

Financial Statements of

**ST. JOSEPH'S HEALTH CARE
FOUNDATION OF LONDON**

Year ended March 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of St. Joseph's Health Care Foundation of London

We have audited the accompanying financial statements of St. Joseph's Health Care Foundation of London, which comprise the balance sheet as at March 31, 2017 and the statements of operations and changes in fund balances, and cash flows for the year then ended and notes, comprising 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 our 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, we 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 controls. 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 St. Joseph's Health Care Foundation of London as at March 31, 2017 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 21, 2017

London, Canada

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON
Balance Sheet

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash	\$ 2,046,328	\$ 779,301
Restricted cash (note 9)	-	4,060,327
Accounts receivable	53,970	39,140
Prepaid expenses	55,206	8,945
	<u>2,155,504</u>	<u>4,887,713</u>
Investments (note 3)	73,066,775	67,029,951
Equipment (note 4)	50,363	64,504
Investment in joint venture (note 5)	839,386	839,386
	<u>\$ 76,112,028</u>	<u>\$ 72,821,554</u>

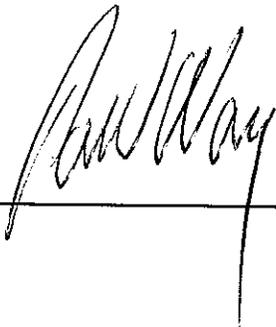
Liabilities and Fund Balances

Current liabilities:		
Accounts payable	\$ 743,231	\$ 590,860
Other liability (note 9)	-	4,060,327
	<u>743,231</u>	<u>4,651,187</u>
Deferred contributions:		
Deferred revenue	284,644	218,428
Fund balances:		
Unrestricted	2,324,354	835,288
Restricted	14,561,049	12,359,094
Endowment	58,198,750	54,757,557
	<u>75,084,153</u>	<u>67,951,939</u>
Contingency (note 8)		
	<u>\$ 76,112,028</u>	<u>\$ 72,821,554</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Statement of Operations and Changes in Fund Balances

Year ended March 31, 2017, with comparative information for 2016

	Unrestricted Fund	Restricted Fund	Endowment Fund	2017 Total	2016 Total
Revenue:					
Donations (note 9)	\$ 882,663	\$ 9,125,125	\$ 336,908	\$ 10,344,696	\$ 6,895,394
Special events (note 5)	988,299	566,044	-	1,554,343	1,434,018
Investment income	1,708,334	-	5,306,219	7,014,553	(673,848)
	3,579,296	9,691,169	5,643,127	18,913,592	7,655,564
Expenses:					
Salaries and benefits	2,427,196	-	-	2,427,196	2,345,725
Direct fund raising and operating costs	1,000,174	161,387	-	1,161,561	1,208,490
Indirect expense allocation (note 7)	(1,337,324)	1,141,188	196,136	-	-
	2,090,046	1,302,575	196,136	3,588,757	3,554,215
Excess of revenue over expenses	1,489,250	8,388,594	5,446,991	15,324,835	4,101,349
Grants disbursed	184	6,186,639	2,005,798	8,192,621	4,163,094
Change in fund balances	1,489,066	2,201,955	3,441,193	7,132,214	(61,745)
Fund balances, beginning of year	835,288	12,359,094	54,757,557	67,951,939	68,013,684
Fund balances, end of year	\$ 2,324,354	\$ 14,561,049	\$ 58,198,750	\$ 75,084,153	\$ 67,951,939

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 15,324,835	\$ 4,101,349
Grants	(8,192,621)	(4,163,094)
Adjustments for:		
Amortization of equipment	14,849	17,586
Changes in non-cash operating working capital:		
Accounts receivable	(14,830)	80,076
Prepaid expenses	(46,261)	67,352
Restricted cash	4,060,327	957,710
Accounts payable	152,371	(44,022)
Other liability	(4,060,327)	(957,710)
Deferred revenue	66,216	(98,657)
	<u>7,304,559</u>	<u>(39,410)</u>
Investing activities:		
Change in investments, net (note 3)	(6,036,824)	(654,497)
Purchase of equipment	(708)	(13,216)
	<u>(6,037,532)</u>	<u>(667,713)</u>
Cash	1,267,027	(707,123)
Cash, beginning of year	779,301	1,486,424
Cash, end of year	<u>\$ 2,046,328</u>	<u>\$ 779,301</u>

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Notes to Financial Statements

Year ended March 31, 2017

St. Joseph's Health Care Foundation of London (the "Foundation") is incorporated under the laws of Ontario as a corporation without share capital. The Foundation was established to support research and education initiatives, to fund new and innovative programs, and for the purchase of specialized equipment at all sites of St. Joseph's Health Care, London.

The Foundation is a registered charity and is classified as a public foundation under section 149.1(l)(g) of the Income Tax Act (Canada) (the "Act"). Under the provision of the Act, the Foundation is exempt from taxes on income. In order to maintain its status as a public Foundation under the Act, the Foundation must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

1. Basis of presentation:

The Foundation follows the restricted fund method of accounting for contributions. The principles of fund accounting are used to ensure observance of limitations and restrictions placed on the use of resources and to appropriately match expenditures with related revenues. Resources are classified into funds that are in accordance with specified activities or objectives and these have been summarized under the following fund groups:

- (i) The Unrestricted Fund accounts for the receipt and expenditure of donations or bequests that are not specifically designated to a program or project. Received gifts to the Foundation, not restricted by the donors, unrestricted investment income and certain Foundation expenses are allocated to the Unrestricted Fund.
- (ii) The Restricted Fund accounts for the receipt and expenditure of donations or bequests that have been restricted by the donor. Revenue of the Restricted Fund is limited to donor restricted contributions. Operating expenses are allocated to the Restricted Fund according to the Foundation's Revenue and Expenses Allocation Policy.
- (iii) The Endowment Fund accounts for the receipt of donations or bequests that have been endowed by the donor or internally endowed by the Board of Directors. Revenue of the Endowment Fund is limited to amounts that have been designated for endowment purposes by the external donor. The balance in the Endowment Fund includes original contributions plus accumulated investment income, net of administrative expenses. The Foundation's Endowment Management Policy ensures that the purchasing power of original contributions is protected against the impact of inflation. Grants are made out of the available portion of the Endowment Fund providing the purchasing power of original contributions is preserved. Investment income is allocated to the Endowment Fund annually, based on the average fund balance during the year.

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Notes to Financial Statements (continued)

Year ended March 31, 2017

2. Significant accounting policies:

(a) Revenue recognition:

Bequests and donations are recorded in the statement of operations of the respective Fund in the year received or receivable if the amount to be recorded can be reasonably estimated and collection is reasonably assured. Pledges for future bequests and donations are not recognized until the pledge commitments are realized.

Revenue received prior to the fiscal year end, for special events that do not occur until after the fiscal year end, are recorded as deferred revenue as at March 31. The revenue is recognized when the event occurs and the Foundation has delivered its commitments to participants and sponsors.

(b) Investments:

Investments are recorded at market value. Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represent the Fund's proportionate share of underlying net assets at fair values, determined using closing market prices. Unrealized gains and losses arising on changes in the market value of the investments are included in the statement of operations as investment income.

(c) Equipment:

Computer and office equipment is stated at cost less accumulated amortization. Amortization is provided on a declining balance basis over the estimated useful life of the assets at rates varying from 20% to 30% per annum.

(d) Contributed services:

Volunteers contribute significant amounts of time each year to the Foundation. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Notes to Financial Statements (continued)

Year ended March 31, 2017

2. Significant accounting policies (continued):

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Investments are carried at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Capital management:

In managing capital, the Foundation focuses on liquid resources available for operations. The capital objective is to have sufficient liquid resources to continue operations in accordance with the Foundation's mission, despite adverse financial events, and to provide resources to take advantage of opportunities. The need for sufficient liquid resources is considered in the preparation of the annual budget, the regular monitoring of cash flows, the comparison of actual results to budget, and adherence with the approved investment policy.

(g) Use of estimates:

The preparation of financial statements in accordance with accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Notes to Financial Statements (continued)

Year ended March 31, 2017

3. Investments:

Investments at market value as at March 31, consist of the following:

	2017	2016
Short-term portfolio	\$ 18,452	\$ 74,672
Bonds	26,407,407	29,619,569
Equities:		
Canadian	12,813,808	7,345,850
International	19,126,110	16,611,493
	31,939,918	23,957,343
Real estate	6,466,378	6,111,119
Diversified hedge funds	7,818,633	6,899,808
Cash annuities	-	1,042
Cash surrender value of life insurance policies	415,987	366,398
	\$ 73,066,775	\$ 67,029,951

4. Equipment:

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Computer	\$ 128,509	\$ 100,859	\$ 27,650	\$ 37,466
Office	78,791	56,078	22,713	27,038
	\$ 207,300	\$ 156,937	\$ 50,363	\$ 64,504

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Notes to Financial Statements (continued)

Year ended March 31, 2017

5. Investment in joint venture:

On January 1, 2013, the Foundation entered into a joint venture agreement with the London Health Sciences Centre Foundation and Children's Hospital Foundation ("Ventures"). The purpose of the joint venture is the operation of community lotteries. Significant terms of the agreement are as follows:

- (i) The Foundation's interest in the joint venture is 33.33% with lottery proceeds being shared equally between the Ventures.
- (ii) Funding for a required lottery letter of credit and seed money for future lottery expenses totaling \$839,386 was contributed to the joint venture by the Foundation in 2013. These funds will be maintained in the joint venture.
- (iii) All lottery proceeds are distributed to the Ventures each year. As a result, the Foundation's investment in the joint venture will remain unchanged year-to-year at \$839,386.
- (iv) The Foundation's share of net proceeds from the joint venture of \$543,533 (2016 - \$515,523) is recorded in special events revenue in the statement of operations and changes in fund balances.

The Foundation accounts for the investment in the joint venture following the equity method of accounting.

Financial results of the lotteries operated in the joint venture are summarized as follows:

	2017
Revenue	\$ 8,311,807
Expenses	6,681,208
Net proceeds	1,630,599
Net proceeds attributable to other Venturers	1,087,066
Net proceeds attributable to the Foundation	\$ 543,533

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Notes to Financial Statements (continued)

Year ended March 31, 2017

6. Financial risks and concentration of credit risk:

Associated risks:

(a) Market price risk:

Market price risk is the risk that value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market. As all of the Foundation's financial instruments are carried at fair value with fair value changes recognized in the statement of operations and changes in fund balances. Market price risk is managed by the Investment managers through construction of a diversified portfolio of instruments traded on various markets and across various industries.

(b) Foreign currency risk:

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Foundation invests in financial instruments and enters into transactions denominated in non-Canadian dollars. Consequently, the Foundation is exposed to risks that the exchange rate of the foreign currency may change in a manner that has an adverse affect on the value of the portion of the Foundation's assets or liabilities denominated in currencies other than Canadian dollars. The Foundation's overall currency positions and exposures are monitored on a regular basis.

(c) Interest rate risk:

A portion of the Foundation's assets financial assets and liabilities are interest bearing and as a result, the Foundation is subject to certain level of interest rate risk. In general, bond returns are sensitive to changes in the level of interest rates, with longer bond prices being more sensitive to interest rate changes than shorter term bonds.

Fixed rate instruments subject the Foundation to a fair value risk while the floating rate instruments subject the Foundation to a cash flow risk.

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Notes to Financial Statements (continued)

Year ended March 31, 2017

6. Financial risks and concentration of credit risk (continued):

(d) Liquidity risk:

Liquidity risk is the risk that the Foundation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Foundation manages its liquidity risk by monitoring its operating requirements. The Foundation prepares budgets and cash flow forecasts to ensure it has sufficient funds to fulfill its obligations. There have been no changes to the risk exposures from 2016.

(e) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Foundation is exposed to credit risk with respect to accounts receivable and investments. The Foundation assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The Foundation also invests in investments in accordance with its investment policy.

7. Allocation of indirect expenses:

Indirect expense allocation, which include costs incurred for salaries and benefits, investment manager fees, and other costs for the Endowment, Restricted and Unrestricted Funds are allocated based on the policy of administering a 3% administration charge for restricted funds and a 1% administration charge for most endowed funds which approximates the costs incurred to administer the programs.

In addition, an expense allocation will be made to Restricted Funds for specific cases within certain campaigns, as funds are received.

8. Contingency:

In the course of undertaking lotteries and raffles, the Foundation is obligated to provide letters of guarantee in favour of the City of London (the "City"). At March 31, 2017, a letter of guarantee was outstanding, totaling \$31,170 (2016 - \$28,749).

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Notes to Financial Statements (continued)

Year ended March 31, 2017

9. Restricted cash:

The City made a \$5 million grant to the Foundation as a restricted donation, in support of the London Medical Innovation and Commercialization Network ("LMICN"). This will result in collaboration between Western University, Lawson Health Research Institute, London Health Sciences and St. Joseph's Health Care London. Agreements were signed between the Foundations and the City and between the Foundations and the Network. A requirement by the City of London was the funds be managed in a separate bank account and interest would accrue to the grant. As such these funds are recorded as restricted cash, are held by the Royal Bank, and are managed outside the terms of the Foundation's Investment Policy. Given that the funds are not earned by the Foundation until such point as expenditures are approved by the Treasurer of the City, the amounts received have been recorded as a liability on the financial statements. During fiscal 2017, \$4,013,287 was disbursed to the LMICN and was recorded as revenue.