
Financial statements of The McCord Museum Foundation

March 31, 2020

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Independent Auditor's Report

To the Board of Directors of
The McCord Museum Foundation

Qualified Opinion

We have audited the financial statements of The McCord Museum Foundation (the "Foundation"), which comprise the statement of financial position as at March 31, 2020, and the statements of operations, changes in net assets 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, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2020, 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 Qualified Opinion

In common with many not-for-profit organizations, the Foundation derives revenue from fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Foundation and we were not able to determine whether any adjustments might be necessary to fundraising revenue, the (deficiency) excess of revenue over expenses, and cash flows from operations for the years ended March 31, 2020 and 2019, current assets as at March 31, 2020 and 2019, and net assets as at April 1, 2018, March 31, 2019 and March 31, 2020. Our audit opinion on the financial statements for the year ended March 31, 2019, was modified accordingly because of the possible effects of this scope limitation.

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 qualified 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 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 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.

Deloitte LLP

June 17, 2020

¹ CPA auditor, CA, public accountancy permit No. A125888

The McCord Museum Foundation

Statement of operations

Year ended March 31, 2020

	Notes	2020	2019
		\$	\$
Revenue			
Fundraising			
Annual campaign		214,575	288,643
Major gifts		377,560	746,779
Fundraising events		1,053,630	1,116,955
Investment (loss) income	4	(1,676,681)	2,238,032
		(30,916)	4,390,409
Expenses			
Investment management fees		125,852	123,383
Administration		356,129	378,849
Fundraising			
Annual campaign		26,682	33,830
Fundraising events		422,466	382,565
Donor recognition		13,178	24,004
Capital campaign		4,837	4,837
Contributions to The McCord Stewart Museum	8	2,316,834	2,446,674
		3,265,978	3,394,142
(Deficiency) excess of revenue over expenses		(3,296,894)	996,267

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

The McCord Museum Foundation
Statement of changes in net assets

Year ended March 31, 2020

				2020	2019
	Internally restricted	Unrestricted	Endowments	Total	Total
Notes	\$	\$	\$	\$	\$
Balance, beginning of year	317,485	16,309,214	11,552,068	28,178,767	26,682,500
(Deficiency) excess of revenue over expenses	—	(3,296,894)	—	(3,296,894)	996,267
Endowment contribution	—	—	—	—	500,000
Transfers	91,810	(91,810)	—	—	—
6					
Balance, end of year	409,295	12,920,510	11,552,068	24,881,873	28,178,767

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


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The McCord Museum Foundation
Statement of financial position
As at March 31, 2020

	Notes	<u>2020</u>	<u>2019</u>
		\$	\$
Assets			
Current assets			
Cash		261,590	351,762
Accounts receivable		19,187	16,476
Sales taxes receivable		25,858	65,720
Prepaid expenses		46,296	219,173
Current portion of investments	3	2,200,000	2,200,000
		2,552,931	2,853,131
Investments	3	29,181,192	34,549,113
		31,734,123	37,402,244
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		12,436	39,976
Due to The McCord Stewart Museum – operations		53,814	17,501
Deferred revenue		186,000	366,000
Current portion of the due to The McCord Stewart Museum – annuity	8	2,200,000	2,200,000
		2,452,250	2,623,477
Due to The McCord Stewart Museum – annuity	8	4,400,000	6,600,000
		6,852,250	9,223,477
Commitments	5		
Net assets			
Internally restricted		409,295	317,485
Unrestricted		12,920,510	16,309,214
Endowments		11,552,068	11,552,068
		24,881,873	28,178,767
		31,734,123	37,402,244

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

Approved by the Board


_____, Director


_____, Director

The McCord Museum Foundation**Statement of cash flows**

Year ended March 31, 2020

	<u>2020</u>	<u>2019</u>
	\$	\$
Operating activities		
(Deficiency) excess of revenue over expenses	(3,296,894)	996,267
Adjustment for:		
Change in fair value of investments	2,912,925	(1,235,152)
	(383,969)	(238,885)
Changes in non-cash operating working capital items		
Accounts receivable	(2,711)	120,613
Sales taxes receivable	39,862	(38,955)
Prepaid expenses	172,877	(127,258)
Accounts payable and accrued liabilities	(27,540)	18,556
Due to The McCord Stewart Museum – operations	36,313	(8,078)
Deferred revenue	(180,000)	(301,434)
	(345,168)	(575,441)
Investing activities		
Purchase of investments	(2,086,311)	(11,458,101)
Disposal of investments	4,541,307	2,308,039
	2,454,996	(9,150,062)
Financing activities		
Direct increase in net assets	–	500,000
Transfer from The McCord Stewart Museum	–	10,450,000
Due to The McCord Stewart Museum – annuity	(2,200,000)	(1,650,000)
	(2,200,000)	9,300,000
Net decrease in cash	(90,172)	(425,503)
Cash, beginning of year	351,762	777,265
Cash, end of year	261,590	351,762

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

1. Status and nature of activities

The McCord Museum Foundation (the "Foundation") is a not-for-profit organization. It was incorporated under the *Canada Not-for-profit Corporations Act* in 1993 and is a registered charity under the *Income Tax Act*. The objectives of the Foundation are to solicit, receive or otherwise collect funds through donations, legacies or other similar contributions either consisting of money, securities or other movable or immovable property for the purpose of funding or distributing funds to The McCord Stewart Museum.

2. Accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations using the deferral method of accounting for contributions and include the following significant accounting policies:

Revenue recognition

Revenue from unrestricted donations is recorded when received. Restricted donations and contributions are deferred and recorded as revenue when the related expense is incurred. Fundraising events revenue is recognized when the events are held. Amounts received in advance of events comprise the deferred revenue balance.

Investment income is recognized as revenue when earned.

Contributed services

Volunteers contribute numerous hours per year to the Foundation to help it carry out its service delivery activities. Due to the difficulty of determining their fair value, these contributed services are not recognized in the financial statements.

Other contributed services are also not recognized in the financial statements.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Foundation becomes a party to the contractual provisions of the financial instrument, except related party transactions. Subsequently, all financial instruments are measured at amortized cost, except for investments, which are measured at fair value at the closing date. The fair value of investments is based on fair value confirmations received from the fund manager with whom those instruments are negotiated. Fair value fluctuations, including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Transaction costs related to investments are expensed as incurred. Transaction costs related to financial instruments measured at amortized cost 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 in the statement of operations as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Foundation recognizes in the statement of operations 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 statement of operations in the period the reversal occurs.

The McCord Museum Foundation
Notes to the financial statements

March 31, 2020

2. Accounting policies (continued)

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

	2020		2019	
	Fair value	Cost	Fair value	Cost
	\$	\$	\$	\$
Total investments managed				
Cash	96,911	96,911	279,130	279,289
Money market fund	810,909	811,010	872,979	873,140
Fixed income fund	5,605,020	5,562,834	5,641,507	5,619,834
Canadian equity fund	10,943,106	12,214,931	12,819,100	12,216,844
Global equity fund	7,325,246	7,436,304	8,336,397	7,362,446
	24,781,192	26,121,990	27,949,113	26,351,553
Annuity	6,600,000	6,600,000	8,800,000	8,800,000
	31,381,192	32,721,990	36,749,113	35,151,553
Current portion	2,200,000	2,200,000	2,200,000	2,200,000
	29,181,192	30,521,990	34,549,113	32,951,553

4. Investment (loss) income

	2020	2019
	\$	\$
Income distribution	1,236,244	1,002,880
Change in fair value	(2,912,925)	1,235,152
	(1,676,681)	2,238,032

5. Commitments

In connection with the combination agreement signed on June 30, 2013, by The McCord Stewart Museum (the "Museum"), the Foundation has committed to fund the Museum an annual amount of at least 4.25% of its investments as well as transferring net proceeds of fundraising activities to the Museum.

In the year 2017, the Museum and the Foundation signed a funding agreement whereby the Foundation guarantees or provides a line of credit of up to \$1,500,000 for the Museum as well as guarantees or provides a further \$600,000 related to a separate line of credit of the Museum.

The McCord Museum Foundation

Notes to the financial statements

March 31, 2020

6. Net assets – transfers

The Foundation has a practice of internally restricting planned giving donations to add to endowment capital.

During the year, the Foundation has received one donation of \$91,810, which has been transferred from the unrestricted net assets to the internally restricted net assets by the decision of the Board.

7. Financial instruments

Market risk

Market risk represents the potential loss that can be caused by a change in the fair value of an investment. The investments of the Foundation in pooled funds are exposed to financial risks that arise from the fluctuations of interest rates, foreign exchange rates, equity values and the degree of volatility of these items in trading markets. The concentration of risk is mitigated because of the Foundation's diversification of its investment portfolio.

Liquidity risk

The Foundation's objective is to have sufficient liquidity to meet its liabilities when due. The Foundation monitors its cash balances and cash flows generated from operations to meet its requirements. The most significant financial liabilities are accounts payable and accrued liabilities and due to The McCord Stewart Museum.

8. Related party transactions

During the year, the Foundation made the following contributions to the Museum:

	<u>2020</u>	<u>2019</u>
	\$	\$
Restricted		
Collections	—	71,933
Exhibitions	—	140,000
Education, community engagement and cultural programs	7,250	—
New museum project	102,364	147,636
	109,614	359,569
Non-restricted		
Net proceeds of fundraising activities	905,400	829,800
Income distribution from endowment	1,301,820	1,257,305
	2,207,220	2,087,105
	2,316,834	2,446,674

An amount of nil (\$500,000 in 2019) received from the Museum was included in the statement of changes in net assets as endowment contribution.

In April 2018, the Museum received a total of \$11,000,000 from the Ministère de la Culture et des Communications du Québec (MCCQ) for its fiscal years from 2019 to 2023, representing a \$2,200,000 grant per year in order to support its mission and action plan following the merger of The McCord Museum of Canadian History, The David M. Stewart Museum and the Fashion Museum that took place on December 31, 2017.

The McCord Museum Foundation
Notes to the financial statements

March 31, 2020

8. Related party transactions (continued)

The Museum and the Foundation, having obtained the approval of the MCCQ, signed an agreement under which the Foundation agreed to manage these funds. In July 2018, the Museum transferred an amount of \$10,450,000 to the Foundation, representing the remaining portion of the \$11,000,000 at the transfer date. Under the terms of the agreement, the Foundation has agreed to repay \$2,200,000 per year as well as to grant an additional amount of \$125,720 per year, for a total of \$2,325,720 per annum until 2023, payable by monthly instalments. As at March 31, 2020, the amount due to the Museum is presented in the statement of financial position as \$2,200,000 (\$2,200,000 as at March 31, 2019) in current liabilities and \$4,400,000 (\$6,600,000 as at March 31, 2019) in long-term liabilities. The additional \$125,720 annual promise is considered as Foundation's commitments.

To generate a return on investment and secure the payments to be made to the Museum, the Foundation invested, in October 2018, an amount of \$9,900,000 in an annuity, generating a monthly distribution approximately equal to the monthly distribution committed to the Museum for a period of 54 months until March 2023. The remaining amount of this annuity is included with the investments disclosed in Note 3.