



Grant Thornton

Financial Statements

Hamilton Health Sciences Foundation

December 31, 2016



## Independent Auditor's Report

Grant Thornton LLP  
33 Main Street East  
Hamilton, ON  
L8N 4K5

T +1 905 523 7732  
F +1 905 572 9333  
[www.GrantThornton.ca](http://www.GrantThornton.ca)

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, 2016 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, 2016, 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.

Hamilton, Canada  
March 3, 2017

*Grant Thornton LLP*

Chartered Professional Accountants  
Licensed Public Accountants

# Hamilton Health Sciences Foundation

## Statement of Financial Position

December 31


2016

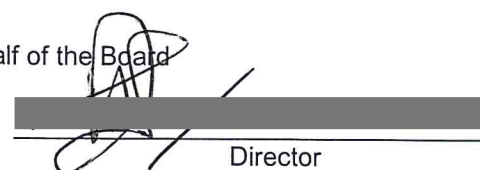
2015

	General Fund	Restricted Fund	Endowment Fund	Total	Total
<b>Assets</b>					
<b>Current</b>					
Cash	\$ 22,279,327	\$ -	\$ -	\$ 22,279,327	\$ 25,739,501
Accounts receivable	629,017	-	-	629,017	568,661
Portfolio investments (notes 3 and 11)	8,268,887	75,531,794	16,193,334	99,994,015	84,408,516
Prepaid expenses	44,333	-	-	44,333	37,381
Current portion of mortgage receivable	60,491	-	-	60,491	-
	31,282,055	75,531,794	16,193,334	123,007,183	110,754,059
Mortgage receivable (note 4)	10,675,319	-	-	10,675,319	10,420,809
Property and equipment (note 5)	16,580	-	-	16,580	24,661
	<u>\$ 41,973,954</u>	<u>\$ 75,531,794</u>	<u>\$ 16,193,334</u>	<u>\$ 133,699,082</u>	<u>\$ 121,199,529</u>
<b>Liabilities</b>					
<b>Current</b>					
Accounts payable and accrued liabilities	\$ 958,564	\$ -	\$ -	\$ 958,564	\$ 818,256
Due to Hamilton Health Sciences	452,404	-	-	452,404	608,908
	<u>1,410,968</u>	<u>-</u>	<u>-</u>	<u>1,410,968</u>	<u>1,427,164</u>
<b>Fund balances</b>					
Invested in property and equipment	16,580	-	-	16,580	24,661
Externally restricted (notes 6 and 8)	-	75,531,794	13,260,302	88,792,096	81,078,275
Internally restricted (notes 6 and 8)	-	-	2,933,032	2,933,032	2,933,032
Unrestricted (note 8)	40,546,406	-	-	40,546,406	35,736,397
	<u>40,562,986</u>	<u>75,531,794</u>	<u>16,193,334</u>	<u>132,288,114</u>	<u>119,772,365</u>
	<u>\$ 41,973,954</u>	<u>\$ 75,531,794</u>	<u>\$ 16,193,334</u>	<u>\$ 133,699,082</u>	<u>\$ 121,199,529</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 2016	Total 2015
	2016	2015	2016	2015	2016	2015		
<b>Revenue</b>								
Donations and events	\$ 607,241	\$ 1,266,021	\$ 21,597,322	\$ 29,540,657	\$ 2,202,962	\$ 286,203	\$ 24,407,525	\$ 31,092,881
Investment income (notes 7 and 8)	6,320,130	3,670,375	1,006,239	822,691	19,016	8,926	7,345,385	4,501,992
Lottery (note 9)	-	-	858,159	704,544	-	-	858,159	704,544
	<u>6,927,371</u>	<u>4,936,396</u>	<u>23,461,720</u>	<u>31,067,892</u>	<u>2,221,978</u>	<u>295,129</u>	<u>32,611,069</u>	<u>36,299,417</u>
<b>Expenses</b>								
Salaries and employee benefits	841,385	405,455	2,760,423	3,140,258	-	-	3,601,808	3,545,713
Administrative	889,937	1,282,114	1,488,354	1,283,408	-	-	2,378,291	2,565,522
Lottery costs (note 9)	-	-	452,306	366,876	-	-	452,306	366,876
Amortization	12,686	23,302	-	-	-	-	12,686	23,302
	<u>1,744,008</u>	<u>1,710,871</u>	<u>4,701,083</u>	<u>4,790,542</u>	<u>-</u>	<u>-</u>	<u>6,445,091</u>	<u>6,501,413</u>
Excess of revenue over expenses	5,183,363	3,225,525	18,760,637	26,277,350	2,221,978	295,129	26,165,978	29,798,004
Donations and charitable programs	<u>(381,435)</u>	<u>(485,624)</u>	<u>(13,268,794)</u>	<u>(14,158,916)</u>	<u>-</u>	<u>-</u>	<u>(13,650,229)</u>	<u>(14,644,540)</u>
Increase in fund balances	4,801,928	2,739,901	5,491,843	12,118,434	2,221,978	295,129	12,515,749	15,153,464
Fund balances - beginning of year	35,761,058	33,378,347	70,045,011	57,770,162	13,966,296	13,470,392	119,772,365	104,618,901
Interfund transfers (note 10)	-	(357,190)	(5,060)	156,415	5,060	200,775	-	-
Fund balances - end of year	<u>\$ 40,562,986</u>	<u>\$ 35,761,058</u>	<u>\$ 75,531,794</u>	<u>\$ 70,045,011</u>	<u>\$ 16,193,334</u>	<u>\$ 13,966,296</u>	<u>\$132,288,114</u>	<u>\$119,772,365</u>

See accompanying notes to the financial statements



# Hamilton Health Sciences Foundation

## Statement of Cash Flows

Year ended December 31

2016

2015

Increase in cash

### Operating

Increase in fund balances	12,515,749	15,153,464
Adjustments for non-cash items		
Amortization	12,686	23,302
Realized gain on disposal of portfolio investments (Note 7)	(6,116,038)	(684,393)
Unrealized fair market value adjustment (note 7)	1,962,629	(577,898)
Mortgage interest (note 4)	(369,772)	(357,909)
	8,005,254	13,556,566
Changes in non-cash working capital		
Accounts receivable	(60,356)	(157,606)
Prepaid expenses	(6,952)	57,567
Accounts payable and accrued liabilities	140,308	(78,772)
Due to Hamilton Health Sciences	(156,504)	76,029
	7,921,750	13,453,784

### Investing

Purchase of property and equipment	(4,605)	(23,749)
Proceeds on disposal of portfolio investments	69,236,121	38,852,118
Purchase of portfolio investments	(80,668,211)	(48,333,187)
Repayment of mortgage receivable	54,771	-
	(11,381,924)	(9,504,818)

Increase in cash (3,460,174) 3,948,966

Cash - beginning of year 25,739,501 21,790,535

Cash - end of year \$ 22,279,327 \$ 25,739,501

See accompanying notes to the financial statements

---

# Hamilton Health Sciences Foundation

## Notes to the Financial Statements

December 31, 2016

---

### 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. Contributions are recorded in the accounts 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.

---

# Hamilton Health Sciences Foundation

## Notes to the Financial Statements

December 31, 2016

---

### 2. Significant accounting policies (continued)

#### 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.

##### 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, 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.

The Foundation tests for impairment whenever events or changes in circumstances indicate the carrying amount of an item of property and equipment may not be recoverable. The recoverability of long-lived assets is based on the net recoverable amounts determined on an undiscounted cash flows basis. If the carrying amount of an asset exceeds its net recoverable amount, an impairment loss is recognized to the extent that fair value is below the asset's carrying amount. Fair value is determined based on quoted market prices when available, otherwise on discounted cash flows over the life of the asset.



---

# Hamilton Health Sciences Foundation

## Notes to the Financial Statements

December 31, 2016

---

### 2. Significant accounting policies (continued)

#### 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.

---

### 3. Portfolio investments

	<u>2016</u>	<u>% of total</u>	<u>2015</u>	<u>% of total</u>
Cash held in portfolio	\$ <u>3,297,738</u>	<u>3</u> %	\$ <u>3,602,568</u>	<u>4</u> %
Fixed income instruments	<u>36,687,512</u>	<u>36</u> %	<u>30,100,209</u>	<u>34</u> %
Equities				
Canadian	<u>30,344,168</u>	<u>29</u> %	<u>22,377,226</u>	<u>26</u> %
Foreign	<u>32,667,555</u>	<u>32</u> %	<u>31,738,572</u>	<u>36</u> %
Total equities	<u>63,011,723</u>	<u>61</u> %	<u>54,115,798</u>	<u>62</u> %
	<u>102,996,973</u>		<u>87,818,575</u>	
Accrued interest and dividends	<u>294,780</u>	<u>-</u> %	<u>192,509</u>	<u>-</u> %
Total	<u>103,291,753</u>	<u>100</u> %	<u>88,011,084</u>	<u>100</u> %
Less: cash held in portfolio	<u>3,297,738</u>		<u>3,602,568</u>	
Portfolio investments	<u>\$ 99,994,015</u>		<u>\$ 84,408,516</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 2017 to 2049 and interest rates ranging from 1.75% to 10%.

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.

---

# Hamilton Health Sciences Foundation

## Notes to the Financial Statements

December 31, 2016

### 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 a vendor takeback mortgage to the Foundation, resulting in adjusted repayment terms. Expected repayment terms are as follows: 2017 - \$60,491, 2018 - \$66,031, and 2019 - \$524,484. The remaining balance is payable in monthly instalments of \$394,191 from February 1, 2031 to October 1, 2034 with a final payment of \$243,868 payable on November 1, 2034. 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.

### 5. Property and equipment

	Cost	Accumulated Amortization	Net Book Value 2016	2016
Furniture, equipment and leaseholds	\$ 632,051	\$ 629,426	\$ 2,625	\$ 6,629
Computer equipment	<u>459,334</u>	<u>445,379</u>	<u>13,955</u>	<u>18,032</u>
	<u>\$ 1,091,385</u>	<u>\$ 1,074,805</u>	<u>\$ 16,580</u>	<u>\$ 24,661</u>

### 6. Restricted fund balances

Major categories of fund balances with restrictions are as follows:

	Restricted Fund	Endowment Fund	Total 2016	2015
Hamilton Health Sciences Foundation	\$ 15,084,734	\$ 4,640,696	\$ 19,725,430	\$ 18,775,338
McMaster Children's Hospital Foundation	25,601,066	7,612,169	33,213,235	31,641,555
Hamilton General Hospital Foundation	6,861,428	1,300,080	8,161,508	5,332,492
Juravinski Hospital and Cancer Centre Foundation	21,710,310	1,857,619	23,567,929	21,024,124
St. Peter's Hospital Foundation	<u>6,274,256</u>	<u>782,770</u>	<u>7,057,026</u>	<u>7,237,798</u>
	<u>\$ 75,531,794</u>	<u>\$ 16,193,334</u>	<u>\$ 91,725,128</u>	<u>\$ 84,011,307</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.

---

# Hamilton Health Sciences Foundation

## Notes to the Financial Statements

December 31, 2016

---

### 7. Investment income

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

	2016	2015
Interest	\$ 1,588,249	\$ 1,375,828
Dividends and other investment income	1,631,849	1,587,297
Realized gain on disposal of portfolio investments	6,116,038	684,393
Fair market value adjustment	(1,962,629)	577,898
Foreign exchange gain	(28,122)	276,576
	<u>\$ 7,345,385</u>	<u>\$ 4,501,992</u>

---

### 8. Endowment funds

During the year, investment income of \$530,000 (2015 - \$450,000) was earned on the Endowment Fund of which \$511,000 (2015 - \$432,000) is included in investment income of the Restricted Fund, \$nil (2015 - \$9,000) is included in investment income of the General Fund and the remaining \$19,000 (2015 - \$9,000) is recorded as investment income of the Endowment Fund.

---

### 9. Lottery

During the year, the Foundation held one lottery (2015 - one). Financial results included in the statement of revenue, expenses and fund balances are as follows:

	2016	2015
Revenue		
Ticket sales	\$ 849,411	\$ 699,243
Other	<u>8,748</u>	<u>5,301</u>
	<u>858,159</u>	<u>704,544</u>
Expenses		
Prizes	424,706	349,625
Administrative	<u>27,600</u>	<u>17,251</u>
	<u>452,306</u>	<u>366,876</u>
Net lottery proceeds	<u>\$ 405,853</u>	<u>\$ 337,668</u>

---



---

# Hamilton Health Sciences Foundation

## Notes to the Financial Statements

December 31, 2016

---

### 10. Interfund transfers

Transfers to (from) funds consist of the following:

	<u>2016</u>		
	<u>General Fund</u>	<u>Restricted Fund</u>	<u>Endowment Fund</u>
Internal endowment of investment income	\$ -	\$ (5,060)	\$ 5,060

	<u>2015</u>		
	<u>General Fund</u>	<u>Restricted Fund</u>	<u>Endowment Fund</u>
Internal endowment of allocation of investment returns	\$ (8,686)	\$ -	\$ 8,686
Transfer lottery proceeds to restricted fund	(348,504)	348,504	-
Transfer of donations to match donor intent	-	(192,089)	192,089
	<u>\$ (357,190)</u>	<u>\$ 156,415</u>	<u>\$ 200,775</u>

---

### 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, 2016:

#### 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 Board of Directors performed significant due diligence prior to approving the transaction and is confident in the collectibility of the mortgage receivable. 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 \$33,498,000 (\$24,948,000 US). The Foundation also holds cash in United States dollars at December 31, 2016 of \$2,060,000 (\$1,535,000 US). The cash and investments are subject to foreign exchange rate fluctuations. There was no significant change in exposure from the prior year.



---

# Hamilton Health Sciences Foundation

## Notes to the Financial Statements

December 31, 2016

---

### 11. Financial instruments (continued)

#### 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, 2016 the market value of portfolio investments is \$99,994,000 (2015 - \$84,409,000), the cost of which is \$88,895,000 (2015 - \$71,449,000).

---

### 12. Commitments

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

Fiscal years ending December 31, 2017	\$ 121,000
2018	25,000
2019	6,000
2020	6,000
2021	2,000

---

### 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 \$244,262 (2015 - \$262,384) 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, 2015 indicates that the Plan has a 22.1% 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, 2016, the Foundation's accrued benefits liability is \$66,000 (2015 - \$64,000).

---

---

# Hamilton Health Sciences Foundation

## Notes to the Financial Statements

December 31, 2016

---

### 14. Credit facilities

The Foundation's credit facilities include an unsecured \$1,000,000 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, 2016 is \$nil (2015 - \$nil).

The Foundation has outstanding letters of credit for the Employee Fundraising Lottery in the amount of \$1,170,000 at December 31, 2016 (2015 - \$975,000). Subsequent to year-end, one letter of credit for \$585,000 has expired.

---