

London Health Sciences Foundation

Financial statements
March 31, 2019



Independent auditor's report

To the Board of Directors of
London Health Sciences Foundation

Opinion

We have audited the financial statements of **London Health Sciences Foundation** [the "Foundation"], which comprise the statement of financial position as at March 31, 2019, and the statement of operations and changes in fund balances and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2019, and its results of 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. 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.

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 generally accepted auditing standards 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 generally accepted auditing standards, 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.

London, Canada
June 19, 2019

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

	2019	2018
	\$	\$
Assets		
Cash <i>[note 3]</i>	19,502	15,350
Investments <i>[note 4]</i>	73,072	68,504
Investment in lottery joint venture <i>[note 5]</i>	839	839
Accounts receivable	212	121
Capital assets, net <i>[note 6]</i>	46	64
Other assets <i>[note 7]</i>	518	464
	94,189	85,342
Liabilities and fund balances		
Liabilities		
Accounts payable and accrued charges <i>[note 8]</i>	1,324	1,104
Deferred revenue	278	240
Total liabilities	1,602	1,344
Fund balances		
General Fund	8,744	5,445
	62,652	57,622
Endowment Fund	21,191	20,931
Total fund balances	92,587	83,998
	94,189	85,342

See accompanying notes

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	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Donations	2,399	2,434	<i>[note 10]</i> 14,584	15,916	223	176	17,206	18,526
Equity earnings from lottery joint venture <i>[note 5]</i>	1,051	971	—	—	—	—	1,051	971
Special events	1,553	1,512	—	—	—	—	1,553	1,512
Community events	5	1	1,787	1,582	—	—	1,792	1,583
Investment income (loss)	3,688	1,982	98	(253)	1,542	15	5,328	1,744
Fundraising, event and investment revenue	8,696	6,900	16,469	17,245	1,765	191	26,930	24,336
Fundraising	1,072	1,042	2,272	2,505	—	—	3,344	3,547
Special events	832	756	—	—	—	—	832	756
Community events	—	—	440	400	—	—	440	400
Fundraising and event expenses	1,904	1,798	2,712	2,905	—	—	4,616	4,703
Excess of revenue over expenses before the following	6,792	5,102	13,757	14,340	1,765	191	22,314	19,633
Administration	450	364	953	876	—	—	1,403	1,240
Investment fees	172	47	3	266	82	—	257	313
Amortization	9	4	19	23	—	—	28	27
Excess of revenue over expenses before disbursements for charitable activity	6,161	4,687	12,782	13,175	1,683	191	20,626	18,053
Disbursements for capital	—	—	4,065	1,642	—	—	4,065	1,642
Disbursements for research and education	—	—	6,221	6,446	—	—	6,221	6,446
Disbursements for patient care areas	—	—	1,751	1,959	—	—	1,751	1,959
Disbursements for charitable activity	—	—	12,037	10,047	—	—	12,037	10,047
Excess of revenue over expenses for the year	6,161	4,687	745	3,128	1,683	191	8,589	8,006
Fund balances, beginning of year	5,445	1,679	57,622	57,435	20,931	16,878	83,998	75,992
Interfund transfers, net <i>[note 10]</i>	(2,862)	(921)	4,285	(2,941)	(1,423)	3,862	—	—
Fund balances, end of year	8,744	5,445	62,652	57,622	21,191	20,931	92,587	83,998

See accompanying notes

London Health Sciences Foundation

Statement of cash flows

[in thousands]

Year ended March 31

	2019	2018
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	8,589	8,006
Add (deduct) items not affecting cash		
Amortization	28	27
Unrealized loss (gain) on investments	(848)	927
	<u>7,769</u>	<u>8,960</u>
Changes in non-cash working capital balances related to operations		
Increase in accounts receivable	(91)	(7)
Decrease (increase) in other assets	(54)	50
Increase in interest receivable on investments <i>[note 4]</i>	(41)	(34)
Increase (decrease) in accounts payable and accrued charges	220	(615)
Increase in deferred revenue	38	23
Cash provided by operating activities	<u>7,841</u>	<u>8,377</u>
Investing activities		
Cash invested	—	(14,000)
Investment funds reinvested	(3,679)	(1,756)
Purchase of capital assets	(10)	(32)
Cash used in investing activities	<u>(3,689)</u>	<u>(15,788)</u>
Net increase (decrease) in cash during the year	4,152	(7,411)
Cash, beginning of year	15,350	22,761
Cash, end of year	<u>19,502</u>	<u>15,350</u>

See accompanying notes

London Health Sciences Foundation

Notes to financial statements

[in thousands]

March 31, 2019

1. Nature of the foundation

London Health Sciences Foundation [the "Foundation"] is a public foundation incorporated without share capital under the laws of Ontario, is 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, 2019

[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, 2019

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 as 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 \$2,509 to the Minister of Finance that relates to the fiscal 2020 Spring Dream Lottery. This letter of credit expires on August 26, 2019. The Foundation is indemnified by the other two participating foundations on the same percentage basis as their net proceeds entitlement for fiscal 2019 [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, 2019

4. Investments and financial instruments

[a] Investments

Details of the fair values of investments are as follows:

	2019	2018
	\$	\$
Government bonds	13,193	9,129
Corporate bonds	14,931	14,239
Canadian equities	17,210	16,438
US equities	17,277	17,369
Foreign equities	3,434	3,949
Treasury bills	866	1,699
Mutual funds	—	3,026
Money market	6,161	2,655
	<u>73,072</u>	<u>68,504</u>

The Foundation recognized \$1,253 of interest income during the year [2018 – \$876]. The fair value of investments includes interest receivable of \$194 [2018 – \$152].

Bonds bear interest at varying rates between 1.00% and 6.4%. The bonds mature at varying dates between June 10, 2019 and December 31, 2108. Bonds with a combined face value of \$968 [2018 – \$417] as at March 31, 2019 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 30% [2018 – 33%] 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.

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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:

	2019	2018
	\$	\$
Foundation's share of total assets	1,377	1,426
Foundation's share of total liabilities	1,377	1,426
Foundation's share of net assets	—	—
	2019	2018
	\$	\$
Foundation's share of current year revenue	3,362	3,294
Foundation's share of current year expenses	2,311	2,323
Foundation's share of excess of revenue over expenses	1,051	971

The Foundation's share of cash used in (provided by) operating activities of the joint venture was \$85 [2018 – (\$314)].

London Health Sciences Foundation

Notes to financial statements

[in thousands]

March 31, 2019

6. Capital assets

Details of capital assets are as follows:

	2019		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office equipment	242	233	9
Computer equipment	456	439	17
Donor walls	107	87	20
Leasehold improvements	54	54	—
	859	813	46

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

The above capital assets include assets under capital lease of \$202 [2018 – \$202] at cost, with accumulated amortization of \$190 [2018 – \$179].

7. Other assets

Details of other assets are as follows:

	2019	2018
	\$	\$
Prepaid expenses	168	129
Cash surrender value of life insurance policies	350	335
	518	464

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 \$4,633 [2018 – \$4,631].

London Health Sciences Foundation

Notes to financial statements

[in thousands]

March 31, 2019

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, 2019, the Foundation had an amount payable to LHSC of \$1,087 [2018 – \$809]. 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 \$294 [2018 – \$284]. 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, 2018 disclosed net assets available for benefits of \$79,019,000 [December 31, 2017 – \$77,755,000] with pension obligations of \$65,128,000 [December 31, 2017 – \$59,602,000], resulting in a surplus of \$13,891,000 [December 31, 2017 – \$18,153,000]. As at December 31, 2018, 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.

	2019 \$	2018 \$
Internally restricted	1,629	1,402
Externally restricted	61,023	56,220
	<u>62,652</u>	<u>57,622</u>

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

During the year ended March 31, 2019, the Board of Directors approved a transfer from the General Fund to the Restricted Fund of \$2,862 [2018 – \$921]. This transfer is net of an administrative charge to sustain the operations of the Foundation of \$1,043 [2018 – \$1,194] charged on restricted funds [note 2[h]]. In the previous year, the transfer included a reclassification of accumulated unrealized investment gains of \$2,054 from the restricted fund to the general fund.

In accordance with the Disbursement Policy of the Foundation, and as approved by the Board of Directors, a portion of the investment revenue earned on the Endowment Fund is transferred to the Restricted and General Funds to be available to spend in accordance with the restricted purpose of the endowed fund as well as to cover administrative costs of managing the endowed funds.

In addition, in the previous year, \$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.