

Financial Statements of

**UNIVERSITY HOSPITALS
KINGSTON FOUNDATION**

Year ended March 31, 2014

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Financial Statements

Year ended March 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of University Hospitals Kingston Foundation

We have audited the accompanying financial statements of University Hospitals Kingston Foundation, which comprise the statement of financial position as at March 31, 2014, the statements of operations and changes in net assets and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider 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, University Hospitals Kingston Foundation derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the entity and we were not able to determine whether, as at and for the years ended March 31, 2014 and March 31, 2013, any adjustments might be necessary to donations revenue, excess of revenue over expenses, current assets and net assets.

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 University Hospitals Kingston Foundation as at March 31, 2014, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

June 12, 2014

Kingston, Canada

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Statement of Financial Position

March 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets		
Cash	\$ 1,201,204	\$ 748,936
Short-term investments	–	500,000
Accounts receivable (notes 3, 6(b) and 6(c))	280,042	212,044
Prepaid expenses	37,981	44,907
	<u>1,519,227</u>	<u>1,505,887</u>
Capital assets (note 4)	27,705	25,142
	<u>\$ 1,546,932</u>	<u>\$ 1,531,029</u>

Liabilities and Deferred Capital Contributions

Current liabilities		
Payable to General Members (note 6(b) and 6(c))	\$ 1,084,820	\$ 1,180,889
Other payables (notes 6(d) and 7)	434,407	324,998
	<u>1,519,227</u>	<u>1,505,887</u>
Deferred capital contributions (note 5)	27,705	25,142
Commitments (note 8)		
Contingent liabilities (note 9)		
Economic independence (note 10)		
Subsequent event (note 11)		
	<u>\$ 1,546,932</u>	<u>\$ 1,531,029</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Member

_____ Member

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Statement of Operations and Changes in Net Assets

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Revenue		
Donations (note 6(b))	\$ 8,939,660	\$13,565,857
Gifts-in-kind	–	43,289
Contributions from General Members (note 6(c))	3,014,929	2,485,266
Other income	44,796	83,029
Amortization of deferred capital contributions (note 5)	6,815	6,974
	<u>12,006,200</u>	<u>16,184,415</u>
Expenses		
Salaries and benefits	2,084,982	1,726,570
Other supplies	974,743	841,725
Gifts-in-kind	–	43,289
Amortization of capital assets	6,815	6,974
	<u>3,066,540</u>	<u>2,618,558</u>
Excess of revenue over expenses before undernoted item	8,939,660	13,565,857
Transfers to General Members (note 6(b))	8,939,660	13,565,857
Excess of revenue over expenses	–	–
Net assets, beginning of year	–	–
Net assets, end of year	<u>\$ –</u>	<u>\$ –</u>

See accompanying notes to financial statements.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ -	\$ -
Items not involving cash:		
Amortization of capital assets	6,815	6,974
Amortization of deferred capital contributions	(6,815)	(6,974)
Changes in non-cash operating working capital:		
Accounts receivable	(67,998)	(36,427)
Prepaid expenses	6,926	(9,813)
Payable to General Members	(96,069)	(762,208)
Other payables	109,409	48,035
	(47,732)	(760,413)
Financing activities:		
Increase in deferred capital contributions	9,378	30,092
Investing activities:		
Sale of short-term investments	500,000	-
Purchase of capital assets	(9,378)	(30,092)
	490,622	(30,092)
Increase (decrease) in cash	452,268	(760,413)
Cash, beginning of year	748,936	1,509,349
Cash, end of year	\$ 1,201,204	\$ 748,936

See accompanying notes to financial statements.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements

Year ended March 31, 2014

The University Hospitals Kingston Foundation (the "Foundation") was incorporated on October 7, 2005 without share capital under the Ontario Corporations Act. Its principal activity is to receive and maintain a fund or funds and to apply all or part of the principal and income therefrom, from time to time to charitable organizations that are also registered charities under the *Income Tax Act*, and in particular, to support the hospitals in the Kingston region, including Frontenac County, and their respective satellite programs and clinics located in South Eastern Ontario and Northern Ontario.

The Foundation is owned by its General Members: Kingston General Hospital Foundation, the Providence Continuing Care Centre Foundation operating as Providence Care Foundation and the Jeanne Mance Foundation of Kingston (Hotel Dieu Hospital) and governed by its General Members Agreement, which was signed October 17, 2005. The purpose of the Foundation is to maximize fundraising revenues and program efficiency to raise funds by way of public appeal for the benefit of all of the General Members and their related hospitals: Kingston General Hospital (KGH) and its cancer care program, Hotel Dieu Hospital (HDH) and Providence Care Centre operating as Providence Care (PC) (collectively referred to as the "Related Hospitals"). All funds raised by the Foundation will be disbursed to its General Members, and the General Members will reimburse the Foundation for all of its costs.

The Foundation is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the *Income Tax Act* are met.

The Foundation commenced operations in November 1, 2005 and began receiving donations on behalf of its General Members on December 1, 2005.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CPA Canada Handbook - Accounting.

(a) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions, which include donations.

Contributions from General Members are recorded as revenue in the period to which they relate. Where a portion of contributions from General Members or others relate to a future period, it is deferred and recognized in that subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(a) Revenue recognition (continued):

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Pledges are recorded as revenue on a cash basis and accordingly not set up as assets in the financial statements.

(b) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

(c) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rates:

Asset	Rate
Furniture	20%
Leasehold improvements	20%
Telecommunications equipment	20%

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Foundation has not elected to subsequently carry any such financial instruments at fair value.

Financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(d) Financial instruments (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(e) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Pledges:

The total amount of pledges outstanding is approximately \$ 12.2 million at March 31, 2014 (2013 - \$14.2 million). The majority of pledges outstanding are due by March 31, 2017.

3. Accounts receivable:

	2014	2013
Contributions receivable from General		
Members (note 6(c))	\$ 50,618	\$ 127,562
Reimbursements receivable from General		
Members (note 6(e))	119,114	3,638
Other receivables	110,310	80,844
	280,042	212,044
Less allowance for doubtful accounts	—	—
	\$ 280,042	\$ 212,044

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

4. Capital assets:

	Cost	Accumulated amortization	2014 Net book value	2013 Net book value
Furniture	\$ 32,570	\$ 27,479	\$ 5,091	\$ 6,698
Leasehold improvements	22,055	8,038	14,017	18,444
Telecommunications equipment	9,378	782	8,597	—
	<u>\$ 64,003</u>	<u>\$ 36,299</u>	<u>\$ 27,705</u>	<u>\$ 25,142</u>

Cost and accumulated amortization at March 31, 2013 amounted to \$66,747 and \$41,605 respectively.

5. Deferred capital contributions:

Deferred capital contributions related to capital assets represent the unamortized amount of contributions received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2014	2013
Balance, beginning of the year	\$ 25,142	\$ 2,024
Add deferred contributions received	9,378	30,092
Less amortization of deferred capital contributions	(6,815)	(6,974)
	<u>\$ 27,705</u>	<u>\$ 25,142</u>

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

6. Related party transactions:

- (a) As stated in its General Members Agreement, the General Members will share in all costs associated with operating the Foundation based upon a cost sharing formula to be established yearly in the Business Plan. Active Campaigning for the Together We Can (“TWC”) campaign ceased in June 2011. For the TWC campaign, the following sharing formula was used:

Kingston General Hospital Foundation (including <i>Cancer Care of Southeastern Ontario at KGH</i>)	59.10%
Providence Continuing Care Centre Foundation operating as Providence Care Foundation	28.20%
Jeanne Mance Foundation of Kingston	12.70%
Total	100.0%

In July, 2011, a new sharing formula was adopted that is updated annually. The following sharing formulas were also used for operating expenses (excluding expenses incurred for each General Member’s Signature Event, which are billed directly):

	2014	2013
Kingston General Hospital Foundation (including <i>Cancer Care of Southeastern Ontario at KGH</i>)	68.68%	68.33%
Providence Continuing Care Centre Foundation operating as Providence Care Foundation	18.51%	20.07%
Jeanne Mance Foundation of Kingston	12.81%	11.60%
Total	100.0%	100.0%

The General Members Agreement also states that the General Members will share all revenue based on a revenue sharing formula to be established yearly in the Business Plan. Donations entirely directed to a specific General Member (“Specified”) will be transferred in their entirety to the General Member. The undesignated revenue (“Shared”) will be disbursed among the General Members in such a way as to achieve the overall distribution of revenue according to the specified ratios above. Payments on pledges received and payments of new cash received before June 30, 2011 were shared using the TWC sharing formula. Payments on new pledges and payments of new cash received after June 30, 2011 were shared using the new sharing formula.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

6. Related party transactions (continued):

(a) (continued):

The ratio of the final distribution may not equal the above ratio because Signature Events Revenue, Endowments and donations designated for Research are excluded when calculating the sharing formula up to March 31st, 2013. Donations designated for Research are included in the sharing formula effective April 1, 2013. Because they cannot be spent, Endowments are excluded from the sharing formula calculations; however, the estimated annual payment for Endowments is included.

(b) Donation revenue was allocated as follows:

	Specified	Shared	2014	2013
Kingston General Hospital Foundation	\$ 4,296,042	\$ 1,672,759	\$ 5,968,801	\$ 5,730,698
Providence Continuing Care Centre Foundation operating as Providence Care Foundation	797,110	906,149	1,703,259	6,655,960
Jeanne Mance Foundation of Kingston	694,243	573,357	1,267,600	1,179,199
	\$ 5,787,395	\$ 3,152,265	\$ 8,939,660	\$ 13,565,857

Included in accounts receivable is \$49,813 (2013 - \$29,010) of such revenue.

Included in the balance payable to General Members is \$922,491 (2013 - \$1,023,935) of such revenue.

(c) Operating expenses were shared as follows:

	2014	2013
Kingston General Hospital Foundation	\$ 2,025,888	\$ 1,601,900
Providence Continuing Care Centre Foundation operating as Providence Care Foundation	587,318	579,482
Jeanne Mance Foundation	401,726	303,884
Total operating expenses	\$ 3,014,932	\$ 2,485,266

Included in accounts receivable is \$50,618 (2013 - \$127,562) of contributions receivable from General Members.

Included in the balance payable to General Members is \$132,237 (2013 - \$137,974) of contributions from General Members in excess of expenses.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

6. Related party transactions (continued):

- (d) During the year, the Related Hospitals made certain expenses on the Foundation's behalf, including the funding of salaries, wages and other expenses for which the Related Hospitals were reimbursed. During the year, aggregate expenses of the Related Hospitals related to salaries, wages and benefits amounted to \$2,084,982 (2013 - \$1,726,070) while other expenses were \$27,917 (2013 - \$126,333). Included in other payables is \$190,586 (2013 - \$160,873) payable to Related Hospitals relating to the reimbursement of such payments.
- (e) The Foundation paid \$64,842 (2013 - \$5,979) in other expenses on behalf of its General Members. Included in account receivables is \$65,087 (March 31, 2013 - \$Nil) due from General Members relating to the reimbursement of such payments.
- (f) The Foundation incurs expenses with parties with which certain members of its Board of Directors (other than the hospital employees) are associated. During the year, transactions involving the Foundation and these parties amounted to \$250 (2013 - \$Nil). These transactions are considered to be in the normal course of business and are recorded at the exchange amount.
- (g) Unless otherwise noted, transactions between the Foundation and its General Members are recorded at their carrying amount.

7. Other payables:

Included in other payables are government remittances payable of \$Nil (2013 - \$191), which includes amounts payable for self-assessed HST.

8. Commitments:

- (a) At March 31, 2014, minimum annual lease payments under an operating lease expiring May 31, 2017 are \$121,372 and aggregate \$364,116 over the remaining term of the lease.
- (b) Other commitments primarily relate to the purchase of professional services primarily from the Related Hospitals of \$153,650. Total commitments amounting to approximately \$195,940 are expected to be paid over the next fiscal year.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

9. Contingent liabilities:

The Foundation is a member of the Healthcare Insurance Reciprocal of Canada (HIROC). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. Subscribers pay annual premiums that are actuarially determined. Subscribers are subject to assessment for losses, if any, experienced by the pool for the years in which they were a subscriber. No assessments have been made to March 31, 2014.

Since its inception in 1987 HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income less the obligation for claims reserves and expenses and operating expenses. Each subscriber which has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There are no distributions receivable from HIROC as of March 31, 2014.

10. Economic dependence:

In accordance with the terms of the General Members Agreement in note 6(a), the Foundation is economically dependent on its General Members for funding its continued operations.

11. Subsequent event:

On May 22, 2014, an application for Letters Patent of Amalgamation was filed with the office of the Public Guardian and Trustee on behalf of the Kingston General Hospital Foundation, Providence Care Foundation, Jeanne Mance Foundation and University Hospitals Kingston Foundation. The proposed date for amalgamation to take effect is July 1, 2014. On the date amalgamation takes effect, the parties will continue as one corporation under the Foundation's corporate name, University Hospitals Kingston Foundation.

12. Financial risks and concentration of risk:

(a) Liquidity risk:

Liquidity risk is the risk that the Foundation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Foundation manages its liquidity risk by monitoring its operating requirements. The Foundation prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2013.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

12. Financial risks and concentration of risk (continued):

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Foundation is exposed to credit risk with respect to accounts receivable. The Foundation assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.