
Financial statements of
The McCord Museum Foundation

March 31, 2019

Independent Auditor’s Report	1-2
Statement of operations.....	3
Statement of changes in net assets	4
Statement of financial position	5
Statement of cash flows	6
Notes to the financial statements	7-10

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, 2019, 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, 2019, 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 donations, 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 excess (deficiency) of revenue over expenses, and cash flows from operations for the years ended March 31, 2019 and 2018, current assets as at March 31, 2019 and 2018, and net assets as at April 1, 2017, March 31, 2018 and March 31, 2019. Our audit opinion on the financial statements for the year ended March 31, 2018 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*¹

June 19, 2019

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

The McCord Museum Foundation
Statement of operations
Year ended March 31, 2019

	Notes	2019	2018
		\$	\$
Revenue			
Fundraising			
Annual campaign		288,643	227,007
Major gifts		746,779	627,750
Fundraising events		1,116,955	989,620
Investment income	4	2,238,032	527,961
		4,390,409	2,372,338
Expenses			
Investment management fees		123,383	122,291
Administration		378,849	337,294
Fundraising			
Annual campaign		33,830	30,029
Fundraising events		382,565	286,390
Donor recognition		24,004	30,381
Capital campaign		4,837	132
Contributions to The McCord Stewart Museum	8	2,446,674	2,191,450
		3,394,142	2,997,967
Excess (deficiency) of revenue over expenses		996,267	(625,629)

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, 2019

	Notes	2019				2018
		Internally restricted	Unrestricted	Endowments	Total	Total
		\$	\$	\$	\$	\$
Balance, beginning of year		85,000	15,545,432	11,052,068	26,682,500	27,308,129
Excess (deficiency) of revenue over expenses		—	996,267	—	996,267	(625,629)
Endowment contribution		—	—	500,000	500,000	—
Transfers	6	232,485	(232,485)	—	—	—
Balance, end of year		317,485	16,309,214	11,552,068	28,178,767	26,682,500

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

The McCord Museum Foundation
Statement of financial position
As at March 31, 2019

	Notes	2019	2018
		\$	\$
Assets			
Current assets			
Cash		351,762	777,265
Accounts receivable		16,476	137,089
Sales taxes receivable		65,720	26,765
Prepaid expenses		219,173	91,915
Current portion of investments	3	2,200,000	—
		2,853,131	1,033,034
Investments	3	34,549,113	26,363,899
		37,402,244	27,396,933
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		39,976	21,420
Due to The McCord Stewart Museum – Operations		17,501	25,579
Current portion of the due to The McCord Stewart Museum – Annuity	8	2,200,000	—
Deferred revenue		366,000	667,434
		2,623,477	714,433
Due to The McCord Stewart Museum – Annuity	8	6,600,000	—
		9,223,477	714,433
Commitments	5		
Net assets			
Internally restricted		317,485	85,000
Unrestricted		16,309,214	15,545,432
Endowments		11,552,068	11,052,068
		28,178,767	26,682,500
		37,402,244	27,396,933

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, 2019

	2019	2018
	\$	\$
Operating activities		
Excess (deficiency) of revenue over expenses	996,267	(625,629)
Adjustment for:		
Change in fair value of investments	(1,235,152)	542,751
	(238,885)	(82,878)
Changes in non-cash operating working capital items		
Accounts receivable	120,613	(21,113)
Sales taxes receivable	(38,955)	116,422
Prepaid expenses	(127,258)	102,674
Accounts payable and accrued liabilities	18,556	(11,742)
Due to The McCord Stewart Museum – Operations	(8,078)	(12,455)
Deferred revenue	(301,434)	287,554
	(575,441)	378,462
Investing activities		
Purchase of investments	(11,458,101)	(10,196,540)
Disposal of investments	2,308,039	10,437,380
	(9,150,062)	240,840
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	(1,650,000)	—
	9,300,000	—
Net (decrease) increase in cash	(425,503)	619,302
Cash, beginning of year	777,265	157,963
Cash, end of year	351,762	777,265

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 are included in deferred revenue.

Investment income is recognized as revenue when earned.

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. 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.

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

	2019		2018	
	Fair value	Cost	Fair value	Cost
	\$	\$	\$	\$
Total investments managed				
Cash	279,130	279,289	53,817	53,817
Money market fund	872,979	873,140	470,970	471,224
Fixed income fund	5,641,507	5,619,834	5,814,096	5,907,553
Canadian equity fund	12,819,100	12,216,844	12,036,669	11,758,713
Global equity fund	8,336,397	7,362,446	7,988,347	7,463,821
	27,949,113	26,351,553	26,363,899	25,655,128
Annuity	8,800,000	8,800,000	—	—
	36,749,113	35,151,553	26,363,899	25,655,128
Current portion	2,200,000	2,200,000	—	—
	34,549,113	32,951,553	26,363,899	25,655,128

4. Investment income

	2019	2018
	\$	\$
Income distribution	1,002,880	1,070,712
Change in fair value	1,235,152	(542,751)
	2,238,032	527,961

5. Commitments

In connection with the combination agreement signed on June 30, 2013, by The McCord Stewart Museum (the "Museum") (formerly The McCord Museum of Canadian History and The David M. Stewart 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.

6. Net assets – transfers

During the year, the Foundation has received two donations which totaled \$232,485 which have 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

On December 31, 2017, The McCord Museum of Canadian History merged with The David M. Stewart Museum to become The McCord Stewart Museum. Amounts and balances disclosed in these financial statements related to the Museum include the combined amounts of balances and transactions related to these predecessor entities.

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

	2019	2018
	\$	\$
Restricted		
Collections	71,933	102,500
Educational and cultural activities	—	35,250
Exhibitions	140,000	130,000
New museum project	147,636	—
	359,569	267,750
Non-restricted		
Net proceeds of fundraising activities	829,800	790,700
Income distribution from endowment	1,257,305	1,133,000
	2,087,105	1,923,700
	2,446,674	2,191,450

In 2018, the Foundation raised \$264,000 on behalf of the Museum, allowing donors to benefit from Revenue Québec's additional tax credit for a large cultural donation. These funds were donated directly to the Museum and are not reflected in the Foundation's financial statements.

An amount of \$500,000 (nil in 2018) received from the Museum was included in the statement of changes in net assets as endowment contributions.

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.

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, 2019, the amount due to the Museum is presented in the statement of financial position as \$2,200,000 in current liabilities and \$6,600,000 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. This annuity is included with the investments disclosed in Note 3.

9. Comparative figures

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