

Financial statements of

**Southlake Regional Health
Centre Foundation**

March 31, 2014

Southlake Regional Health Centre Foundation

March 31, 2014

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Independent Auditor's Report

To the Members and Benefactors of
Southlake Regional Health Centre Foundation

We have audited the accompanying financial statements of Southlake Regional Health Centre Foundation, which comprise the balance sheet as at March 31, 2014, and the statements of operations and changes in fund balances, and cash flows for the year ended March 31, 2014, 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. 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 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 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 Southlake Regional Health Centre Foundation as at March 31, 2014 and the results of its operations and its cash flows for the year ended March 31, 2014 in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
May 28, 2014

Southlake Regional Health Centre Foundation

Balance sheet

as at March 31, 2014

	2014	2013
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	73,349	889,580
Accounts receivable - parking	322,832	84,826
Accounts receivable	111,542	153,388
Prepaid expenses and other assets	570	-
Investments (Note 3a)	33,838,955	23,997,374
Loan receivable - current (Note 3b)	-	200,000
	34,347,248	25,325,168
Loan receivable (Note 3b)	-	200,000
Capital assets, net (Note 4)	156,682	41,755
	34,503,930	25,566,923
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	114,864	132,152
Deferred revenue	260,695	275,224
Due to Southlake Regional Health Centre (Note 11)	1,005,661	151,679
	1,381,220	559,055
Commitments (Note 12)		
Fund balances		
Unrestricted (Note 5)	995,708	295,556
Restricted (Note 6)	9,477,080	5,250,067
Endowment (Note 7)	22,649,922	19,462,245
	33,122,710	25,007,868
	34,503,930	25,566,923

Approved by the Board


 _____ Director


 _____ Director

The accompanying notes to the financial statements are an integral part of this financial statement.

Southlake Regional Health Centre Foundation

Statement of operations and changes in fund balances
year ended March 31, 2014

	Unrestricted Fund		Restricted Fund		Endowment Fund		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Donations and fundraising (Unrestricted fund only, Note 8)	3,425,215	3,235,636	1,574,323	1,785,834	168,745	41,266	5,168,283	5,062,736
Residential Hospice Campaign	-	-	155,661	-	-	-	155,661	-
Diagnostic Imaging "Images for Life" Campaign	-	-	6,485,998	2,012,642	-	-	6,485,998	2,012,642
Regional Cancer Centre "Count on Me" Campaign	-	-	798,415	1,486,679	-	-	798,415	1,486,679
Investment income (Note 3c)	3,425,215	3,235,636	9,014,397	5,285,155	168,745	41,266	12,608,357	8,562,057
Parking - Net (Note 11)	1,560,177	795,802	600,763	435,577	1,116,545	500,858	3,277,485	1,732,237
	28,593	31,962	201,305	163,353	-	-	229,898	195,315
	5,013,985	4,063,400	9,816,465	5,884,085	1,285,290	542,124	16,115,740	10,489,609
Expenses								
Fundraising and administrative (Notes 14 and 16)	1,853,272	2,187,566	1,327,866	569,249	114,019	178,409	3,295,157	2,935,224
Excess of revenue over expenses before grants	3,160,713	1,875,834	8,488,599	5,314,836	1,171,271	363,715	12,820,583	7,554,385
Grants to Southlake Regional Health Centre (Note 9)	444,155	292,977	4,240,360	6,905,557	-	-	4,684,515	7,198,534
Grants to others (Note 9)	-	-	21,226	31,252	-	-	21,226	31,252
Total grants	444,155	292,977	4,261,586	6,936,809	-	-	4,705,741	7,229,786
Excess of revenue over expenses for the year	2,716,558	1,582,857	4,227,013	(1,621,973)	1,171,271	363,715	8,114,842	324,599
Fund balances, beginning of the year	295,556	471,273	5,250,067	6,870,245	19,462,245	17,341,751	25,007,868	24,683,269
Interfund transfers (Note 10)	(2,016,406)	(1,758,574)	-	1,795	2,016,406	1,756,779	-	-
Fund balances, end of year	995,708	295,556	9,477,080	5,250,067	22,649,922	19,462,245	33,122,710	25,007,868

The accompanying notes to the financial statements are an integral part of this financial statement.

Southlake Regional Health Centre Foundation

Statement of cash flows year ended March 31, 2014

	2014	2013
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	8,114,842	324,599
Items not affecting cash		
Net realized and unrealized gain included in investment income (Note 3c)	(2,645,907)	(1,250,100)
Amortization of capital assets (Note 5)	11,551	18,463
Non-operating item-contributions restricted for endowment	(168,745)	(41,266)
	5,311,741	(948,304)
Change in non-cash operating items		
Increase in accounts receivable - parking	(238,006)	(84,826)
Decrease in accounts receivable	41,846	914
(Increase) decrease in prepaid expenses and other assets	(570)	8,775
(Decrease) increase in accounts payable and accrued liabilities	(17,288)	6,615
(Decrease) increase in deferred revenue	(14,529)	22,960
Increase (decrease) in due to Southlake Regional Health Centre	853,982	(21,254)
	5,937,176	(1,015,120)
Financing activity		
Contributions restricted for endowment	168,745	41,266
Investing activities		
Purchase of capital assets (Note 5)	(126,478)	(24,099)
Net change in investments	(7,195,674)	497,777
Repayment of loan receivable from Southlake Regional Health Centre	400,000	200,000
	(6,922,152)	673,678
Decrease in cash and cash equivalents	(816,231)	(300,176)
Cash and cash equivalents, beginning of year	889,580	1,189,756
Cash and cash equivalents, end of year	73,349	889,580

The accompanying notes to the financial statements are an integral part of this financial statement.

Southlake Regional Health Centre Foundation

Notes to the financial statements

March 31, 2014

1. Purpose and organization

Southlake Regional Health Centre Foundation (the "Foundation") is incorporated under the laws of the Province of Ontario as a corporation without share capital. The Foundation raises, receives, accumulates and distributes funds and/or the income therefrom for charitable purposes and, in particular, for the benefit of Southlake Regional Health Centre (the "Hospital") and Southlake Residential Care Village (the "Village") in respect of the capital expansion program, equipment and other special programs for the improvement of patient care.

The Foundation is a public foundation registered under the Income Tax Act (Canada) (the "Act") and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes. The Foundation must meet certain requirements within this Act. In the opinion of management, these requirements have been met.

2. Significant accounting policies

Management has prepared these financial statements in accordance with Canadian accounting standards for not-for-profit organizations.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with terms to maturity of three months or less from their date of acquisition.

Financial instruments

The Foundation initially recognizes financial instruments at fair value and subsequently measures them at each reporting date as follows:

<u>Asset/Liability</u>	<u>Measurement</u>
Cash and cash equivalents	Fair value
Accounts receivable - parking	Amortized cost
Accounts receivable	Amortized cost
Investments	Fair value
Loan receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Due to Southlake Regional Health Centre	Amortized cost

Financial assets measured at amortized cost are assessed at each reporting date for indications of impairment. If such impairment exists the asset shall be written down and the resulting impairment loss will be recognized in the statement of operations and changes in fund balances for the period.

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives at the following rates:

Furniture and equipment	straight line over 5 years
Computer equipment	straight line over 5 years

The useful lives and amortization rates of capital assets are reviewed periodically and any adjustments are recognized in the statement of operations and changes in fund balances in the period in which the changes are identified.

Southlake Regional Health Centre Foundation

Notes to the financial statements

March 31, 2014

2. Significant accounting policies (continued)

Fund accounting

The financial statements include the following funds:

- The Unrestricted Fund comprises amounts available for immediate use for the general purpose of the Foundation as determined by the Board of Directors.
- The Restricted Fund comprises amounts that are to be used for specific purposes as specified by the donors, the Board of Directors, or as stipulated by the fundraising appeal.
- The Endowment Fund comprises amounts to be maintained permanently as specified by the donors or the Board of Directors.

Revenue recognition

The Foundation follows the Restricted Fund method of accounting for contributions. Restricted contributions are recognized as revenue of the respective fund. Contributions are recorded when they are received. Pledges are not recorded in these financial statements as they are not legally enforceable claims.

The Foundation recognizes revenue for special events in the year in which the event occurs.

The Foundation recognizes Parking revenue in the period in which services are rendered.

Unrestricted contributions are recognized as revenue of the Unrestricted Fund in the year received. Donor-restricted contributions are recognized as revenue of the Restricted Fund unless the capital is to be maintained permanently, in which case the contributions are recognized as revenue of the Endowment Fund.

Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay. Expenses are allocated to the unrestricted fund.

Investment income

Investment income is accrued as it is earned. Investment income includes dividend and interest income, and realized and unrealized gains and losses net of investment management fees. Realized and unrealized gains/losses, subject to external restrictions stipulating that they be added to the principal amount of the endowment, are recognized as revenue of the Endowment Fund. All other investment income earned on the Endowment Fund or Restricted Fund that must be spent on donor-restricted activities is recognized as revenue of the Restricted Fund. Unrestricted investment income earned on the Endowment Fund, Restricted Fund and Unrestricted Fund is recognized as revenue of the Unrestricted Fund. Transaction costs are expensed as incurred.

Contributed goods and services

Donors contribute gifts in kind for use in special fundraising events which are recognized at their fair value when such value can be reasonably estimated. Donated property and equipment are recorded at fair value when fair value can be reasonably estimated. Donated materials and services are recorded at fair value when fair value can be reasonably estimated and when the materials and services are normally purchased by the Foundation and would be paid for if not donated.

Contributed securities

Gifts of publicly traded securities are recognized at estimated fair value based on the closing published price on the date of receipt, when such information is available, or other estimated fair value as applicable.

Volunteer fundraising activities

The work of the Foundation is dependent on the volunteer fundraising activities of many members. Because these services are not normally purchased by the Foundation and because of the difficulty in determining their fair value, donated services are not recognized in these financial statements.

Southlake Regional Health Centre Foundation

Notes to the financial statements

March 31, 2014

3. Investments

The Foundation maintains a significant portion of its investments in pooled funds managed by external investment managers.

a) Investments consist of the following:

	2014	2013
	Fair	Fair
	value	value
	\$	\$
Short-term investments (pooled funds)	8,021,369	3,268,081
Bonds	11,086,692	7,683,384
Canadian equities	6,705,958	5,810,428
U.S. equities	4,050,888	4,021,683
International equities	3,974,048	3,213,798
	33,838,955	23,997,374

b) Loan to Southlake Regional Health Centre

The loan was paid in full at March 31, 2014.

c) Investment income consists of the following:

	2014	2013
	\$	\$
Realized net gain	539,200	198,371
Unrealized net gain	2,106,707	1,051,729
	2,645,907	1,250,100
Dividends	-	62,913
Interest and other	746,165	509,477
	3,392,072	1,822,490
Investment counselling and safekeeping fees	(114,587)	(90,253)
	3,277,485	1,732,237

4. Capital assets

		2014	
	Cost	Accumulated	Net book
	\$	amortization	value
	\$	\$	\$
Furniture and equipment	217,777	149,178	68,599
Computer equipment	177,071	88,988	88,083
	394,848	238,166	156,682

Southlake Regional Health Centre Foundation

Notes to the financial statements

March 31, 2014

4. Capital assets (continued)

			2013
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Furniture and equipment	120,979	80,449	40,530
Computer equipment	149,775	148,550	1,225
	<u>270,754</u>	<u>228,999</u>	<u>41,755</u>

5. Unrestricted Fund

The Unrestricted Fund consists of the following:

			2014
	Excess (deficiency)	Investment in capital assets	Total
	\$	\$	\$
Balance, beginning of year	253,801	41,755	295,556
Excess of revenue over expenses	2,716,558	-	2,716,558
Interfund transfers	(2,016,406)	-	(2,016,406)
Investment in capital assets	(126,478)	126,478	-
Amortization of capital assets	11,551	(11,551)	-
Balance, end of year	<u>839,026</u>	<u>156,682</u>	<u>995,708</u>

			2013
	Excess (deficiency)	Investment in capital assets	Total
	\$	\$	\$
Balance, beginning of year	435,154	36,119	471,273
Excess of revenue over expenses	1,582,857	-	1,582,857
Interfund transfers	(1,758,574)	-	(1,758,574)
Investment in capital assets	(24,099)	24,099	-
Amortization of capital assets	18,463	(18,463)	-
Balance, end of year	<u>253,801</u>	<u>41,755</u>	<u>295,556</u>

6. Restricted Fund

The Restricted Fund consists of the following externally restricted amounts:

	2014	2013
	\$	\$
"Count on Me" Campaign	216,451	110,322
Parking	218,383	49,040
Equipment and Program Fund	9,042,246	5,090,705
	<u>9,477,080</u>	<u>5,250,067</u>

Southlake Regional Health Centre Foundation

Notes to the financial statements

March 31, 2014

7. Endowment Fund

The Endowment Fund consists of the following:

	2014	2013
	\$	\$
Funds externally restricted for endowment purposes		
Income must be used for a restricted purpose	7,333,909	6,368,874
Income is unrestricted	2,499,684	2,395,796
Unrestricted funds restricted for endowment purposes by the Board of Directors		
Income must be used for restricted purpose	2,606,799	2,227,037
Income is unrestricted	10,209,530	8,470,538
	22,649,922	19,462,245

Income earned within the Endowment fund remains restricted in use until transferred for use.

8. Special events revenues and expenses

Special events revenues and expenses are included in the statement of operations at their gross amounts. Revenues for all others are included in donations and fundraising revenue and expenses are included in fundraising expense. Results for the individual events are as follows:

	2014				
	Run for Southlake	Gala	Partners in Health Golf Tournament	Festival of Trees	Total
	\$	\$	\$	\$	\$
Revenues	294,831	1,201,918	289,342	-	1,786,091
Expenses	(81,176)	(378,549)	(153,007)	(75)	(612,807)
	213,655	823,369	136,335	(75)	1,173,284

	2013				
	Run for Southlake	Gala	Partners in Health Golf Tournament	Festival of Trees	Total
	\$	\$	\$	\$	\$
Revenues	240,103	30,985	278,103	223,863	773,054
Expenses	(49,450)	(20,282)	(111,666)	(158,429)	(339,827)
	190,653	10,703	166,437	65,434	433,227

Included in special event revenues and expenses are donor contributed gifts in kind revenue of \$316,226 (2013 - \$216,748) and gifts in kind expense of \$327,729 (2013 - \$216,748). Expenses for Gala reported in 2013 related to an event held in 2014. Expenses for Festival of Trees reported in 2014 related to an event that was cancelled in 2014.

9. Grants to Southlake Regional Health Centre

The Board of Directors has authorized grants to Southlake Regional Health Centre of \$4,684,515 (2013 - \$7,198,554) to be used for the purposes specified at the time of transfer. The Board also authorized grants to others on behalf of Southlake Regional Health Centre in the amount of \$21,226 (2013 - \$31,252).

Southlake Regional Health Centre Foundation

Notes to the financial statements

March 31, 2014

10. Interfund transfers

	2014		
	Unrestricted Fund	Restricted Fund	Endowment Fund
	\$	\$	\$
Transfer of unrestricted bequests from the Unrestricted Fund to the Endowment Fund	(588,901)	-	588,901
Transfer of investment gains on Board endowed funds from the Unrestricted Fund to the Endowment Fund	(1,427,505)	-	1,427,505
Other transfers	-	-	-
	(2,016,406)	-	2,016,406

	2013		
	Unrestricted Fund	Restricted Fund	Endowment Fund
	\$	\$	\$
Transfer of unrestricted bequests from the Unrestricted Fund to the Endowment Fund	(1,148,126)	-	1,148,126
Transfer of investment gains on Board endowed funds from the Unrestricted Fund to the Endowment Fund	(608,653)	-	608,653
Other transfers	(1,795)	1,795	-
	(1,758,574)	1,795	1,756,779

11. Related parties

In November 2012, the Southlake Regional Health Centre (the "Hospital") leased the parking facilities to the Foundation for a fee plus a management fee. The Foundation has also entered into an agreement to manage the parking operations. The Foundation's statements reflect the revenues and expenses from the operation of the parking facility, including payments to the Hospital. Included in the amount due to Southlake Regional Health Centre is \$333,175 related to parking.

As a result of the proposed 2013 Federal Budget the parking business reverted back to Hospital ownership on March 30, 2013.

The proposed 2013 Federal Budget changes did not receive Royal Assent. As a result, effective December 1, 2013, the Hospital and Foundation resurrected the prior agreement with respect to parking, returning ownership of the parking business to the Foundation.

Southlake Regional Health Centre Foundation

Notes to the financial statements

March 31, 2014

11. Related parties (continued)

Net parking revenue includes revenues and expenses as follows:

			2014
	Unrestricted	Restricted	Total
	\$	\$	\$
Revenues	28,593	1,877,626	1,906,219
Expenses	-	(1,676,321)	(1,676,321)
	28,593	201,305	229,898

			2013
	Unrestricted	Restricted	Total
	\$	\$	\$
Revenues	31,962	2,130,794	2,162,756
Expenses	-	(1,967,441)	(1,967,441)
	31,962	163,353	195,315

12. Commitments

Future minimum annual lease payments under operating leases for premises are as follows:

	\$
Fiscal years ending March 31	
2015	119,720
2016	119,720
2017	49,883
	289,323

A 5-year lease at the Southlake Regional Health Centre Medical Arts Building commenced September 1, 2012. The lease is for a term of 5 years, with two additional 5-year option periods. The first renewal date is September 1, 2017.

13. Capital management

Unrestricted Fund

The Unrestricted Fund is comprised of the Foundation's operations and administrative activities. In managing this capital the Foundation's objective is to have sufficient resources to continue operations in accordance with its mission and to provide additional granting from time to time. This need for sufficient resources is considered in the preparation and monitoring of an annual budget, the setting of a cost recovery fee, the monitoring of cash flows and monitoring compliance with the approved investment policy.

Restricted Fund

The Restricted Fund is comprised of amounts that are to be used for specific purposes as specified by the donors, the Board of Directors, or as stipulated in the fundraising appeal. The Restricted Fund capital is managed under contract by professional investment managers in accordance with the Foundation's investment policies with the objectives of preserving capital while providing for the cash flow needs of the Foundation in order to meet its granting requirements.

Southlake Regional Health Centre Foundation

Notes to the financial statements

March 31, 2014

13. Capital management (continued)

Endowment Fund

The Endowment Fund is comprised of amounts to be maintained permanently as specified by the donors or the Board of Directors. The income earned on these amounts is to be used in accordance with the endowment agreements or instructions of the Board of Directors.

The Endowment Fund capital is managed by professional investment managers in accordance with the Foundation's investment policies. The primary objectives of the Foundation's policies are to provide for long term granting to Southlake Regional Health Centre and to Southlake Village. The financial objectives of the investment policies are: capital preservation; absolute real returns net of inflation sufficient to meet the minimum granting requirements imposed by the Canada Revenue Agency; and to maximize the total rate of return within acceptable risk tolerances to enable growth of the endowment fund capital over the long term.

Interest and dividend income from this fund is transferred to the Restricted Fund when earned. Grants are made from the Restricted Fund in accordance with the granting policy of the Foundation, when required by Southlake Regional Health Centre and Southlake Village.

Compliance with restrictions imposed by donors or the Board of Directors and compliance with the Foundation's investment and granting policies are monitored by management and reported to committees of the Board of Directors. Management has determined that the restrictions and policies have been satisfactorily complied with for the fiscal year ended March 31, 2014 on a consistent basis with the preceding year.

14. Pension plan

All employees of the Foundation are members of the Healthcare of Ontario Pension Plan (the "Plan") which is a multi-employer final average pay contributory pension plan. Employer contributions made to the Plan during the year by the Foundation amount to \$125,593 and are included in the statement of operations and changes in fund balances (2013 - \$111,125).

15. Government remittances

No amounts were outstanding with respect to government remittances at March 31, 2014 or 2013.

16. Guarantees and contingent liabilities

In the normal course of business, the Foundation enters into agreements that meet the definition of a guarantee. Indemnity has been provided to all directors and officers of the Foundation for various items including, but not limited to, all costs to settle suits or actions due to involvement with the Foundation, subject to certain restrictions. Directors' and officers' liability insurance is in place via the Foundation's coverage by the Hospital's HIROC policy, to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined but is limited to the period over which the indemnification party served as a director or officer of the Foundation. The maximum amount of any potential future payment cannot be reasonably estimated.

17. Financial risk management

The Foundation is subject to market, currency and interest rate risks with respect to its investments.

Market risk

Market risk arises as a result of trading in equity securities and fixed income securities. Fluctuations in the market expose the Foundation to a risk of loss.

Southlake Regional Health Centre Foundation

Notes to the financial statements

March 31, 2014

17. Financial risk management (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Foundation's investments include non-Canadian equities, the value of which fluctuates in part due to changes in foreign exchange rates. The U.S. and International Equity Funds hold assets and liabilities denominated in currencies other than Canadian dollars and this fund is therefore directly exposed to currency risk as the value of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by the Foundation. The short-term interest bearing investments held by the Foundation have a limited exposure to interest rate risk due to their short-term maturity.

To manage these risks the Foundation has established investments policies which include target mix of investment types and concentration limits designed to achieve the optimum return within reasonable risk tolerances.

Use of estimates

In preparing the financial statements management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities and fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses and changes in fund balances for the year. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the period in which they become known. Actual results could differ from those estimates. Accounts requiring significant estimates and assumptions include investments as to valuation and accrued liabilities.