

Northumberland Hills Hospital Foundation
Financial Statements
For the year ended March 31, 2017

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Independent Auditor's Report

To the Members of
Northumberland Hills Hospital Foundation

We have audited the accompanying financial statements of Northumberland Hills Hospital Foundation, which comprise the statement of financial position as at March 31, 2017, and the statements of changes in net assets, operations 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 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, Northumberland Hills Hospital Foundation derives revenue from donations and fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the organization. Therefore, we were not able to determine whether any adjustments might be necessary to donation and fundraising revenues, excess of revenues over expenses and cash flows from operations for the years ended March 31, 2017 and 2016, current assets as at March 31, 2017 and 2016, and net assets as at April 1 and March 31 for both the 2017 and 2016 years. Our audit opinion on the financial statements for the year ended March 31, 2016 was modified accordingly because of the possible effects of this limitation in scope.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Northumberland Hills 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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Cobourg, Ontario
June 16, 2017

**Northumberland Hills Hospital Foundation
Statement of Financial Position**

March 31	General Fund	Overhead Reserve Fund	Endowment Fund	Future Equipment Reserve Fund	2017	2016
Assets						
Current						
Cash	\$ 13,091	\$ -	\$ -	\$ -	\$ 13,091	\$ 133,662
HST receivable	13,403	-	-	-	13,403	15,580
	<u>26,494</u>	-	-	-	<u>26,494</u>	<u>149,242</u>
Investments (Note 2)	5,869,640	423,828	4,208,465	1,027,788	11,529,721	7,398,777
	<u>\$ 5,896,134</u>	<u>\$ 423,828</u>	<u>\$ 4,208,465</u>	<u>\$ 1,027,788</u>	<u>\$ 11,556,215</u>	<u>\$ 7,548,019</u>
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued liabilities	\$ 37,640	\$ -	\$ -	\$ -	\$ 37,640	\$ 36,398
Accounts payable - NHH equipment purchases	1,320,212	-	-	-	1,320,212	181,610
Accounts payable - NHH gerontological program	36,000	-	-	-	36,000	-
Accounts payable - NHH educational program	90,000	-	-	-	90,000	-
Deferred revenue	-	-	-	-	-	10,000
	<u>1,483,852</u>	-	-	-	<u>1,483,852</u>	<u>228,008</u>
Net Assets						
Restricted	-	-	3,782,603	-	3,782,603	3,267,333
Internally restricted	-	423,828	425,862	1,027,788	1,877,478	1,579,143
Unrestricted	4,412,282	-	-	-	4,412,282	2,473,535
	<u>4,412,282</u>	<u>423,828</u>	<u>4,208,465</u>	<u>1,027,788</u>	<u>10,072,363</u>	<u>7,320,011</u>
	<u>\$ 5,896,134</u>	<u>\$ 423,828</u>	<u>\$ 4,208,465</u>	<u>\$ 1,027,788</u>	<u>\$ 11,556,215</u>	<u>\$ 7,548,019</u>

On behalf of the Board

Director

Director

**Northumberland Hills Hospital Foundation
Statement of Changes in Net Assets**

For the year ended March 31

2017

2016

	General Fund	Overhead Reserve Fund	Endowment Fund	Future Equipment Reserve Fund	Total	Total
Balance, beginning of year	\$ 2,473,535	\$ 417,963	\$ 3,622,808	\$ 805,705	\$ 7,320,011	\$ 4,556,758
Excess of revenues over expenses	1,995,718	5,865	728,686	22,083	2,752,352	2,763,253
	4,469,253	423,828	4,351,494	827,788	10,072,363	7,320,011
Interfund transfers						
Internal commitment	(65,971)	-	(134,029)	200,000	-	-
Administration fee	9,000	-	(9,000)	-	-	-
Balance, end of year	\$ 4,412,282	\$ 423,828	\$ 4,208,465	\$ 1,027,788	\$ 10,072,363	\$ 7,320,011

Northumberland Hills Hospital Foundation Statement of Revenues and Expenses

For the year ended March 31

					2017	2016	2015
	General Fund	Overhead Reserve Fund	Endowment Fund	Future Equipment Reserve Fund	Total	Total	Total
Revenues							
Donations	\$ 1,135,000	\$ -	\$ -	\$ -	\$ 1,135,000	\$ 548,405	\$ 455,516
Equipped to Care Campaign	811,800	-	-	-	811,800	2,488,004	604,235
Caring for Generations/Business partners	177,748	-	-	-	177,748	178,344	185,426
Signature events	558,899	-	-	-	558,899	574,926	556,530
Third party events	73,541	-	-	-	73,541	63,466	66,182
In Memoriam donations/Commemorative giving	77,820	-	-	-	77,820	120,247	107,718
Planned giving	1,524,590	-	58,288	-	1,582,878	12,707	109,218
Pledge redemptions - Care Close to Home	-	-	-	-	-	5,414	-
Endowment donations	-	-	391,372	-	391,372	321,937	230,048
Investment income	64,964	29,089	102,670	7,811	204,534	205,784	144,210
Gain (loss) on sale of investments	(194)	-	(54,285)	31,945	(22,534)	(143,502)	611,100
Gain (loss) on sale of donated shares	(15,158)	-	-	-	(15,158)	(3,860)	(5,777)
Increase (decrease) in unrealized gain on investments	(10,302)	(23,224)	280,252	(17,673)	229,053	(78,375)	(408,843)
	4,398,708	5,865	778,297	22,083	5,204,953	4,293,497	2,655,563
Expenses							
Advertising and creative	1,513	-	-	-	1,513	1,139	1,460
Bank charges and administration fees	10,024	-	49,611	-	59,635	53,181	21,922
Board/staff development and travel	3,566	-	-	-	3,566	6,298	3,140
Computer supplies and software	8,507	-	-	-	8,507	6,638	5,157
Fundraising	149,503	-	-	-	149,503	135,388	169,938
Hospital services chargeback	6,236	-	-	-	6,236	6,236	6,372
Mailings and postage	12,619	-	-	-	12,619	15,507	13,066
Memberships	1,872	-	-	-	1,872	1,914	1,869
Office and miscellaneous	11,766	-	-	-	11,766	8,483	7,409
Printing and newsletter	6,563	-	-	-	6,563	8,476	8,542
Professional and contract services	31,877	-	-	-	31,877	39,471	18,585
Salaries and benefits	292,596	-	-	-	292,596	296,073	327,694
Stewardship	13,717	-	-	-	13,717	12,538	27,378
	550,359	-	49,611	-	599,970	591,342	612,532
Excess of revenues over expenses before distributions to Northumberland Hills Hospital	3,848,349	5,865	728,686	22,083	4,604,983	3,702,155	2,043,031
Donations and distributions to Hospital	1,852,631	-	-	-	1,852,631	938,902	1,897,534
Excess of revenues over expenses	\$ 1,995,718	\$ 5,865	\$ 728,686	\$ 22,083	\$ 2,752,352	\$ 2,763,253	\$ 145,497

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

**Northumberland Hills Hospital Foundation
Statement of Cash Flows**

For the year ended March 31

2017

2016

	General Fund	Overhead Reserve Fund	Endowment Fund	Future Equipment Reserve Fund	Total	Total
Cash flows from operating activities						
Excess of revenues over expenses	\$ 1,995,718	\$ 5,865	\$ 728,686	\$ 22,083	\$ 2,752,352	\$ 2,763,253
Items not involving cash						
Interfund transfers	(56,971)	-	(143,029)	200,000	-	-
	1,938,747	5,865	585,657	222,083	2,752,352	2,763,253
Changes in non-cash working capital balances						
HST receivable	2,177	-	-	-	2,177	(1,909)
Accounts payable and accrued liabilities	1,242	-	-	-	1,242	(549)
Accounts payable - NHH equipment purchases	1,138,602	-	-	-	1,138,602	(1,445,708)
Accounts payable - NHH gerontological program	36,000	-	-	-	36,000	-
Accounts payable - NHH educational program	90,000	-	-	-	90,000	-
Deferred revenue	(10,000)	-	-	-	(10,000)	(10,000)
	3,196,768	5,865	585,657	222,083	4,010,373	1,305,087
Cash flows from investing activities						
Decrease (increase) in investments	(3,317,339)	(5,865)	(585,657)	(222,083)	(4,130,944)	(1,259,591)
Increase (decrease) in cash during the year	(120,571)	-	-	-	(120,571)	45,496
Cash and equivalents, beginning of year	133,662	-	-	-	133,662	88,166
Cash and equivalents, end of year	\$ 13,091	\$ -	\$ -	\$ -	\$ 13,091	\$ 133,662

Northumberland Hills Hospital Foundation Notes to Financial Statements

March 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies

Nature and Purpose of Organization

Northumberland Hills Hospital Foundation ("the Foundation") is incorporated without share capital under the Corporations Act, Ontario and is a charitable organization whose purpose is to raise funds for the Hospital and health care. The mission of the Foundation is to improve health care and the quality of life in our communities by growing and maintaining donor support for key hospital capital needs.

The Foundation is a registered charity, and accordingly is exempt from income tax and may issue income tax receipts to donors.

Basis of Accounting

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The accrual basis recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of goods or services received and the creation of a legal obligation to pay.

Fund Accounting

The Foundation follows the Restricted Fund method of accounting for contributions.

The General Fund represents all ongoing fundraising activities and supports other board approved programs. This fund is also known as the core activities account. The objective of the fund is to distribute up to 80% of the current year's undesignated net operating cash flow. Net operating cash flow represents total fundraising revenues less total administrative and program expenses, less designated gifts, and less 10% of the full amount of unrestricted bequests transferred to the endowment fund. Funds are disbursed upon request from the hospital for approved capital items and/or program expenses.

The Overhead Reserve Fund relates to an internally restricted fund balance with the objective to maintain a balance equal to the core activities expense budget for the next fiscal year. There are no deposits, withdrawals or transfers from this fund unless authorized by a board resolution.

The Endowment Fund consists of General and Named Endowments.

General Endowments are internally restricted and reflect 10% of the amount of general bequests received by the Foundation and unnamed endowments, to be held and invested permanently. Investment income on General Endowments is accumulated and will be disbursed annually to finance hospital capital requirements as approved by the Foundation Board and in accordance with Canada Revenue Agency requirements.

Named Endowments reflect externally restricted donation contributions, with a minimum donation amount of \$25,000, the proceeds of which are to be invested and held permanently by the Foundation, and subject to individual endowment agreements entered into by the specific donor and the Foundation. The investment income will be accumulated in the fund. Disbursements of income from the fund shall be in accordance with the terms of the specific endowment and Canada Revenue Agency requirements.

Northumberland Hills Hospital Foundation

Notes to Financial Statements

March 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Fund accounting	The Future Equipment Reserve Fund represents 20% of the annual net operating cash flow (to an annual maximum of \$200,000) plus investment yield. The objective of the fund is to grow to \$1 million at which time the appropriateness of continuing to build the fund will be reviewed. In addition, this fund will include monies designated for special projects approved by the Foundation board.
Foreign Currency Translations	<p>Foreign currency amounts are translated into Canadian dollars as follows:</p> <p>At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by using the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the balance sheet date. The resulting foreign exchange gains and losses are included in income in the current period.</p>
Revenue Recognition	<p>Externally restricted contributions (grants and donations) are recognized in the fund corresponding to the purpose for which they are contributed.</p> <p>Contributions are recognized as revenue in the General Fund and consists of Equipped to Care Campaign and other donations, Caring for Generations/Business partners, Signature and Third Party events, Planned Givings, and receipts from pledges. Donation contributions received for specific equipment are also included as revenue of the General Fund.</p> <p>Investment income includes dividend and interest income, realized investment gains and losses on sales of investments, and unrealized gains and losses on investments measured at fair value.</p>
Recognition of Pledges	Due to the uncertainty surrounding the collectibility of pledges, the organization does not recognize pledges until received, since they are not considered legal obligations.
Contributed Services	The Foundation would not be able to carry out its activities without the services of many volunteers who donate a considerable number of hours. Because of the difficulty of compiling these hours, contributed services are not recognized in the financial statements. The value of donated gifts-in-kind have not been reflected in the records as their monetary value cannot be ascertained.
Use of Estimates	The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of these financial statements include, but are not limited to, accounts payable and accrued liabilities. Actual results could differ from management's best estimates as additional information becomes available in the future.

Northumberland Hills Hospital Foundation Notes to Financial Statements

March 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Investments	Investments are recorded at fair value. Fair values of the investments are determined by reference to published price quotations provided by the organization's investment broker. Realized gains and losses on the sale of investments are determined on a completed transaction basis.
Financial Instruments	The organization's financial assets consisting of HST receivable are recorded at fair value when acquired or issued. In subsequent periods they are reported at cost or amortized cost, less impairment, if applicable.
Cash and equivalents	Cash and cash equivalents consists of cash on hand and balances in bank accounts.

2. Investments

	2017		2016	
	Cost	Accumulated Unrealized Gains (losses)	Market Value	Market Value
General Fund				
Cash	\$ 3,873,265	\$ -	\$ 3,873,265	\$ 422,393
Fixed income and accrued interest	1,991,772	4,603	1,996,375	2,129,908
Total general fund	5,865,037	4,603	5,869,640	2,552,301
Overhead Reserve				
Fixed income	418,230	5,598	423,828	417,963
Endowments				
Cash	145,882	-	145,882	97,367
Fixed income	1,756,406	(20,139)	1,736,267	1,641,746
Market-indexed equities	885,739	188,752	1,074,491	901,599
U.S. Market-indexed equities	1,105,864	145,961	1,251,825	982,096
Total endowments	3,893,891	314,574	4,208,465	3,622,808
Future Equipment Reserve Fund				
Cash	13	-	13	215,845
Fixed income	1,027,775	-	1,027,775	352,073
Market-indexed equities	-	-	-	111,005
U.S. Market-indexed equities	-	-	-	126,782
Total future equipment reserve fund	1,027,788	-	1,027,788	805,705
Total investments	\$ 11,204,946	\$ 324,775	\$ 11,529,721	\$ 7,398,777

Northumberland Hills Hospital Foundation Notes to Financial Statements

March 31, 2017

2. Investments (Continued)

The fixed income investments are comprised of guaranteed term deposits, government and corporate bonds and bankers acceptance notes. The various fixed income investments contain effective interest rates ranging from 0.85% to 5.05% and mature with dates ranging from November 2017 to September 2028.

3. Related Party Transactions

During the year, the Foundation paid \$292,596 to the Northumberland Hills Hospital for personnel costs and benefits on a cost-recovery basis (2016 - \$296,073).

During the year, the Foundation paid \$6,236 to the Northumberland Hills Hospital for hospital service chargebacks (2016 - \$6,236).

Distributions of \$1,852,631 (2016 - \$938,902) were all made to the Northumberland Hills Hospital.

The year-end accounts payable and accrued liabilities include the following amounts owed to Northumberland Hills Hospital:

	<u>2017</u>	<u>2016</u>
Personnel costs and benefits	\$ 27,143	\$ 25,898
Equipment purchases and program funding	1,446,212	181,610
	<u>\$ 1,473,355</u>	<u>\$ 207,508</u>

These transactions are in the normal course of operations and are measured at the exchange value which represents the amount of consideration established and agreed to by the parties.

4. Commitments

The Foundation entered into an agreement to support key elements of the Northumberland Hills Hospital's Gerontology Program for a total cost of approximately \$498,700. As at March 31, 2017, approximately \$305,547 of costs have been incurred and related distributions made to the Northumberland Hills Hospital.

During the year, the Foundation received a donation of \$1,000,000 from a donor for a specific equipment purchase: an interventional radiography unit. The equipment purchase has not occurred as of year-end, and therefore these funds are reported under the General Fund and will be held until the purchase has been completed.

The Hospital has requested that the Foundation allocate funds for the future investment in a new clinical information system. The clinical information system is scheduled to be purchased in 2019 with a cost of approximately \$6,000,000. Due to the sizable contribution required for this project, the Foundation is planning its cash resources to ensure the funds are available for this expenditure.

Northumberland Hills Hospital Foundation Notes to Financial Statements

March 31, 2017

5. Pledges

The Foundation defines a pledge as a commitment in writing with due dates extending beyond 12 months from the date the pledge is made. Pledges receivable are not reflected in the statement of financial position since they are not considered legal obligations.

The Foundation has pledges receivable of \$761,986 for the Equipped to Care Program.

6. Financial Instrument Risks

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 bank accounts are held at a major financial institution and the investments are held primarily with one major investment broker.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The organization is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the value of fixed income investments, which represent approximately 45% of the fair market value of the investments disclosed in Note 2 to these financial statements.

Currency Rate Risk

Currency risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Foundation is exposed to currency rate risk through its holdings in US market-indexed equities, which represent approximately 11% of the fair market value of the investments, as disclosed in Note 2 to these financial statements.

Market Risk

Market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, other than those arising from interest rate risk or currency risk. The Foundation is exposed to market risk on its investments through fluctuations in the bond and equity markets and these investments are not guaranteed. To manage these risks, the Foundation uses independent investment advisors and has developed an investment policy guideline to reduce risk. The Foundation receives monthly statements and meets on a quarterly and yearly basis with investment counsel.

7. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the financial statement presentation adopted for the current year.
