

Financial Statements of

CHILDREN'S HEALTH FOUNDATION

Year ended March 31, 2017



KPMG LLP
140 Fullarton Street Suite 1400
London ON N6A 5P2
Canada
Tel 519 672-4800
Fax 519 672-5684

INDEPENDENT AUDITORS' REPORT

To Directors of Children's Health Foundation

We have audited the accompanying financial statements of Children's Health Foundation, which comprise the statement of financial position as at March 31, 2017, 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 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 Children's Health Foundation 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 20, 2017

London, Canada

CHILDREN'S HEALTH FOUNDATION

Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash	\$ 186,022	\$ 732,422
Short-term investments (note 3)	1,933,527	4,391,178
Bequests receivable	17,662	29,874
HST rebate receivable	53,096	63,441
Prepaid expenses	86,385	94,543
	<u>2,276,692</u>	<u>5,311,458</u>
Other assets (note 2)	180,848	194,234
Investments (note 3)	20,113,062	18,069,327
Endowment Investment (note 3)	262,760	262,760
Capital assets (note 4)	56,591	20,085
Investment in joint venture (note 5)	839,386	839,386
	<u>\$ 23,729,339</u>	<u>\$ 24,697,250</u>

Liabilities and Fund Balances

Current liability:		
Accounts payable and accrued liabilities (note 9)	\$ 2,676,587	\$ 2,618,375
Fund balances:		
General	24,057	3,008,247
Externally Restricted	652,873	738,541
Internally Restricted	20,113,062	18,069,327
Endowment	262,760	262,760
	<u>21,052,752</u>	<u>22,078,875</u>
Commitments (notes 6 and 8)		
	<u>\$ 23,729,339</u>	<u>\$ 24,697,250</u>

The accompanying notes are an integral part of these financial statements

Approved by the Board of Directors

_____ Director _____ Director

CHILDREN'S HEALTH FOUNDATION

Statement of Operations and Changes in Fund Balances

For the year ended March 31, 2017, with comparative information for March 31, 2016

	General Fund	Externally Restricted Fund	Internally Restricted Fund	Endowment Fund	2017	2016
Revenue:						
Fundraising	\$ 6,812,920	\$ 253,525	\$ -	\$ -	\$ 7,066,445	\$ 6,969,449
Legacy gifts	622,632	-	-	-	622,632	2,214,503
Investment income	26,822	-	2,043,735	3,408	2,073,965	(452,388)
	7,462,374	253,525	2,043,735	3,408	9,763,042	8,731,564
Expenditures:						
Direct fundraising	1,868,092	-	-	-	1,868,092	1,798,053
Revenue net of direct expenditures	5,594,282	253,525	2,043,735	3,408	7,894,950	6,933,511
Indirect expenditures:						
Community education and development	712,379	-	-	-	712,379	771,187
Administrative	687,716	-	-	-	687,716	458,828
Amortization	13,780	-	-	-	13,780	5,130
	1,413,875	-	-	-	1,413,875	1,235,145
Total expenditures	3,281,967	-	-	-	3,281,967	3,033,198
Funds available for grants	4,180,407	253,525	2,043,735	3,408	6,481,075	5,698,366
Distribution for annual grants and building fund campaign:						
Children's Hospital at London Health Sciences Centre	2,312,211	339,193	-	3,408	2,654,812	2,473,485
Children's Hospital Patient care equipment and upgrades	1,876,394	-	-	-	1,876,394	1,744,557
Children's Health Research Institute	1,958,951	-	-	-	1,958,951	2,124,242
Thames Valley Children's Centre	1,017,041	-	-	-	1,017,041	704,740
Total grants	7,164,597	339,193	-	3,408	7,507,198	7,047,024
Net change in fund balance	(2,984,190)	(85,668)	2,043,735	-	(1,026,123)	(1,348,658)
Fund balance, beginning of year	3,008,247	738,541	18,069,327	262,760	22,078,875	23,427,533
Fund balance, end of year	\$ 24,057	\$ 652,873	\$ 20,113,062	\$ 262,760	\$ 21,052,752	\$ 22,078,875

The accompanying notes are an integral part of these financial statements

CHILDREN'S HEALTH FOUNDATION

Statement of Cash Flows

For the year ended March 31, 2017, with comparative information for March 31, 2016

	2017	2016
Cash provided by (used in)		
Operating activities:		
Net change in fund balance	\$ (1,026,123)	\$ (1,348,658)
Items not involving cash:		
Unrealized loss (gain) on investments	(309,079)	2,195,528
Amortization	13,780	5,130
Changes in non cash operating working capital		
Short-term investments	2,457,651	(379,334)
Prepaid expenses	8,158	2,299
Bequests receivable	12,212	10,242
HST rebate receivable	10,345	17,551
Accounts payable and accrued liabilities	58,212	946,911
	1,225,156	1,449,669
Investing activities:		
Net purchase of investments	(1,734,656)	(1,413,996)
Proceeds from sale of other assets	13,386	17,308
Purchase of capital assets	(50,286)	(966)
	(1,771,556)	(1,397,654)
Increase (decrease) in cash	(546,400)	52,015
Cash, beginning of year	732,422	680,407
Cash, end of year	\$ 186,022	\$ 732,422

Accompanying notes are an integral part of these financial statements.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements

Year Ended March 31, 2017

Nature of operations:

Children's Health Foundation (the "Foundation") is a registered charity. It was incorporated as a non-profit organization without share capital under the Ontario Corporations Act and is exempt from income taxes under Section 149(1)(f) of the Income Tax Act. The Foundation's mission is to "mobilize our community to support excellence in healthcare, rehabilitation and research for our children and their families."

1. Significant accounting policies:

(a) Basis of presentation:

The Foundation prepares its financial statements in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Handbook - Accounting. The significant policies are detailed as follows:

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 Funds:

The Externally Restricted Fund reports revenues which have a specific purpose as specified by the donor. This is comprised of externally restricted Children's Hospital Building Fund revenues and other externally restricted funds held in short term investments. It also reports the grants expended for these specific purposes.

The Internally Restricted Fund reports revenues which have a specific purpose as specified by the Board of Directors, and the disbursements expended for these specific purposes. It also includes internal resources transferred by the Board of Directors to the fund, with the intention of maintaining the real value of the principal while also meeting annual spending requirements. Amounts transferred to and from the Internally Restricted Fund may only be accessed by specific resolution of the Board of Directors.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements

Year Ended March 31, 2017

1. Significant accounting policies (continued):

(a) Basis of presentation (continued):

(iii) Endowment Fund:

The Endowment Fund reports resources that are required by an external donor to be maintained by the Foundation on a permanent basis.

(b) Revenue recognition:

The restricted fund method is used to account for contributions. The Externally Restricted Fund, Internally Restricted Fund and Endowment Fund contributions are recognized as revenue in the year in which they are received. Unrestricted contributions are recognized as revenue in the General Fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Revenue from interest, dividend income and reinvested distributions is recorded when received. Realized gains and losses are recorded as earned. Unrealized gains and losses on financial assets reflect differences in market value at the evaluation date and are included in investment income.

(c) Financial instruments:

(i) Measurement of financial instruments:

The Foundation initially measures its financial assets and financial liabilities at fair value.

The Foundation subsequently measures all of its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net income.

(ii) Impairment:

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down and any subsequent reversal are recognized in the statement of operations.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements

Year Ended March 31, 2017

1. Significant accounting policies (continued):

(c) Financial instruments (continued)

(iii) Transaction costs:

The Foundation recognizes its transaction costs in the Statement of Operations in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

(d) Cash and cash equivalents:

Cash as disclosed on the Statement of Financial Position consists of cash on hand, cash with banks and Canadian dollar deposits.

(e) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the following estimated useful lives:

Leasehold improvements	Term of the lease
Office equipment	5 years
Computer equipment	4 years
Furniture and fixtures	10 years

(f) Volunteer contributions:

Volunteers contribute numerous hours per year to assist the Foundation in carrying out its mission. Due to the difficulty of determining fair value, volunteer contributions are not recognized in the financial statements.

(g) Donations in kind:

During the year, the Foundation received gifts in kind of goods and services. Although these donations are an integral part of the Foundation's fundraising activities, their value is difficult to determine. As such the amounts related thereto are not reflected in the financial statements.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements

Year Ended March 31, 2017

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Areas of management estimates include amortization of capital assets.

(i) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the balance sheet date. Revenues and expenses are translated at the exchange rates prevailing on the transaction dates. Exchange gains and losses are included in earnings.

2. Other assets:

	2017	2016
Annuity	\$ 128,771	\$ 144,771
Cash surrender value of life insurance policies	52,077	49,463
	\$ 180,848	\$ 194,234

Annuity:

The annuity consists of a \$400,000 donation made to the Foundation in 2000. The annuity receipts of \$16,282, which comprise both a paydown of the annuity and investment income, are semi-annual for 25 years ending February 2025. Each payment reflects a pay down of the annuity by \$8,000 and income of \$8,282. There are no restrictions on how these funds can be spent.

Cash surrender value of life insurance policies:

The Foundation owns various life insurance policies that contain a cash surrender option. Donors pay the premiums for these policies and the cash surrender value is available to the Foundation at any time.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements

Year Ended March 31, 2017

3. Investments:

	2017		2016	
	Fair value	Cost	Fair value	Cost
Short-Term Investments				
Money Market/GIC	\$ 1,933,527	\$ 1,933,527	\$ 4,391,178	\$ 4,391,178
Long-Term Investments				
Canadian Equity	\$ 2,809,247	\$ 2,034,356	\$ 2,714,292	\$ 2,369,055
United States Equity	3,240,658	3,064,514	2,816,117	2,784,454
International Equity	2,998,757	2,845,347	2,808,871	2,805,966
Canadian Fixed Income	6,409,526	6,473,159	6,146,161	6,017,089
Alternative Funds	3,652,341	3,967,369	3,583,886	3,676,058
GIC	1,002,533	1,002,533	-	-
	\$ 20,113,062	\$ 19,387,278	\$ 18,069,327	\$ 17,652,622

Money market investments earned a return of 0.75% for the year 2017 (2016 - 0.75% to 1.00%). The Foundation had nil short term GIC investments in 2017 (2016 - \$300,273).

The Endowment Investment is held in a money market fund outside of the short term investments. Money market Investments earned a return of 0.75% for the year 2017 (2016 - 0.75% to 1.00%).

The investment policy for the pooled funds provides for an asset mix based on market value of 45.0% (+/- 15.0%) fixed income, 40.0% (+10.0%/-5.0%) equity securities, and 15.0% (+10.0%/-15.0%) alternative funds and is rebalanced as directed by the Foundation's Investment Committee. Alternative funds are defined as investment vehicles or funds that have generally lower correlation to publicly traded equity and bond markets and are utilized to reduce volatility and risk.

4. Capital assets:

	2017		2016	
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	\$ 838	\$ 838	\$ -	\$ 506
Computer equipment	60,303	23,339	36,964	4,701
Furniture and fixtures	77,486	57,859	19,627	14,878
	\$ 138,627	\$ 82,036	\$ 56,591	\$ 20,085

Net capital assets 2017 of \$56,591 (2016 - \$20,085) are included in the General Fund balance.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements

Year Ended March 31, 2017

5. Investment in joint venture:

In January, 2013, a memorandum of agreement was signed by the Foundation along with London Health Sciences Foundation and St. Joseph's Health Care Foundation, whereby the three lottery participants agreed to operate future community lotteries as a joint venture. Net proceeds from these lotteries will be shared equally by the agreement participants. Funding for a required lottery letter of credit and seed money for future lottery expenses totaling \$839,386 is recorded as an investment in joint venture. Commitments in respect of this Lottery are more fully explained in note 6. This asset will be accounted for using the equity method whereby the Foundation's share of net lottery proceeds will be recorded as fundraising revenue.

6. Commitments:

Lease commitments:

The Foundation has an operating lease extending to March 14, 2022 for its office facilities. In addition, the Foundation has operating lease commitments for equipment.

The total minimum lease payments due over the term of the leases are as follows:

2018	\$	100,575
2019		100,575
2020		99,799
2021		90,009
2022		84,366
	\$	475,324

Community Lottery commitment:

Under the Dream Lottery Agreement, the Foundation will receive 33.33% of the net proceeds of each Dream Lottery, and is liable for 33.33% of any loss should it occur (see note 5).

7. Pension plan:

The Foundation has a defined contribution employee pension plan that became effective on September 21, 2001. The total plan expense for the current period for the Foundation's defined contribution is \$110,575 (2016 - \$68,094).

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements

Year Ended March 31, 2017

8. Grant obligations:

The Board of Directors has approved the following grant obligations for fiscal 2017-2018. These obligations have not been reflected in the financial statements.

Children's Hospital at LHSC programs	\$ 2,706,460
Children's Hospital Patient Care Equipment at LHSC	1,290,777
Children's Health Research Institute Program	2,054,839
Thames Valley Children's Centre	992,924
	<hr/>
	\$ 7,045,000

9. Government remittances payable:

At March 31, 2017, the Foundation has outstanding government remittances payable including amounts for payroll taxes and health taxes of \$3,917 (2016 - \$5,970). This amount is included in the accounts payable and accrued liabilities. None of these remittances are in arrears.

10. Financial instruments risk management:

The Foundation's financial instruments include cash, short-term investments, investments, investment in joint venture, amounts receivable, cash surrender value of life insurance policies, annuity and accounts payable and accrued liabilities. Due to their nature or capacity for prompt liquidation, the fair values of these financial instruments approximate their carrying value.

The Foundation's financial instruments do not expose the Foundation to significant liquidity risk.

(a) Credit and market risk:

The Foundation has an investment policy which restricts the types and amounts of eligible investments. The policy permits investments in fixed income investments and equity securities included in select market indices. Equity and fixed income securities are held within pooled funds. Risk and volatility of investment returns are mitigated through diversification of investments in different countries, business sectors and corporation sizes. The Foundation does not have any significant exposure to credit risk.

The Foundation is liable, as explained in note 6, for 33.33% of any loss that occurs under the Dream Lottery Agreement. Based on the historical performance of this campaign, the Foundation feels that there is not a significant risk. However, the Foundation does have sufficient liquid assets to cover any shortfall if it occurs.

(b) Currency risk:

The Foundation's investments are denominated in Canadian dollars. Certain investments such as United States and other international equities include investments in foreign jurisdictions and are therefore subject to foreign currency fluctuations. The Foundation mitigates the currency risk exposure of its foreign securities through diversification of its pooled funds which are comprised of multiple currencies.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements

Year Ended March 31, 2017

10. Financial instruments risk management (continued):

(c) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Foundation's cash flows, financial position and income. Interest rate changes directly impact the value of fixed income securities. The Foundation manages the interest rate price risk exposure of its fixed income investments by holding investments with varying terms to maturity.

The Foundation's exposure to the above risks has not changed during the year.