Financial statements of

The McCord Museum Foundation

March 31, 2022

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Independent Auditor's Report

To the Board of Directors of
The McCord Museum Foundation

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, 2022, 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2022, 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 opinion.

Emphasis of a Matter – Restated Comparative Information

We draw attention to Note 2 to the financial statements, which explains that certain comparative information presented for the year ended March 31, 2021 has been restated. Our opinion is not modified in respect of this matter.

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 20, 2022

[1] CPA auditor, public accountancy permit No. A125888

The McCord Museum Foundation
Statement of operations
Year ended March 31, 2022

	Notes	2022	2021
		$	$ (Restated) (Note 2)
Revenue			
Fundraising			
Major gifts		**838,207**	491,995
Centennial fund campaign		**1,069,813**	—
Relaunch campaign – pandemic		**45,949**	640,918
Other	2	**—**	475,000
Allocation of wage subsidy	9	**59,207**	133,320
In-kind contributions		**–**	9,806
Investment income	5	**2,659,652**	6,602,411
		4,672,828	8,353,450
Expenses			
Investment management fees		**136,600**	121,897
Administration		**333,682**	330,466
In-kind contributions		**–**	9,806
Fundraising			
Relaunch campaign – pandemic		**5,759**	91,679
Centennial fund campaign		**35,966**	—
Contributions to The McCord Stewart Museum	6 and 9	**2,599,767**	1,311,020
		3,111,774	1,864,868
Excess of revenue over expenses		**1,561,054**	6,488,582

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, 2022

	Notes	Internally restricted	Unrestricted	2022 Total	2021 Total
		$	**$**	**$**	$ (Restated) (Note 2)
Balance, beginning of year		**419,295**	**30,476,160**	**30,895,455**	24,881,873
Excess of revenue over expenses		**–**	**1,561,054**	**1,561,054**	6,488,582
Endowment derecognition	2	**–**	**–**	**–**	(475,000)
Transfers	7	**1,069,813**	**(1,069,813)**	**–**	–
Balance, end of year		**1,489,108**	**30,967,401**	**32,456,509**	30,895,455

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

The McCord Museum Foundation

Statement of financial position

As at March 31, 2022

	Notes	2022	2021
		$	$ (Restated) (Note 2)
Assets			
Current assets			
Cash		**393,612**	953,166
Sales taxes receivable		**26,251**	24,719
Current portion of investments	4	**2,200,000**	2,200,000
		2,619,863	3,177,885
Investments	4	**32,165,003**	32,294,865
		34,784,866	35,472,750
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**20,602**	11,577
Due to The McCord Stewart Museum – operations		**107,255**	20,718
Deferred revenue		**500**	145,000
Current portion of the due to The McCord Stewart Museum – annuity	9	**2,200,000**	2,200,000
		2,328,357	2,377,295
Due to The McCord Stewart Museum – annuity	9	**–**	2,200,000
		2,328,357	4,577,295
Commitments	6		
Net assets			
Internally restricted		**1,489,108**	419,295
Unrestricted		**30,967,401**	30,476,160
		32,456,509	30,895,455
		34,784,866	35,472,750

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, 2022

	2022	2021
	$	$ (Restated) (Note 2)
Operating activities		
Excess of revenue over expenses	**1,561,054**	6,488,582
Adjustment for:		
Realized gains on investments	**(2,842,604)**	(314,200)
Unrealized change in fair value of investments	**1,865,603**	(5,704,009)
	584,053	470,373
Changes in non-cash operating working capital items		
Accounts receivable	**–**	19,187
Sales taxes receivable	**(1,532)**	1,139
Prepaid expenses	**–**	46,296
Accounts payable and accrued liabilities	**9,025**	(859)
Due to The McCord Stewart Museum – operations	**86,537**	(33,096)
Deferred revenue	**(144,500)**	(516,000)
	533,583	(12,960)
Investing activities		
Purchase of investments	**(23,668,996)**	(3,073,247)
Disposal of investments	**24,775,859**	5,977,783
	(1,106,863)	2,904,536
Financing activities		
Due to The McCord Stewart Museum – annuity	**(2,200,000)**	(2,200,000)
Net (decrease) increase in cash	**(559,554)**	691,576
Cash, beginning of year	**953,166**	261,590
Cash, end of year	**393,612**	953,166

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. Restatement

In 2022, upon a review of the origination of donations previously classified as endowments in the financial statements, the Foundation determined these amounts are in fact unrestricted since prior to March 31, 2021, and has reclassified the net asset balances for all periods presented accordingly. Of the amounts in question, $475,000 was subject to an endowment restriction that was amended based on a signed agreement with the donor in August 2020, and, accordingly, this amount ceased to be an endowment contribution and was recognized as a direct decrease in endowment net assets as an endowment derecognition and included in unrestricted other fundraising revenue recognized in the year ended March 31, 2021. The impact of these adjustments on the amounts previously reported are that the net assets held as endowments have been reduced by $11,552,068, and the unrestricted net assets have been increased by $11,552,068, as at March 31, 2021, and fundraising revenue and the excess of revenue over expenses have both been increased by $475,000 for the year ended March 31, 2021, and a direct reduction in endowment net assets of $475,000 was recorded for the year ended March 31, 2021.

3. 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:

Adoption of the amendments to Section 3856, Financial Instruments, for financial instruments originated or exchanged in a related party transaction

Effective April 1, 2021, the Foundation has adopted the amendments to Handbook Section 3856, *Financial Instruments* ("Section 3856"), related to the recognition of financial instruments originated or exchanged in a related party transaction, referred to herein as the "related party financial instruments amendments".

These amendments to Section 3856 establish new guidance for determining the measurement of a related party financial instrument. The related party financial instruments amendments require that such a financial instrument be initially measured at cost, which is determined based on whether the instrument has repayment terms. If the instrument has repayment terms, the cost is determined using its undiscounted cash flows, excluding interest and dividend payments, less any reduction for impairment. Otherwise, the cost is determined using the consideration transferred or received by the Foundation in the transaction. Subsequent measurement is based on how the instrument was initially measured.

The Foundation has applied the related party financial instruments amendments in accordance with the transition provisions of Section 3856. The amendments should be applied retrospectively. When related party financial instruments exist at the date these amendments are applied for the first time, the cost of an instrument that has repayment terms is determined using its undiscounted cash flows, excluding interest and dividend payments, less any impairment as at the beginning of the earliest comparative period i.e., April 1, 2020. The cost of an instrument that does not have repayment terms is deemed to be its carrying amount in the Foundation's financial statements, less any impairment, as at the same date. The fair value of an instrument that is an investment in shares quoted in an active market is determined as at the same date.

3. Accounting policies (continued)

Adoption of the amendments to Section 3856, Financial Instruments, for financial instruments originated or exchanged in a related party transaction (continued)

When related party financial instruments do not exist at the date these amendments are applied for the first time, transition relief was provided such that the related party financial instruments do not need to be restated as at the beginning of the earliest comparative period.

The adoption of these amendments had no material impact on the amounts recognized in the Foundation's financial statements or disclosures.

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.

In-kind contributions

In-kind contributions in the form of materials and services are accounted for at the fair value of the materials and services received. These contributions are recognized when the fair value can be reasonably estimated, the materials and services are used in the normal course of operations and would have been purchased otherwise.

Financial instruments

Initial measurement

Financial assets and financial liabilities originated or exchanged in arm's length transactions are initially recognized at fair value when the Foundation becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities originated or exchanged in related party transactions, except for those that involve parties whose sole relationship with the Foundation is in the capacity of management, are initially recognized at cost.

The cost of a financial instrument in a related party transaction depends on whether the instrument has repayment terms. The cost of financial instruments with repayment terms is determined using its undiscounted cash flows, excluding interest and dividend payments, less any impairment losses previously recognized by the transferor. The cost of financial instruments without repayment terms is determined using the consideration transferred or received by the Foundation in the transaction.

Subsequent measurement

All financial instruments are subsequently 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 the fair value of the securities held each investment fund. Fair value fluctuations, including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

3. Accounting policies (continued)

Financial instruments (continued)

Transaction costs

Transaction costs related to investments 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 effective interest method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the effective interest method and recognized as interest income or expense.

Impairment

With respect to financial assets measured at cost or amortized cost, the Foundation recognizes an impairment loss, if any, when there are indicators of impairment and 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 is reversed 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.

4. Investments

		2022		2021
	Fair value	**Cost**	Fair value	Cost
	$	**$**	$	$
Total investments managed				
Cash	**167,776**	**167,776**	117,781	117,781
Money market fund	**712,930**	**712,930**	634,607	634,733
Fixed income fund	**8,170,475**	**8,618,125**	5,666,229	5,585,600
Canadian equity fund	**9,366,956**	**8,122,069**	14,642,866	12,561,919
Global equity fund	**13,746,866**	**12,046,495**	9,033,382	6,831,621
	32,165,003	**29,667,395**	30,094,865	25,731,654
Annuity	**2,200,000**	**2,200,000**	4,400,000	4,400,000
	34,365,003	**31,867,395**	34,494,865	30,131,654
Current portion	**2,200,000**	**2,200,000**	2,200,000	2,200,000
	32,165,003	**29,667,395**	32,294,865	27,931,654

5. Investment income

	2022	2021
	$	$
Income distribution	**1,682,651**	584,202
Realized gains	**2,842,604**	314,200
Unrealized change in fair value	**(1,865,603)**	5,704,009
	2,659,652	6,602,411

6. 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 view of the impact of the COVID-19 pandemic on both organizations, for the fiscal years 2022 and 2021, the Museum and the Foundation agreed to defer the contribution of $900,000 and $931,400, respectively, and that such amounts will be added to the contributions to be made in fiscal years 2023 and 2022, respectively.

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, none of which is drawn as at March 31, 2022 (nil in 2021).

The Museum also has a credit facility of $2,500,000 with CIBC which is secured by the Foundation's investments.

7. Net assets – transfers

The Foundation has a practice of internally restricting planned giving donations.

During the year, the Foundation has received donations of $1,069,813 ($10,000 in 2021), which has been transferred from the unrestricted net assets to the internally restricted net assets by the decision of the Board.

8. 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.

9. Related party transactions

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

	2022	2021
	$	$
Restricted		
Collections	**172,687**	7,095
Exhibitions	**25,000**	—
Education, community engagement and cultural programs	**100,000**	—
New museum project	**26,869**	—
	324,556	7,095
Non-restricted		
Net proceeds of fundraising activities	**1,016,000**	549,080
Income distribution from investments	**1,259,211**	754,845
	2,275,211	1,303,925
	2,599,767	1,311,020

In the regular course of operations, certain expenses are incurred by the Museum on behalf of the Foundation and charged to the Foundation at cost. These expenses include salaries and, to the extent that such salaries generated a wage subsidy, the subsidy income was also allocated to the Foundation.

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 to support its mission.

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, 2022, 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, 2021) in current liabilities and nil ($2,200,000 as at March 31, 2021) 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 4.