

Financial Statements

London Health Sciences Foundation

March 31, 2016



Building a better
working world

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, 2016, 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, 2016, 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 8, 2016

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

	2016	2015
	\$	\$
ASSETS		
Cash <i>[notes 3 and 4]</i>	16,188	13,029
Investments <i>[note 5]</i>	48,768	48,411
Investment in lottery joint venture <i>[note 6]</i>	839	839
Accounts receivable	110	171
Capital assets, net <i>[note 7]</i>	93	127
Other assets <i>[note 8]</i>	517	522
	66,515	63,099
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable and accrued charges <i>[note 9]</i>	973	1,243
Deferred revenue	231	183
Total liabilities	1,204	1,426
Commitments <i>[notes 3, 11 and 12]</i>		
Fund balances		
General Fund	1,236	1,754
Restricted Fund <i>[note 13]</i>	48,231	47,994
Endowment Fund	15,844	11,925
Total fund balances	65,311	61,673
	66,515	63,099

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	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$	\$	\$
	<i>[note 13]</i>							
Donations	2,491	3,065	15,853	11,451	1,474	223	19,818	14,739
Equity earnings from lottery joint venture <i>[note 6]</i>	516	385	—	—	—	—	516	385
Special events	1,553	1,750	—	—	—	—	1,553	1,750
Community events	2	—	1,703	1,729	—	11	1,705	1,740
Investment income (loss)								
Realized gain	1,454	1,314	466	439	9	—	1,929	1,753
Unrealized gain (loss)	—	—	(1,105)	2,567	—	—	(1,105)	2,567
Fundraising and event revenue	6,016	6,514	16,917	16,186	1,483	234	24,416	22,934
Fundraising	1,232	1,470	2,951	2,962	—	—	4,183	4,432
Special events	885	975	—	—	—	—	885	975
Community events	—	—	242	239	—	—	242	239
Fundraising and event expenses	2,117	2,445	3,193	3,201	—	—	5,310	5,646
Excess of revenue over expenses before the following	3,899	4,069	13,724	12,985	1,483	234	19,106	17,288
Administration	379	323	908	650	—	—	1,287	973
Investment fees	35	33	201	187	—	—	236	220
Amortization	5	5	29	28	—	—	34	33
	419	361	1,138	865	—	—	1,557	1,226
Excess of revenue over expenses before disbursements for charitable activity	3,480	3,708	12,586	12,120	1,483	234	17,549	16,062
Disbursements for capital	—	8	1,909	1,753	—	—	1,909	1,761
Disbursements for research and education	—	—	10,653	6,229	—	—	10,653	6,229
Disbursements for patient care areas	—	—	1,349	1,697	—	—	1,349	1,697
Disbursements for highest priority needs	—	1,258	—	—	—	—	—	1,258
Disbursements for charitable activity	—	1,266	13,911	9,679	—	—	13,911	10,945
Excess (deficiency) of revenue over expenses before the following	3,480	2,442	(1,325)	2,441	1,483	234	3,638	5,117
Revenue from parking operations <i>[note 11]</i>	—	5,334	—	—	—	—	—	5,334
Less: parking operations expenditures <i>[note 11]</i>	—	(4,065)	—	—	—	—	—	(4,065)
	—	1,269	—	—	—	—	—	1,269
Excess (deficiency) of revenue over expenses for the year	3,480	3,711	(1,325)	2,441	1,483	234	3,638	6,386
Fund balances, beginning of year	1,754	1,835	47,994	41,742	11,925	11,710	61,673	55,287
Interfund transfers, net <i>[note 13]</i>	(3,998)	(3,792)	1,562	3,811	2,436	(19)	—	—
Fund balances, end of year	1,236	1,754	48,231	47,994	15,844	11,925	65,311	61,673

See accompanying notes

London Health Sciences Foundation

STATEMENT OF CASH FLOWS

[in thousands]

Year ended March 31

	2016	2015
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	3,638	6,386
Add (deduct) items not affecting cash		
Amortization	34	33
Unrealized loss (gain) on investments	1,098	(2,535)
	<u>4,770</u>	<u>3,884</u>
Changes in non-cash working capital balances related to operations		
Decrease in accounts receivable	61	206
Decrease (increase) in other assets	5	(45)
Increase in interest receivable on investments <i>[note 5]</i>	(15)	(19)
Decrease in accounts payable and accrued charges	(270)	(2,724)
Increase (decrease) in deferred revenue	48	(43)
Cash provided by operating activities	<u>4,599</u>	<u>1,259</u>
INVESTING ACTIVITIES		
Investment funds reinvested	(1,440)	(5)
Purchase of capital assets	—	(72)
Cash used in investing activities	<u>(1,440)</u>	<u>(77)</u>
Net increase in cash during the year	3,159	1,182
Cash, beginning of year	<u>13,029</u>	11,847
Cash, end of year	<u>16,188</u>	<u>13,029</u>

See accompanying notes

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2016

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 Chartered Professional Accountants of Canada Handbook – *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.

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2016

[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.

[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

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2016

[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.

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 13].

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NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2016

[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 \$2,103 to the Minister of Finance that relates to the fiscal 2017 Spring Dream Lottery. This letter of credit expires on August 26, 2016. The Foundation is indemnified by the other two participating foundations on the same percentage basis as their net proceeds entitlement for fiscal 2017 [note 6]. The lottery joint venture has pledged its cash balance as collateral against this letter of credit.

4. FUNDS HELD IN TRUST

In fiscal 2015, the Foundation held \$5,016 of funds in trust from a donor arrangement. In accordance with this agreement, once written consent is provided by the donor, the funds will no longer be held in trust and will then be considered restricted contributions to the Foundation to be disbursed in accordance with the terms of the agreement.

Written consent was received in December 2015, and all funds held were released to the Foundation in accordance with the agreement during the year. The Foundation recognized the corresponding amount as a restricted contribution on the statement of operations and changes in fund balances.

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2016

5. INVESTMENTS AND FINANCIAL INSTRUMENTS

[a] Investments

Details of the fair values of investments are as follows:

	2016	2015
	\$	\$
Government of Canada bonds	7,307	7,234
Corporate bonds	11,608	11,634
Canadian equities	8,252	8,126
US equities	10,400	10,112
Foreign equities	1,330	1,492
Treasury bills	6,841	6,496
Mutual funds	3,030	3,317
	48,768	48,411

The Foundation recognized \$198 of interest income during the year [2015 – \$258]. The fair value of investments includes interest receivable of \$153 [2015 – \$138].

Bonds bear interest at varying rates between 1.20% and 9.98%. The bonds mature at varying dates between May 25, 2016 and December 31, 2108. The cost of investments as at March 31, 2016 is \$47,090 [2015 – \$45,290]. Bonds with a combined face value of \$826 [2015 – \$906] as at March 31, 2016 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 46% of the Foundation's investment income and 37% of its investment portfolio is denominated in United States funds.

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NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2016

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.

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.

6. 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 and Millionaire 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 as at and for the year ended January 31 are as follows:

	2016	2015
	\$	\$
Foundation's share of total assets	1,203	1,051
Foundation's share of total liabilities	1,203	1,051
Foundation's share of net assets	—	—
	2016	2015
	\$	\$
Foundation's share of current year revenue	2,754	2,792
Foundation's share of current year expenses	2,238	2,407
Foundation's share of excess of revenue over expenses	516	385

The Foundation's share of cash provided by (used in) operating activities of the joint venture was \$210 [2015 – (\$62)].

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2016

7. CAPITAL ASSETS

Details of capital assets are as follows:

	2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office equipment	232	210	22
Computer equipment	424	393	31
Donor walls	107	69	38
Leasehold improvements	54	52	2
	817	724	93

	2015		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office equipment	232	200	32
Computer equipment	424	375	49
Donor walls	107	63	44
Leasehold improvements	54	52	2
	817	690	127

The above capital assets include assets under capital lease of \$178 [2015 – \$178] at cost, with accumulated amortization of \$148 [2015 – \$130].

8. OTHER ASSETS

Details of other assets are as follows:

	2016	2015
	\$	\$
Prepaid expenses	195	215
Cash surrender value of life insurance policies	322	307
	517	522

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2016

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 \$4,690 [2015 – \$4,690].

9. 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, 2016, the Foundation had an amount payable to LHSC of \$648 [2015 – \$903]. Invoices are due upon receipt, and interest may be applied on past due accounts at a rate of 1.5% per month.

10. HEALTHCARE OF ONTARIO PENSION PLAN

Pension benefit costs are expensed as related contributions are made to the Healthcare of Ontario Pension Plan [the "HOOPP"], which is a multi-employer, defined benefit, final average earnings, contributory pension plan. Substantially all of the employees of the Foundation are members of the HOOPP. Employer contributions made to the HOOPP on behalf of employees amounted to \$335 [2015 – \$338].

The most recent actuarial valuation for financial reporting purposes completed by the HOOPP as at December 31, 2015, disclosed net assets available for benefits of \$63,924,000 [2014 – \$60,848,000], with pension obligations of \$49,151,000 [2014 – \$46,923,000], resulting in a surplus of \$14,773,000 [2014 – \$13,925,000]. The cost of pension benefits is determined by the HOOPP at \$1.26 per every dollar of employee contributions. The plan is funded by the HOOPP. As at December 31, 2015, the HOOPP was 122% funded [2014 – 115%].

11. PARKING AGREEMENT

On July 1, 2011, the Foundation entered into an agreement to lease the parking facilities at LHSC sites through lease and sublease agreements with LHSC. The term of the lease was five years, with lease payments of \$595 per month, with an option to renew for a further five years, on mutual agreement.

The Foundation had a management agreement with LHSC in connection with the parking facility whereby LHSC was appointed manager of the facility.

On September 1, 2014, these agreements were terminated and the Foundation is no longer involved with the parking operation at LHSC.

London Health Sciences Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2016

12. COMMITMENTS

On November 1, 2013, the Foundation entered into a rental agreement to lease administrative space. The term of the operating lease is five years with minimum annual lease payments over the term of the lease as follows:

	\$
2017	56
2018	57
2019	34
	<u>147</u>

13. 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 and accumulated investment income whereby the donor has made a specific direction on the use of these funds.

	2016 \$	2015 \$
Internally restricted	1,393	1,389
Externally restricted	46,838	46,605
	<u>48,231</u>	<u>47,994</u>

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

During the year ended March 31, 2016, the Board of Directors approved a transfer from the General Fund to the Restricted Fund of \$3,998 [2015 – \$3,792]. This transfer is net of an administrative charge to sustain the operations of the Foundation of \$840 [2015 – \$728] charged on restricted funds [note 2[h]].

In addition, \$2,436 was transferred from the Restricted Fund into the Endowment Fund to match the donor's intent.

