
Financial statements of
Scarborough Health Network
Foundation

March 31, 2019

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Independent Auditor's Report

To the Board of Directors of
Scarborough Health Network Foundation

Opinion

We have audited the financial statements of Scarborough Health Network Foundation (the "Foundation"), which comprise the statement of financial position as at March 31, 2019, and the statements of operations, changes in fund balances, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2019, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those charged with governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 18, 2019

Scarborough Health Network Foundation
Statement of revenue and expenses

Year ended March 31, 2019

	2019					2018		
	General fund	Restricted fund	Endowment fund	Total funds	General fund	Restricted fund	Endowment fund	Total funds
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Fundraising								
Annual programs	856,106	175,598	530	1,032,234	797,366	276,396	1,500	1,075,262
Community development	242,963	1,203,113	—	1,446,076	180,117	883,226	—	1,063,343
Gift planning	494,928	3,958,212	—	4,453,140	368,133	3,294,207	—	3,662,340
Total fundraising	1,593,997	5,336,923	530	6,931,450	1,345,616	4,453,829	1,500	5,800,945
Parking operations	5,598,050	—	—	5,598,050	5,369,819	—	—	5,369,819
Investment income, net	114,878	28,064	—	142,942	149,063	29,040	—	178,103
	7,306,925	5,364,987	530	12,672,442	6,864,498	4,482,869	1,500	11,348,867
Expenses								
Fundraising programs	604,978	553,154	—	1,158,132	591,918	712,656	—	1,304,574
Parking operations	1,084,766	—	—	1,084,766	993,233	—	—	993,233
Salaries and benefits	606,792	1,448,614	—	2,055,406	545,345	1,425,109	—	1,970,454
Administration	402,727	58,271	—	460,998	353,384	51,039	—	404,423
	2,699,263	2,060,039	—	4,759,302	2,483,880	2,188,804	—	4,672,684
Excess of revenue over expenses before grants	4,607,662	3,304,948	530	7,913,140	4,380,618	2,294,065	1,500	6,676,183
Grants to Scarborough Health Network	4,560,258	714,461	—	5,274,719	4,376,586	2,260,391	—	6,636,977
Excess of revenue over expenses	47,404	2,590,487	530	2,638,421	4,032	33,674	1,500	39,206

The accompanying notes to the financial statements are an integral part of this financial statement.

Scarborough Health Network Foundation
Statement of changes in fund balances

Year ended March 31, 2019

	2019					2018		
	General fund	Restricted fund	Endowment fund	Total funds	General fund	Restricted fund	Endowment fund	Total funds
	\$	\$	\$	\$	\$	\$	\$	\$
Fund balances, beginning of year	1,495,174	4,267,444	1,100,000	6,862,618	1,175,799	4,683,576	1,043,740	6,903,115
Excess of revenue over expenses	47,404	2,590,487	530	2,638,421	4,032	33,674	1,500	39,206
Fund balances assumed on amalgamation	—	—	—	—	9,123	(88,826)	—	(79,703)
Interfund transfers	—	—	—	—	306,220	(360,980)	54,760	—
Fund balances, end of year	1,542,578	6,857,931	1,100,530	9,501,039	1,495,174	4,267,444	1,100,000	6,862,618

Notes

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The accompanying notes to the financial statements are an integral part of this financial statement.

Scarborough Health Network Foundation

Statement of financial position

As at March 31, 2019

	2019					2018		
	General fund	Restricted fund	Endowment fund	Total funds	General fund	Restricted fund	Endowment fund	Total funds
	\$	\$	\$	\$	\$	\$	\$	\$
Assets								
Current assets								
Cash	36,292	852,664	—	888,956	454,556	356,208	—	810,764
Due from Scarborough Health Network	745,482	—	—	745,482	670,445	—	—	670,445
Accounts receivable	29,695	—	—	29,695	26,556	—	—	26,556
Prepaid expenses	13,061	—	—	13,061	14,848	—	—	14,848
	824,530	852,664	—	1,677,194	1,166,405	356,208	—	1,522,613
Investments	785,954	6,015,492	1,100,530	7,901,976	285,437	3,940,493	1,100,000	5,325,930
Charitable Remainder Trust receivable	956,867	—	—	956,867	1,002,011	—	—	1,002,011
Capital assets	72,242	—	—	72,242	83,531	—	—	83,531
	2,639,593	6,868,156	1,100,530	10,608,279	2,537,384	4,296,701	1,100,000	7,934,085
Liabilities								
Current liabilities								
Due to Scarborough Health Network	720,039	—	—	720,039	688,497	—	—	688,497
Accounts payable and accrued liabilities	376,976	—	—	376,976	353,713	—	—	353,713
Deferred revenue	—	10,225	—	10,225	—	29,257	—	29,257
	1,097,015	10,225	—	1,107,240	1,042,210	29,257	—	1,071,467
Fund balances								
General Fund	1,470,336	—	—	1,470,336	1,411,643	—	—	1,411,643
Unrestricted	72,242	—	—	72,242	83,531	—	—	83,531
Invested in capital assets	1,542,578	—	—	1,542,578	1,495,174	—	—	1,495,174
Restricted Fund	—	6,857,931	—	6,857,931	—	4,267,444	—	4,267,444
Endowment Fund	—	—	1,100,530	1,100,530	—	—	1,100,000	1,100,000
	1,542,578	6,857,931	1,100,530	9,501,039	1,495,174	4,267,444	1,100,000	6,862,618
	2,639,593	6,868,156	1,100,530	10,608,279	2,537,384	4,296,701	1,100,000	7,934,085

The accompanying notes to the financial statements are an integral part of this financial statement.

 Director

Scarborough Health Network Foundation

Statement of cash flows

Year ended March 31, 2019

Note	2019	2018
	\$	\$
Operating activities		
Excess of revenue over expenses	2,638,421	39,206
Add items not affecting cash		
Amortization of capital assets	34,151	17,838
Gain on disposal of investments	(115,171)	(40,840)
Interest on Charitable Remainder Trust	(19,856)	(19,489)
Change in unrealized gains on investments	(27,770)	(22,175)
Cash received on amalgamation	—	68,529
	2,509,775	43,069
Changes in non-cash working capital items		
Prepaid expenses	1,787	(3,840)
Due from Scarborough Health Network	(75,037)	(7,280)
Accounts receivable	(3,139)	51,106
Due to Scarborough Health Network	31,542	2,240
Accounts payable and accrued liabilities	23,263	(35,241)
Deferred revenue	(19,032)	(19,769)
Non-cash working capital balances received on amalgamation	—	(157,355)
	2,469,159	(127,070)
Investing activities		
Purchase of capital assets	(22,862)	(57,736)
Decrease in market value of Charitable Remainder Trust	65,000	43,000
Net purchase of investments	(2,433,105)	(252,817)
	(2,390,967)	(267,553)
Net increase (decrease) in cash	78,192	(394,623)
Cash, beginning of year	810,764	1,205,387
Cash, end of year	888,956	810,764

The accompanying notes to the financial statements are an integral part of this financial statement.

Scarborough Health Network Foundation

Notes to the financial statements

March 31, 2019

1. Description of the organization

Scarborough Health Network Foundation (the "Foundation") was incorporated as The Scarborough Hospital Foundation under the Corporations Act of Ontario on December 21, 1977. It became Scarborough and Rouge Hospital Foundation effective April 1, 2017 when the Ministry of Government Services of Ontario issued Letters Patent of Amalgamation for the amalgamation of it with Rouge Valley Health System Foundation. Since November 2018, the Foundation has operated as Scarborough Health Network Foundation and Amended Letters Patent for this name change were filed during the fiscal year.

While the Foundation is a separate legal entity from Scarborough Health Network (the "Hospital"), the Foundation raises additional financial resources for the hospital and enhances the profile of the hospital in the community. These objectives are accomplished through a number of fundraising initiatives planned, implemented, and managed by the Foundation.

The Foundation is a public foundation registered under the Income Tax Act (the "Act") and, as such, is not subject to income taxes and is able to issue donation receipts for income tax purposes. In order to maintain its status as a public foundation registered under the Act, the Foundation must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

2. Significant accounting policies

The accompanying financial statements have been prepared in accordance with the Canadian accounting standards for not-for-profit organizations ("ASNPOs"). The significant accounting policies are summarized below:

Revenue recognition

Income from donations is recorded when received. Donor restricted contributions are recognized as revenue of the Restricted Fund. Unrestricted contributions are recognized as revenue of the General Fund. Funds received in advance relating to future Foundation events are accounted for as deferred revenue until the period in which the related events take place.

Unrestricted investment income earned on Restricted Fund and General Fund resources is recognized as revenue of the General Fund. Restricted investment income earned on Endowment Fund resources is recognized as revenue of the Restricted Fund.

Unrealized gains and losses incurred on the investments are recognized in the Statement of revenue and expenses as part of investment income.

Other contributions, including gifts in kind, contributions, and bequests are recognized as revenue when received. Charitable trust remainders are recognized as revenue when the amount to be received can be reasonably estimated, and collection is ultimately assured.

Volunteers' contributed services

Volunteers contribute time to assist the Foundation in carrying out its activities. Due to the difficulty in determining their fair value, volunteers' contributed services are not recognized in the financial statements.

2. Significant accounting policies (continued)

Capital assets

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives as follows:

Furniture and fixtures	5 years
Leasehold improvements	5 years
Donor wall	5 years
Computer software and hardware	2 years

Fund accounting

The financial statements have been prepared using fund accounting and they separately disclose the activities of the following funds maintained by the Foundation:

- General Fund – reflecting the activities associated with the Foundation’s day-to-day operations. The General Fund reports unrestricted resources available for immediate purposes.
- Restricted Fund – includes those funds where resources are to be used for identified purposes as specified by the donor, as stipulated by the fundraising appeal, or as determined by the Board of Directors.
- Endowment Fund – includes those funds where resources are to be maintained permanently as specified by the donors.

Financial instruments

The Foundation initially measures its financial assets and financial liabilities at fair value. The Foundation subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market and fixed income instruments, which are measured at fair value, and the charitable remainder trust receivable, which is measured based on a discounted cash flow analysis. Changes in fair value are recognized in the Statement of revenue and expenses.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable.

Financial liabilities measured at amortized cost include Due to Scarborough Health Network and accounts payable.

Use of estimates

The preparation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations 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 revenues and expenses during the year. The most significant items subject to management estimation are the fair value of investments (see Note 4), the charitable remainder trust receivable (see Note 5), and the useful lives of capital assets. Actual results may differ from those estimates.

Scarborough Health Network Foundation

Notes to the financial statements

March 31, 2019

3. Capital assets

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Furniture and fixtures	62,950	58,289	4,661	7,901
Leasehold improvements	13,710	13,710	—	542
Donor wall	228,794	195,594	33,200	31,420
Computer software and hardware	93,751	59,370	34,381	43,668
	399,205	326,963	72,242	83,531

4. Investments

The cost and fair value of the Foundation's investments at March 31 are as follows:

	Cost	Fair value	2019 Effective yield
	\$	\$	%
Fixed Income	5,743,632	5,751,642	2.75
Equity	1,855,933	2,150,334	2.05
	7,599,565	7,901,976	

	Cost	Fair value	2018 Effective yield
	\$	\$	%
Fixed Income	3,470,849	3,458,482	3.02
Equity	1,580,440	1,867,448	2.02
	5,051,289	5,325,930	

5. Charitable Remainder Trust receivable

During the years ended March 31, 2013 and March 31, 2017, the Foundation entered into trust agreements which the Foundation has classified as a Charitable Remainder Trust receivable. Capital of \$1,000,000 and \$200,000 respectively have been transferred into the trusts with the accrued interest to be paid to the grantors and the residual capitals to be paid to the Foundation at the date of death of the grantors. The receivable has been measured based on a discounted cash flow analysis, using a risk free 10 year discount rate based on estimated remaining lives of the grantors.

Scarborough Health Network Foundation

Notes to the financial statements

March 31, 2019

6. Pension

Substantially all employees are eligible to be members of the Healthcare of Ontario Pension Plan which is a multi-employer defined benefit pension plan. Plan members will receive benefits based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement, termination, or death that provide the highest earnings.

The most recent actuarial valuation of the plan as at December 31, 2018 indicates the plan is 121% funded (December 31, 2018 – 122%). During the year, the Foundation contributed \$148,031 (2018 – \$118,654) to the plan on behalf of employees.

7. Related party transactions

The Foundation and the Hospital are separate legal entities. The Foundation provides financial support to the Hospital to meet its goals and objectives.

The Hospital pays certain expenses on behalf of the Foundation and is reimbursed by the Foundation. The amount due to the Hospital is due on demand and is non-interest bearing. All other related party transactions are disclosed in these financial statements.

The Foundation leases the parking operation from the Hospital. As at March 31, 2019, Due from Scarborough Health Network represents the parking revenue receivable from the Hospital. There are also accrued grants related to parking revenue included in Due to Scarborough Health Network in the amount of \$578,701 (2018 – \$538,996). Effective March 31, 2019, the Hospital terminated this agreement with the Foundation, and consequently, the Foundation will no longer earn parking revenue going forward.

In the prior year, the Foundation was committed to provide the Hospital with a minimum annual grant of \$1,500,000. The Foundation also committed to provide up to \$868,000 of additional grants for specific hospital initiatives when request by the hospital over the 2 year period commencing April 1, 2017 and during the year extended this time period to a 3 year period ending March 31, 2020. During the year, \$351,091 (2018 – \$97,858) of such additional grants were provided to the Hospital.

The Foundation's investments are managed by Cidel Asset Management Inc. which is partially owned by a member of the Foundation's Board of Directors. All transactions incurred are in the normal course of operations.

8. Administration expenses

Administration expenses include the following:

	<u>2019</u>	<u>2018</u>
	\$	\$
Amortization	34,151	17,838
Technology, general and office	233,631	196,420
Occupancy	97,118	94,370
Professional and consulting	47,410	47,889
Other	48,688	47,906
	<u>460,998</u>	<u>404,423</u>

Scarborough Health Network Foundation

Notes to the financial statements

March 31, 2019

9. Investment income, net

Investment income, net, consists of the following:

	<u>2019</u>	<u>2018</u>
	\$	\$
Realized gain	129,500	176,964
Unrealized gain	27,770	22,175
Less: Management fees	(14,328)	(21,036)
	<u>142,942</u>	<u>178,103</u>

10. Interfund transfers

Transfers between the Restricted fund and the General Fund may be made as approved by the Board of Directors. During the year, \$nil (2018 - \$306,220) was transferred to the General fund from the Restricted Fund.

11. Guarantees

In the normal course of business, the Foundation enters into agreements that meet the definition of a guarantee. The Foundation's primary guarantees are as follows:

- (i) The Foundation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements, the Foundation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement.
- (ii) Indemnity has been provided to all directors and officers of the Foundation for various items including, but not limited to, all costs to settle suits or actions due to association with the Foundation, subject to certain restrictions. The Foundation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnification party served as a director or officer of the Foundation.
- (iii) In the normal course of business, the Foundation has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Foundation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction.

The nature of these indemnification agreements prevents the Foundation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Foundation has not made any payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the statement of financial position with respect to these agreements.

Scarborough Health Network Foundation

Notes to the financial statements

March 31, 2019

12. Letter of credit

The Foundation has two letters of credit with respect to charitable gaming activities. As of March 31, 2019, there are available letters of credit of \$24,000 (2018 – \$24,000) and \$162,500 (2018 – \$162,500). As of March 31, 2019 and March 31, 2018, no amounts have been applied against these letters of credit.

13. Financial instruments

The Foundation, through its exposure to financial assets and liabilities has exposure to the following risks from its use of financial instruments interest rate risk, credit risk and market risk.

Market risk

Market risk arises from the possibility that changes in equity prices will affect the value of investments held by the Foundation. The Foundation endeavors to mitigate this risk by adopting an investment policy which provides appropriate portfolio diversification.

Credit risk

The Foundation's principal financial asset that is subject to credit risk is accounts receivable. The carrying amounts of financial assets on the balance sheet represents the Foundation's maximum credit exposure at the financial statement date. The amounts disclosed in the statement of financial position are net of allowance for doubtful accounts.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by the Foundation. The interest bearing investments held by the Foundation have a limited exposure to interest rate risk due to their short-term maturity. The fixed income investments held in the Foundation's portfolio have fixed interest and are subject to interest rate risk.

14. Comparative figures

Certain comparative figures have been reclassified to conform to the 2018 presentation.