

Financial Statements of

**THE OTTAWA HOSPITAL
FOUNDATION**

Year ended March 31, 2018

THE OTTAWA HOSPITAL FOUNDATION

Financial Statements

Year ended March 31, 2018

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KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Members of The Ottawa Hospital Foundation

We have audited the accompanying financial statements of The Ottawa Hospital Foundation, which comprise the statement of financial position as at March 31, 2018, the statements of operations, 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 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 The Ottawa Hospital Foundation as at March 31, 2018, and its results of operations, changes in fund balances and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small arrowhead pointing to the right.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

May 22, 2018

THE OTTAWA HOSPITAL FOUNDATION

Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash	\$ 13,051,630	\$ 6,714,866
Amounts receivable (note 2)	1,030,058	926,327
Prepaid expenses	224,729	148,276
	<u>14,306,417</u>	<u>7,789,469</u>
Investments (note 3)	88,531,997	86,233,129
Capital assets (note 4)	146,121	175,209
	<u>\$ 102,984,535</u>	<u>\$ 94,197,807</u>

Liabilities and Fund Balances

Current liabilities:		
Accounts payable and accrued liabilities (note 2)	\$ 1,592,745	\$ 1,446,009
Grants payable to The Ottawa Hospital	3,046,805	4,185,872
Grants payable to the Ottawa Hospital Research Institute	7,215,211	5,515,921
	<u>11,854,761</u>	<u>11,147,802</u>
Fund balances:		
Unrestricted	3,348,063	2,447,420
Invested in capital assets	146,121	175,209
Restricted	17,122,023	10,773,818
Endowment	70,513,567	69,653,558
	<u>91,129,774</u>	<u>83,050,005</u>
Contingent liability (note 7)		
	<u>\$ 102,984,535</u>	<u>\$ 94,197,807</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

THE OTTAWA HOSPITAL FOUNDATION

Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	Unrestricted Fund	Restricted Fund	Endowment Fund	2018 Total	2017 Total
Revenue:					
Donations	\$ 6,142,988	\$ 20,989,373	\$ 856,200	\$ 27,988,561	\$ 23,932,957
Lottery (note 5)	780,556	—	—	780,556	768,909
Investment revenue (note 3)	120,420	782,596	3,111,000	4,014,016	7,850,648
	7,043,964	21,771,969	3,967,200	32,783,133	32,552,514
Expenses:					
Direct fundraising	1,426,901	—	—	1,426,901	1,331,654
Other fundraising	3,600,784	—	—	3,600,784	3,027,555
Lottery (note 5)	415,130	—	—	415,130	359,258
Administrative	1,583,989	—	—	1,583,989	1,361,491
	7,026,804	—	—	7,026,804	6,079,958
Excess of revenue over expenses, before grants	17,160	21,771,969	3,967,200	25,756,329	26,472,556
Grants (note 2)	29,952	14,900,017	2,746,591	17,676,560	20,327,739
Excess (deficiency) of revenue over expenses and grants	\$ (12,792)	\$ 6,871,952	\$ 1,220,609	\$ 8,079,769	\$ 6,144,817

See accompanying notes to financial statements.

THE OTTAWA HOSPITAL FOUNDATION

Statement of Changes in Fund Balances

Year ended March 31 2018, with comparative information for 2017

	Unrestricted Fund	Invested in Capital Assets	Restricted Fund	Endowment Fund	2018 Total	2017 Total
Balance, beginning of year	\$ 2,447,420	\$ 175,209	\$ 10,773,818	\$ 69,653,558	\$ 83,050,005	\$ 76,905,188
Excess of revenue over expenses and grants	(12,792)	–	6,871,952	1,220,609	8,079,769	6,144,817
Purchase of capital assets	(18,819)	18,819	–	–	–	–
Amortization of capital assets	47,907	(47,907)	–	–	–	–
Interfund transfers (note 6)	884,347	–	(523,747)	(360,600)	–	–
Balance, end of year	\$ 3,348,063	\$ 146,121	\$ 17,122,023	\$ 70,513,567	\$ 91,129,774	\$ 83,050,005

See accompanying notes to financial statements.

THE OTTAWA HOSPITAL FOUNDATION

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Cash from operating activities:		
Excess of revenue over expenses and grants	\$ 8,079,769	\$ 6,144,817
Amortization of capital assets, which does not involve cash	47,907	62,435
Net change in non-cash working capital:		
Amounts receivable	(103,731)	(77,684)
Prepaid expenses	(76,453)	(113,639)
Accounts payable and accrued liabilities	146,736	(54,199)
Grants payable	560,223	879,374
	<u>8,654,451</u>	<u>6,841,104</u>
Cash from investing activities:		
Net change in investments	(2,298,868)	(9,594,913)
Purchase of capital assets	(18,819)	(6,621)
	<u>(2,317,687)</u>	<u>(9,601,534)</u>
Increase (decrease) in cash	6,336,764	(2,760,430)
Cash, beginning of year	6,714,866	9,475,296
Cash, end of year	<u>\$ 13,051,630</u>	<u>\$ 6,714,866</u>

See accompanying notes to financial statements.

THE OTTAWA HOSPITAL FOUNDATION

Notes to Financial Statements

Year ended March 31, 2018

The Ottawa Hospital Foundation (“the Foundation”) is a public foundation incorporated under the Canada Corporations Act. The mission of the Foundation is to inspire, enable and recognize community support for patient care and enable research at The Ottawa Hospital and The Ottawa Hospital Research Institute.

The Foundation is a registered charity under the Income Tax Act (Business Number 869042747RR0001) and, as such, is exempt from income taxes and may issue charitable donation receipts.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

(a) Fund accounting:

The Foundation uses the restricted fund method of accounting for contributions. To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are classified for reporting purposes into funds, in accordance with activities or objectives specified by the donors or in accordance with directives issued by the Board of Directors. For financial reporting purposes, the fund balances have been classified into three funds consisting of the following:

(i) Restricted fund:

The restricted fund includes those resources to be used for identified purposes as specified externally by donors or internally by the Board of Directors.

(ii) Endowment fund:

The endowment fund includes those resources for which the donor has stipulated that the capital portion of the funds be maintained permanently and funds designated internally to be for endowment purposes. The endowment fund comprises amounts to be maintained permanently as specific by the donors or the Board.

(iii) Unrestricted fund:

The unrestricted fund accounts for the Foundation's general fundraising, granting and administrative activities, including the activities related to the restricted fund and the endowment fund. The unrestricted fund comprises amounts available for immediate use for the general purposes of the Foundation as determined by the Board of Directors.

Note 6 discloses the Foundation's interfund transfers.

THE OTTAWA HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(b) Revenue recognition:

Donations are recorded as revenue when received. Tangible donations-in-kind are recorded at fair value at the time of the donation. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

Unrestricted donations are recorded as revenue of the unrestricted fund. Designated donations represent contributions received for specific purposes and are recorded as revenue of the restricted fund. Endowment donations represent contributions received where only the income earned from the investment of the amounts received can be expensed.

Unrestricted investment income is recognized as investment income in the unrestricted fund. Externally restricted net investment income that must be added to the principal amount of resources held for endowment is recognized as investment income in the endowment fund. Other externally restricted net investment income is recognized as investment income in the statement of operations in the restricted fund.

(c) Expenses:

Expenses are recognized in the year incurred and are recorded in the function in which they are directly related.

The Foundation allocates salaries between functions after initial recognition as disclosed in note 10.

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Management has elected to carry its investments 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 effective interest rate 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 Institute 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 Institute 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.

THE OTTAWA HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(d) Financial instruments (continued):

Investment income includes interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses.

(e) Capital assets:

Furniture and equipment are recorded at cost and are amortized on a straight-line basis over five years. Donor walls are recorded at cost and amortized on a straight-line basis over ten years.

(f) Use of estimates:

The preparation of financial statements 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 revenue and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed annually and, as adjustments become necessary, they are reported in the periods in which they become known.

2. Related party transactions:

The Ottawa Hospital makes certain payments on behalf of the Foundation. Included in accounts payable is an amount of \$660,586 (2017 - \$553,945) payable to The Ottawa Hospital as reimbursement of these payments.

The Ottawa Hospital collects ticket sales for the Staff Lottery. Included in amounts receivable is an amount of \$769,782 (2017 - \$751,303) relating to these activities.

During this fiscal year, grants of \$17,676,560 (2017 - \$20,327,739) were approved for distribution as follows:

	2018	2017
University of Ottawa Heart Institute	\$ 21,937	\$ 7,095
Children's Hospital of Eastern Ontario	44,212	—
University of Ottawa, Faculty of Medicine	60,595	11,313
The Ottawa Hospital - capital acquisitions and patient care	5,402,783	8,616,998
Ottawa Hospital Research Institute - capital acquisitions and health research	12,145,033	11,692,333
Other - non related entities	2,000	—
	<u>\$ 17,676,560</u>	<u>\$ 20,327,739</u>

THE OTTAWA HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

3. Investments:

Investments are comprised the following:

	2018	2017
Cash, treasury bills and term deposits	\$ 118,435	\$ 794,971
Fixed income securities	35,195,673	35,817,047
Equity investments	43,254,459	41,504,266
Alternative investments	9,963,430	8,116,845
Investments	\$ 88,531,997	\$ 86,233,129

Fixed income investments are comprised of Government of Canada and corporate bonds with maturity dates from 2019 to 2029 (2017 - 2018 to 2029), earning interest from 2.1% to 6.2% (2017 - 2.1% to 7.6%).

Investment revenue (loss) is summarized as follows:

	2018	2017
Interest, dividends and other	\$ 3,286,623	\$ 2,465,195
Net realized gains	5,528,381	527,311
Net change in unrealized gains and losses	(4,800,988)	4,858,142
Investment revenue	\$ 4,014,016	\$ 7,850,648

As at March 31, 2018, the market value of investments includes accumulated unrealized gains of \$901,639 (2017 - \$5,702,627).

4. Capital assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and equipment	\$ 751,512	\$ 743,884	\$ 7,628	\$ 12,597
Donor walls	581,080	442,587	138,493	162,612
	\$ 1,332,592	\$ 1,186,471	\$ 146,121	\$ 175,209

Cost and accumulated amortization as at March 31, 2017 amounted to \$1,313,773 and \$1,138,564, respectively.

THE OTTAWA HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

5. Lottery proceeds:

The Foundation reports proceeds from The Ottawa Hospital Staff Lottery. In 2018, the net proceeds from The Ottawa Hospital Staff Lottery were \$365,426 (2017 - \$409,651). The Staff lottery amounts are presented on a gross basis in the Statement of Operations.

6. Interfund transfers:

During the year, the following interfund transfers took place:

- (a) The net proceeds of the Foundation's signature community events were transferred from the unrestricted fund to the restricted fund.
- (b) An administration fee of 1.5% of endowed capital administration was transferred from the endowment fund to the unrestricted fund
- (c) Administration fees on designated gift fees were transferred from the restricted fund to the unrestricted fund.

7. Contingent liability:

The Foundation is contingently liable under a letter of credit for a total of \$390,000 (two letters of credit for a total of \$795,500 in 2017), where \$390,000 expires on May 14, 2018 relating to its lottery license, which has been issued in the normal course of operations and was unused as at March 31, 2018.

8. Pension plans:

Substantially all of the employees of the Foundation are members of the Hospitals of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Plan members will receive benefits based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement, termination or death, the three of which provide the highest earnings.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing plan assets in trust and through the Plan investment policy.

THE OTTAWA HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

8. Pension plans (continued):

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The most recent actuarial funding valuation of the Plan as at December 31, 2014 indicates the plan is fully funded on a going concern basis. Contributions to the plan made during the year by the Foundation on behalf of its employees amounted to \$301,150 (2017 - \$233,539) and are included in the statement of operations.

9. Financial instruments:

Risks arising from financial instruments:

The Foundation is exposed to interest rate, credit, foreign currency and other market risks from its investment portfolio.

Interest rate risk refers to the adverse consequences of interest rate changes. The Foundation has investments in bonds with fixed rates, which are subject to this risk. The value of fixed rate instruments will generally rise if interest rates fall and fall if interest rates rise.

Credit risk is the risk of financial loss if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Foundation's investments in fixed income securities.

Foreign currency risk refers to the extent to which instruments denominated in a currency other than Canadian dollars will be affected by changes in the value of the Canadian dollar in relation to other currencies. From time to time the Foundation has investments in various U.S. securities and cash, which are subject to foreign currency risk. As such its exposure to currency risk is limited to those investments denominated in U.S. currencies of \$nil (2017 - \$5,337,881). The Foundation does not hedge its foreign currency risk.

Market volatility risk is generally inherent in the Foundation's investment portfolio and refers to the extent that the fair value or future cash flows from financial instruments will fluctuate because of changes in various other market factors affecting equity prices, including general economic conditions.

THE OTTAWA HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

9. Financial instruments (continued):

The Foundation mitigates the above noted risks through the use of investment policies and managers, whose objective is to manage and control market risk exposures within acceptable parameters while optimizing the return.

10. Expense allocation:

Salary and benefit expenses are allocated from fundraising to administration. The expenses are allocated based on specifically identified employees who are not directly involved in fundraising. The amount allocated for the year ended March 31, 2018 is \$553,812 (2017 - \$499,543).