

Financial Statements of

**ST. MARY'S GENERAL
HOSPITAL FOUNDATION**

Year ended March 31, 2016



KPMG LLP
Box 976
21 King Street West Suite 700
Hamilton ON L8N 3R1

Telephone (905) 523-8200
Telefax (905) 523-2222
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of St. Mary's General Hospital Foundation

We have audited the accompanying financial statements of St. Mary's General Hospital Foundation (the "Entity"), which comprise the statement of financial position as at March 31, 2016, the statement of operations and changes in net assets 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 consolidated 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 qualified audit opinion.



Basis for Qualified Opinion

In common with many not-for-profit organizations, St. Mary's General Hospital Foundation derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of St. Mary's General Hospital Foundation.

Therefore, we were not able to determine whether, as at March 31, 2016, and for the year then ended, any adjustments might be necessary to donation revenues and excess of revenues over expenses reported in the statements of operations and changes in net assets, excess of revenues over expenses reported in the statements of cash flows and current assets and unrestricted net assets reported in the statements of financial position.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of St. Mary's General Hospital Foundation as at March 31, 2016, 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

September 21, 2016
Hamilton, Canada

ST. MARY'S GENERAL HOSPITAL FOUNDATION

Statement of Financial Position

March 31, 2016, with comparative information for 2015

	General Fund	Restricted Fund	Capital Fund	Physicians' Endowment Fund (note 6)	Sweeney Endowment Fund	2016 Total	2015 Total
Assets							
Current assets:							
Cash	\$ 1,464,986	\$ 519,302	\$ -	\$ 20,113	\$ 16,870	\$ 2,021,271	\$ 1,451,055
Interest receivable	11,340	-	-	-	-	11,340	10,759
Investments (note 2)	669,708	4,661,211	-	32,175	69,529	5,432,623	7,529,846
Cash surrender value of life insurance policies (note 3)	36,209	-	-	-	-	36,209	30,131
Due from Oculys	2,116	-	-	-	-	2,116	2,116
Prepaid expenses	56,640	-	-	-	-	56,640	-
	2,240,999	5,180,513	-	52,288	86,399	7,560,199	9,023,907
Capital assets (note 4)	-	-	1,024	-	-	1,024	1,448
	\$ 2,240,999	\$ 5,180,513	\$ 1,024	\$ 52,288	\$ 86,399	\$ 7,561,223	\$ 9,025,355
Liabilities and Net Assets							
Current liabilities:							
Due to St. Mary's General Hospital	\$ 893,237	\$ -	\$ -	\$ 1,999	\$ 18,294	\$ 913,530	\$ 155,414
Accrued liabilities	57,295	-	-	-	-	57,295	3,234
Deferred revenue	118,914	-	-	-	-	118,914	-
	1,069,446	-	-	1,999	18,294	1,089,739	158,648
Oculys loan guarantee (note 5)	612,000	-	-	-	-	612,000	612,000
Net assets (note 1(a)):							
Internally restricted for capital assets (note 9)	-	-	1,024	-	-	1,024	1,448
Externally restricted	-	5,180,513	-	-	-	5,180,513	7,741,664
Endowments	-	-	-	50,289	68,105	118,394	119,880
Unrestricted	559,553	-	-	-	-	559,553	391,715
	559,553	5,180,513	1,024	50,289	68,105	5,859,484	8,254,707
	\$ 2,240,999	\$ 5,180,513	\$ 1,024	\$ 52,288	\$ 86,399	\$ 7,561,223	\$ 9,025,355

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

ST. MARY'S GENERAL HOSPITAL FOUNDATION

Statements of Operations

Year ended March 31, 2016 with comparative information for 2015

	General Fund		Restricted Fund		Capital Fund		Physicians' Endowment Fund		Sweeney Endowment Fund		Total	Total
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue:												
Investment (loss) income	(133,294)	466,199	-	-	-	-	(656)	3,551	(2,430)	5,846	(136,380)	475,596
Fundraising (note 7)	2,503,737	1,314,392	2,458,586	2,862,176	-	-	3,600	3,300	-	-	4,965,923	4,179,868
Total revenues	2,370,443	1,780,591	2,458,586	2,862,176	-	-	2,944	6,851	(2,430)	5,846	4,829,543	4,655,464
Expenses:												
Salaries and benefits	976,346	769,570	-	-	-	-	-	-	-	-	976,346	769,570
Amortization	-	-	-	-	424	423	-	-	-	-	424	423
Other fundraising	277,289	363,759	-	-	-	-	-	-	-	6,321	277,289	370,080
	1,253,635	1,133,329	-	-	424	423	-	-	-	6,321	1,254,059	1,140,073
Excess (deficiency) of revenues over expenses	1,116,808	647,262	2,458,586	2,862,176	(424)	(423)	2,944	6,851	(2,430)	(475)	3,575,484	3,515,391
Donations to St. Mary's General Hospital:												
Funded donation	(999,905)	(1,590,033)	(4,968,716)	(3,336,086)	-	-	(2,000)	(2,000)	-	-	(5,970,621)	(4,928,119)
Donations in kind (note 1(f))	(86)	(132,185)	-	-	-	-	-	-	-	-	(86)	(132,185)
	(999,991)	(1,722,218)	(4,968,716)	(3,336,086)	-	-	(2,000)	(2,000)	-	-	(5,970,707)	(5,060,304)
Excess (deficiency) of revenues over expenses	116,817	(1,074,956)	(2,510,130)	(473,910)	(424)	(423)	944	4,851	(2,430)	(475)	(2,395,223)	(1,544,913)

See accompanying notes to financial statements.

ST. MARY'S GENERAL HOSPITAL FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2016 with comparative information for 2015

	General Fund		Restricted Fund		Capital Fund		Physicians' Endowment Fund		Sweeney Endowment Fund		Total	Total
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Net assets, beginning of year	\$ 391,715	\$ 1,466,671	\$ 7,741,664	\$ 8,215,574	\$ 1,448	\$ 1,871	\$ 49,345	\$ 44,494	\$ 70,535	\$ 71,010	\$ 8,254,707	\$ 9,799,620
Excess (deficiency) of revenue over expenses	116,817	(1,074,956)	(2,510,130)	(473,910)	(424)	(423)	944	4,851	(2,430)	(475)	(2,395,223)	(1,544,913)
Transfer of funds	51,021	-	(51,021)	-	-	-	-	-	-	-	-	-
Net assets, end of year	559,553	391,715	5,180,513	7,741,664	1,024	1,448	50,289	49,345	68,105	70,535	5,859,484	8,254,707

See accompanying notes to financial statements.

ST. MARY'S GENERAL HOSPITAL FOUNDATION

Statement of Cash Flows

Year ended March 31, 2016 with comparative information for 2015

	2016	2015
Cash provided by (applied to):		
Operations:		
Excess of revenue over fundraising expenses	\$ 3,575,484	\$ 3,515,391
Donations to St. Mary's General Hospital	(5,970,707)	(5,060,304)
Items not involving cash:		
Amortization	424	423
Write-down of note receivable		-
Change in unrealized gain on investments	375,223	(274,563)
Changes in non-cash operating working capital:		
Interest receivable	(581)	11,211
Cash surrender value of life insurance policies	(6,078)	(2,096)
Prepaid expenses	(56,640)	-
Due to St. Mary's General Hospital	758,116	(248,448)
Accrued liabilities	54,061	(43,072)
Deferred revenue	118,914	-
	(1,151,784)	(2,101,458)
Investing:		
Change in investments, net	1,722,000	(2,625,812)
Increase (decrease) in cash	570,216	(4,727,270)
Cash, beginning of year	1,451,055	6,178,325
Cash, end of year	\$ 2,021,271	\$ 1,451,055

See accompanying notes to financial statements.

ST. MARY'S GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements

Year ended March 31, 2016

St. Mary's General Hospital Foundation (the "Foundation") is a public charitable foundation registered under the Income Tax Act (Canada). The main activities of the Foundation are to solicit and receive donations for the advancement of St. Mary's General Hospital, Kitchener, Ontario (the "Hospital"). All of the assets of the Foundation are for the benefit of St. Mary's General Hospital.

1. Significant accounting policies:

(a) Fund accounting:

The Foundation follows the restricted fund method of accounting for contributions.

The General Fund accounts for the Foundation's program delivery and administrative activities. This fund reports unrestricted resources and donations.

The Restricted Fund reports donations with restrictions on use specified by the donors.

The Capital Fund reports the assets, liabilities, revenue and expenses related to the Foundation's capital assets.

The Physicians' Endowment Fund reports resources contributed for the endowment, which are invested in perpetuity.

The Sweeney Endowment Fund reports resources contributed for the endowment, which are invested in perpetuity.

(b) Revenue recognition:

Restricted contributions related to general operations are recognized as revenue of the General Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Endowment contributions are recognized as revenue in the related endowment fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income earned in the endowment funds are resources that must be spent for prescribed purposes and are recognized as restricted revenue of the endowment funds.

ST. MARY'S GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements, page 2

Year ended March 31, 2016

1. Significant accounting policies (continued):

(c) Capital assets:

Purchased capital assets are recorded at cost. Repair and maintenance costs are charged to expense. Betterments which extend the estimated useful life of an asset are capitalized. When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis at annual rates varying from 10% to 33%.

(d) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

(e) Pledges:

Pledges to donate funds to the Foundation are not recorded in the accounts until such time as funds are received. As of March 31, 2016, outstanding pledges to the Foundation amounted to approximately \$490,636 (2015 - \$573,755).

(f) Donations in kind:

Donated items which would otherwise be paid for by the Foundation are recorded at fair market value when provided. Fair market value is determined by third party valuations and invoices.

(g) Life insurance policies:

Life insurance policies are treated as assets of the General Fund to the extent of the cash surrender value.

ST. MARY'S GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements, page 3

Year ended March 31, 2016

1. Significant accounting policies (continued):

(h) 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. The Foundation has not elected to carry any such financial instruments 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.

(i) Significant influence organizations:

The Foundation accounts for significant influence organizations using the equity method.

(j) 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 dates of the financial statements and the reported amounts of revenue and expenses during the years. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances for receivables and accrued liabilities. Actual results could differ from those estimates.

ST. MARY'S GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements, page 4

Year ended March 31, 2016

2. Investments:

March 31, 2016	Book value	Market value
Common stocks	\$ 3,463,477	\$ 3,585,700
Fixed income	1,464,617	1,460,297
Cash and cash equivalents	386,626	386,626
	<u>\$ 5,314,720</u>	<u>\$ 5,432,623</u>

March 31, 2015	Book value	Market value
Common stocks	\$ 3,500,648	\$ 3,974,495
Fixed income	1,492,104	1,510,798
Cash and cash equivalents	2,043,968	2,044,553
	<u>\$ 7,036,720</u>	<u>\$ 7,529,846</u>

3. Life insurance policies:

The Foundation has been given life insurance policies under which it is the owner and beneficiary, and annual donations are received to cover the premiums. At March 31, 2016, the cash surrender value of the policies was \$36,209 (2015 - \$30,131) while the face value of the policies was \$838,207 (2015 - \$951,139). As the realizable amount under the policies is uncertain, the Foundation will record the gain as revenue when the proceeds are received.

4. Capital assets:

	2016	2015
Equipment, at cost	\$ 4,238	\$ 4,238
Accumulated amortization	3,214	2,790
Net book value	<u>\$ 1,024</u>	<u>\$ 1,448</u>

ST. MARY'S GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements, page 5

Year ended March 31, 2016

5. Oculys loan guarantee:

- a) The Foundation has also guaranteed a line of credit to an outside lender for Oculys to a maximum of \$700,000. At March 31, 2016, \$475,000 has been drawn on the line of credit (2015 - \$406,000). The Foundation has recorded a provision of \$612,000 to account for the loan guarantee provided to Oculys given recurring losses incurred at Oculys. Although the amount drawn at March 31, 2016 is below the provision balance, no adjustment was made to the provision given that the Foundation continues to guarantee the loan at a higher amount and the drawn balances continues to fluctuate year over year.
- b) The Foundation has provided a loan in the amount of \$300,000 to Oculys. The balance is interest bearing at a rate of prime plus 1% with no fixed terms of repayment and was fully provided for in a prior year.

6. The Physicians' endowment fund:

By an agreement made between the Foundation and The Kitchener and Waterloo Community Foundation (the "Community Foundation") dated August 11, 1998, the Foundation transferred the assets of the Physicians' Endowment Fund held at that date to the Community Foundation to be held and invested by it as the "St. Mary's General Hospital Physicians' Endowment Fund". The assets are owned by the Community Foundation and, as such, are not shown as assets on the financial statements of the Foundation.

In addition to funds held by the Foundation, funds are held in the Community Foundation. As set out below, the market value of the balance in the Physicians' Endowment Fund of the Community Foundation portion at March 31, 2016 amounted to \$32,175 (2015 - \$33,415):

	2016	2015
Market value, beginning of year	\$ 96,973	\$ 89,742
Increase in Endowment fund:		
Investment gain	504	11,908
Decreases in Endowment fund:		
Administration fees	(1,570)	(1,377)
Distribution of income component to the Foundation	(3,600)	(3,300)
	(4,666)	7,231
Market value, end of year	\$ 92,307	\$ 96,973

ST. MARY'S GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements, page 6

Year ended March 31, 2016

7. Fundraising revenue:

Fundraising revenue includes the following amounts received from related parties:

	2016	2015
St. Mary's General Hospital Volunteer Association	\$ 10	\$ 85,000

8. Related party transactions:

St. Mary's General Hospital has an economic interest in the St. Mary's General Hospital Foundation. During the year, the Foundation granted \$ 5,970,621 (2015 - \$4,928,119) to St. Mary's General Hospital, to fund capital projects and operations. During the year, the Foundation purchased services in the amount of \$25,872 (2015 - \$24,812) from St. Mary's General Hospital.

9. Internally restricted for capital assets:

The Board of Directors has internally restricted \$1,024 (2015 - \$1,448) of unrestricted net assets to fund capital assets.

10. Financial risks:

a) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and liquidity risk.

The Foundation's investment activities are applied in accordance with investment guidelines and monitored by management, the investment manager, and the Board of Directors.

b) Currency risk:

The Foundation is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Foundation purchases investments in foreign currencies. The Foundation does not currently enter into forward contracts to mitigate this risk.

c) Interest rate risk:

The Foundation is exposed to interest rate risk on its fixed interest rate financial instruments. Fixed-rate instruments subject the Foundation to a fair value risk. The Foundation is exposed to this type of risk as a result of investments in bonds.

ST. MARY'S GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements, page 7

Year ended March 31, 2016

10. Financial risks (continued):

d) Liquidity risk:

Liquidity risk is the risk that the organization will encounter difficulty in meeting obligations associated with financial liabilities.

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 the due from Oculys. The Foundation assesses the due from Oculys balance and provides for any amounts that are not collectible.