,014	—	—	1,068,014	1,063,017
		1,068,014	78,511,157	112,666,861	192,246,032	169,286,673
		2,405,229	78,905,840	136,114,374	193,698,879	170,182,673

* These items are not reported in the Total column because they offset each other.

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

Approved by the Board


_____, Director
_____, Director

The Foundation of Greater Montreal
Statement of cash flows
Year ended December 31, 2018

	2018	2017
	\$	\$
Operating activities		
Excess of revenue over expenses	22,959,359	30,420,135
Adjustments for:		
Shares donation	(100,000)	(15,638,670)
Change in unrealized fair value of investments	9,017,972	6,791,819
Amortization of capital assets	7,646	50,300
Amortization of deferred contributions related to capital assets	(2,649)	(46,311)
	31,882,328	21,577,273
Changes in non-cash operating working capital items		
Accounts receivable	(269,640)	(582,539)
Accrued interest and dividends	(36,206)	4,026
Prepaid expenses	(4,187)	(3,401)
Accounts payable and accrued liabilities	262,642	127,421
Deferred contributions	296,854	256,919
	32,131,791	21,379,699
Investing activities		
Acquisition of investments	(44,989,867)	(53,489,153)
Proceeds on redemption of investments	13,077,507	32,107,572
Acquisition of capital assets	—	(1,224)
	(31,912,360)	(21,382,805)
Net increase (decrease) in cash	219,431	(3,106)
Cash, beginning of year	1,523,408	1,526,514
Cash, end of year	1,742,839	1,523,408

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

1. Status and nature of activities

The Foundation of Greater Montreal (the "FGM"), incorporated on December 20, 1999, under Part II of the *Canada Corporations Act*, with its statutes extended on December 4, 2012, under the *Canada Not-for-profit Corporations Act*, has the purpose of collecting donations, mainly through bequests or endowment funds, in order to promote social development, arts and culture, education, health and the environment. The FGM can also manage funds entrusted to it for administrative purposes. The FGM is a registered charity under the *Income Tax Act*.

2. Accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and the significant accounting policies are the following:

Fund accounting

The FGM follows the restricted fund method of accounting for its activities:

a) *Operating Fund*

The Operating Fund consists of the following elements:

Invested in capital assets

The amounts correspond to the book value of the capital assets held by the FGM, net of amounts received in relation to their financing.

Unrestricted

The amounts correspond to funds available for the operating activities of the FGM.

b) *Distribution Fund*

The Distribution Fund is a fund in which the FGM records donations to be distributed in accordance with the wishes of the donors, realized investment income to be distributed, unrealized investment income related to resources held by the distribution fund, grants disbursed, as well as any directly related expenses.

c) *Endowment Fund*

The Endowment Fund comprises the elements mentioned below:

Externally restricted

The restrictions comprise the following:

Endowments

Endowments include donations that, according to donor specifications, must be held-in-perpetuity or for a specific period of time, usually for a minimum of 10 years.

2. Accounting policies (continued)

Fund accounting (continued)

c) Endowment Fund (continued)

Externally restricted (continued)

Unrealized loss on fair value of investments

This restriction includes the unrealized loss on fair value on endowment investments, which is presented in the Endowment Fund, until it is realized.

Internally restricted

These restrictions arise transfers from the Distribution Fund to protect the capital against inflation. The amounts cannot be used without the prior consent of the FGM Board of Directors.

Revenue recognition

Unrestricted contributions are recognized as revenue of the Operating Fund in the year they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions related to general operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. Contributions received to be distributed in accordance with the wishes of the donors are recognized as revenue of the Distribution Fund. Restricted contributions for capital assets are recorded as deferred contributions and recognized as revenue when the related capital assets are amortized. Endowment contributions are recognized as revenue of the Endowment Fund.

Donations received in-kind, estimated at the fair value established by an independent appraiser, are recorded in the year in which they are received.

Pledges are presented by way of a note to the financial statements.

Investment income is recognized when it is earned. It is recorded as revenue in the Fund it relates to with the exception of investment income from the Endowment Fund's investments that are presented in the Distribution Fund. The unrealized portion of the investment income is transferred to the Endowment Fund.

Capital assets

Capital assets are accounted for at cost and are amortized based on their useful life using the following method and periods:

Furniture and equipment	Straight-line	5 years
Computer hardware	Straight-line	5 years
Management information system	Straight-line	3 years

Financial instruments

Financial assets and liabilities are initially recognized at fair value when the FGM becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost, except for investments, which are measured at fair value at the closing date. Fair value fluctuations, including interest earned, interest accrued, gains and losses realized on disposal, and unrealized gains and losses are included in investment income in the statement of operations and changes in fund balances.

2. Accounting policies (continued)

Financial instruments (continued)

Transaction costs related to financial instruments measured at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the FGM recognizes an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the period the reversal occurs.

Allocation of expenses

Personnel costs and employer's contributions are allocated based on proportion of time spent on activities by the employees.

Use of estimates

The preparation of financial statements in conformity 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

3. Investments

	<u>2018</u>	<u>2017</u>
	\$	\$
138,952.469 units (116,385.036 units as at December 31, 2017) of The Foundation of Greater Montreal Investment Fund (Note 5)	145,690,968	130,465,645
Canadian shares	35,488,585	34,723,944
US Shares	1,747,272	1,041,752
Preferred shares from a private company, redeemable after the death of the last survivor of the two donors, dividend of 4.725%	1,000,000	1,000,000
Preferred shares from a private company, redeemable by mutual agreement	100,000	—
Mortgage loan, bearing interest at 4.500% until May 2018 and at 4,750% by then and maturing in 2025	168,242	178,178
Short-term guaranteed investment certificate	6,458,840	250,000
	190,653,907	167,659,519
Short-term portion	40,095,744	33,607,406
	150,558,163	134,052,113

The Foundation of Greater Montreal
Notes to the financial statements
December 31, 2018

4. The Foundation of Greater Montreal Investment Fund

In addition to managing its own funds, the FGM manages funds entrusted to it by various entities through The Foundation of Greater Montreal Investment Fund.

Separate financial statements are prepared for The Foundation of Greater Montreal Investment Fund, which presents its investments, comprised mainly of units of shares of investment funds, at fair value. As at December 31, the fair value of the funds managed by The Foundation of Greater Montreal Investment Fund and the number of units held are as follows:

	2018		2017	
	Number of units	Fair value	Number of units	Fair value
		\$		\$
Funds belonging to the FGM	138,952.469	145,690,968	116,385.036	130,465,645
Funds managed for various entities	111,369.803	116,784,141	110,359.534	123,711,163
	250,322.272	262,475,109	226,744.570	254,176,808

5. Line of credit

The FGM has access to an authorized line of credit of \$100,000 as at December 31, 2018 (\$100,000 as at December 31, 2017), bearing interest at prime rate plus 3%. As at December 31, 2018 and 2017, the line of credit was not used.

6. Deferred contributions

Deferred contributions amounting to \$792,930 (\$496,076 in 2017) consist of external resources received in relation to a fundraising activity and programs for which expenses are not yet incurred as at December 31, 2018.

	2018	2017
	\$	\$
Balance, beginning of year	496,076	239,157
Contributions received during the year	556,042	256,919
Amount recognized as revenue during the year	(259,188)	—
Balance, end of year	792,930	496,076

The Foundation of Greater Montreal
Notes to the financial statements
December 31, 2018

7. Externally restricted – endowment

a) *Composition*

The externally restricted amounts are distributed as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Endowments	123,900,115	110,609,032
Unrealized loss on fair value of endowment investments	(11,650,703)	(2,945,095)
	<u>112,249,412</u>	<u>107,663,937</u>

b) *Endowments*

Following the agreements between the donors, the Conseil des arts et des lettres du Québec and the FGM, some donations remain the property of the FGM in perpetuity, for a minimal period of 5 years, for a period from 1 to 5 years, or for a period of less than 1 year. The externally restricted amounts are distributed as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Perpetuity	96,618,922	91,678,667
More than 5 years	16,795,437	14,018,742
From 1 year to 5 years	6,731,487	4,334,077
Less than 1 year	3,754,269	577,546
	<u>123,900,115</u>	<u>110,609,032</u>

8. Revenue

a) *Donations*

During the year, the FGM received donations of \$33,707,456 (\$35,938,730 in 2017). Donations for 2018 include an amount of \$24,029 (\$24,029 in 2017), regarding life insurance premiums paid for which the FGM is the beneficiary of the proceeds.

b) *Realized investment income*

	<u>2018</u>	<u>2017</u>
	\$	\$
Units of The Foundation of Greater Montreal Investment Fund	7,581,897	18,765,566
Other investments	756,305	(1,228,583)
	<u>8,338,202</u>	<u>17,536,983</u>

c) *Management fees*

	<u>2018</u>	<u>2017</u>
	\$	\$
The Foundation of Greater Montreal Investment Fund	1,300,455	1,093,355
Less: professional fees attributable to The Foundation of Greater Montreal	(679,053)	(501,978)
	<u>621,402</u>	<u>591,377</u>

8. Revenue (continued)

d) Administration fees

	2018	2017
	\$	\$
The Foundation of Greater Montreal Investment Fund unitholders	1,453,070	1,231,763
Less: professional fees attributable to The Foundation of Greater Montreal	(919,671)	(626,568)
	533,399	605,195

9. Life insurance

The FGM has been assigned as the owner and beneficiary of life insurance policies. As at December 31, 2018, the amount of insurance in force totals \$2,700,000 (\$2,700,000 in 2017).

10. Financial instruments

Because of its financial assets, the FGM is exposed to the following risks related to the use of financial instruments:

Market risk

Financial risk is the risk to which the return on the investment portfolio is exposed and stems from fluctuations in interest rates, stock indexes and the degree of volatility of these rates and indexes.

Interest rate risk

A portion of the investments of The Foundation of Greater Montreal Investment Fund, in which the FGM holds units, is invested in fixed income funds which hold bonds and debentures, which bear interest at a fixed rate. The mortgage loan also bears interest at a fixed rate. Consequently, a change in market interest rate will have an impact on the fair value of the units held by the FGM and the mortgage loan.

Foreign currency risk

A portion of the investments of The Foundation of Greater Montreal Investment Fund, in which the FGM holds units, is invested in shares and interests in equity funds invested in foreign countries. The units held by the FGM are consequently exposed to changes in foreign currencies. The same applies to the earned income associated with these units.

Credit risk

Credit risk is primarily attributable to the fact that a portion of the investments of The Foundation of Greater Montreal Investment Fund, in which the FGM holds units, is invested in fixed income funds which hold bonds and debentures. Therefore, there is a credit risk that the bond or debenture issuers will be unable to pay their obligations towards a fixed income fund, and this will have an impact on the assets of the FGM.

11. Commitments

Under a lease, the FGM must pay the annual expenses related to its occupancy. On an annual basis, the commitment is about \$150,000 until 2024.