

# London Health Sciences Foundation

Financial statements  
March 31, 2018



# Independent auditors' report

To the Board of Directors of  
**London Health Sciences Foundation**

## Report on the financial statements

We have audited the accompanying financial statements of **London Health Sciences Foundation**, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

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

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **London Health Sciences Foundation** as at March 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.

## Report on other legal and regulatory requirements

As required by the *Corporations Act* (Ontario), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

London, Canada  
June 20, 2018

*Ernst & Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants



## London Health Sciences Foundation

Incorporated without share capital under the laws of Ontario

### Statement of financial position

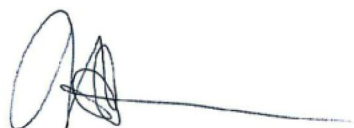
[in thousands]

As at March 31

	2018	2017
	\$	\$
<b>Assets</b>		
Cash <i>[note 3]</i>	15,350	22,761
Investments <i>[note 4]</i>	68,504	53,641
Investment in lottery joint venture <i>[note 5]</i>	839	839
Accounts receivable	121	114
Capital assets, net <i>[note 6]</i>	64	59
Other assets <i>[note 7]</i>	464	514
	<u>85,342</u>	<u>77,928</u>
<b>Liabilities and fund balances</b>		
<b>Liabilities</b>		
Accounts payable and accrued charges <i>[note 8]</i>	1,104	1,719
Deferred revenue	240	217
<b>Total liabilities</b>	<u>1,344</u>	<u>1,936</u>
Commitments <i>[note 3]</i>		
<b>Fund balances</b>		
General Fund	5,445	1,679
Restricted Fund <i>[note 10]</i>	57,622	57,435
Endowment Fund	<u>20,931</u>	<u>16,878</u>
<b>Total fund balances</b>	<u>83,998</u>	<u>75,992</u>
	<u>85,342</u>	<u>77,928</u>

See accompanying notes

On behalf of the Board:



Director



Director

## London Health Sciences Foundation

### Statement of operations and changes in fund balances

[in thousands]

Year ended March 31

	General Fund		Restricted Fund		Endowment Fund		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$
			<i>[note 10]</i>					
Donations	2,434	2,690	15,916	16,499	176	855	18,526	20,044
Equity earnings from lottery joint venture <i>[note 5]</i>	971	544	—	—	—	—	971	544
Special events	1,512	1,505	—	—	—	—	1,512	1,505
Community events	1	2	1,582	1,686	—	—	1,583	1,688
Investment income (loss)								
Realized gain	1,982	1,488	674	649	15	15	2,671	2,152
Unrealized gain (loss)	—	—	(927)	2,826	—	—	(927)	2,826
<b>Fundraising and event revenue</b>	<b>6,900</b>	<b>6,229</b>	<b>17,245</b>	<b>21,660</b>	<b>191</b>	<b>870</b>	<b>24,336</b>	<b>28,759</b>
Fundraising	1,042	1,078	2,505	2,893	—	—	3,547	3,971
Special events	756	793	—	—	—	—	756	793
Community events	—	—	400	304	—	—	400	304
<b>Fundraising and event expenses</b>	<b>1,798</b>	<b>1,871</b>	<b>2,905</b>	<b>3,197</b>	<b>—</b>	<b>—</b>	<b>4,703</b>	<b>5,068</b>
<b>Excess of revenue over expenses before the following</b>	<b>5,102</b>	<b>4,358</b>	<b>14,340</b>	<b>18,463</b>	<b>191</b>	<b>870</b>	<b>19,633</b>	<b>23,691</b>
Administration	364	293	876	786	—	—	1,240	1,079
Investment fees	47	39	266	224	—	—	313	263
Amortization	4	5	23	29	—	—	27	34
	415	337	1,165	1,039	—	—	1,580	1,376
<b>Excess of revenue over expenses before disbursements for charitable activity</b>	<b>4,687</b>	<b>4,021</b>	<b>13,175</b>	<b>17,424</b>	<b>191</b>	<b>870</b>	<b>18,053</b>	<b>22,315</b>
Disbursements for capital	—	—	1,642	2,923	—	—	1,642	2,923
Disbursements for research and education	—	—	6,446	7,167	—	—	6,446	7,167
Disbursements for patient care areas	—	—	1,959	1,544	—	—	1,959	1,544
<b>Disbursements for charitable activity</b>	<b>—</b>	<b>—</b>	<b>10,047</b>	<b>11,634</b>	<b>—</b>	<b>—</b>	<b>10,047</b>	<b>11,634</b>
<b>Excess of revenue over expenses for the year</b>	<b>4,687</b>	<b>4,021</b>	<b>3,128</b>	<b>5,790</b>	<b>191</b>	<b>870</b>	<b>8,006</b>	<b>10,681</b>
Fund balances, beginning of year	1,679	1,236	57,435	48,231	16,878	15,844	75,992	65,311
Interfund transfers, net <i>[note 10]</i>	(921)	(3,578)	(2,941)	3,414	3,862	164	—	—
<b>Fund balances, end of year</b>	<b>5,445</b>	<b>1,679</b>	<b>57,622</b>	<b>57,435</b>	<b>20,931</b>	<b>16,878</b>	<b>83,998</b>	<b>75,992</b>

See accompanying notes

## London Health Sciences Foundation

### Statement of cash flows

[in thousands]

Year ended March 31

	2018	2017
	\$	\$
<b>Operating activities</b>		
Excess of revenue over expenses for the year	8,006	10,681
Add (deduct) items not affecting cash		
Amortization	27	34
Unrealized loss (gain) on investments	927	(2,826)
	<u>8,960</u>	<u>7,889</u>
Changes in non-cash working capital balances related to operations		
Increase in accounts receivable	(7)	(4)
Decrease in other assets	50	3
Decrease (increase) in interest receivable on investments <i>[note 4]</i>	(34)	35
Increase (decrease) in accounts payable and accrued charges	(615)	746
Increase (decrease) in deferred revenue	23	(14)
<b>Cash provided by operating activities</b>	<u>8,377</u>	<u>8,655</u>
<b>Investing activities</b>		
Cash invested	(14,000)	—
Investment funds reinvested	(1,756)	(2,082)
Purchase of capital assets	(32)	—
<b>Cash used in investing activities</b>	<u>(15,788)</u>	<u>(2,082)</u>
<b>Net increase (decrease) in cash during the year</b>	<b>(7,411)</b>	<b>6,573</b>
Cash, beginning of year	<u>22,761</u>	<u>16,188</u>
<b>Cash, end of year</b>	<u>15,350</u>	<u>22,761</u>

See accompanying notes

# London Health Sciences Foundation

## Notes to financial statements

[in thousands]

March 31, 2018

### 1. Nature of the foundation

London Health Sciences Foundation [the "Foundation"] is a public foundation incorporated without share capital under the laws of Ontario, registered under the *Income Tax Act* (Canada) and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes. The Foundation raises money, stewards donations and builds relationships with the community, primarily in support of the patient care, teaching, research missions and other high priority needs as identified by the London Health Sciences Centre ["LHSC"].

### 2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, "Accounting Standards for Not-for-Profit Organizations", which sets out generally accepted accounting principles for not-for-profit organizations in Canada ["GAAP"] and includes the significant accounting policies summarized below.

#### [a] Fund accounting

In order to ensure observance of the limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. Accordingly, resources are classified for accounting and reporting purposes into funds. These funds are held in accordance with the objectives specified by donors or in accordance with directives issued by the Board of Directors. Transfers between the funds are made when it is considered appropriate and authorized by the Board of Directors.

For financial reporting purposes, the accounts have been classified into the following funds:

#### [i] General Fund

The General Fund accounts for the Foundation's general fundraising and administrative activities. The General Fund reports unrestricted resources available for immediate purposes.

#### [ii] Restricted Fund

The Restricted Fund reports revenue that has a specific purpose as specified by the donor and the expenses incurred to raise these funds. It also reports the disbursements expended for these specific purposes. Amounts transferred into the Restricted Fund due to restrictions imposed by the Board of Directors are recognized as interfund transfers.

#### [iii] Endowment Fund

The Endowment Fund reports resources that are required to be maintained by the Foundation on a permanent basis.

#### [b] Investments and investment income (loss)

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses, is recorded in the statement of operations and changes in fund balances.

# London Health Sciences Foundation

## Notes to financial statements

[in thousands]

March 31, 2018

### [c] Revenue recognition

All donations and bequests are recorded in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Life insurance policies that have named the Foundation as owner/beneficiary are recorded at the cash surrender value of the policy. The increase in cash surrender value from year to year is recorded as revenue in the appropriate fund.

### [d] Contributed materials and services

Volunteers contribute many hours per year to assist the Foundation in carrying out its activities. Because of the difficulty in determining fair value, contributed services are not recognized in the financial statements. Contributed materials are also not recognized in the financial statements.

### [e] Capital assets

Capital assets are recorded at acquisition cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of the contribution. Amortization is provided on a straight-line basis over the assets' estimated useful lives as follows:

Office equipment	5 years
Computer equipment	3 years
Donor walls	10 years
Leasehold improvements	Term of lease

### [f] Joint venture

The Foundation has an interest in lottery fundraisers where there is joint control of lottery operations by the participating foundations. The Foundation follows the equity method of accounting for this joint venture. The investment in the lottery joint venture is initially recorded at cost and the carrying value is adjusted thereafter to include the Foundation's share of earnings. Distributions of earnings from the joint venture reduce the carrying value of the investment.

### [g] Financial instruments

The Foundation has elected to record all investments at fair value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in investment income (loss).

Other financial instruments, including accounts receivable, long-term annuity, cash surrender value of life insurance policies, accounts payable and accrued charges and obligations under capital lease, are measured at amortized cost using the effective interest rate method, net of any provisions for impairment.

## London Health Sciences Foundation

### Notes to financial statements

[in thousands]

March 31, 2018

#### *Determination of fair value*

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on the latest closing price. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

#### **[h] Administrative charge**

An administrative charge is levied on restricted and endowed donations to sustain the operations of the Foundation [note 10].

#### **[i] Use of estimates**

The preparation of financial statements in accordance with GAAP requires management to make certain estimates based on management's judgments. These estimates affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

#### **[j] Allocation of expenses**

The costs of each function include the costs of personnel and other expenses that are directly related to the function. General support and other similar costs are not allocated and are included in administration expenses on the statement of operations and changes in fund balances.

#### **[k] Employee future benefits**

Defined contribution plan accounting is applied to the multi-employer defined benefit plan, whereby contributions are expensed on an accrual basis, as the Foundation has insufficient information to apply defined benefit accounting.

### **3. Letter of credit**

During the year, the Foundation issued a letter of credit for \$2,474 to the Minister of Finance that relates to the fiscal 2019 Spring Dream Lottery. This letter of credit expires on September 4, 2018. The Foundation is indemnified by the other two participating foundations on the same percentage basis as their net proceeds entitlement for fiscal 2018 [note 5]. The lottery joint venture has pledged its cash balance as collateral against this letter of credit.



## London Health Sciences Foundation

### Notes to financial statements

[in thousands]

March 31, 2018

#### 4. Investments and financial instruments

##### [a] Investments

Details of the fair values of investments are as follows:

	2018	2017
	\$	\$
Government of Canada bonds	9,129	4,613
Corporate bonds	14,239	13,026
Canadian equities	16,438	12,872
US equities	17,369	13,973
Foreign equities	3,949	2,563
Treasury bills	1,699	1,464
Mutual funds	3,026	2,691
Money market	2,655	2,439
	<b>68,504</b>	<b>53,641</b>

The Foundation recognized \$876 of interest income during the year [2017 – \$778]. The fair value of investments includes interest receivable of \$152 [2017 – \$118].

Bonds bear interest at varying rates between 1.15% and 7.41%. The bonds mature at varying dates between August 9, 2018 and December 31, 2108. Bonds with a combined face value of \$417 [2017 – \$618] as at March 31, 2018 have early settlement options.

##### [b] Financial instruments

The Foundation is subject to certain financial risks through transactions in financial instruments. The following provides information in assessing the Foundation's exposure to those risks. To manage these risks, the Foundation has established a target mix of investment types and currencies intended to achieve optimal return within reasonable risk tolerances.

##### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Foundation is exposed to currency risk as certain investments held at year-end are denominated in foreign currencies. Approximately 36% [2017 – 53%] of the Foundation's investment income and 33% [2017 – 34%] of its investment portfolio is denominated in United States funds.

##### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Foundation is exposed to interest rate risk on its fixed and floating interest rate financial instruments, including its Government of Canada corporate bonds and treasury bills.

## London Health Sciences Foundation

### Notes to financial statements

[in thousands]

March 31, 2018

#### *Market price risk*

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices [other than those arising from interest rate risk or currency risk]. The Foundation is exposed to market risk on its investment portfolio.

#### **5. Lottery joint venture activities**

In fiscal 2013, the Foundation entered into a joint venture agreement with St. Joseph's Health Care Foundation and the Children's Health Foundation [the "Venturers"] relating to future Dream lotteries, whereby the Venturers have contractually shared power to determine the strategic operating, investing and financing activities of the joint venture. The Foundation has made an accounting policy choice to account for its one-third interest in the joint venture, which has a January 31 year-end, using the equity method.

The Foundation's one-third share of the joint venture's assets, liabilities, operations and cash flows as at and for the year ended January 31 are as follows:

	<b>2018</b>	<b>2017</b>
	\$	\$
Foundation's share of total assets	<b>1,426</b>	1,120
Foundation's share of total liabilities	<b>1,426</b>	1,120
<b>Foundation's share of net assets</b>	<b>—</b>	<b>—</b>
	<b>2018</b>	<b>2017</b>
	\$	\$
Foundation's share of current year revenue	<b>3,294</b>	2,771
Foundation's share of current year expenses	<b>2,323</b>	2,227
<b>Foundation's share of excess of revenue over expenses</b>	<b>971</b>	544

The Foundation's share of cash provided by (used in) operating activities of the joint venture was \$314 [2017 – (\$89)].

## London Health Sciences Foundation

### Notes to financial statements

[in thousands]

March 31, 2018

#### 6. Capital assets

Details of capital assets are as follows:

	<b>2018</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
	\$	\$	\$
Office equipment	232	225	7
Computer equipment	456	425	31
Donor walls	107	81	26
Leasehold improvements	54	54	—
	<b>849</b>	<b>785</b>	<b>64</b>

	<b>2017</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
	\$	\$	\$
Office equipment	232	218	14
Computer equipment	424	412	12
Donor walls	107	75	32
Leasehold improvements	54	53	1
	<b>817</b>	<b>758</b>	<b>59</b>

The above capital assets include assets under capital lease of \$202 [2017 – \$178] at cost, with accumulated amortization of \$179 [2017 – \$166].

#### 7. Other assets

Details of other assets are as follows:

	<b>2018</b>	<b>2017</b>
	\$	\$
Prepaid expenses	<b>129</b>	190
Cash surrender value of life insurance policies	<b>335</b>	324
	<b>464</b>	514

The life insurance policies were donated to the Foundation, at which time the Foundation became the owner and beneficiary of the policies. These policies have a death benefit of \$4,631 [2017 – \$4,678].

# London Health Sciences Foundation

## Notes to financial statements

[in thousands]

March 31, 2018

### 8. Related party transactions

LHSC provides administrative support and payroll processing to the Foundation. This in-kind support has not been recorded in the financial statements of the Foundation. The net assets and results of operations of the Foundation are not included in LHSC's financial statements.

As at March 31, 2018, the Foundation had an amount payable to LHSC of \$809 [2017 – \$1,457]. Invoices are due upon receipt, and interest may be applied on past due accounts at a rate of 1.5% per month.

### 9. Healthcare of Ontario Pension Plan

Substantially all administrative employees of the Foundation are members of the Healthcare of Ontario Pension Plan ["HOOPP"]. HOOPP is a multi-employer defined benefit pension plan. Employer contributions made to HOOPP during the year amounted to \$284 [2017 – \$281]. These amounts are included in administration expense in the statement of operations and changes in fund balances.

The most recent actuarial valuation for financial reporting purposes completed by the HOOPP as at December 31, 2017 disclosed net assets available for benefits of \$77,755,000 [December 31, 2016 - \$70,359,000] with pension obligations of \$59,602,000 [December 31, 2016 - \$54,461,000], resulting in a surplus of \$18,153,000 [December 31, 2016 - \$15,898,000]. As at December 31, 2017, HOOPP was fully funded.

### 10. Restricted Fund

The Restricted Fund consists of both internally and externally restricted funds. Internally restricted funds represent donations that have been restricted for a specific purpose by the Board of Directors. Externally restricted funds represent donations whereby the donor has made a specific direction on the use of these funds.

	2018	2017
	\$	\$
Internally restricted	1,402	1,397
Externally restricted	56,220	56,038
	<b>57,622</b>	<b>57,435</b>

Externally restricted funds are primarily restricted for capital, research and education activities.

During the year ended March 31, 2018, the Board of Directors approved a transfer from the General Fund to the Restricted Fund of \$921 [2017 – \$3,578]. This transfer is net of an administrative charge to sustain the operations of the Foundation of \$1,194 [2017 – \$1,005] charged on restricted funds [note 2[h]], as well as a reclassification of accumulated unrealized investment gains of \$2,054.

In addition, \$4,001 was transferred from the Restricted Fund into the Endowment Fund which represents a reclassification of accumulated unrealized investment gains relating to capital preservation of the endowed funds.