

Financial Statements

London Health Sciences Foundation

March 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
London Health Sciences Foundation

We have audited the accompanying financial statements of **London Health Sciences Foundation**, which comprise the statement of financial position as at March 31, 2011 and the statement 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 generally accepted accounting principles, 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, 2011 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,
May 25, 2011.

London Health Sciences Foundation

Incorporated without share capital under the laws of Ontario

STATEMENT OF FINANCIAL POSITION

As at March 31
[in thousands]

	2011	2010
	\$	\$
ASSETS		
Cash	8,168	18,677
Investments <i>[note 5]</i>	38,817	53,304
Accounts receivable	397	292
Long-term annuity <i>[note 6]</i>	50	65
Capital assets, net <i>[note 7]</i>	57	66
Other assets <i>[note 8]</i>	738	606
	48,227	73,010
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable and accrued charges <i>[note 15]</i>	1,431	1,224
Deferred revenue	779	758
Obligations under capital lease <i>[note 9]</i>	47	45
	2,257	2,027
Commitments <i>[notes 16 & 4]</i>		
Fund balances <i>[note 2[a]]</i>		
General Fund	952	462
Restricted Fund <i>[note 12]</i>	31,763	57,496
Endowment Fund	13,255	13,025
	45,970	70,983
	48,227	73,010

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	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$
	<i>[note 12]</i>							
Donations	3,164	3,264	6,979	9,134	226	34	10,369	12,432
Lotteries <i>[note 11]</i>	5,604	6,054	—	—	—	—	5,604	6,054
Special events <i>[note 11]</i>	1,088	875	—	—	—	—	1,088	875
Community events	172	9	2,050	1,751	—	—	2,222	1,760
Investment income								
Realized income	355	388	665	724	2	2	1,022	1,114
Unrealized income	—	—	785	1,758	—	—	785	1,758
Gross revenue	10,383	10,590	10,479	13,367	228	36	21,090	23,993
Fundraising	1,409	1,584	2,321	1,595	—	—	3,730	3,179
Lotteries <i>[note 11]</i>	4,034	4,511	—	—	—	—	4,034	4,511
Special events <i>[note 11]</i>	540	474	—	—	—	—	540	474
Community events	—	—	434	464	—	—	434	464
Fundraising and event expenses	5,983	6,569	2,755	2,059	—	—	8,738	8,628
Excess of revenue over expenses before the following	4,400	4,021	7,724	11,308	228	36	12,352	15,365
Administration	331	518	545	522	—	—	876	1,040
Investment fees	28	29	161	162	—	—	189	191
Amortization	4	4	36	34	—	—	40	38
	363	551	742	718	—	—	1,105	1,269
Excess of revenue over expenses for the year	4,037	3,470	6,982	10,590	228	36	11,247	14,096
Fund balances, beginning of year	462	1,496	57,496	49,997	13,025	12,989	70,983	64,482
	4,499	4,966	64,478	60,587	13,253	13,025	82,230	78,578
Disbursements for capital	(7)	—	(30,735)	—	—	—	(30,742)	—
Disbursements for research and education	(100)	(100)	(4,213)	(2,875)	—	—	(4,313)	(2,975)
Disbursements for patient care areas	(40)	(304)	(1,165)	(4,316)	—	—	(1,205)	(4,620)
Interfund transfers, net <i>[note 12]</i>	(3,400)	(4,100)	3,398	4,100	2	—	—	—
Fund balances, end of year	952	462	31,763	57,496	13,255	13,025	45,970	70,983

See accompanying notes

London Health Sciences Foundation

STATEMENT OF CASH FLOWS

Year ended March 31
[in thousands]

	2011	2010
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	11,247	14,096
Add (deduct) non-cash items included in operations		
Amortization	40	38
Unrealized gain on investments	(785)	(1,758)
	<u>10,502</u>	<u>12,376</u>
Changes in non-cash working capital balances related to operations		
Increase in accounts receivable	(105)	(12)
Increase in other assets and long-term annuity	(117)	(34)
Increase (decrease) in accounts payable and accrued charges	207	(193)
Increase in deferred revenue	21	169
Cash provided by operating activities	<u>10,508</u>	<u>12,306</u>
INVESTING ACTIVITIES		
Investment withdrawals	16,000	—
Investment funds reinvested	(728)	(966)
Purchase of capital assets	(31)	(16)
Increase (decrease) in obligations under capital lease	2	(2)
Cash (used in) provided by investing activities	<u>15,243</u>	<u>(984)</u>
FINANCING ACTIVITIES		
Disbursements for capital	(30,742)	—
Disbursements for research and education	(4,313)	(2,975)
Disbursements for patient care areas	(1,205)	(4,620)
Cash used in financing activities	<u>(36,260)</u>	<u>(7,595)</u>
Net increase (decrease) in cash during the year	<u>(10,509)</u>	<u>3,727</u>
Cash, beginning of year	18,677	14,950
Cash, end of year	<u>8,168</u>	<u>18,677</u>

See accompanying notes

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

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.

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.

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

[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] Intangible 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 when there is insufficient evidence that future economic benefit exists.

[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.

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

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- [c] Accounts receivable, long-term annuity and cash surrender value of life insurance policies are classified as loans and receivables. After their initial fair 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 value 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 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.

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

[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.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

In November 2010, the Accounting Standards Board of the CICA issued Part III of the CICA Handbook that sets out the accounting standards for not-for-profit organizations that are effective for fiscal years beginning on or after January 1, 2012, with an option to early adopt. Management does not expect the new standards to have a significant impact on the financial statements.

4. LETTERS OF CREDIT

During the year, the Foundation issued two letters of credit totaling \$2,335,000. The first for \$2,300,000 to the Minister of Finance relates to the fiscal 2012 Dream Lottery. This letter of credit expires August 15, 2011 and is indemnified by the three participating foundations on the same percentage basis as their net proceeds entitlement for fiscal 2011 [note 11]. The second letter of credit in the amount of \$35,000 to The Corporation of the City of London relates to a raffle in fiscal 2012. This letter of credit expires July 3, 2011. The Foundation has pledged its cash balance in the general bank account as collateral against these letters of credit.

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NOTES TO FINANCIAL STATEMENTS

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5. INVESTMENTS

Details of investments are as follows:

[in 000s]	<u>2011</u>	<u>2010</u>
	Fair value \$	Fair value \$
Government of Canada bonds	5,063	10,358
Corporate bonds	14,073	11,937
Canadian equities	4,875	4,162
U.S. equities	3,635	3,229
Foreign equities	594	227
Treasury bills	9,584	15,986
Mutual funds	950	1,308
Commercial paper	43	6,097
	<u>38,817</u>	<u>53,304</u>

Bonds bear interest at varying rates between 3.1% and 6.75%. The bonds mature at varying dates between April 13, 2011 and June 21, 2047. The cost of investments at March 31, 2011 is \$38,041,187 [2010 - \$53,535,686]. Eleven of the bonds held at March 31, 2011 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>2011</u>	<u>2010</u>
	\$	\$
Annuity [at amortized cost]	<u>50</u>	<u>65</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, 2011 was \$50,169 [2010 - \$73,209].

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

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7. CAPITAL ASSETS

Details of capital assets are as follows:

[in 000s]	2011			2010		
	Cost \$	Accumulated amortization \$	Net book value \$	Cost \$	Accumulated amortization \$	Net book value \$
Office equipment	184	181	3	182	176	6
Computer equipment	341	294	47	312	267	45
Leasehold improvements	51	45	6	51	40	11
Donor walls	46	45	1	46	42	4
	622	565	57	591	525	66

The above capital assets include assets under capital lease of \$104,766 [2010 - \$75,954] at cost with accumulated amortization of \$57,499 [2010 - \$30,467].

8. OTHER ASSETS

Details of other assets are as follows:

[in 000s]	2011 \$	2010 \$
Intangible assets relating to:		
Future fundraising events	50	26
Future lotteries	341	297
Prepaid expenses	145	119
Cash surrender value of life insurance policies	202	164
	738	606

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 \$4,442,410 [2010 - \$4,062,410].

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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

9. OBLIGATIONS UNDER CAPITAL LEASE

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

	2011	2010
	\$	\$
Total minimum lease payment	51	53
Less amounts representing interest	4	8
Present value of capital lease payments	47	45
Current portion of obligations under capital lease	28	22
	19	23

Payments due under capital lease agreements are as follows:

	\$
2012	30
2013	16
2014 and thereafter	5
	51

Interest expense on capital lease obligations in 2011 was \$3,903 [2010 - \$3,350].

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, 2011, the Foundation has met its objective of having sufficient liquid resources to meet its current obligations.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

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]	2011 \$	2010 \$
Lottery Revenue		
Dream Lottery	2,253	2,245
Millionaire Lottery	3,351	3,809
	<u>5,604</u>	<u>6,054</u>
Special Event Revenue		
Country Classic Auction	849	703
Tastings	239	172
	<u>1,088</u>	<u>875</u>
Expenses	4,577	4,986
Net proceeds	<u>2,115</u>	<u>1,943</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.

Dream Lottery [completed lotteries]

[in 000s]	2011 \$	2010 \$
Revenue		
Ticket sales for 135,000 tickets sold in 2011 [2010 - 135,000]	4,250	4,236
Expenses	2,677	2,855
Net proceeds	<u>1,573</u>	<u>1,381</u>
Allocation of net proceeds:		
London Health Sciences Foundation	834	732
St. Joseph's Health Care Foundation	582	511
Children's Health Foundation	157	138
	<u>1,573</u>	<u>1,381</u>

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NOTES TO FINANCIAL STATEMENTS

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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, 2011, all net proceeds have been paid to the above noted foundations with respect to completed lotteries.

As at March 31, 2011, the net amount owing to the partners related to the fiscal 2012 Dream Lottery is \$108,000 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]	2011	2010
	\$	\$
Internally restricted	1,444	2,443
Externally restricted	30,319	55,053
Total Restricted Fund	31,763	57,496

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

During the year ended March 31, 2011, the Board of Directors approved a transfer from the General Fund to the Restricted Fund of \$3,397,670 [2010 - \$4,100,450]. This transfer is net of an administrative charge to sustain the operations of the Foundation of \$390,097 [2010 - \$389,186] charged on restricted funds [note 2[h]].

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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

13. PLEDGES

The Foundation does not record pledges in its financial statements. Pledges generated in 2011 in the annual giving program, primarily through phone/mail, of \$2,471,544 [2010 - \$2,232,385] and the major gifts program of \$2,657,526 [2010 - \$7,025,135] totaled \$5,129,070 [2010 - \$9,257,520]. The expected collection of accumulated pledges outstanding and the expected year of collection are set out below:

[in 000s]	2011 \$	2010 \$
2011	—	4,308
2012	4,259	2,318
2013	1,627	1,538
2014	1,087	1,515
2015 and thereafter	483	—
	7,456	9,679

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 \$294,281 [2010 - \$262,408].

The most recent actuarial valuation for financial reporting purposes completed by HOOPP as at December 31, 2010, disclosed an actuarial value of net assets available for benefits of \$35.1 billion (2009 - \$32.6 billion) with accrued pension benefits of \$34.9 billion (2009 - \$32.1 billion) resulting in a surplus of \$176 million (2009 - \$536 million).

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

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, 2011, the Foundation had an amount payable to LHSC of \$553,944 [2010 - \$490,828].

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 \$487,703,000 of the required \$587,160,000 capital asset expenditures for redevelopment and \$99,457,000 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, 2011, the Foundation has fulfilled \$61,176,000 [2010 - \$46,430,000] of this commitment to LHSC.

An additional Cost Sharing Agreement with the MOHLTC to fund \$29,099,000 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, 2011, the Foundation has disbursed \$8,171,985 [2010 - \$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.