

**St. Michael's Hospital
Foundation**

Financial Statements
March 31, 2017



May 30, 2017

Independent Auditor's Report

To the Board of Directors of St. Michael's Hospital Foundation

We have audited the accompanying financial statements of St. Michael's Hospital Foundation, which comprise the balance sheet as at March 31, 2017 and the statement of revenues and expenses and changes in fund balances and cash flows for the year then ended, and the related notes, which comprise 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 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 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 St. Michael's Hospital 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

St. Michael's Hospital Foundation

Balance Sheet

As at March 31, 2017

	General Fund		Restricted Fund		Endowment Fund		Total	
	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$
Assets								
Current assets								
Cash and cash equivalents	426,361	1,195,189	2,111,633	153,863	1,138,512	914,221	3,676,506	2,263,273
Other receivables and prepaid expenses (note 4(b))	540,349	391,973	137,017	101,000	998,437	998,437	1,675,803	1,491,410
	966,710	1,587,162	2,248,650	254,863	2,136,949	1,912,658	5,352,309	3,754,683
Investments (note 3)	16,766,723	6,718,993	85,278,643	80,579,313	71,166,587	59,696,884	173,211,953	146,995,190
	17,733,433	8,306,155	87,527,293	80,834,176	73,303,536	61,609,542	178,564,262	150,749,873
Liabilities								
Accounts payable and accrued liabilities (note 4(b))	827,682	799,609	-	15,338	-	-	827,682	814,947
Deferred revenue	239,014	340,946	739,745	68,000	-	-	978,759	408,946
Interfund balances	(1,183,611)	(6,226,599)	338,725	9,226,909	844,886	(3,000,310)	-	-
	(116,915)	(5,086,044)	1,078,470	9,310,247	844,886	(3,000,310)	1,806,441	1,223,893
Fund Balances								
General Fund	17,850,348	13,392,199	-	-	-	-	17,850,348	13,392,199
Restricted Fund (note 4(c))	-	-	86,448,823	71,523,929	-	-	86,448,823	71,523,929
Endowment Fund	-	-	-	-	72,458,650	64,609,852	72,458,650	64,609,852
	17,850,348	13,392,199	86,448,823	71,523,929	72,458,650	64,609,852	176,757,821	149,525,980
	17,733,433	8,306,155	87,527,293	80,834,176	73,303,536	61,609,542	178,564,262	150,749,873

Approved by the Board of Directors



Director



Director

The accompanying notes are an integral part of these financial statements.

St. Michael's Hospital Foundation

Statement of Revenues and Expenses and Changes in Fund Balances

For the year ended March 31, 2017

	General Fund		Restricted Fund		Endowment Fund		Total	
	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$
Revenues								
Donations	3,550,011	3,147,881	27,286,916	28,685,172	1,449,295	2,431,817	32,286,222	34,264,870
Bequests	3,495,707	2,327,918	1,789,428	545,235	1,160,462	150,000	6,445,597	3,023,153
Events	1,615,230	1,118,226	1,166,808	1,920,338	-	-	2,782,038	3,038,564
Investment income (note 3)	2,802,419	908,186	-	-	8,739,082	(754,514)	11,541,501	153,672
	11,463,367	7,502,211	30,243,152	31,150,745	11,348,839	1,827,303	53,055,358	40,480,259
Expenses								
Fundraising and administrative	6,165,187	5,414,092	1,514,219	1,643,635	513,044	482,440	8,192,450	7,540,167
Events	288,383	192,339	349,826	262,692	-	-	638,209	455,031
Investment	106,276	103,380	-	-	236,536	219,329	342,812	322,709
	6,559,846	5,709,811	1,864,045	1,906,327	749,580	701,769	9,173,471	8,317,907
Excess of revenue over expenses before grants	4,903,521	1,792,400	28,379,107	29,244,418	10,599,259	1,125,534	43,881,887	32,162,352
Grants to St. Michael's Hospital (note 4)	270,000	263,825	14,176,066	13,937,394	2,203,980	2,199,743	16,650,046	16,400,962
Excess (deficiency) of revenues over expenses for the year	4,633,521	1,528,575	14,203,041	15,307,024	8,395,279	(1,074,209)	27,231,841	15,761,390
Fund balances - Beginning of year	13,392,199	12,091,202	71,523,929	54,935,222	64,609,852	66,738,166	149,525,980	133,764,590
Interfund transfers	(175,372)	(227,578)	721,853	1,281,683	(546,481)	(1,054,105)	-	-
Fund balances - End of year	17,850,348	13,392,199	86,448,823	71,523,929	72,458,650	64,609,852	176,757,821	149,525,980

The accompanying notes are an integral part of these financial statements.

St. Michael's Hospital Foundation

Statement of Cash Flows

For the year ended March 31, 2017

	2017 \$	2016 \$
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses for the year	27,231,841	15,761,390
Item not affecting cash		
Change in fair value of investments	(6,475,760)	5,351,993
Changes in non-cash working capital items		
Other receivables and prepaid expenses	(184,393)	55,141
Accounts payable and accrued liabilities	12,735	(2,089,566)
Deferred revenue	569,813	59,694
	<u>21,154,236</u>	<u>19,138,652</u>
Investing activities		
Purchase of investments - gross proceeds	(19,929,223)	(28,377,473)
Sale of investments - gross proceeds	188,220	7,494,800
	<u>(19,741,003)</u>	<u>(20,882,673)</u>
Increase (decrease) in cash and cash equivalents during the year	1,413,233	(1,744,021)
Cash and cash equivalents - Beginning of year	<u>2,263,273</u>	<u>4,007,294</u>
Cash and cash equivalents - End of year	<u>3,676,506</u>	<u>2,263,273</u>

The accompanying notes are an integral part of these financial statements.

St. Michael's Hospital Foundation

Notes to Financial Statements

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1 Purpose of the organization

The St. Michael's Hospital Foundation (the Foundation) is incorporated under the laws of Ontario as a corporation without share capital. The Foundation receives, accumulates and distributes funds and/or the income therefrom for the advancement of medical research, education and improvement of patient care at St. Michael's Hospital (the Hospital).

The Foundation is a public foundation registered under the Income Tax Act (Canada) (the Act) and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes under registration number 12296 3663 RR 0001. In order to maintain its status as a public foundation registered under the Act, the Foundation must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

2 Summary of significant accounting policies

Basis of presentation

The financial statements of the Foundation have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the reporting period. Actual results could differ from those estimates.

Fund accounting

The Foundation follows the restricted fund method of accounting for contributions. The Foundation ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

For financial reporting purposes, the Foundation's funds have been classified as follows:

a) General Fund

The General Fund accounts for the Foundation's general fundraising, granting and administrative activities. The General Fund reports unrestricted resources available for immediate purposes.

b) Restricted Fund

The Restricted Fund reports resources that are to be used for specific purposes as specified by the donor, by internal restrictions or as stipulated by the fundraising appeal.

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c) Endowment Fund

The Endowment Fund reports resources where either donor or internal restrictions require that the principal must be maintained by the Foundation for a specified period of time.

Revenue recognition

Contributions represented by donations, bequests and events are recognized as revenue in the year received or receivable if the amounts can be reasonably estimated and collection is reasonably assured. Unrestricted contributions are recognized as revenue of the General Fund in the year received. Donor restricted contributions for specific purposes are recognized as revenue of the Restricted Fund unless the capital is to be maintained for a specified period of time, in which case the contributions are recognized as revenue of the Endowment Fund.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments that are readily convertible into known amounts of cash. Interest in respect of the cash equivalents is accrued as earned.

Investments and investment income

Investments are recorded at fair value. Publicly traded securities are valued based on the closing prices and pooled funds are valued based on reported unit values. Investment income represents interest, dividends, and change in fair value.

Investment income earned on Endowment Fund or Restricted Fund resources, which must be spent on donor restricted activities, is recognized as revenue of the Endowment Fund or Restricted Fund. Investment income subject to donor restrictions stipulating that it be added to the principal amount of the endowment is recognized as revenue of the Endowment Fund. Unrestricted investment income earned on Endowment Fund, Restricted Fund and General Fund resources is recognized as revenue of the General Fund.

Deferred revenue and prepaid expenses

Deferred revenue represents deposits received in advance for subsequent years' fundraising events. These amounts are recognized as revenue in the period in which the event occurs, together with any associated costs.

Costs directly related to future fundraising events are presented as prepaid expenses when the Foundation can reliably demonstrate the event meets the criteria for recognition as a prepayment. The related costs are expensed once the event has been held. Such costs are expensed immediately when there is sufficient evidence that the event does not meet the criteria for recognition as a prepayment.

Foreign exchange translation

The cost of investments, revenues and expenses denominated in foreign currencies is translated into Canadian dollars at the transaction date. The fair value of investments and other monetary items denominated in foreign currencies is translated at the year-end date.

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Contributed materials and services

A substantial number of volunteers contribute a significant amount of their time each year. Due to the difficulty in determining the fair value, these contributed services are not recognized or disclosed in the financial statements and related notes. Contributed materials are recorded, when received, at their fair value.

Financial instruments and risk management

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification below.

Cash and cash equivalents are recorded at fair value.

The investment portfolio of the Foundation is valued at fair value. Changes in the value of the portfolio are reflected in the statement of revenue and expenses and changes in fund balances. Transaction costs related to financial assets are expensed as incurred.

Other receivables and amounts payable and accrued liabilities are measured at amortized cost, which approximates fair value due to the short-term maturity of the instruments.

The Foundation initially measures financial assets and financial liabilities at fair value. The financial assets subsequently measured at amortized cost consist of cash and other receivables. The financial liabilities subsequently measured at amortized cost include accounts payable and accrued liabilities.

The Foundation mitigates the following risks through the use of investment managers for the long-term portfolio investments and by investing other funds in short-term fixed rate products with high credit ratings.

Price risk

The investments of the Foundation are subject to price risk because changing interest rates, market value of the investments and general economic conditions affect the market value of equity, fixed income investments, and currency exchange rate changes impact the market value of the investments denominated in currencies other than the Canadian dollar.

Liquidity risk

The Foundation uses investment managers for the investments it plans to hold for a long period of time. These investments are subject to liquidity risk if the Foundation is required to sell at a time that the market for the investments is unfavourable.

Credit and interest rate risk

It is management's opinion that the Foundation is not exposed to significant interest rate or credit risk from these financial instruments.

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3 Investments

Investments consist of the following amounts held in units of various pooled funds, calculated on a unit basis, allocated as follows:

	2017 \$	2016 \$
Guaranteed Investment Certificates	55,279,290	42,265,589
Pooled funds		
Short-term investments	2,641,043	2,661,976
Government bonds	28,834,213	25,109,085
Corporate bonds	34,017,617	31,883,341
Canadian equities	24,975,321	21,755,203
US equities	13,040,862	12,298,268
International equities	14,423,607	11,021,728
	<u>117,932,663</u>	<u>104,729,601</u>
Aggregate fair value	<u>173,211,953</u>	<u>146,995,190</u>
Aggregate cost	<u>162,811,997</u>	<u>143,070,983</u>

The investment portfolio is managed in accordance with the Foundation's investment policy.

Investment income earned on the Foundation's assets consists of the following:

	2017 \$	2016 \$
Interest and dividends	5,065,741	5,505,665
Change in fair value of investments	6,475,760	(5,351,993)
	<u>11,541,501</u>	<u>153,672</u>

4 Related party transactions and balances

- a) The Foundation is an independent corporation without share capital and has an independent board of directors. The Hospital is affiliated with the Foundation as a result of common board members between the two organizations. Furthermore, the Foundation solicits on behalf of and holds investments for the exclusive benefit of the Hospital. The Hospital provides certain services to the Foundation and pays some operating expenses on behalf of the Foundation.
- b) Included in accounts payable and accrued liabilities is \$62,879 (2016 - \$18,234) due from the Hospital. This amount is payable on demand, is non-interest bearing and consists of two components: grants that have not been disbursed to the Hospital and operating expenses incurred by the Foundation that have not yet been repaid.

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- c) The Foundation holds designated funds of \$86,448,824 (2016 - \$71,523,929), which will be disbursed to the Hospital in the future.
- d) The Foundation, from time to time, makes payments to the Hospital to fund the purchase of property, plant and equipment, research costs and the reimbursement of expenses paid on behalf of the Foundation. During the year, \$21,941,384 (2016 - \$20,909,572) was paid to the Hospital, of which \$5,291,338 (2016 - \$4,508,611) was for reimbursement of expenses, \$425,726 (2016 - \$2,690,649) for capital and \$16,224,320 (2016 - \$13,710,312) for research, trust or other transfers.

5 Pension plan

Employees of the Foundation participate in a contributory defined benefit pension plan sponsored by the Hospital. Contributions made to the plan during the year by the Foundation amounted to \$352,951 (2016 - \$307,949).