

Financial Statements

London Health Sciences Foundation

March 31, 2010

AUDITORS' REPORT

To the Board of Directors of
London Health Sciences Foundation

We have audited the statement of financial position of **London Health Sciences Foundation** as at March 31, 2010 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of **London Health Sciences Foundation's** management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of **London Health Sciences Foundation** as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

London, Canada,
April 30, 2010.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

London Health Sciences Foundation

Incorporated without share capital under the laws of Ontario

STATEMENT OF FINANCIAL POSITION

As at March 31
[in thousands]

	2010	2009
	\$	\$
ASSETS		
Cash	18,677	14,950
Investments <i>[note 5]</i>	53,304	50,580
Accounts receivable	292	280
Long-term annuity <i>[note 6]</i>	65	78
Capital assets, net <i>[note 7]</i>	66	88
Other assets <i>[note 8]</i>	606	559
	73,010	66,535
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable and accrued charges <i>[note 15]</i>	1,224	1,417
Deferred revenue	758	589
Obligations under capital lease <i>[note 9]</i>	45	47
	2,027	2,053
Commitments <i>[note 16]</i>		
Fund balances <i>[note 2[a]]</i>		
General Fund	462	1,496
Restricted Fund <i>[note 12]</i>	57,496	49,997
Endowment Fund	13,025	12,989
	70,983	64,482
	73,010	66,535

See accompanying notes

On behalf of the Board:

Director

Director

London Health Sciences Foundation

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

Year ended March 31
[in thousands]

	General Fund		Restricted Fund		Endowment Fund		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$
	<i>[note 12]</i>							
Donations	3,264	1,689	9,134	22,038	34	15	12,432	23,742
Lotteries <i>[note 11]</i>	6,054	6,214	—	—	—	—	6,054	6,214
Special events <i>[note 11]</i>	875	651	—	10	—	—	875	661
Community events	9	201	1,751	1,674	—	—	1,760	1,875
Investment income (loss)								
Realized income	388	1,070	724	635	2	2	1,114	1,707
Unrealized income (loss)	—	—	1,758	(1,866)	—	—	1,758	(1,866)
Gross revenue	10,590	9,825	13,367	22,491	36	17	23,993	32,333
Fundraising	1,584	751	1,595	2,658	—	—	3,179	3,409
Lotteries <i>[note 11]</i>	4,511	4,838	—	—	—	—	4,511	4,838
Special events <i>[note 11]</i>	474	368	35	—	—	—	509	368
Community events	—	—	429	170	—	—	429	170
Fundraising and event expenses	6,569	5,957	2,059	2,828	—	—	8,628	8,785
Excess of revenue over expenses before the following	4,021	3,868	11,308	19,663	36	17	15,365	23,548
Administration	518	233	522	815	—	—	1,040	1,048
Investment fees	29	39	162	136	—	—	191	175
Amortization	4	6	34	35	—	—	38	41
	551	278	718	986	—	—	1,269	1,264
Excess of revenue over expenses for the year	3,470	3,590	10,590	18,677	36	17	14,096	22,284
Fund balances, beginning of year	1,496	1,017	49,997	37,442	12,989	13,472	64,482	51,931
	4,966	4,607	60,587	56,119	13,025	13,489	78,578	74,215
Disbursements for capital	—	—	—	(2,600)	—	—	—	(2,600)
Disbursements for research and education	(100)	(100)	(2,875)	—	—	—	(2,975)	(100)
Disbursements for patient care areas	(304)	—	(4,316)	(7,033)	—	—	(4,620)	(7,033)
Interfund transfers, net <i>[note 12]</i>	(4,100)	(3,011)	4,100	3,511	—	(500)	—	—
Fund balances, end of year	462	1,496	57,496	49,997	13,025	12,989	70,983	64,482

See accompanying notes

London Health Sciences Foundation

STATEMENT OF CASH FLOWS

Year ended March 31
[in thousands]

	2010	2009
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	14,096	22,284
Add (deduct) non-cash items included in operations		
Amortization	38	41
Unrealized loss (gain) on investments	(1,758)	1,866
	12,376	24,191
Changes in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable	(12)	126
Increase in other assets and long-term annuity	(34)	(114)
Increase (decrease) in accounts payable and accrued charges	(193)	821
Increase in deferred revenue	169	550
Cash provided by operating activities	12,306	25,574
INVESTING ACTIVITIES		
Purchases of investments	(244,302)	(369,431)
Proceeds on sale of investments	243,336	354,696
Purchase of capital assets	(16)	(60)
Obligations under capital lease	(2)	47
Cash used in investing activities	(984)	(14,748)
FINANCING ACTIVITIES		
Disbursements for capital	—	(2,600)
Disbursements for research and education	(2,975)	(100)
Disbursements for patient care areas	(4,620)	(7,033)
Cash used in financing activities	(7,595)	(9,733)
Net increase in cash during the year	3,727	1,093
Cash, beginning of year	14,950	13,857
Cash, end of year	18,677	14,950

See accompanying notes

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2010

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 and research missions of the London Health Sciences Centre ["LHSC"].

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In the opinion of management, the financial statements have been properly prepared within reasonable limits of materiality and within the framework of 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. Deferred revenue of the General Fund represents revenue related to certain future special events.

London Health Sciences Foundation

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[ii] Restricted Fund

The Restricted Fund reports revenues that have 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 by an external donor to be maintained by the Foundation on a permanent basis, unless otherwise directed by the donor.

[b] Investments and investment income

Investments, including investments denominated in U.S. dollars, are recorded at fair value. Unrealized gains or losses resulting from changes in the value of the investments are recorded in the Statement of Operations and Changes in Fund Balances. Investment income earned on contributions to the Endowment Fund is reported as income in the Restricted Fund except when designated by the donor to be recapitalized into endowments. The income earned in the General and Restricted Funds is reported in the respective funds.

Investments denominated in U.S. dollars are recorded using the year-end spot rate. All income earned on U.S. investments is recorded at the rate in effect when revenue is recognized.

The Foundation has chosen to continue to apply Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3861: *Financial Instruments - Disclosure and Presentation* in place of CICA Handbook Section 3862: *Financial Instruments - Disclosures* and Section 3863: *Financial Instruments - Presentation*.

[c] Revenue recognition

All donations and bequests are recorded as revenue only as 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 in the appropriate fund.

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NOTES TO FINANCIAL STATEMENTS

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[d] Contributed 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.

[e] Capital assets

Capital assets are recorded at cost less accumulated amortization. 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 and leasehold improvements	10 years

[f] Other assets

Costs directly related to the development of future fundraising events and future lotteries are presented as other assets when there is a future economic benefit associated with these costs. For future fundraising events and lotteries, the costs are expensed in the period in which the lottery or fundraising event is held. Such costs are expensed immediately when there is insufficient evidence that costs do not provide future economic benefit.

[g] Financial instruments

Financial assets and financial liabilities

All financial instruments must be classified as held for trading ["HFT"], available for sale, held-to-maturity, loans and receivables, or other financial liabilities. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Foundation's designation of such instruments.

The Foundation has made the following classifications:

- [a] Cash is classified as HFT and measured at fair value.
- [b] Investments are classified as HFT and measured at fair value with changes in fair value recognized in the Statement of Operations and Changes in Fund Balances.
- [c] Accounts receivable, long-term annuity and cash surrender value of life insurance policies are classified as loans and receivables. After their initial fair

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value measurement, they are measured at amortized cost using the effective interest rate method.

- [d] Accounts payable and accrued charges and obligations under capital lease are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in investment income. Transaction costs related to HFT financial assets are expensed as incurred.

The Foundation uses the settlement date to record financial instruments.

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 bid prices for financial assets and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data.

[h] Administrative charge

An administrative charge is levied on restricted donations to sustain the operations of the Foundation. The maximum amount of the charge, which is set by the Board of Directors, is currently 7.5%.

[i] Use of estimates

Preparation of the Foundation's financial statements in accordance with Canadian generally accepted accounting principles 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.

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[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 Fund Balances.

3. CHANGE IN ACCOUNTING POLICY

In February 2009, the Accounting Standards Board amended CICA 1000: *Financial Statement Concepts* to clarify that assets not meeting the definition of an asset are not permitted to be recognized on the Statement of Financial Position. The Foundation has reviewed costs recorded on the Statement of Financial Position and determined that no adjustment is required to the financial statements. An accounting policy note has been added with respect to the accounting for future fundraising events and lottery costs and certain amounts on the Statement of Financial Position have been reclassified with details in note 8.

Effective April 1, 2009, the Foundation retroactively adopted the recommendations of CICA Handbook Section 4400 series to amend or improve those parts of the CICA Handbook related to not-for-profit organizations that impact its financial statements. Certain revenue and expenses related to special events which were previously presented net on the Statement of Operations and Changes in Fund Balances with the details in note 11 are now presented on a gross basis. The impact of implementing this recommendation on the Foundation's financial statements was an increase to revenue of \$5,449,000 in 2010 [2009 - \$5,376,000] and an increase to expenses of \$5,449,000 in 2010 [2009 - \$5,376,000].

Additional disclosures required as a result of adopting CICA 4470: *Disclosure of Allocated Expenses for Not-for-Profit Organizations* have been provided in note 2[j].

4. LETTERS OF CREDIT

During the year, the Foundation issued two letters of credit totaling \$2,248,976. The first for \$2,200,000 to the Minister of Finance relates to the fiscal 2011 Dream Lottery [note 11]. This letter of credit expires August 3, 2010 and is indemnified by the three participating foundations on the same percentage basis as their net proceeds entitlement for fiscal 2010 [note 11]. The second letter of credit in the amount of \$48,976 to The Corporation of the City of London relates to a raffle in fiscal 2011. This letter of credit expires July 22, 2010. The Foundation has pledged its cash balance in the general bank account as collateral against these letters of credit.

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5. INVESTMENTS

Details of investments are as follows:

[in 000s]	<u>2010</u>	<u>2009</u>
	Fair value \$	Fair value \$
Government of Canada bonds	10,358	2,630
Corporate bonds	11,937	11,614
Canadian equities	4,162	2,729
U.S. equities	3,229	2,518
Foreign equities	227	—
Treasury bills	15,986	29,709
Mutual funds	1,308	1,380
Commercial paper	6,097	—
	<u>53,304</u>	<u>50,580</u>

Bonds bear interest at varying rates between 2.00% and 8.00%. The bonds mature at varying dates between January 25, 2011 and June 21, 2047. The cost of investments at March 31, 2010 is \$53,535,686 [2009 - \$53,268,354]. Ten of the bonds held at March 31, 2010 have early settlement options.

The Foundation is subject to market risk, foreign currency risk, credit risk and interest rate risk with respect to its investment portfolio. To manage these risks, the Foundation has established a target mix of investment types intended to achieve optimal return within reasonable risk tolerances.

6. LONG-TERM ANNUITY

Details of long-term annuity are as follows:

[in 000s]	<u>2010</u>	<u>2009</u>
	\$	\$
Annuity [at amortized cost]	<u>65</u>	<u>78</u>

The Foundation has a 20 year, 7.2% annuity contract which matures in 2014. The fair market value of the annuity at March 31, 2010 was \$73,209 [2009 - \$78,516].

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7. CAPITAL ASSETS

Details of capital assets are as follows:

	2010			2009		
	Cost \$	Accumulated amortization \$	Net book value \$	Cost \$	Accumulated amortization \$	Net book value \$
[in 000s]						
Office equipment	182	176	6	182	172	10
Computer equipment	312	267	45	296	243	53
Leasehold improvements	51	40	11	51	35	16
Donor walls	46	42	4	46	37	9
	591	525	66	575	487	88

The above capital assets include assets under capital lease of \$75,954 [2009 - \$59,811] at cost with accumulated amortization of \$30,467 [2009 - \$12,488].

8. OTHER ASSETS

Details of other assets are as follows:

	2010 \$	2009 \$
[in 000s]		
Intangible assets relating to:		
Future fundraising events	26	90
Future lotteries	297	203
Prepaid expenses	119	114
Cash surrender value of life insurance policies	164	152
	606	559

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 fair value upon death of \$4,062,410 [2009 - \$4,062,410].

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NOTES TO FINANCIAL STATEMENTS

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9. OBLIGATIONS UNDER CAPITAL LEASE

The Foundation has entered into the following capital lease obligations for computer equipment:

	2010	2009
	\$	\$
Total minimum lease payment	53	56
Less amounts representing interest	8	9
Present value of capital lease payments	45	47
Current portion of obligations under capital lease	22	18
	23	29

Payments due under capital lease agreements are as follows:

	\$
2011	22
2012	22
2013	8
2014 and thereafter	1
	53

Interest expense on capital lease obligations in 2010 was \$3,350 [2009 - 2,362].

10. CAPITAL MANAGEMENT

In managing capital, the Foundation focuses on liquid resources available for operations. The Foundation's objective is to have sufficient liquid resources to continue operating despite potential adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As of March 31, 2010, the Foundation has met its objective of having sufficient liquid resources to meet its current obligations.

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2010

11. SPECIAL EVENTS AND LOTTERIES

Total special events revenue for the Foundation is noted below. The revenue for the Dream Lottery is based on the Foundation's proportionate share of these events.

[in 000s]	2010 \$	2009 \$
Lottery Revenue		
Dream Lottery	2,245	2,316
Millionaire Lottery	3,809	3,898
	<u>6,054</u>	<u>6,214</u>
Special Event Revenue		
Country Classic Auction	703	661
Tastings	172	—
	<u>875</u>	<u>661</u>
Expenses	5,020	5,206
Net proceeds	<u>1,909</u>	<u>1,669</u>

All expenses included above are direct expenses of these special events and lotteries. Net proceeds are impacted by a variety of factors, including the type of fundraiser held, which may vary annually. Note 3 details the impact of the change in accounting policy to the Foundation.

Dream Lottery [completed lotteries]

[in 000s]	2010 \$	2009 \$
Revenue		
Ticket sales for 135,000 tickets sold in 2010 [2009 - 135,143]	4,236	4,370
Expenses	2,855	3,114
Net proceeds	<u>1,381</u>	<u>1,256</u>
Allocation of net proceeds:		
London Health Sciences Foundation	732	666
St. Joseph's Health Care Foundation	511	465
Children's Health Foundation	138	125
	<u>1,381</u>	<u>1,256</u>

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The Dream Lottery is a joint venture undertaken by the Foundation [53% of net proceeds], St. Joseph's Health Care Foundation [37% of net proceeds] and the Children's Health Foundation [10% of net proceeds]. Responsibility for the co-ordination of the lottery is assumed by the Foundation. At March 31, 2010, all net proceeds have been paid to the above noted foundations with respect to completed lotteries.

As at March 31, 2010, the net amount owing to the partners related to the fiscal 2011 Dream Lottery is \$328,659 and is included in accounts payable and accrued charges on the Statement of Financial Position.

12. RESTRICTED FUND

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

Balances at March 31 are as follows:

[in 000s]	2010 \$	2009 \$
Internally restricted	2,443	932
Externally restricted	55,053	49,065
Total Restricted Fund	57,496	49,997

Externally restricted funds are primarily restricted for capital, research and education activities carried out by the LHSC.

During the year ended March 31, 2010, the Board of Directors approved a transfer from the General Fund to the Restricted Fund of \$4,100,450 [2009 - \$3,011,361]. This transfer is net of an administrative charge to sustain the operations of the Foundation of \$389,186 [2009 - \$1,171,611] charged on restricted funds [note 2[h]].

During the year ended March 31, 2009, \$500,000 was transferred from the Endowment Fund to the Restricted Fund to comply with the wishes of a donor.

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2010

13. PLEDGES

The Foundation does not record pledges in its financial statements. Pledges generated in 2010 in the annual giving program, primarily through phone/mail, of \$2,232,385 [2009 - \$2,768,136] and the major gifts program of \$7,025,135 [2009 - \$13,599,308] totaled \$9,257,520 [2009 - \$16,367,444]. The expected collection of accumulated pledges outstanding and the expected year of collection are set out below:

[in 000s]	2010 \$	2009 \$
2010	—	6,009
2011	4,308	1,853
2012	2,318	1,367
2013	1,538	1,306
2014 and thereafter	1,515	—
	9,679	10,535

In addition to these pledges, the Foundation continued the Planned Giving phone/mail campaign designed to generate pledges by way of bequests and gifts of life insurance. Due to the nature of these pledges, the ultimate amount collectible is not determinable at this time and is not included in pledges noted above.

14. HEALTHCARE OF ONTARIO PENSION PLAN

Pension benefit costs are expensed as related contributions are made to the Healthcare of Ontario Pension Plan ["HOOPP"]. Substantially all of the employees of the Foundation are members of the HOOPP. This plan is a multi-employer defined benefit pension plan. Employer contributions made to the HOOPP on behalf of employees amounted to \$262,408 [2009 - \$255,216].

The most recent actuarial valuation for accounting purposes completed by the HOOPP as at December 31, 2009 disclosed a smoothed assets value of \$32,556 million with accrued going concern liabilities of \$32,020 million resulting in a going concern surplus of \$536 million.

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15. RELATED PARTY

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

At March 31, 2010, the Foundation had an amount payable to LHSC of \$490,828 [2009 - \$866,933].

In addition, the Foundation holds funds in trust for LHSC totaling \$626,344 [2009 - nil]. These funds are not available for the use or benefit of the Foundation and are disbursed at the discretion of LHSC. The funds are not included on the Foundation's Statement of Financial Position.

16. COMMITMENTS

LHSC has a Cost Sharing Agreement with the Ministry of Health and Long-Term Care ["MOHLTC"] relating to capital redevelopment. According to the terms of the Cost Sharing Agreement, the MOHLTC will fund \$466,865,211 of the required \$563,283,260 capital asset expenditures for redevelopment and \$96,418,049 must be raised by LHSC from other sources of funds.

The Foundation has committed to contribute \$85,400,000 and to date LHSC has contributed \$5,400,000. As at March 31, 2010, the Foundation has fulfilled \$46,430,000 [2009 - \$46,430,000] of this commitment to LHSC. Subsequent to year end, the Foundation disbursed to LHSC an additional \$14,700,000 towards this commitment.

An additional Cost Sharing Agreement with the MOHLTC to fund \$45,815,903 of equipment related to redevelopment requires LHSC to provide sources of funds of \$17,052,172 of which the Foundation has committed to contribute the full amount. As at March 31, 2010, the Foundation has disbursed \$8,171,985 [2009 - \$8,171,985] of this commitment to LHSC.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.