

Health Sciences North Foundation

Financial Statements

Year ended March 31, 2017

INDEPENDENT AUDITOR'S REPORT

To: The Board of Directors of the
Health Sciences North Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of the **Health Sciences North Foundation**, which comprise the statement of financial position as at **March 31, 2017**, and the statements of operations, changes in fund balances and cash flows for the for the year then ended, and 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraph, 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 the auditor's 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, the auditor considers internal control relevant to the Foundation'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 Foundation'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 charitable organizations, the Foundation derives revenue from donations and fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Foundation and we were not able to determine whether any adjustments might be necessary to donation and fundraising revenues, excess of revenues over expenses, assets and fund balances. Our independent auditor's report on the Foundation's financial statements for the year ended March 31, 2016 was qualified for the same issue.

INDEPENDENT AUDITOR'S REPORT, continued*Qualified Opinion*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in black ink that reads "Freelandt Caldwell Reilly LLP". The signature is written in a cursive, flowing style.**FREELANDT CALDWELL REILLY LLP**

Chartered Professional Accountants
Licensed Public Accountants

Sudbury, Ontario
June 28, 2017

Health Sciences North Foundation
Statement of Financial Position
March 31, 2017 with comparative figures for 2016

	Unrestricted	Internally Restricted	Externally Restricted	Endowment Fund (note 5)	2017	2016
Assets						
Current						
Cash and cash equivalents	\$ 4,341,166	\$ -	\$ 759,896	\$ 21,974	\$ 5,123,036	\$2,083,054
Accounts receivable	44,957	-	8,260	-	53,217	46,288
Prepaid expenses	17,332	-	600	-	17,932	17,484
Short-term investments (note 3 (a))	-	-	62,693	-	62,693	-
	4,403,455	-	831,449	21,974	5,256,878	2,146,826
Cash surrender value of life insurance	25,800	-	184,111	-	209,911	234,319
Interfund balances	(2,059,176)	362,172	1,696,704	300	-	-
Long-term investments (note 3 (b))	4,326,576	-	400,632	44,590	4,771,798	6,265,428
Capital assets (note 4)	-	5,667	-	-	5,667	5,789
	\$ 6,696,655	\$ 367,839	\$ 3,112,896	\$ 66,864	\$ 10,244,254	\$8,652,362
Liabilities and Fund Balances						
Current liabilities						
Accounts payable and accrued liabilities	\$ 21,479	\$ -	\$ 7,906	\$ -	\$ 29,385	\$ 16,933
Deferred revenue	-	-	7,000	-	7,000	26,044
Due to Health Sciences North Research Institute (note 6)	-	-	-	-	-	50,000
Due to Health Sciences North	66,863	-	373,711	-	440,574	192,764
	88,342	-	388,617	-	476,959	285,741
Fund Balances						
Unrestricted fund	6,608,313	-	-	-	6,608,313	5,599,950
Internally restricted fund (note 8 (a))	-	367,839	-	-	367,839	367,961
Externally restricted fund (note 8 (b))	-	-	2,724,279	-	2,724,279	2,342,048
Endowment fund	-	-	-	66,864	66,864	56,662
	6,608,313	367,839	2,724,279	66,864	9,767,295	8,366,621
	\$ 6,696,655	\$ 367,839	\$ 3,112,896	\$ 66,864	\$ 10,244,254	\$ 8,652,362

Approved on behalf of the Board: Director _____ Director _____

Health Sciences North Foundation
Statement of Operations
Year ended March 31, 2017 with comparative figures for 2016

	Unrestricted	Internally Restricted	Externally Restricted	Endowment Fund (note 5)	2017	2016
Revenues						
General contributions - other	\$ 251,911	\$ -	\$ 948,137	\$ 50	\$ 1,200,098	\$ 1,065,786
General contributions - City of Greater Sudbury	699,134	-	-	-	699,134	699,134
Interest and dividends	283,940	-	23,263	1,958	309,161	391,471
Fund-raising programs - Nevada	159,570	-	-	-	159,570	165,037
Realized gains on disposal of investments	159,305	-	145	13	159,463	30,942
Fund-raising programs - other	31,707	-	94,450	-	126,157	148,873
In memoriams	5,545	-	67,089	200	72,834	33,086
Other revenue	26,095	-	-	-	26,095	234,401
Unrealized gains (losses) on investments	570,404	-	65,870	7,981	644,255	(818,345)
	2,187,611	-	1,198,954	10,202	3,396,767	1,950,385
Expenses						
Salaries and benefits	346,670	-	-	-	346,670	341,698
Materials and services	134,247	-	7,355	-	141,602	69,071
Fund-raising programs - Nevada	86,842	-	-	-	86,842	91,382
Purchased services	84,595	-	-	-	84,595	27,902
Fund-raising programs - other	27,245	-	56,417	-	83,662	49,196
In memoriams	-	-	-	-	-	1,600
Amortization	-	1,673	-	-	1,673	906
	679,599	1,673	63,772	-	745,044	581,755
Excess (deficiency) of revenues over expenses before gifts						
	1,508,012	(1,673)	1,135,182	10,202	2,651,723	1,368,630
Gifts to Health Sciences North	(699,134)	-	(551,915)	-	(1,251,049)	(1,445,216)
Other gifts	-	-	-	-	-	(100,000)
Excess (deficiency) of revenues over expenses						
	\$ 808,878	\$ (1,673)	\$ 583,267	\$ 10,202	\$ 1,400,674	\$ (176,586)

See accompanying notes to the financial statements

Health Sciences North Foundation
Statement of Changes in Fund Balances
Year ended March 31, 2017 with comparative figures for 2016

	Unrestricted	Internally Restricted (note 8(a))	Externally Restricted	Endowment Fund (Note 5)		
					2017	2016
Fund balance, beginning of year	\$ 5,599,950	\$ 367,961	\$ 2,342,048	\$ 56,662	\$ 8,366,621	\$ 8,543,207
Interfund transfers (note 7)						
- Transfers to (from) restricted funds	193,946	-	(193,946)	-	-	-
- Investment in capital assets	(1,551)	1,551	-	-	-	-
- Administration fee	7,090	-	(7,090)	-	-	-
Excess (deficiency) of revenues over expenses	808,878	(1,673)	583,267	10,202	1,400,674	(176,586)
Fund balance, end of year	\$ 6,608,313	\$ 367,839	\$ 2,724,279	\$ 66,864	\$ 9,767,295	\$ 8,366,621

Health Sciences North Foundation**Statement of Cash Flows****Year ended March 31, 2017 with comparative figures for 2016**

	Total 2017	Total 2016
Cash flows from operating activities		
Cash provided by (used for)		
Excess (deficiency) of revenues over expenses	\$ 1,400,674	\$ (176,586)
Items not involving cash		
Amortization	1,673	906
Realized gain on disposal of investments	(159,463)	(30,942)
Accrued interest	26,842	(10,008)
Donations in-kind	(14,600)	(314,909)
Change in cash surrender value of life insurance	24,408	(209,999)
Unrealized (gains) losses on investments	(644,255)	818,345
	<hr/> 635,279	<hr/> 76,807
Net change in operational working capital		
Accounts receivable	(6,929)	43,797
Prepaid expenses	(448)	4,533
Deferred revenue	(19,044)	26,044
Accounts payable and accrued liabilities	12,452	1,343
Due to HSNRI (formerly AMRIC)	(50,000)	(50,000)
Due to Health Sciences North	247,810	117,305
	<hr/> 819,120	<hr/> 219,829
Cash flows from investing activities		
Sale of long-term investments	3,368,351	696,912
Purchase of long-term investments	(1,145,938)	(966,110)
Purchase of capital assets	(1,551)	(6,104)
	<hr/> 2,220,862	<hr/> (275,302)
Net increase (decrease) in cash and cash equivalents	3,039,982	(55,473)
Cash and cash equivalents, beginning of year	2,083,054	2,138,527
Cash and cash equivalents, end of year	\$ 5,123,036	\$ 2,083,054

Health Sciences North Foundation
Notes to Financial Statements
March 31, 2017

1. Status and Purpose of the Foundation

These financial statements reflect the financial position, operating results, changes in fund balances and cash flows of the Health Sciences North Foundation (the "Foundation"). The Foundation is a registered charity incorporated without share capital under the laws on the province of Ontario and is exempt from income tax under the Income Tax Act (Canada) (the "Act"). The Foundation is responsible for collecting, accumulating and distributing funds and income derived from those funds for the benefit of Health Sciences North and any other charitable organizations that provides health care services in the City of Greater Sudbury and its outlying areas.

2. Summary of significant accounting policies

a) Basis of presentation

The financial statements of the Foundation are prepared in accordance with Canadian accounting standards for not-for-profits organizations (ASNFPO) and include the significant accounting policies summarized below:

b) Fund balances

The Unrestricted Fund reflects the Foundation's program delivery service and administrative activities as well as fundraising, investing and granting activities that are of an unrestricted nature and are available for immediate use.

The Internally Restricted Fund reports the assets, liabilities, revenues and expenses related to the operation and upkeep of the Foundation's capital assets as well as funds relating to the Medical Learners Program.

The Externally Restricted Fund reports the assets, liabilities, revenues and expenses of resources that have been requested to be used for specific purposes by donors.

The Endowment Fund reports resources where internal and external restrictions require that the principal must be permanently maintained.

Health Sciences North Foundation
Notes to Financial Statements
March 31, 2017

2. Summary of significant accounting policies (continued)

c) Financial instruments

The Foundation initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The Foundation subsequently measures 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 the statement of operations in the period they occur.

Financial assets measured at amortized cost include cash and cash equivalents, accounts receivable and cash surrender value of life insurance.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, and amounts due to Health Sciences North and due to the Health Sciences North Research Institute (HSNRI).

Financial assets measured at fair value include short-term and long-term investments. The Foundation has designated its bonds, that would otherwise be classified into the amortized cost category, to be measured at fair value.

d) Revenue recognition

The Foundation follows the restricted fund method of accounting for contributions. Contributions are recognized 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 in the Unrestricted Fund. Donor restricted contributions are recognized as revenue in their respective Restricted Fund, unless the principal is to be maintained, in which case these contributions are recognized as revenue in the Endowment Fund. Revenues received in advance for which no restricted fund exists are recorded as deferred revenue in the Unrestricted Fund until the related expenses are incurred.

Investment income includes dividend and interest income, unrealized and realized gains or losses and investment management fees and investment related expenses. Unrealized gains or losses are recognized in the period in which they occur and are recognized in the statement of operations.

e) Contributed services

Volunteers contribute numerous hours to the Foundation throughout the year to aid in its delivery of services. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

Health Sciences North Foundation
Notes to Financial Statements
March 31, 2017

2. Summary of significant accounting policies (continued)

f) Cash and cash equivalents

Cash and cash equivalents consists of cash and highly liquid investments which are readily converted into cash.

g) Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of the contribution. The Foundation provides for amortization using the straight-line method over their estimated useful lives of 5 years. Additions are amortized at one-half of the annual rate in the year of acquisition. No amortization is recorded in the year of disposal.

h) Government assistance

Government and other grants relating to operations are accounted for as revenue when earned.

i) Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that may affect the amounts of assets and liabilities reported at the date of the financial statements and the amounts of revenues and expenses throughout the year. Actual amounts could differ from those estimates.

3. Investments

a) Short-term investments

Short-term investments consist of the following balances:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Corporate bonds	\$ 63,600	\$ 62,693	\$ -	\$ -

Health Sciences North Foundation
Notes to Financial Statements
March 31, 2017

3. Investments (continued)

b) Long-term investments

Long-term investments consist of the following balances:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Corporate preferred shares	\$ 3,780,490	\$ 3,470,241	\$ 4,853,732	\$ 4,060,019
Corporate bonds	1,186,903	1,192,935	2,376,865	1,874,175
Equity and equity funds	148,504	108,622	331,560	331,234
	\$ 5,115,897	\$ 4,771,798	\$ 7,562,157	\$ 6,265,428

Accumulated unrealized losses on all investments at year-end amounted to \$344,099 (2016 – 1,296,729).

The corporate bonds have yields to maturity of 5.5% to 8.0% (2016 - 4.45% to 8.0%) and mature between June 2017 and December 2020.

4. Capital Assets

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Office and computer equipment	\$ 53,543	\$ 47,876	\$ 5,667	\$ 5,789
Signs	9,941	9,941	-	-
	\$ 63,484	\$ 57,817	\$ 5,667	\$ 5,789

Cost and accumulated amortization for March 31, 2016 were \$61,935 and \$56,146 respectively.

5. Joe Drago Endowment Fund

The Foundation created the Joe Drago Endowment Fund in order to honour its founding chairman and life member, Joe Drago. Mr. Drago's personal commitment to healthcare in Northeastern Ontario spans over 30 years. In his honour, the Joe Drago Endowment Fund will be designated for the purchase of cardiac (heart) equipment for Health Sciences North.

Contributions received by the Foundation from donors are added to the principal of the endowment and preserved. Net investment returns will be used for the intended purpose of the fund.

Health Sciences North Foundation
Notes to Financial Statements
March 31, 2017

6. Commitments

The Board of Directors has made a commitment of \$5 million to the Health Sciences North Capital Campaign over a nine-year period. The Foundation is now in the third year of that commitment. The Foundation contributed \$Nil (2016 - \$600,000) during the year and a total of \$792,690 has been contributed toward the Capital Campaign commitment. The Board has internally restricted a further \$362,172 at year-end for this purpose. The timing and method of satisfying this commitment remains at the discretion of the Board of Directors.

7. Interfund Transfers

During the year, the Board of Directors approved interfund transfers in order to fund short falls in various restricted funds in accordance with the Foundations mandate and objectives:

- \$193,946 was transferred from the unrestricted fund to the externally restricted fund to fund various shortfalls and meet commitments within that fund.
- \$1,551 was transferred from unrestricted to the internally restricted investment in capital asset fund to fund the purchase of assets.
- \$7,090 was charged to the externally restricted fund VOICES for Women: Sudbury Sexual Assault Centre as an administration fee in accordance with the agreement established upon receipt of the funds, as discussed in note 9.

Health Sciences North Foundation
Notes to Financial Statements
March 31, 2017

8. Internally and Externally Restricted Net Assets

a) Internally Restricted Net Assets

	2017	2016
Capital Assets	\$ 5,667	\$ 5,789
Medical Learners Program	362,172	362,172
	<u>\$ 367,839</u>	<u>\$ 367,961</u>

b) Externally Restricted Net Assets

	2017	2016
NEO Kids & Family programming	\$ 1,177,636	\$ 1,278,862
VOICES for Women (note 9)	691,217	611,691
Medicine program	211,109	-
Medical and academic affairs	186,564	-
Mental health and addictions program	156,043	35,093
Medical imaging	123,187	123,087
Community care and rehab program	52,858	3,747
Heart and Soul	51,515	51,515
Nicholas Dellelce Bursary	23,740	23,740
Operation Health – Emerging Priorities program	19,198	-
Surgical program	17,402	-
Rick Griffin Transplant Assistance fund	10,000	-
Pharmacy program	3,000	-
Ethics/Spiritual & Religious Care program	310	-
Human Resources	200	200
Peter Crossgrove Fund	200	200
Laboratory & Pathology program	100	-
Critical care and emergency care program	-	140,175
Palliative care	-	37,247
Emergency and ambulatory care program	-	36,391
Jim Corless Fund	-	100
	<u>\$ 2,724,279</u>	<u>\$ 2,342,048</u>

During the year Health Sciences North restructured their programming and in response the Foundation has restructured their externally restricted funds to align with the programming changes. These changes were carried out through interfund transfers within the externally restricted fund.

Health Sciences North Foundation
Notes to Financial Statements
March 31, 2017

9. VOICES for Women

The Foundation manages a fund which has been restricted for the use of the Family and Child Program: VOICES for Women: Sudbury Sexual Assault Centre. The funds are invested separately from the general portfolio of the Foundation. The Foundation may charge an administration fee of 1% of the account balances on an annual basis. During the year, the Foundation charged the program a fee of \$7,090 (2016 – \$6,226).

10. Healthcare of Ontario Pension Plan

Substantially all of the employees of the Foundation are members of the Healthcare 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 that 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.

Pension expense is based on Plan management’s best estimates, in consultation with its actuaries, of the amount, together with the amounts contributed by employees, 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.

Variations 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 valuation of the plan indicates the Plan is fully funded.

Contributions to the Plan made during the year by the Foundation on behalf of its employees amounted to \$25,065 (2016 – \$28,437) and are included in the statement of operations.

At December 31, 2016, the HOOPP pension plan had total assets of \$164.2 billion (2015 – \$147.6 billion) and an accumulated surplus of \$15.9 billion (2015 - \$14.8 billion).

11. Financial Instruments

Transactions in financial instruments may result in an entity assuming or transferring financial risks to or from another party. The Foundation is exposed to the following financial risks associated with financial instruments and transactions it is a party to:

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. The Foundation is exposed to this risk relating to its cash and cash equivalents, accounts receivable, cash surrender value of life insurance and investments.

The Foundation holds its cash and cash equivalents and long-term investments with large reputable financial institutions with high credit ratings in order to minimize risk.

The Foundation is exposed to credit risk in accounts receivable which is mainly comprised of receivables from governments and government funded organizations. The Foundation minimizes this risk through management's ongoing analysis and monitoring of amounts due to the Foundation, and measures its exposure based on how long amounts have been outstanding.

The Foundation is exposed to credit risk through its investments. The Foundation has developed policies which limit exposure from any one asset, invest through a national institution and regularly monitor investment performance.

There have been no significant changes from the previous year in the exposure to this risk.

b) Liquidity risk

Liquidity risk is the risk that an organization cannot repay its obligations when they become due to its creditors. The Foundation is exposed to this risk relating to its accounts payable and accrued liabilities and amounts due to Health Sciences North and HSNRI. The Foundation reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due and maintains an adequate amount of working capital to repay trade creditors as and when required. There have been no significant changes from the previous year in the exposure to this risk.

11. Financial Instruments (continued)

c) Interest rate risk

Interest rate risk arises from the possibility that changes in market interest rates will affect the market value or future cash flows of financial instruments. The Foundation is exposed to interest rate risk through its interest-bearing investments. The Foundation manages interest rate risks in its bond portfolio by diversifying the maturity and concentration of its investments.

The Foundation also holds a number of preferred share investments with contractual dividend rate reset dates that are dependent upon fluctuations in market interest rates. In the event that market interest rates decline relative to the rate in effect at the date of issuance of the preferred shares, it could have a negative impact on the market value of these investments which could have a material impact on the overall return of the investment portfolio of the Foundation. Market interest rates in the prior year had contributed to an unrealized loss on the preferred share portfolio amounting to \$793,713 in aggregate at year-end. Favourable market conditions and rebalancing of the portfolio have reduced the accumulated loss carried on these preferred shares to be \$310,249 in the current year.

d) Market risk

Market risk is the risk that the fair value of an investment or future cash flows will be impacted by changes in market factors. These factors can be caused by changes in an underlying investment or factors affecting the market as a whole. These factors can include interest rate risk, currency risk, financial risk and other price risks. Significant changes in market interest rates could have an impact on the fair value of the investments of the Foundation (refer to note 11(c)). There have been no significant changes from the previous year in the exposure to this risk.

e) Concentration risk

Concentration risk is a risk that arises as a result of a concentration of exposure within the same category, whether it is determined on a geographical basis, an industry or sector, or a type of investment. The Foundation is exposed to concentration risk through its investments. As at March 31, 2017 the Foundation's investments were concentrated in the following industries:

	2017	2016
	%	%
Banks and financial services	42.7	34.7
Energy	33.5	35.7
Real estate	13.1	9.3
Other	5.5	7.2
Manufacturing	5.2	13.1
	<u>100.0</u>	<u>100.0</u>

Health Sciences North Foundation
Notes to Financial Statements
March 31, 2017

11. Financial Instruments (continued)

e) Concentration risk (continued)

Alternatively, the Foundation is exposed to concentration risk based on the types of assets it is invested in. Each type of asset faces different types and levels of risk. The concentration of portfolio investments is as follows:

	2017	2016
	%	%
Preferred shares	42.7	64.8
Cash and cash equivalents	40.5	-
Fixed income bond securities	15.5	29.9
Equities	1.3	5.3
	<u>100.0</u>	<u>100.0</u>

During the year, the Foundation developed a new risk tolerance policy for investments which determined the objectives and policies the Foundation would follow while investing funds. This policy defines the type and concentration of assets the Foundation can invest in as well as sets benchmarks for performance management.