

Financial Statements of

# **ONTARIO LUNG ASSOCIATION**

Year ended March 31, 2018



KPMG LLP  
Vaughan Metropolitan Centre  
100 New Park Place, Suite 1400  
Vaughan ON L4K 0J3  
Canada  
Tel 905-265-5900  
Fax 905-265-6390

## 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, 2018, 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.



Page 2

*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, 2018 and March 31, 2017, 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, 2017.

*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, 2018, 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 22, 2018  
Vaughan, Canada

# ONTARIO LUNG ASSOCIATION

## Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Cash	\$ 464,364	\$ 430,420
Restricted cash (note 2)	202,703	162,875
Accounts receivable	160,916	235,842
Prepaid expenses and deposits	5,894	4,124
Short-term investments (note 3)	25,555	25,625
	<u>859,432</u>	<u>858,886</u>
Investments (note 3)	4,500,402	5,227,345
Capital assets (note 5)	3,347,960	3,459,931
	<u>\$ 8,707,794</u>	<u>\$ 9,546,162</u>

## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,228,280	\$ 1,190,564
Deferred contributions (note 6)	98,208	475,257
	<u>1,326,488</u>	<u>1,665,821</u>
Net assets:		
Investment in capital assets	3,347,960	3,459,931
Endowment (note 8)	279,239	279,239
Unrestricted	3,754,107	4,141,171
	<u>7,381,306</u>	<u>7,880,341</u>
Commitments (note 9)		
	<u>\$ 8,707,794</u>	<u>\$ 9,546,162</u>

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# ONTARIO LUNG ASSOCIATION

## Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Grants	\$ 3,256,826	\$ 3,180,410
Direct mail programs	1,751,593	1,798,538
Other fundraising events (note 12)	1,677,452	1,655,511
Corporate, employee and other fundraising	937,131	1,822,054
Bequests	788,400	926,399
Memorials	358,797	367,387
Services and program fees	332,942	600,160
Other	204,794	242,377
Investment income (loss), net	(42,325)	325,045
	<u>9,265,610</u>	<u>10,917,881</u>
Expenses:		
Provincial and community programs (Schedule):		
Services and programs	6,455,203	7,088,283
Research programs	1,614,850	1,855,424
Fundraising	627,283	673,682
Administration	282,943	302,132
Other fundraising events (note 12)	519,251	681,767
National programs	301,512	297,153
	<u>9,801,042</u>	<u>10,898,441</u>
Excess (deficiency) of revenue over expenses before the undernoted	(535,432)	19,440
Unrealized gain on investments	36,397	566,987
Excess (deficiency) of revenue over expenses	<u>\$ (499,035)</u>	<u>\$ 586,427</u>

See accompanying notes to financial statements.

# ONTARIO LUNG ASSOCIATION

## Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017

2018	Investment in capital assets	Endowment	Unrestricted	Total
Balance, beginning of year	\$ 3,459,931	\$ 279,239	\$ 4,141,171	\$ 7,880,341
Deficiency of revenue over expenses	(111,971)	–	(387,064)	(499,035)
Balance, end of year	\$ 3,347,960	\$ 279,239	\$ 3,754,107	\$ 7,381,306

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

See accompanying notes to financial statements.

# ONTARIO LUNG ASSOCIATION

## Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ (499,035)	\$ 586,427
Items not involving cash:		
Amortization of capital assets	111,971	111,971
Unrealized loss (gain) on investments	36,397	(566,987)
Change in non-cash operating working capital	(266,177)	(176,167)
	(616,844)	(44,756)
Financing activities:		
Repayment to Canadian Lung Association	–	(57,136)
Investing activities:		
Net change in investments	690,616	(86,877)
Increase (decrease) in cash	73,772	(188,769)
Cash, beginning of year	593,295	782,064
Cash, end of year	\$ 667,067	\$ 593,295
Represented by:		
Cash	\$ 464,364	\$ 430,420
Restricted cash	202,703	162,875
	\$ 667,067	\$ 593,295

See accompanying notes to financial statements.

# ONTARIO LUNG ASSOCIATION

Notes to Financial Statements

Year ended March 31, 2018

---

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 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, 2018

---

## 1. Significant accounting policies (continued):

Amortization is provided on a straight-line basis over the estimated useful life 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 any such financial instruments 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, 2018

---

## 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 dates of the financial statements and the reported amounts of revenue and expenses during the years. 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.
- Conducts educational seminars and workshops for physicians and other health care workers 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, 2018

---

## 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. OLA also incurs general support expenses that are common to the administration of the Association and each of its program.

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 these direct mail pieces are allocated on the following basis:

---

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 basis:

---

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, 2018

## 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:

	2018	2017
Cash:		
Canadian	\$ 400,192	\$ 175,789
U.S.	119,153	5,048
	<u>519,345</u>	<u>180,837</u>
Pooled funds:		
Canadian	2,578	281,115
Foreign	402,890	318,333
	<u>405,468</u>	<u>599,448</u>
Common and preferred shares:		
Canadian common shares	1,624,931	2,128,588
Canadian preferred shares	280,255	694,114
U.S. common shares	874,206	776,901
	<u>2,779,392</u>	<u>3,599,603</u>
Fixed income:		
RBC Canadian debentures	746,182	780,889
RBC U.S. debentures	75,570	92,193
	<u>821,752</u>	<u>873,082</u>
	<u>4,525,957</u>	<u>5,252,970</u>
Less short-term investments:		
RBC Canadian debentures	25,555	25,625
	<u>\$ 4,500,402</u>	<u>\$ 5,227,345</u>

The debentures are all at fixed rates and have a weighted average effective interest rate of 2.326% (2017 - 3.902%) and a weighted average term to maturity of 5.94 years (2017 - 5.86 years). It is the Association's policy to only invest in debt of counterparties with BBB investment ratings.

# ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

---

### 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, other than Government of Canada, provincial or U.S. Government bonds, represents more than 10% of the total 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 March 31, 2018, 32.52% (2017 - 22.81%) 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 2017.

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, 2018

## 5. Capital assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Building and building improvements	\$ 3,921,845	\$ 622,623	\$ 3,299,222	\$ 3,397,268
Furniture, equipment and other	139,252	90,514	48,738	62,663
	\$ 4,061,097	\$ 713,137	\$ 3,347,960	\$ 3,459,931

## 6. Deferred contributions:

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

	2018	2017
OTS Unspent Grant	\$ 26,872	\$ 26,520
Ministry of Education Grant	20,007	—
Top it Up	13,880	15,990
Patients First - Trudell	12,000	—
York Region Radon Grant	11,757	—
OTS Membership	4,560	3,803
Prepaid Rent Suite 408	1,809	1,809
ORCS Membership	1,710	2,985
#44 Gretzky Golf Tournament	1,500	5,000
ABLA RE Support	1,490	1,490
ORCS Unspent Grant	1,403	—
Grand Fondo Ottawa	500	200
Facebook Ads	421	—
NBLA RE Support	299	—
Value Demonstrating Initiative	—	365,960
Pfizer Research Grant	—	50,000
Prepaid Rent Suite 409	—	1,500
	\$ 98,208	\$ 475,257

# ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

---

## 7. Investment in capital assets:

(a) The investment in capital assets is calculated as follows:

	2018	2017
Capital assets	\$ 3,347,960	\$ 3,459,931

(b) The change in investment in capital assets is calculated as follows:

	2018	2017
Deficiency of revenue over expenses:		
Amortization of capital assets	\$ (111,971)	\$ (111,971)

## 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 to be used for the support of medical research and school programs.

## 9. Commitments:

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

---

2019	\$ 25,696
------	-----------

---

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 \$1,115,420 for research purposes in Fiscal 2019, of which approximately \$217,140 will support National Research Programs.

# ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

## 10. Indemnification of officers and directors:

The Association had indemnified its past, present and future directors, officers, employees and volunteers against expenses (including legal expenses), judgements 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.

## 11. Related party transactions:

The OLA is a member of Canadian Lung Association (the "CLA"). The OLA contributes amounts to the CLA to support the activities administered by the CLA. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

In fiscal 2018, the OLA recorded expenditures in the amount of \$523,837 (2017- \$722,525) to support the activities administered by the CLA. Of that amount, \$222,325 (2017 - \$425,372) was for research and \$301,512 (2017 - \$297,153) was for national programs.

The OLA is committed to contributing an amount of \$518,652 in fiscal 2019 to support the CLA. Of this amount \$217,140 is for research and \$301,512 is for national programs.

## 12. Other fundraising events:

			2018	2017
	Revenue	Expenses	Net	Net
Gaming/raffles	\$ 337,313	\$ 162,072	\$ 175,241	\$ 179,028
Biking events	11,420	2,650	8,770	28,267
Employee funds	159,661	13,914	145,747	152,604
Pull for Kids	3,719	583	3,136	9,221
Tulip Days	178,383	108,247	70,136	92,269
Dinners/galas/auctions	143,435	55,165	88,270	109,551
Festival of Trees	84,552	31,925	52,627	59,186
Walks/runs	10,669	732	9,937	(27,937)
Gardening festivals	90,416	62,094	28,322	54,289
Golf-related events	72,627	26,331	46,296	69,789
Branding events	—	—	—	580
Community events	585,257	55,538	529,719	246,897
	\$ 1,677,452	\$ 519,251	\$ 1,158,201	\$ 973,744



# ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

---

## **13. Comparative information:**

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

# ONTARIO LUNG ASSOCIATION

## Schedule of Expenses

Year ended March 31, 2018, with comparative information for 2017

2018	Services and programs	Research programs	Fundraising	Administration	Total
Board and committee meetings	\$ 16,028	\$ 2,137	\$ 1,710	\$ 1,496	\$ 21,371
Housing	215,435	28,725	22,980	20,107	287,247
Amortization	83,978	11,197	8,958	7,838	111,971
Direct mail program	438,612	79,748	279,117	–	797,477
Donor fulfilment centre	38,970	7,086	24,800	–	70,856
Community services and programs	2,946,071	–	–	–	2,946,071
Professional fees	46,468	6,196	4,957	4,336	61,957
General and office	374,369	49,916	39,933	34,941	499,159
Postage	8,268	1,102	882	772	11,024
Staff travel and development	54,065	7,209	5,766	5,046	72,086
Salaries and employee benefits	2,072,468	276,329	221,063	193,430	2,763,290
Strategic spend	139,780	18,637	14,910	13,046	186,373
Provincial blanket insurance	20,691	2,759	2,207	1,931	27,588
Research grants and awards	–	1,123,809	–	–	1,123,809
	\$ 6,455,203	\$ 1,614,850	\$ 627,283	\$ 282,943	\$ 8,980,279

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