

Financial Statements of

CHILDREN'S HEALTH FOUNDATION

And Independent Auditors' Report thereon

Year ended March 31, 2020



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Children's Health Foundation

Opinion

We have audited the financial statements of Children's Health Foundation (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations and changes in fund balances for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

May 26, 2020

CHILDREN'S HEALTH FOUNDATION

Statement of Financial Position

March 31, 2020, with comparative information for 2019

	March 31, 2020	March 31, 2019
Assets		
Current assets:		
Cash	\$ 445,180	\$ 249,243
Short-term investments (note 3)	1,483,661	1,893,439
Bequests receivable	89,752	53,778
HST rebate receivable	71,959	74,175
Prepaid expenses	1,124	83,987
	<u>2,091,676</u>	<u>2,354,622</u>
Other assets (note 2)	137,503	156,587
Investments (note 3)	17,825,995	19,312,172
Endowment investment (note 3)	262,760	262,760
Capital assets (note 4)	1,713,047	79,568
Investment in joint venture (note 5)	839,386	839,386
	<u>\$ 22,870,367</u>	<u>\$ 23,005,095</u>

Liabilities and Fund Balances

Current liabilities:		
Accounts payable and accrued liabilities (note 10)	\$ 2,519,797	\$ 2,480,470
Mortgage on 345 Westminster Ave (note 7)	90,172	-
Deferred revenue	-	137,050
	<u>2,609,969</u>	<u>2,617,520</u>
Long Term Liability		
Mortgage on 345 Westminster Ave (note 7)	754,816	-
Fund balances:		
General	77,153	514,359
Externally restricted	839,674	798,284
Internally restricted	18,325,995	18,812,172
Endowment	262,760	262,760
	<u>19,505,582</u>	<u>20,387,575</u>
Commitments (note 6)		
Subsequent events (note 12)		
	<u>\$ 22,870,367</u>	<u>\$ 23,005,095</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, 2020, with comparative information for March 31, 2019

	General Fund	Externally Restricted Fund	Internally Restricted Fund	Endowment Fund	March 31, 2020	March 31, 2019
Revenue:						
Fundraising	\$ 9,108,613	\$ 286,807	\$ -	\$ -	\$ 9,395,420	\$ 8,494,543
Legacy gifts	967,576	-	-	-	967,576	1,420,357
Rental income	29,533	-	-	-	29,533	-
Donation of building (note 4)	600,000	-	-	-	600,000	-
Investment income	13,023	-	(1,286,177)	3,408	(1,269,746)	605,235
	10,718,745	286,807	(1,286,177)	3,408	9,722,783	10,520,135
Expenditures:						
Direct fundraising	2,243,739	-	-	-	2,243,739	1,863,548
Revenue net of direct expenditures	8,475,006	286,807	(1,286,177)	3,408	7,479,044	8,656,587
Indirect expenditures:						
Community education and development	688,828	-	-	-	688,828	745,722
Administrative	517,564	-	-	-	517,564	429,059
Amortization	64,483	-	-	-	64,483	27,172
	1,270,875	-	-	-	1,270,875	1,201,953
Funds available for grants	7,204,131	286,807	(1,286,177)	3,408	6,208,169	7,454,634
Distribution for annual grants:						
Children's Hospital at London Health Sciences Centre	3,005,897	245,417	-	3,408	3,254,722	3,350,959
Children's Hospital Patient care equipment and upgrades	1,299,261	-	-	-	1,299,261	1,195,001
Children's Health Research Institute	1,552,179	-	-	-	1,552,179	1,919,549
Thames Valley Children's Centre	984,000	-	-	-	984,000	964,531
Total grants	6,841,337	245,417	-	3,408	7,090,162	7,430,040
Net change in fund balance	362,794	41,390	(1,286,177)	-	(881,993)	24,594
Fund balance, beginning of year	514,359	798,284	18,812,172	262,760	20,387,575	20,362,981
Interfund transfer	(800,000)	-	800,000	-	-	-
Fund balance, end of year	\$ 77,153	\$ 839,674	\$ 18,325,995	\$ 262,760	\$ 19,505,582	\$ 20,387,575

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, 2020, with comparative information for March 31, 2019

	March 31, 2020	March 31, 2019
Cash provided by (used in)		
Operating activities:		
Net change in fund balance	\$ (881,993)	\$ 24,594
Items not involving cash:		
Unrealized loss on investments	1,990,209	104,785
Amortization	64,483	27,172
Donation of building (note 4)	(600,000)	-
Changes in non cash operating working capital		
Short-term investments	409,778	(817,570)
Bequests receivable	(35,974)	(15,267)
HST rebate receivable	2,216	4,178
Prepaid expenses	82,863	(3,466)
Accounts payable and accrued liabilities	39,327	(111,635)
Deferred revenue	(137,050)	137,050
	<u>933,859</u>	<u>(650,159)</u>
Investing activities:		
Net sale of investments	(504,032)	400,467
Proceeds from sale of other assets	19,084	14,223
Purchase of capital assets	(1,097,962)	(3,002)
	<u>(1,582,910)</u>	<u>411,688</u>
Financing activities:		
Mortgage on premises	844,988	-
	<u>844,988</u>	<u>-</u>
Increase (decrease) in cash	195,937	(238,471)
Cash, beginning of year	249,243	487,714
Cash, end of year	<u>\$ 445,180</u>	<u>\$ 249,243</u>

The accompanying notes are an integral part of these financial statements

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2020

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 "Inspiring caring people to donate to support excellence in children's health care and research at Children's Hospital, Thames Valley Children's Centre and Children's Health Research Institute."

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. 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 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.

(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.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(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.

(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.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(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
Building	25 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.

(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.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(j) Change in accounting policies:

In March 2018, the Accounting Standards Board issued "*Basis for Conclusions - Accounting Standards Improvements for Not-for-Profit Organizations*" resulting in the introduction of a new handbook section in Part III of the Handbook as follows:

Section 4433, Tangible capital assets held by not-for-profit organizations, which directs organizations to apply the accounting guidance of *Section 3061, Property Plant and Equipment* in Part II of the Handbook. In doing so, the new section requires that organizations annually assess for partial impairment of tangible capital assets, to be recorded where applicable, as a non-reversible impairment expense. In addition, where practical, to componentize capital assets when estimates can be made of the useful lives of the separate components.

This section is applied on a prospective basis with the exception of the transitional provision to recognize an adjustment to opening net assets for partial impairments of tangible assets that existed at April 1, 2019.

The amendment is effective for financial statements for fiscal years beginning on or after January 1, 2019.

The implementation of these changes had no impact on the financial statements.

2. Other assets:

	March 31, 2020	March 31, 2019
Annuity	\$ 80,771	\$ 96,771
Cash surrender value of life insurance policies	56,732	59,816
	<u>\$ 137,503</u>	<u>\$ 156,587</u>

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 (continued)

Year ended March 31, 2020

3. Investments:

	March 31, 2020		March 31, 2019	
	Fair value	Cost	Fair value	Cost
Short-Term Investments				
Money Market/GIC	\$ 1,483,661	\$ 1,483,661	\$ 1,893,439	\$ 1,893,439
Long-Term Investments				
Canadian Equity	\$ 2,327,184	\$ 2,123,822	\$ 2,974,675	\$ 2,152,059
United States Equity	2,179,163	2,873,302	2,848,624	2,895,035
International Equity	2,053,909	2,852,533	2,734,067	2,794,587
Canadian Fixed Income	6,669,594	6,758,787	6,497,609	6,591,680
Alternative Funds	3,295,418	3,489,875	3,437,951	3,642,407
Money Market	1,300,727	1,300,726	819,246	819,246
	\$ 17,825,995	\$ 19,399,045	\$ 19,312,172	\$ 18,895,014

The Endowment investment is held in a money market fund outside of the short term investments. Money market investments earned 1.05% to 1.60% (2019 - 0.75% to 1.60%).

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.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2020

4. Capital assets:

			March 31, 2020	March 31, 2019
	Cost	Accumulated amortization	Net book value	Net book value
Leasehold improvements	\$ 60,423	\$ 34,056	\$ 26,367	\$ 39,550
Office equipment	6,576	2,272	4,304	1,871
Computer equipment	83,170	33,062	50,108	20,713
Furniture and fixtures	83,882	70,796	13,086	17,434
Land	640,000	-	640,000	-
Building	1,009,482	30,300	979,182	-
	<u>\$ 1,883,533</u>	<u>\$ 170,486</u>	<u>\$ 1,713,047</u>	<u>\$ 79,568</u>

Net capital assets as at March 31, 2020 of \$1,713,047 (2019 - \$79,568) are included in the General Fund balance.

During the year, the Foundation purchased land and building with a fair market value of \$1,600,000 for \$1,000,000, plus closing costs. The donation of the \$600,000 has been included as revenue in the Statement of Operations.

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.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2020

6. Commitments:

Lease commitments:

The Foundation has operating lease commitments for equipment.

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

2021	\$	9,395
2022		9,108
2023		9,108
2024		9,108
2025		2,277
2026		-
	\$	38,996

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. Mortgage:

	March 31, 2020	March 31, 2019
The Foundation has a mortgage on its premises. The initial loan was 900,000 payable over 9 years with montly payments of \$9,512 bearing interest at 3% per annum. There is an open option after January 2022 to pay the mortgage in full at any time.	\$ 844,988	\$ -
Curent Portion	90,172	-
Long - term	\$ 754,816	\$ -

Principal repayments on the mortgage in each of the next five years are as follows:

2021	\$	90,172
2022		92,897
2023		95,705
2024		98,598
2025		101,578
Thereafter		366,038
	\$	844,988

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2020

8. 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 \$92,152 (2019 - \$91,928).

9. Grant obligations:

The Board of Directors have approved the following grant obligations for fiscal 2020-2021. These obligations have not been reflected in the financial statements.

Children's Hospital at LHSC programs	\$ 3,082,924
Children's Hospital Patient Care Equipment at LHSC	1,143,609
Children's Health Research Institute Program	1,615,804
Thames Valley Children's Centre	1,157,000
	<hr/>
	\$ 6,999,337

10. Government remittances payable:

At March 31, 2020, the Foundation has outstanding government remittances payable including amounts for payroll taxes and health taxes of \$6,367 (2019 - \$8,763). This amount is included in the accounts payable and accrued liabilities. None of these remittances are in arrears.

11. 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

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.

CHILDREN'S HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2020

11. Financial instruments risk management (continued):

(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.

(c) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Foundation's cash

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

12. Subsequent events

(a) The Foundation is moving its pension plan to HOOPP, Hospitals of Ontario Pension Plan, a defined benefit plan, beginning April 1, 2020. The previous defined contribution plan will cease. The costs to the foundation will increase as a result. The move to a HOOPP pension plan will bring the Foundation in line with other hospital charities.

(b) During the year, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

At the time of approval of these financial statements, the entity has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic.

(i) Experienced temporary declines in the fair value of investments and investment income.

(ii) Mandatory working from home requirements for those able to do so.

Financial statements are required to be adjusted for events occurring between the date of the financial statements and the date of the auditors report which provide additional evidence relating to conditions that existed as at year end. Management has assessed the financial impacts and has concluded that no further adjustments to the financial statements are required as a result.