



Grant Thornton

Financial Statements

Hamilton Health Sciences Foundation

December 31, 2017

Independent Auditor's Report

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To the Directors of
Hamilton Health Sciences Foundation

We have audited the accompanying financial statements of Hamilton Health Sciences Foundation, which comprise the statement of financial position as at December 31, 2017 and the statements of operations and changes in fund balances and cash flows 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 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 organization's preparation 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 organization'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.

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hamilton Health Sciences Foundation as at December 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.

Grant Thornton LLP

Hamilton, Canada
March 2, 2018

Chartered Professional Accountants
Licensed Public Accountants

Hamilton Health Sciences Foundation

Statement of Financial Position

December 31

2017


2016

	General Fund	Restricted Fund	Endowment Fund	Total	Total
Assets					
Current					
Cash	\$ 24,092,557	\$ -	\$ -	\$ 24,092,557	\$ 22,279,327
Accounts receivable	853,471	-	-	853,471	629,017
Portfolio investments (notes 3 and 11)	12,608,116	77,899,392	19,342,454	109,849,962	99,994,015
Prepaid expenses	65,232	-	-	65,232	44,333
Current portion of mortgage receivable	<u>2,327,625</u>	<u>-</u>	<u>-</u>	<u>2,327,625</u>	<u>60,491</u>
	39,947,001	77,899,392	19,342,454	137,188,847	123,007,183
Mortgage receivable (note 4)	5,698,867	-	-	5,698,867	10,675,319
Property and equipment (note 5)	<u>18,510</u>	<u>-</u>	<u>-</u>	<u>18,510</u>	<u>16,580</u>
	<u>\$ 45,664,378</u>	<u>\$ 77,899,392</u>	<u>\$ 19,342,454</u>	<u>\$ 142,906,224</u>	<u>\$ 133,699,082</u>
Liabilities					
Current					
Accounts payable and accrued liabilities	\$ 981,760	\$ -	\$ -	\$ 981,760	\$ 958,564
Due to Hamilton Health Sciences	<u>1,265,653</u>	<u>-</u>	<u>-</u>	<u>1,265,653</u>	<u>452,404</u>
	<u>2,247,413</u>	<u>-</u>	<u>-</u>	<u>2,247,413</u>	<u>1,410,968</u>
Fund balances					
Invested in property and equipment	18,510	-	-	18,510	16,580
Externally restricted (notes 6 and 8)	-	77,899,392	13,448,962	91,348,354	88,792,096
Internally restricted (notes 6 and 8)	-	-	5,893,492	5,893,492	2,933,032
Unrestricted (note 8)	<u>43,398,455</u>	<u>-</u>	<u>-</u>	<u>43,398,455</u>	<u>40,546,406</u>
	<u>43,416,965</u>	<u>77,899,392</u>	<u>19,342,454</u>	<u>140,658,811</u>	<u>132,288,114</u>
	<u>\$ 45,664,378</u>	<u>\$ 77,899,392</u>	<u>\$ 19,342,454</u>	<u>\$ 142,906,224</u>	<u>\$ 133,699,082</u>

Commitments and contingency (notes 12 and 14)

Approved on behalf of the Board


Director


Director

See accompanying notes to the financial statements

Hamilton Health Sciences Foundation

Statement of Operations and Changes in Fund Balances

Year ended December 31

	General Fund		Restricted Fund		Endowment Fund		Total 2017	Total 2016
	2017	2016	2017	2016	2017	2016		
Revenue								
Donations and events	\$ 1,125,176	\$ 607,241	\$ 22,963,651	\$ 21,597,322	\$ 113,794	\$ 2,202,962	\$ 24,202,621	\$ 24,407,525
Investment income (notes 7 and 8)	7,138,308	6,320,130	1,041,702	1,006,239	19,535	19,016	8,199,545	7,345,385
Lottery (note 9)	-	-	995,491	858,159	-	-	995,491	858,159
	<u>8,263,484</u>	<u>6,927,371</u>	<u>25,000,844</u>	<u>23,461,720</u>	<u>133,329</u>	<u>2,221,978</u>	<u>33,397,657</u>	<u>32,611,069</u>
Expenses								
Salaries and employee benefits	913,536	841,385	2,710,590	2,760,423	-	-	3,624,126	3,601,808
Administrative	947,719	889,937	1,535,874	1,488,354	-	-	2,483,593	2,378,291
Lottery costs (note 9)	-	-	510,606	452,306	-	-	510,606	452,306
Amortization	6,272	12,686	-	-	-	-	6,272	12,686
	<u>1,867,527</u>	<u>1,744,008</u>	<u>4,757,070</u>	<u>4,701,083</u>	<u>-</u>	<u>-</u>	<u>6,624,597</u>	<u>6,445,091</u>
Excess of revenue over expenses	6,395,957	5,183,363	20,243,774	18,760,637	133,329	2,221,978	26,773,060	26,165,978
Donations and charitable programs	<u>(3,467,393)</u>	<u>(381,435)</u>	<u>(14,934,970)</u>	<u>(13,268,794)</u>	<u>-</u>	<u>-</u>	<u>(18,402,363)</u>	<u>(13,650,229)</u>
Increase in fund balances	2,928,564	4,801,928	5,308,804	5,491,843	133,329	2,221,978	8,370,697	12,515,749
Fund balances - beginning of year	40,562,986	35,761,058	75,531,794	70,045,011	16,193,334	13,966,296	132,288,114	119,772,365
Interfund transfers (note 10)	<u>(74,585)</u>	<u>-</u>	<u>(2,941,206)</u>	<u>(5,060)</u>	<u>3,015,791</u>	<u>5,060</u>	<u>-</u>	<u>-</u>
Fund balances - end of year	<u>\$ 43,416,965</u>	<u>\$ 40,562,986</u>	<u>\$ 77,899,392</u>	<u>\$ 75,531,794</u>	<u>\$ 19,342,454</u>	<u>\$ 16,193,334</u>	<u>\$140,658,811</u>	<u>\$132,288,114</u>

See accompanying notes to the financial statements

Hamilton Health Sciences Foundation

Statement of Cash Flows

Year ended December 31

2017

2016

Increase in cash

Operating

Increase in fund balances	\$ 8,370,697	\$ 12,515,749
Adjustments for non-cash items		
Amortization	6,272	12,686
Realized gain on disposal of portfolio investments (note 7)	(2,011,411)	(6,116,038)
Unrealized fair market value adjustment (note 7)	(2,882,392)	1,962,629
Mortgage interest (note 4)	(296,584)	(369,772)
	<u>3,186,582</u>	<u>8,005,254</u>
Changes in non-cash working capital		
Accounts receivable	(224,454)	(60,356)
Prepaid expenses	(20,899)	(6,952)
Accounts payable and accrued liabilities	23,196	140,308
Due to Hamilton Health Sciences	<u>813,249</u>	<u>(156,504)</u>
	<u>3,777,674</u>	<u>7,921,750</u>

Investing

Purchase of property and equipment	(8,202)	(4,605)
Proceeds on disposal of portfolio investments	40,570,611	69,236,121
Purchase of portfolio investments	(45,532,755)	(80,668,211)
Repayment of mortgage receivable	<u>3,005,902</u>	<u>54,771</u>
	<u>(1,964,444)</u>	<u>(11,381,924)</u>

Increase in cash 1,813,230 (3,460,174)

Cash - beginning of year 22,279,327 25,739,501

Cash - end of year \$ 24,092,557 \$ 22,279,327

See accompanying notes to the financial statements

Hamilton Health Sciences Foundation

Notes to the Financial Statements

December 31, 2017

1. Nature of operations

The mission of the Foundation is to raise funds and manage donor gifts for the purpose of supporting outstanding clinical care and research for the communities served by Hamilton Health Sciences. The Foundation is incorporated by Letters Patent as a corporation without share capital under the laws of Ontario, and is a registered charity under the Income Tax Act.

2. Significant accounting policies

The Foundation follows Canadian accounting standards for not-for-profit organizations (ASNPO) in preparing its financial statements. The significant accounting policies used are as follows:

Fund accounting and revenue recognition

The Foundation follows the restricted fund method of accounting for contributions. Contributions are recorded when received or when there is an enforceable right to the underlying asset that can be reliably valued. Unrestricted contributions are recognized as revenue in the General Fund. Donor restricted contributions for specific purposes are recognized as revenue in the Restricted Fund unless the principal is to be maintained permanently, in which case the contributions are recognized as revenue in the Endowment Fund.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, net of safekeeping and investment management and other investment expenses, is recorded in the statement of operations and changes in fund balances. Investment income (loss) on Endowment Fund resources that must be spent on donor restricted activities is recognized in the Restricted Fund. Investment income (loss) subject to donor restrictions stipulating that it be added to (deducted from) the principal amount of the endowment is recognized in the Endowment Fund. Unrestricted Investment income (loss) is recognized in the General Fund.

Lottery revenue and revenue from special events are recognized in the fiscal year in which the program is concluded. Revenue related to lotteries for which prize draws and events take place subsequent to the year-end is deferred.

Financial instruments

Measurement

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

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 subsequently measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets and liabilities measured at amortized cost include cash, accounts receivable, mortgage receivable, accounts payable and accrued liabilities and due to Hamilton Health Sciences. Financial assets and liabilities measured at fair value include portfolio investments.

Hamilton Health Sciences Foundation

Notes to the Financial Statements

December 31, 2017

2. Significant accounting policies (continued)

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. Previously recognized impairment losses are reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of the reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals are recognized in the statement of operations.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, deposits held with banks and other short-term highly liquid investments which are readily convertible to known amounts of cash and bank overdrafts. The Foundation considers securities with original maturities of three months or less to be readily convertible to known amounts of cash.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Property and equipment are amortized to estimated residual values at the following annual rates over the estimated useful lives of the related assets:

Furniture, equipment and leaseholds	3 to 10 years straight-line
Computer equipment	2 to 4 years straight-line

The estimated useful lives of assets are reviewed by management and adjusted, if necessary.

Contributed materials and services

Contributed materials and investments are recorded in the financial statements at fair value on the date of the donation. Contributed services are not recorded because the fair market value is not readily determinable. With the exception of volunteer time, such services are not significant.

Employee benefit plan

Defined contribution plan accounting is applied to a multi-employer plan, whereby contributions are expensed when due.

Hamilton Health Sciences Foundation

Notes to the Financial Statements

December 31, 2017

3. Portfolio investments

	<u>2017</u>	<u>% of total</u>	<u>2016</u>	<u>% of total</u>
Cash held in portfolio	\$ <u>8,531,832</u>	<u>7 %</u>	\$ <u>3,297,738</u>	<u>3 %</u>
Fixed income instruments	<u>42,187,827</u>	<u>36 %</u>	<u>36,687,512</u>	<u>36 %</u>
Equities				
Canadian	<u>30,721,536</u>	<u>26 %</u>	<u>30,344,168</u>	<u>29 %</u>
Foreign	<u>36,614,906</u>	<u>31 %</u>	<u>32,667,555</u>	<u>32 %</u>
Total equities	<u>67,336,442</u>	<u>57 %</u>	<u>63,011,723</u>	<u>61 %</u>
	<u>118,056,101</u>		<u>102,996,973</u>	
Accrued interest and dividends	<u>325,693</u>	<u>- %</u>	<u>294,780</u>	<u>- %</u>
Total	<u>118,381,794</u>	<u>100 %</u>	<u>103,291,753</u>	<u>100 %</u>
Less: cash held in portfolio	<u>8,531,832</u>		<u>3,297,738</u>	
Portfolio investments	<u>\$ 109,849,962</u>		<u>\$ 99,994,015</u>	

Fixed income instruments consist of short-term investments with maturities of over three months and long-term notes and bonds with maturities ranging from 2018 to 2108 and interest rates ranging from 0.75% to 8%.

The Foundation manages its portfolio investments in accordance with its investment policy statement. One of the ways it manages the risk associated with the portfolio investments is to provide a percentage range for each type of investment. It does this on a whole portfolio basis including the cash and cash equivalents held in the portfolio.

4. Mortgage receivable

The mortgage receivable was initially recorded at its fair value of \$9,604,737 which was determined using an effective interest rate of 3.5% per annum. The mortgage registered on the property bears interest at 2% per annum and has a face value of \$12,845,000. During the year, the indebted party assigned vendor takeback mortgages to the Foundation, resulting in adjusted repayment terms. Expected repayment terms are as follows: 2018 - \$2,327,625, 2019 - \$1,805,750, 2020 - \$1,805,750, and 2021 - \$2,087,367. The discount of \$3,240,263 will be recorded as an increase of interest income over the term of the mortgage using the effective interest method.

Hamilton Health Sciences Foundation

Notes to the Financial Statements

December 31, 2017

5. Property and equipment

	Cost	Accumulated Amortization	Net Book Value 2017	2017
Furniture, equipment and leaseholds	\$ 634,071	\$ 632,453	\$ 1,618	\$ 2,625
Computer equipment	<u>465,515</u>	<u>448,623</u>	<u>16,892</u>	<u>13,955</u>
	<u>\$ 1,099,586</u>	<u>\$ 1,081,076</u>	<u>\$ 18,510</u>	<u>\$ 16,580</u>

6. Restricted fund balances

Major categories of fund balances with restrictions are as follows:

	Restricted Fund	Endowment Fund	Total 2017	2016
Hamilton Health Sciences Foundation	\$ 15,267,707	\$ 4,698,343	\$ 19,966,050	\$ 19,725,430
McMaster Children's Hospital Foundation	28,617,610	10,584,514	39,202,124	33,213,235
Hamilton General Hospital Foundation	7,087,306	1,336,377	8,423,683	8,161,508
Juravinski Hospital and Cancer Centre Foundation	20,452,906	1,857,189	22,310,095	23,567,929
St. Peter's Hospital Foundation	<u>6,473,863</u>	<u>866,031</u>	<u>7,339,894</u>	<u>7,057,026</u>
	<u>\$ 77,899,392</u>	<u>\$ 19,342,454</u>	<u>\$ 97,241,846</u>	<u>\$ 91,725,128</u>

Hamilton Health Sciences Foundation is the single legal entity. The individual site identities are for marketing and communication purposes and they do not constitute a separate legal entity.

7. Investment income

Investment income earned on investments recorded at fair value consists of the following:

	2017	2016
Interest	\$ 1,734,915	\$ 1,588,249
Dividends and other investment income	1,688,777	1,631,849
Realized gain on disposal of portfolio investments	2,011,411	6,116,038
Fair market value adjustment	2,882,392	(1,962,629)
Foreign exchange gain	<u>(117,950)</u>	<u>(28,122)</u>
	<u>\$ 8,199,545</u>	<u>\$ 7,345,385</u>

Hamilton Health Sciences Foundation

Notes to the Financial Statements

December 31, 2017

8. Endowment funds

During the year, investment income of \$538,000 (2016 - \$530,000) was earned on the Endowment Fund of which \$518,000 (2016 - \$511,000) is included in investment income of the Restricted Fund, \$nil (2016 - \$nil) is included in investment income of the General Fund and the remaining \$20,000 (2016 - \$19,000) is recorded as investment income of the Endowment Fund.

9. Lottery

During the year, the Foundation held one lottery (2016 - one). Financial results included in the statement of revenue, expenses and fund balances are as follows:

	<u>2017</u>	<u>2016</u>
Revenue		
Ticket sales	\$ 979,824	\$ 849,411
Interest	<u>15,667</u>	<u>8,748</u>
	<u>995,491</u>	<u>858,159</u>
Expenses		
Prizes	489,912	424,706
Administrative	<u>20,694</u>	<u>27,600</u>
	<u>510,606</u>	<u>452,306</u>
Net lottery proceeds	\$ <u>484,885</u>	\$ <u>405,853</u>

10. Interfund transfers

Transfers to (from) funds consist of the following:

	<u>2017</u>		
	<u>General Fund</u>	<u>Restricted Fund</u>	<u>Endowment Fund</u>
Transfers to endowment fund	\$ (50,000)	\$ (2,980,791)	\$ 3,030,791
Transfers to restricted fund	<u>(24,585)</u>	<u>39,585</u>	<u>(15,000)</u>
	<u>\$ (74,585)</u>	<u>\$ (2,941,206)</u>	<u>\$ 3,015,791</u>
	<u>2016</u>		
	<u>General Fund</u>	<u>Restricted Fund</u>	<u>Endowment Fund</u>
Transfers to endowment fund	\$ -	\$ (5,060)	\$ 5,060

Hamilton Health Sciences Foundation

Notes to the Financial Statements

December 31, 2017

11. Financial instruments

The Foundation is exposed to various risks through its financial instruments. The following analysis provides a measure of the Foundation's risk exposures and concentrations at December 31, 2017:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Foundation's main credit risk relates to its mortgage receivable, for which regular monthly payments commence February 2031. The underlying property has been sold for proceeds in excess of the carrying amount of the mortgage subject to vendor take back mortgages which have been assigned to the Foundation. There was no significant change in exposure from the prior year.

Liquidity risk

Liquidity risk is the risk that the organization will encounter difficulty in meeting the obligations associated with its financial liabilities. The organization is exposed to this risk mainly in respect of its accounts payable and accrued liabilities and Due to Hamilton Health Sciences. This risk is mitigated by the amount of liquid investments held by the organization. There was no significant change in exposure from the prior year.

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 holds United States dollar denominated portfolio investments. The current market value of these investments is \$37,327,000 (\$29,754,000 US). The Foundation also holds cash in United States dollars at December 31, 2017 of \$2,437,000 (\$1,940,000 US). The cash and investments are subject to foreign exchange rate fluctuations. There was no significant change in exposure from the prior year.

Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of securities held. The Foundation is exposed to price risk through its investments quoted in an active market. The organization manages this risk through the development of an Investment Policy Statement and monitoring compliance with it. There was no significant change in exposure from the prior year.

At December 31, 2017 the market value of portfolio investments is \$109,850,000 (2016 - \$99,994,000), the cost of which is \$95,838,000 (2016 - \$88,895,000).

Hamilton Health Sciences Foundation

Notes to the Financial Statements

December 31, 2017

12. Commitments

The Foundation has the following annual operating lease commitments with respect to premises and equipment:

Fiscal years ending December 31, 2018	\$ 230,000
2019	225,000
2020	225,000
2021	220,000
2022	219,000
2023-2028	1,172,000

13. Employee benefit plan

(a) Most employees of the Foundation are members of the Hospitals of Ontario Pension Plan (the "Plan"), which is a multi-employer, defined benefit, final average earnings, contributory pension plan. The Plan is accounted for as a defined contribution plan. The Foundation's contributions to the Plan during the year amounted to \$281,016 (2016 - \$244,262) and are included in salaries and employee benefits expense in the statement of operations and fund balances. The most recent actuarial valuation of the Plan as at December 31, 2016 indicates that the Plan has a 22% surplus in disclosed actuarial assets and is fully funded on a solvency basis.

(b) The Foundation has accrued its estimated obligations for non-pension post-retirement benefits based on an actuarial valuation performed in January 2017. As at December 31, 2017, the Foundation's accrued benefits liability is \$71,600 (2016 - \$66,000).

14. Credit facilities

The Foundation's credit facilities include an unsecured \$1,300,000 demand operating line of credit bearing interest at prime minus 1.15% per annum. The amount outstanding on this credit facility as at December 31, 2017 is \$nil (2016 - \$nil).

The Foundation has outstanding letters of credit for the Employee Fundraising Lottery in the amount of \$1,170,000 at December 31, 2017 (2016 - \$1,170,000). Subsequent to year-end, one letter of credit for \$585,000 has expired.
