

Financial Statements of

**UNIVERSITY HOSPITALS
KINGSTON FOUNDATION**

Years ended March 31, 2013 and 2012

UNIVERSITY HOSPITALS KINGSTON FOUNDATION
Financial Statements

Years ended March 31, 2013 and 2012

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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 statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the statements of operations and changes in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 audits. We conducted our audits 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 in our audits 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, 2013 and March 31, 2012, any adjustments might be necessary to donations revenue, excess of revenue over expenses, current assets and current liabilities.

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, 2013, March 31, 2012 and April 1, 2011, and its results of operations, changes in net assets and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 20, 2013

Kingston, Canada

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Statements of Financial Position

March 31, 2013, March 31, 2012 and April 1, 2011

	March 31, 2013	March 31, 2012	April 1, 2011
Assets			
Current assets:			
Cash	\$ 748,936	\$ 1,509,349	\$ 1,075,410
Short-term investments	500,000	500,000	500,000
Accounts receivable (notes 3, 6(b) and 6(c))	212,044	175,617	117,854
Prepaid expenses	44,907	35,094	32,236
	1,505,887	2,220,060	1,725,500
Capital assets (note 4)	25,142	2,024	10,123
	\$ 1,531,029	\$ 2,222,084	\$ 1,735,623

Liabilities and Deferred Capital Contributions

Current liabilities:			
Payable to General Members (note 6(b) and 6(c))	\$ 1,180,889	\$ 1,943,097	\$ 1,463,794
Other payables (notes 6(d) and 7)	324,998	276,963	261,706
	1,505,887	2,220,060	1,725,500
Deferred capital contributions (note 5)	25,142	2,024	10,123
Commitments (note 8)			
Contingent liabilities (note 9)			
Economic independence (note 10)			
	\$ 1,531,029	\$ 2,222,084	\$ 1,735,623

See accompanying notes to financial statements.

On behalf of the Board:

_____ Member

_____ Member

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Statements of Operations and Changes in Net Assets

Years ended March 31, 2013 and 2012

	2013	2012
Revenue:		
Donations (note 6(b))	\$ 13,565,857	\$11,800,616
Gifts-in-kind	43,289	177,539
Contributions from General Members (note 6(c))	2,485,266	2,283,659
Other income	83,029	65,413
Amortization of deferred capital contributions	6,974	8,099
	<u>16,184,415</u>	<u>14,335,326</u>
Expenses:		
Salaries and benefits	1,726,570	1,578,393
Other supplies	841,725	770,679
Gifts-in-kind	43,289	177,539
Amortization of capital assets	6,974	8,099
	<u>2,618,558</u>	<u>2,534,710</u>
Excess of revenue over expenses before undernoted item	13,565,857	11,800,616
Transfers to General Members (note 6(b))	13,565,857	11,800,616
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

Statements of Cash Flows

Years ended March 31, 2013 and 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ —	\$ —
Items not involving cash:		
Amortization of capital assets	6,974	8,099
Amortization of deferred capital contributions	(6,974)	(8,099)
Changes in non-cash operating working capital:		
Accounts receivable	(36,427)	(57,763)
Prepaid expenses	(9,813)	(2,858)
Payable to General Members	(762,208)	479,303
Other payables	48,035	15,257
	(760,413)	433,939
Financing activities:		
Increase in deferred capital contributions	30,092	—
Investing activities:		
Purchase of capital assets	(30,092)	—
Increase (decrease) in cash	(760,413)	433,939
Cash, beginning of year	1,509,349	1,075,410
Cash, end of year	\$ 748,936	\$ 1,509,349

See accompanying notes to financial statements.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements

Years ended March 31, 2013 and 2012

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 (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.

On April 1, 2012, the Foundation adopted Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CICA Handbook. These are the first financial statements prepared in accordance with Not-For-Profit Standards.

In accordance with the transitional provisions in Not-For-Profit Standards, the Foundation has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying Not-For-Profit Standards.

There were no adjustments to net assets as at April 1, 2011 or excess of revenue over expenses for the year ended March 31, 2012 as a result of the transition to these standards.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

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 CICA Handbook.

(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.

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 purchased in 2005 were amortized on a straight-line basis using the following annual rates and were fully depreciated in June 2012:

Asset	Rate
Furniture	15%
Leasehold improvements	15%

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

1. Significant accounting policies (continued):

(c) Capital assets (continued):

Capital assets purchased in 2013 are amortized on a straight-line basis using the following annual rates:

Asset	Rate
Furniture	20%
Leasehold improvements	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.

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 \$14.2 million at March 31, 2013 (2012 - \$17.9 million). The majority of pledges outstanding are due by March 31, 2016.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

3. Accounts receivable:

	March 31, 2013	March 31, 2012	April 1, 2011
Contributions receivable from General Members (note 6(c))	\$ 127,562	\$ 100,641	\$ 33,205
Reimbursements receivable from General Members (note 6(e))	3,638	2,161	68
Other receivables (note 6(b))	80,844	72,815	84,581
	212,044	175,617	117,854
Less allowance for doubtful accounts	—	—	—
	\$ 212,044	\$ 175,617	\$ 117,854

4. Capital assets:

March 31, 2013	Cost	Accumulated amortization	Net book value
Telecommunications equipment	\$ 12,122	\$ 12,122	\$ —
Furniture	32,570	25,872	6,698
Leasehold improvements	22,055	3,611	18,444
	\$ 66,747	\$ 41,605	\$ 25,142

March 31, 2012	Cost	Accumulated amortization	Net book value
Telecommunications equipment	\$ 12,122	\$ 12,122	\$ —
Furniture	24,534	23,614	920
Leasehold improvements	29,456	28,352	1,104
	\$ 66,112	\$ 64,088	\$ 2,024

April 1, 2011	Cost	Accumulated amortization	Net book value
Telecommunications equipment	\$ 12,122	\$ 12,122	\$ —
Furniture	24,534	19,934	4,600
Leasehold improvements	29,456	23,933	5,523
	\$ 66,112	\$ 55,989	\$ 10,123

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

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.

	2013	2012
Balance, beginning of the year	\$ 2,024	\$ 10,123
Add deferred contributions received	30,092	—
Less amortization of deferred capital contributions	(6,974)	(8,099)
	\$ 25,142	\$ 2,024

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. At that time, a new sharing formula was adopted. In 2013, additional changes were made to the sharing formula. The following sharing formulas were also used for operating expenses (excluding expenses incurred for each General Member’s Signature Event, which are billed directly):

	April 1, 2011 - June 30, 2011	July 1, 2011 - March 31, 2012	April 1, 2012 - March 31, 2013
Kingston General Hospital Foundation (including <i>Cancer Care of Southeastern Ontario at KGH</i>)	59.10%	66.82%	68.33%
Providence Continuing Care Centre Foundation operating as Providence Care Foundation	28.20%	19.94%	20.07%
Jeanne Mance Foundation	12.70%	13.24%	11.60%
Total	100.0%	100.0%	100.0%

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

6. Related party transactions (continued):

(a) (continued):

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 sharing formula in effect at that time.

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. 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	2013
Kingston General Hospital Foundation	\$ 3,750,066	\$ 1,980,632	\$ 5,730,698
Providence Continuing Care Centre Foundation operating as Providence Care Foundation	5,675,530	980,430	6,655,960
Jeanne Mance Foundation	780,595	398,604	1,179,199
	\$ 10,206,191	\$ 3,359,666	\$ 13,565,857

	Specified	Shared	2012
Kingston General Hospital Foundation	\$ 6,056,713	\$ 2,184,946	\$ 8,241,659
Providence Continuing Care Centre Foundation operating as Providence Care Foundation	1,031,117	1,215,118	2,246,235
Jeanne Mance Foundation	568,597	744,125	1,312,722
	\$ 7,656,427	\$ 4,144,189	\$ 11,800,616

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

6. Related party transactions (continued):

(b) (continued):

Included in accounts receivable is \$29,010 (March 31, 2012 - \$29,378; April 1, 2011 - \$50,092) of such revenue.

Included in the balance payable to General Members is \$1,023,935 (March 31, 2012 - \$1,810,905; April 1 - 2011 - \$1,226,192) of such revenue.

(c) Operating expenses were shared as follows:

	2013	2012
Kingston General Hospital Foundation	\$ 1,601,900	\$ 1,487,473
Providence Continuing Care Centre Foundation operating as Providence Care Foundation	579,482	495,001
Jeanne Mance Foundation	303,884	301,185
Total operating expenses	\$ 2,485,266	\$ 2,283,659

Included in accounts receivable is \$127,562 (March 31, 2012 - \$100,641; April 1, 2011 - \$33,205) of contributions receivable from General Members.

Included in the balance payable to General Members is \$137,974 (March 31 2012 - \$132,192; April 1, 2011 - 2011 - \$237,602) of contributions from General Members in excess of expenses.

(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 paid by the Related Hospitals related to salaries, wages and benefits amounted to \$1,726,070 (2012 - \$1,584,224) while other expenses were \$126,333 (2012 - \$56,229). Included in other payables is \$160,873 (March 31, 2012 - \$139,856; April 1, 2011 - \$134,359) payable to Related Hospitals relating to the reimbursement of such payments.

(e) In addition, the Foundation also paid \$5,979 (2012 - \$10,341) in other expenses on behalf of its General Members. Included in account receivables is \$3,638 (March 31, 2012 - \$2,161; April 1, 2011 - \$68) due from General Members relating to the reimbursement of such payments.

(f) Unless otherwise noted, transactions between the Foundation and its General Members are recorded at their carrying amount.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

6. Related party transactions (continued):

- (g) The Foundation may incur expenses with parties with which certain members of its Board of Directors (other than employees of Related Hospitals) are associated. Transactions involving the Foundation and these parties in 2013 were \$Nil (2012 - \$12,479). These transactions are considered to be in the normal course of operations and are recorded at the exchange amount.

7. Other payables:

Included in other payables are government remittances payable of \$191 (March 31, 2012 - \$7; April 1, 2011 - \$7), which includes amounts payable for self-assessed HST.

8. Commitments:

- (a) At March 31, 2013, minimum annual lease payments under an operating lease expiring May 31, 2017 are \$121,372 and aggregate \$485,486 over the remaining term of the lease.
- (b) Other commitments primarily relate to the purchase of professional services from the Related Hospitals of \$109,936. Total commitments amounting to approximately \$227,432 are expected to be paid over the next fiscal year and \$39,777 thereafter.

9. Contingent liabilities:

The Foundation is a member of the Healthcare Insurance Reciprocal of Canada, which is a self-funding public liability insurer ("HIROC"). Since its inception in 1987, HIROC has accumulated an unappropriated surplus. In the event that public liability claims exceed the balance in the fund, the Foundation would be liable for its pro rata share of the deficiency. No assessments for losses have been made to March 31, 2013.

10. Economic independence:

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. 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 2012.

UNIVERSITY HOSPITALS KINGSTON FOUNDATION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

11. Financial risks and concentration of risk:

(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 the short-term investments and accounts receivable. The short-term investments are invested with large financial institutions and the Foundation assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.