

Financial Statements of

ONTARIO LUNG ASSOCIATION

Year ended March 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Members of Ontario Lung Association

We have audited the accompanying financial statements of Ontario Lung Association, which comprise the statement of financial position as at March 31, 2017, the statements of operations, 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.



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Basis for Qualified Opinion

In common with many charitable organizations, Ontario Lung Association derives revenue from fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of Ontario Lung Association. Therefore, we were not able to determine whether, as at and for the years ended March 31, 2017 and March 31, 2016, any adjustments might be necessary to fundraising revenue, excess (deficiency) of revenue over expenses reported in the statements of operations, excess (deficiency) of revenue over expenses reported in the statements of cash flows and current assets and unrestricted net assets reported in the statements of financial position. This caused us to qualify our audit opinion on the financial statements as at and for the year ended March 31, 2016.

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 Ontario Lung Association as at March 31, 2017, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 23, 2017
Vaughan, Canada

ONTARIO LUNG ASSOCIATION

Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash	\$ 430,420	\$ 564,759
Restricted cash (note 2)	162,875	217,305
Accounts receivable	235,842	294,695
Prepaid expenses and deposits	4,124	14,484
Short-term investments (note 3)	25,625	–
	<u>858,886</u>	<u>1,091,243</u>
Investments (note 3)	5,227,345	4,599,106
Capital assets (note 5)	3,459,931	3,571,902
	<u>\$ 9,546,162</u>	<u>\$ 9,262,251</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,190,564	\$ 1,089,239
Current portion of due to the Canadian Lung Association (note 6)	–	57,136
Deferred contributions (note 7)	475,257	821,962
	<u>1,665,821</u>	<u>1,968,337</u>
Net assets:		
Investment in capital assets	3,459,931	3,571,902
Endowment (note 8)	279,239	279,239
Unrestricted	4,141,171	3,442,773
	<u>7,880,341</u>	<u>7,293,914</u>
Commitments (note 9)		
	<u>\$ 9,546,162</u>	<u>\$ 9,262,251</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

ONTARIO LUNG ASSOCIATION

Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Grants	\$ 3,180,410	\$ 3,287,987
Corporate, employee and other fundraising	1,822,054	1,591,313
Direct mail programs	1,798,538	1,855,394
Other fundraising events (note 11)	1,655,511	1,963,638
Bequests	926,399	1,166,373
Services and program fees	600,160	454,033
Memorials	367,387	420,338
Investment income, net	325,045	219,501
Other	242,377	188,980
	<u>10,917,881</u>	<u>11,147,557</u>
Expenses:		
Provincial and community programs (Schedule):		
Services and programs	7,088,283	7,526,628
Research programs	1,855,424	1,719,249
Fundraising	673,682	702,358
Administration	302,132	319,698
Other fundraising events (note 11)	681,767	740,293
National programs	297,153	294,705
	<u>10,898,441</u>	<u>11,302,931</u>
Excess (deficiency) of revenue over expenses before the undernoted	19,440	(155,374)
Unrealized gain (loss) on investments	566,987	(553,360)
<u>Excess (deficiency) of revenue over expenses</u>	<u>\$ 586,427</u>	<u>\$ (708,734)</u>

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016

2017	Investment in capital assets	Endowment	Unrestricted	Total
Balance, beginning of year	\$ 3,571,902	\$ 279,239	\$ 3,442,773	\$ 7,293,914
Excess (deficiency) of revenue over expenses	(111,971)	–	698,398	586,427
Balance, end of year	\$ 3,459,931	\$ 279,239	\$ 4,141,171	\$ 7,880,341

2016	Investment in capital assets	Endowment	Unrestricted	Total
Balance, beginning of year	\$ 3,683,873	\$ 279,239	\$ 4,039,536	\$ 8,002,648
Deficiency of revenue over expenses	(111,971)	–	(596,763)	(708,734)
Balance, end of year	\$ 3,571,902	\$ 279,239	\$ 3,442,773	\$ 7,293,914

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 586,427	\$ (708,734)
Items not involving cash:		
Amortization of capital assets	111,971	111,971
Unrealized loss (gain) on investments	(566,987)	553,360
Change in non-cash operating working capital	(176,167)	(119,590)
	(44,756)	(162,993)
Financing activities:		
Repayment to Canadian Lung Association	(57,136)	(57,144)
Investing activities:		
Net change in investments	(86,877)	307,001
Increase (decrease) in cash	(188,769)	86,864
Cash, beginning of year	782,064	695,200
Cash, end of year	\$ 593,295	\$ 782,064
Represented by:		
Cash	\$ 430,420	\$ 564,759
Restricted cash	162,875	217,305
	\$ 593,295	\$ 782,064

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements

Year ended March 31, 2017

Ontario Lung Association (the "OLA" or "Association") is incorporated under the Ontario Corporations Act by Letters Patent as a corporation without share capital. The OLA is a registered charity under the Income Tax Act (Canada) and, accordingly, is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

The OLA is a province-wide association, operating out of a provincial office and several community offices. The purpose of the OLA is to improve lung health. Its vision is to be the recognized leader, voice and primary resource in lung health, to enable all people to breathe with ease.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants of Canada Handbook:

(a) Revenue recognition:

The Association follows the deferral method of accounting for contributions, which include donations, bequests and government grants. Government grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. Contributions externally restricted, other than endowment contributions, are deferred and recognized as revenue in the year in which the related expenses are recognized.

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. No accruals are made for other monies pledged but not yet received.

Endowment contributions are recognized as direct increases in endowment net assets.

Investment income is unrestricted and recognized as revenue when earned. Revenue from service and program fees are recognized when the services are provided or the goods are sold.

(b) Capital assets:

Capital assets are recorded at cost. Donated capital assets are recorded at fair value at the date of contribution. When a capital asset no longer contributes to the Association's ability to provide services, its carrying amount is written down to its residual value.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

Amortization is provided on a straight-line basis over the estimated useful lives of the assets at the following annual rates:

Building and building improvements	2.5%
Furniture, equipment and other	10%
Computer equipment and software	33%

(c) Volunteer services:

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

(d) Commitments:

Grants for research are awarded annually. The statement of operations reflects grants made during the current year.

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Association has elected to carry all its financial investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (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 Association 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 Association 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.

(f) 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. Significant items subject to such estimates and assumptions include allocation of expenses and the carrying amount of capital assets. Actual results could differ from those estimates.

(g) Allocation of expenses:

The OLA is a registered charity that is involved in the following programs:

- Funding for medical research in respiratory health.
- Conducting educational seminars and workshops for health care professionals providing them with the most up-to-date information on lung-health issues.
- Provides advice and support to individuals with lung health issues, their families and caregivers through toll-free help lines.
- Provides health education information about respiratory health to the general public through the distribution of printed material and through the website.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

- Promotes the prevention of tobacco use especially among children and youth.
- Promotes healthy communities to prevent lung disease through programs and education and provides information related to tobacco use, indoor and outdoor air quality including radon.

The costs of each program include the costs of personnel, premises and other expenses that are directly related to providing the program. The OLA also incurs general support expenses that are common to the administration of the Association and each of its programs.

Some of the core and fundraising programs include the use of the same direct mail pieces to further the work of the OLA. The cost of direct mail and donor fulfilment centre expenses are allocated on the following bases:

Fundraising	35%
Services and programs	55%
Research programs	10%

All provincial and community program expenses that are not direct mail and donor fulfillment expenses are classified as general support expenses.

The OLA allocates its general support expenses by identifying the appropriate basis of allocating each component expense, and applies this basis consistently each year. The general support expenses are allocated on the following bases:

Services and programs	75%
Research programs	10%
Fundraising	8%
Administration	7%

Refer to the schedule of expenses for expenses presented by object based on above-noted allocations.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

2. Restricted cash:

Restricted cash includes amounts held in bank accounts restricted to eligible expenditures to be made for community health education programs, services and research support.

3. Investments:

	2017	2016
Cash:		
Canadian	\$ 56,597	\$ 135,915
U.S.	5,048	40,422
	<u>61,645</u>	<u>176,337</u>
Pooled funds:		
Canadian	400,307	411,147
Foreign	318,333	244,402
	<u>718,640</u>	<u>655,549</u>
Common and preferred shares:		
Canadian common shares	2,128,588	2,291,386
Canadian preferred shares	694,114	531,513
U.S. common shares	776,901	632,052
	<u>3,599,603</u>	<u>3,454,951</u>
Fixed income:		
RBC Canadian debentures	780,889	312,269
RBC U.S. debentures	92,193	—
	<u>873,082</u>	<u>312,269</u>
	<u>5,252,970</u>	<u>4,599,106</u>
Less short-term investments:		
RBC Canadian debentures	25,625	—
	<u>\$ 5,227,345</u>	<u>\$ 4,599,106</u>

The debentures are all at fixed rates and have a weighted average effective interest rate of 3.902% (2016 - 4.927%) and a weighted average term to maturity of 5.86 years (2016 - 4.56 years). It is the Association's policy to only invest in debt of counterparties with BBB or higher investment ratings.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

3. Investments (continued):

The Association manages its investment portfolio to earn investment income and invests according to a Statement of Investment Policies and Procedures approved by the Board of Directors. The Association is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes.

4. Financial risks:

(a) Interest rate risk:

The Association is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Association to a fair value risk while the floating rate instruments subject it to a cash flow risk. The Association is exposed to this type of risk as a result of investments in fixed income certificates and debentures. This risk is managed by staggering the terms of the securities held, and ensuring diversification of the holdings such that no single fixed income security represents more than 10% of the total equity portfolio.

(b) Other price risk:

Other price risk arises as a result of trading in equity securities and fixed income securities. Fluctuations in the market expose the Association to a risk of loss. The Association mitigates this risk through controls to monitor and limit concentration levels.

(c) Foreign currency risk:

The Association is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. As of March 31, 2017, 22.81% (2016 - 19.94%) of the securities are invested in non-Canadian equities, bonds and debentures. The Association does not hedge its foreign currency risk on these securities. The philosophy of the Association and its global investment management service provider is that since the portfolio is managed such that individual securities are held for the long term, and investments are held in multiple currencies, any foreign exchange risk should be minimized in the long term without the need for a hedging strategy to be implemented. There has been no change to the risk exposure from 2016

Within the fixed income component of the portfolio, the Association's Statement of Investment Policies and Procedures allows investment managers to hold a limited amount of non-Canadian bonds.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

5. Capital assets:

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
Building and building improvements	\$ 3,921,845	\$ 524,577	\$ 3,397,268	\$ 3,495,313
Furniture, equipment and other	139,252	76,589	62,663	76,589
	<u>\$ 4,061,097</u>	<u>\$ 601,166</u>	<u>\$ 3,459,931</u>	<u>\$ 3,571,902</u>

6. Due to the Canadian Lung Association ("CLA"):

The OLA is a member of the CLA. The amount due to the CLA is interest-free, payable in annual instalments of \$57,136 (2016 - \$57,136) and was repaid in February 2017.

	2017	2016
Long-term debt due to the Canadian Lung Association	\$ –	\$ 57,136
Less current portion	–	57,136
	<u>\$ –</u>	<u>\$ –</u>

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

7. Deferred contributions:

Deferred contributions relate to expenses of future periods and represent unspent externally restricted donations and grants for specific programs as follows:

	2017	2016
Value Demonstrating Initiative	\$ 365,960	\$ 582,870
Pfizer Research grant	50,000	–
Ontario Thoracic Society unspent grant	26,520	30,930
Top It Up Campaign	15,990	20,170
Gretzky Golf Tournament	5,000	1,000
Ontario Thoracic Society Membership	3,803	3,420
Ontario Respiratory Care Society Membership	2,985	4,871
Prepaid Rent Suite 408	1,809	1,809
Prepaid Rent Suite 409	1,500	1,500
ABLA re support	1,490	3,726
Grand Fondo Ottawa	200	–
AZ - Patients First National	–	75,000
Better Care Faster	–	51,744
Baagwaating Play for All	–	25,000
BI Ontario Respiratory Care Society Seminar Sponsorship	–	3,036
Wild Ride	–	860
Tuberculosis conference	–	16,026
	<u>\$ 475,257</u>	<u>\$ 821,962</u>

8. Net assets restricted for endowment purposes:

Endowment contributions received on behalf of Arthur Malott are subject to externally imposed restrictions stipulating that the principal be maintained intact. Investment income from this endowment is used for the support of medical research and school programs.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

9. Commitments:

The OLA is committed to minimum payments under operating leases for community office space and photocopiers as follows:

2018	\$ 44,000
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In addition to these leases, the Association has agreed to indemnify the landlord against losses occurring on the leased premises which may arise out of a breach of the lease agreement.

The OLA has committed to spend approximately \$1,108,191 for research purposes in fiscal 2018, of which approximately \$217,141 will support National Research Programs.

10. Indemnification of officers and directors:

The Association has indemnified its past, present and future directors, officers, employees and volunteers against expenses (including legal expenses), judgments and any amount that is reasonably incurred by them in connection with any action, suit or proceeding in which the directors are sued as a result of their service, if they acted in good faith with a view to the best interest of the Association. The nature of the indemnity prevents the Association from reasonably estimating the maximum exposure. The Association has purchased directors' and officers' liability insurance with respect to this indemnification.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

11. Other fundraising events:

			2017		2016	
	Revenue	Expenses	Net	Net		
Gaming/raffles	\$ 370,133	\$ 191,105	\$ 179,028	\$ 139,806		
Biking events	36,325	8,058	28,267	31,601		
Employee funds	167,845	15,241	152,604	152,903		
Pull for Kids	10,040	819	9,221	9,591		
Tulip Days	197,603	105,334	92,269	114,599		
Dinners/galas/auctions	168,515	58,964	109,551	95,097		
Festival of Trees	91,051	31,865	59,186	53,250		
Walks/runs	48,822	76,759	(27,937)	(12,296)		
Gardening festivals	108,104	53,815	54,289	70,795		
Golf-related events	109,712	39,923	69,789	62,605		
Branding events	580	—	580	—		
Community events	346,781	99,884	246,897	505,394		
	\$ 1,655,511	\$ 681,767	\$ 973,744	\$ 1,223,345		

ONTARIO LUNG ASSOCIATION

Schedule of Expenses

Year ended March 31, 2017, with comparative information for 2016

2017	Services and programs	Research programs	Fundraising	Administration	Total
Board and committee meetings	\$ 17,484	\$ 2,331	\$ 1,865	\$ 1,632	\$ 23,312
Housing	253,908	33,854	27,084	23,698	338,544
Amortization	83,978	11,197	8,958	7,838	111,971
Direct mail program	469,724	85,404	298,915	–	854,043
Donor fulfilment centre	46,318	8,421	29,469	–	84,208
Community services and programs	3,335,084	–	–	–	3,335,084
Professional fees	20,411	2,721	2,177	1,905	27,214
General and office	267,842	35,711	28,570	24,999	357,122
Postage	10,314	1,376	1,100	963	13,753
Staff travel and development	48,834	6,511	5,209	4,557	65,111
Salaries and employee benefits	2,399,532	319,936	255,950	223,956	3,199,374
Strategic spend	114,749	15,300	12,240	10,708	152,997
Provincial blanket insurance	20,105	2,681	2,145	1,876	26,807
Research grants and awards	–	1,329,981	–	–	1,329,981
	\$ 7,088,283	\$ 1,855,424	\$ 673,682	\$ 302,132	\$ 9,919,521

2016	Services and programs	Research programs	Fundraising	Administration	Total
Board and committee meetings	\$ 27,830	\$ 3,711	\$ 2,969	\$ 2,598	\$ 37,108
Housing	294,386	39,252	31,401	27,476	392,515
Amortization	83,978	11,197	8,958	7,838	111,971
Direct mail program	495,632	90,115	315,403	–	901,150
Donor fulfilment centre	33,921	6,168	21,586	–	61,675
Community services and programs	3,571,736	–	–	–	3,571,736
Professional fees	26,041	3,472	2,778	2,431	34,722
General and office	275,118	36,682	29,346	25,678	366,824
Postage	13,888	1,852	1,481	1,296	18,517
Staff travel and development	54,087	7,212	5,769	5,048	72,116
Salaries and employee benefits	2,455,282	327,369	261,896	229,159	3,273,706
Strategic spend	173,898	23,186	18,549	16,230	231,863
Provincial blanket insurance	20,831	2,778	2,222	1,944	27,775
Research grants and awards	–	1,166,255	–	–	1,166,255
	\$ 7,526,628	\$ 1,719,249	\$ 702,358	\$ 319,698	\$ 10,267,933