Financial Statements of

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Year ended March 31, 2014

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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, 2014 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, 2014 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 18, 2014

London, Canada

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

March 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash	$ 1,905,645	$ 658,153
Accounts receivable	65,770	137,165
Prepaid expenses	86,672	33,576
	2,058,087	828,894
Investments (note 3)	59,390,615	54,232,454
Equipment (note 4)	53,030	38,844
Investment in joint venture (note 5)	839,386	839,386
	$ 62,341,118	$ 55,939,578
Liabilities and Fund Balances		
Current liability:		
Accounts payable	$ 735,191	$ 487,324
Deferred contributions:		
Deferred revenue	613,589	273,303
Fund balances:		
Unrestricted	383,298	699,689
Restricted	9,204,988	6,111,038
Endowment	51,404,052	48,368,224
	60,992,338	55,178,951
	$ 62,341,118	$ 55,939,578

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, 2014, with comparative information for 2013

	Unrestricted Fund	Restricted Fund	Endowment Fund	2014 Total	2013 Total
Revenue:					
Donations	$ 299,228	$ 3,895,252	$ 107,111	$ 4,301,591	$ 4,603,261
Special events	1,063,565	1,165,436	-	2,229,001	1,876,603
Investment income	825,944	-	4,661,072	5,487,016	3,955,389
	2,188,737	5,060,688	4,768,183	12,017,608	10,435,253
Expenses:					
Salaries and benefits	2,249,516	-	-	2,249,516	2,182,517
Direct fund raising and operating costs	908,294	394,232	-	1,302,526	1,050,862
Indirect expense allocation (note 7)	(957,448)	466,011	491,437	-	-
	2,200,362	860,243	491,437	3,552,042	3,233,379
Excess (deficiency) of revenue over expenses	(11,625)	4,200,445	4,276,746	8,465,566	7,201,874
Grants disbursed	304,766	1,106,495	1,240,918	2,652,179	3,122,927
Change in fund balances	(316,391)	3,093,950	3,035,828	5,813,387	4,078,947
Fund balances, beginning of year	699,689	6,111,038	48,368,224	55,178,951	51,100,004
Fund balances, end of year	$ 383,298	$ 9,204,988	$ 51,404,052	$ 60,992,338	$ 55,178,951

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE FOUNDATION OF LONDON

Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 8,465,566	$ 7,201,874
Grants	(2,652,179)	(3,122,927)
Adjustments for:		
Amortization of equipment	10,379	15,192
Loss on disposal of equipment	-	(24,501)
Changes in non-cash operating working capital:		
Accounts receivable	71,395	(86,643)
Prepaid expenses	(53,096)	152,273
Accounts payable	247,867	17,777
Deferred revenue	340,286	(31,645)
	6,430,218	4,170,402
Investing activities:		
Investment in joint venture (note 5)	-	(839,386)
Investments, net (note 3)	(5,158,161)	(3,314,677)
Purchase of equipment	(24,565)	(7,133)
	(5,182,726)	(4,161,196)
Increase in cash	1,247,492	9,206
Cash, beginning of year	658,153	648,947
Cash, end of year	$ 1,905,645	$ 658,153

See accompanying notes to financial statements.

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 on April 1, 2005 as the result of the amalgamation of the former St. Joseph's Health Care Foundation of London and Parkwood Hospital Foundation of London, Ontario. The Foundation uses its resources 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. Receipted 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 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.

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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.

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.

3. Investments:

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

	2014	2013
Short-term portfolio	$ 72,741	$ 17,892
Bonds	22,911,681	26,874,498
Equities:		
Canadian	10,650,080	7,913,161
United States	-	6,789,590
International	8,884,365	4,230,872
	19,534,445	18,933,623
Real estate	10,670,348	4,888,923
Diversified hedge funds	5,509,069	2,653,173
Cash annuities	264,354	445,282
Cash surrender value of life insurance policies	427,977	419,063
	$ 59,390,615	$ 54,232,454

4. Equipment:

	Cost	Accumulated amortization	2014 Net book value	2013 Net book value
Computer	$ 89,880	$ 72,684	$ 17,196	$ 11,242
Office	91,508	55,674	35,834	27,602
	$ 181,388	$ 128,358	$ 53,030	$ 38,844

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 $670,360 (2013 - nil) 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:

	2014
Revenue	$ 8,991,639
Expenses	6,980,559
Net proceeds	2,011,080
Net proceeds attributable to other Venturers	1,340,720
Net proceeds attributable to the Foundation	$ 670,360

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.

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 2013.

(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.