

Financial Statements of

ONTARIO LUNG ASSOCIATION

Year ended March 31, 2011



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INDEPENDENT AUDITORS' REPORT

To the Members of the 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, 2011, 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 generally accepted accounting principles, 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 part of its revenue from the general public in the form of donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the Ontario Lung Association and we were not able to determine whether, as at and for the years ended March 31, 2011 and March 31, 2010, any adjustments might be necessary to donation revenue, excess (deficiency) of revenue over expenses reported in the statements of operations, assets and net assets reported in the statements of financial position.

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, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

September 24, 2011
Toronto, Canada

ONTARIO LUNG ASSOCIATION

Statement of Financial Position

March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,530,963	\$ 1,228,546
Restricted cash (note 2)	55,359	72,184
Accounts receivable	237,892	115,582
Prepaid expenses and deposits	47,011	124,781
Inventory	—	26,456
	<u>1,871,225</u>	<u>1,567,549</u>
Investments (note 3)	3,269,137	3,141,265
Capital assets (note 4)	1,279,352	1,366,075
	<u>\$ 6,419,714</u>	<u>\$ 6,074,889</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,549,385	\$ 1,325,980
Current portion of due to Canadian Lung Association (note 6)	57,144	57,144
Current portion of obligations under capital leases (note 5)	8,435	10,959
Deferred contributions	608,111	230,697
	<u>2,223,075</u>	<u>1,624,780</u>
Obligations under capital leases (note 5)	—	4,971
Due to Canadian Lung Association (note 6)	285,712	342,856
Net assets:		
Investment in capital assets (note 7)	1,270,917	1,350,145
Internally restricted (note 8)	124,781	156,025
Endowment (note 9)	279,239	279,239
Unrestricted	2,235,990	2,316,873
	<u>3,910,927</u>	<u>4,102,282</u>
Commitments (note 10)		
Subsequent event (note 15)		
	<u>\$ 6,419,714</u>	<u>\$ 6,074,889</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

ONTARIO LUNG ASSOCIATION

Statement of Operations

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Direct mail programs	\$ 2,865,108	\$ 2,967,506
Bequests	1,506,683	1,062,399
Memorials	439,548	477,827
Grants	3,806,760	3,772,950
Other fundraising events (note 12)	1,618,372	1,961,813
Services and program fees	1,223,083	1,218,542
Corporate, employee and other fundraising	362,963	145,991
Investment income, net	5,792	25,215
Other	56,083	105,239
	<u>11,884,392</u>	<u>11,737,482</u>
Expenses:		
Other fundraising events (note 12)	596,285	745,080
Provincial and community programs (Schedule):		
Services and programs	8,561,691	7,886,603
Research programs	1,609,320	1,406,295
Fundraising	820,365	732,238
Administration	288,072	270,562
National programs (note 11)	296,753	319,360
Reorganization	20,000	—
	<u>12,192,486</u>	<u>11,360,138</u>
Excess (deficiency) of revenue over expenses before the undernoted	(308,094)	377,344
Change in unrealized gain on investments	116,739	242,207
<u>Excess (deficiency) of revenue over expenses</u>	<u>\$ (191,355)</u>	<u>\$ 619,551</u>

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Statement of Changes in Net Assets

Year ended March 31, 2011, with comparative figures for 2010

					2011	2010
	Investment in capital assets	Internally restricted (note 8)	Endowment	Unrestricted	Total	Total
Balance, beginning of year	\$ 1,350,145	\$ 156,025	\$ 279,239	\$ 2,316,873	\$ 4,102,282	\$ 3,482,731
Excess (deficiency) of revenue over expenses	(166,843)	–	–	(24,512)	(191,355)	619,551
Net change in investment in capital assets (note 7)	87,615	–	–	(87,615)	–	–
Internally restricted	–	(31,244)	–	31,244	–	–
Balance, end of year	\$ 1,270,917	\$ 124,781	\$ 279,239	\$ 2,235,990	\$ 3,910,927	\$ 4,102,282

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ (191,355)	\$ 619,551
Items not involving cash:		
Amortization of capital assets	166,843	94,393
Change in unrealized gain on investments	(116,739)	(242,207)
Deferred contributions	377,414	(49,318)
Change in non-cash operating working capital	205,321	572,014
	<u>441,484</u>	<u>994,433</u>
Financing activities:		
Principal payments to Canadian Lung Association	(57,144)	—
Principal payments on obligations under capital leases	(7,495)	(7,176)
	<u>(64,639)</u>	<u>(7,176)</u>
Investing activities:		
Acquisition of capital assets	(80,120)	(264,858)
Purchase of investments	(11,133)	(1,703,694)
	<u>(91,253)</u>	<u>(1,968,552)</u>
Increase (decrease) in cash and cash equivalents	285,592	(981,295)
Cash and cash equivalents, beginning of year	1,300,730	2,282,025
Cash and cash equivalents, end of year	<u>\$ 1,586,322</u>	<u>\$ 1,300,730</u>
Represented by:		
Cash and cash equivalents	\$ 1,530,963	\$ 1,228,546
Restricted cash	55,359	72,184
	<u>\$ 1,586,322</u>	<u>\$ 1,300,730</u>
Supplemental cash flow information:		
Interest paid	\$ 880	\$ 1,610

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements

Year ended March 31, 2011

Ontario Lung Association (the "OLA" or "Association") is incorporated under the Corporations Act (Ontario) 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 organization, 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 generally accepted accounting principles. Significant accounting policies adopted by the Association are as follows:

(a) Revenue recognition:

The Association follows the deferral method of accounting for contributions which include donations and government grants. 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. Contributions externally restricted, other than endowment contributions, are deferred and recognized as revenue in the year in which the related expenses are recognized.

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

(b) Cash and cash equivalents:

The Association considers operating deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

(c) Prepaid expenses:

Expenses relating to revenue-generating activities of the next fiscal year are deferred and charged to operations when such revenue is recorded.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

1. Significant accounting policies (continued):

(d) Investments:

Investments primarily comprise pooled funds, consisting of Canadian and international equities and money market funds.

Investments are classed as held-for-trading and carried at fair value. The fair value of investments is based on period-end quoted market prices.

(e) Capital assets:

Capital assets are recorded at cost. Donated capital assets are recorded at fair market value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful lives of the assets at the following annual rates:

Building and leasehold improvements	5%
Furniture, equipment and other	10% - 20%
Computer equipment and software	33%

(f) 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.

(g) Commitments:

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

(h) Use of estimates:

The preparation of 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.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

1. Significant accounting policies (continued):

(i) Financial instruments:

The Association has designated all of its cash and cash equivalents and restricted cash as held-for-trading and carries them at fair market value. Accounts receivable are designated as loans and receivables and carried at amortized cost. Accounts payable and accrued liabilities, obligations under capital leases and due to Canadian Lung Association are designated as other financial liabilities and carried at amortized cost. All transaction costs for financial assets and financial liabilities are recorded in the statement of operations as incurred.

In accordance with the Accounting Standards Board's decision to exempt not-for-profit organizations from the disclosure requirements with respect to financial instruments contained within The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, the Association has elected not to adopt these standards in its financial statements.

(j) Inventory:

Inventory is measured at the lower of cost or net realizable value.

(k) Disclosure of allocated expenses:

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

- 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 materials and through the web site;
- Provides funding for medical research in respiratory health;
- Promotes the prevention of tobacco use especially among children and youth;

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

1. Significant accounting policies (continued):

- Promotes clean air quality by providing advice to individuals on how to improve air quality;
- Encourages the public to adopt a healthy lifestyle by quitting tobacco use; and
- Carries out fundraising initiatives to facilitate these core programs.

The costs of each program include the costs of personnel, premises and other expenses that are directly related to providing the program. Some of the core and fundraising programs include the use of direct mail pieces to further the work of the OLA. The OLA also incurs general support expenses that are common to the administration of the Association and each of its programs. The OLA allocates its direct mail pieces and general support expenses to services and programs, research, fundraising and administration by identifying the appropriate basis of allocating each component expense, and applies this basis consistently each year.

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.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

3. Investments:

	2011		2010	
	Fair value	Cost	Fair value	Cost
Cash (overdraft)	\$ (8,356)	\$ (8,356)	\$ 5,325	\$ 5,325
Pooled funds:				
Renaissance high interest	484,517	484,518	1,549,143	1,549,145
Canadian equity	282,385	201,522	265,807	220,625
U.S. equity	167,125	171,085	154,846	177,738
International equity	165,928	150,234	150,392	145,972
Global equity	241,142	249,217	223,024	255,171
Emerging markets equity	59,392	30,214	56,611	31,714
Canadian fixed income	602,019	577,829	558,238	539,109
Dundee U.S. investment	74,806	76,977	177,879	186,323
	2,077,314	1,941,596	3,135,940	3,105,797
Common shares:				
Cdn. common shares	53,360	53,162	–	–
U.S. common shares	101,087	98,863	–	–
	154,447	152,025	–	–
Guaranteed investment certificate:				
Royal Bank non-redeemable	1,045,732	1,036,990	–	–
	\$ 3,269,137	\$ 3,122,255	\$ 3,141,265	\$ 3,111,122

4. Capital assets:

	2011		2010	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 373,850	\$ –	\$ 373,850	\$ 373,850
Building and leasehold improvements	1,822,934	937,916	885,018	879,050
Furniture, equipment and other	142,608	138,579	4,029	52,759
Computer equipment and software	104,484	88,029	16,455	60,416
	\$ 2,443,876	\$ 1,164,524	\$ 1,279,352	\$ 1,366,075

On September 1, 2011, land and building and leasehold improvements with net book values at March 31, 2011 of \$373,850 and \$885,018, respectively, were sold (note 15).

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

5. Obligations under capital leases:

2012	\$ 9,815
Less amount representing interest at 7%	1,380
Present value of capital lease payments	8,435
Less current portion	8,435
	\$ —

6. Due to Canadian Lung Association:

The amount due to the Canadian Lung Association is interest-free and the payback period is seven years commencing April 1, 2011.

	2011	2010
Long-term debt due to Canadian Lung Association	\$ 342,856	\$ 400,000
Less current portion	57,144	57,144
	\$ 285,712	\$ 342,856

7. Investment in capital assets:

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

	2011	2010
Capital assets	\$ 1,279,352	\$ 1,366,075
Less amounts financed by capital leases	8,435	15,930
	\$ 1,270,917	\$ 1,350,145

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

7. Investment in capital assets (continued):

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

	2011	2010
Deficiency of revenue over expenses:		
Amortization of capital assets	\$ (166,843)	\$ (94,393)
Net change in investment in capital assets:		
Capital assets acquired, net of disposals	\$ 80,120	\$ 264,858
Repayment of debt related to obligations under capital leases	7,495	7,176
	\$ 87,615	\$ 272,034

8. Internally restricted net assets:

	2011	2010
Dr. C.C. Gray Fellowship Fund	\$ 112,401	\$ 143,645
Ross Reid Education and Development Fund	12,380	12,380
	\$ 124,781	\$ 156,025

The OLA's Board of Directors has an internally restricted fund called the Dr. C.C. Gray Fellowship Fund to be used primarily for the support of residents in pulmonary medicine.

In recognition of the many years of its retired President and CEO, Ross Reid, the OLA Board of Directors approved the establishment of an internally restricted fund, The Ross Reid Education and Development Fund (the "Fund"). The purpose of the Fund is to provide financial support toward the education and development of staff and/or volunteers that will enhance their abilities to perform the work of the Association and contribute to its future success. A one-time fundraising campaign was held to raise money for this special Fund. A staff development plan, approved by the Board of Directors, is in place for fiscal 2012 to deplete the Fund over the next year.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

9. 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.

10. Commitments:

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

2012	\$ 173,000
2013	103,000
2014	61,000
2015	61,000
2016	43,000

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 \$1,074,000 for research purposes in fiscal 2012, of which approximately \$218,000 will support National Research Programs.

11. Related party transactions:

The OLA is a member of the 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.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

11. Related party transactions (continued):

In fiscal 2011, the OLA recorded expenses in the amount of \$514,294 (2010 - \$519,360) to support the activities administered by the CLA. Of that amount, \$217,541 (2010 - \$200,000) was for research and \$296,753 (2010 - \$319,360) was for national programs. Interest-free repayment commenced April 2010 per agreement and \$342,856 (2010 - \$400,000) of national programs expenses remains unpaid.

The OLA is committed to contributing an amount of \$514,294 in fiscal 2012 to support the CLA. Of this amount, \$217,541 is for research and \$296,753 is for national programs.

12. Other fundraising events:

			2011	2010
	Revenue	Expenses	Net	Net
Gaming/raffles	\$ 239,433	\$ 123,091	\$ 116,342	\$ 144,889
Biking events	48,151	10,710	37,441	30,172
Employee funds	244,709	11,686	233,023	218,847
Pull for Kids	20,911	4,943	15,968	23,185
Tulip Days	192,470	104,267	88,203	102,777
Dinners/Galas/Auctions	156,140	60,078	96,062	98,589
Festival of Trees	52,807	21,794	31,013	33,148
Walks/runs	104,809	22,410	82,399	123,438
Gardening festivals	119,089	51,678	67,411	79,352
Golf-related events	156,441	93,796	62,645	112,042
Other community events	283,412	91,832	191,580	250,294
	\$ 1,618,372	\$ 596,285	\$ 1,022,087	\$ 1,216,733

13. Financial instruments:

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these financial instruments. The fair value of investments is presented in note 3. The carrying values of obligations under capital leases and due to Canadian Lung Association approximate their fair values as the terms and conditions of the arrangements are comparable to current market terms and conditions for similar terms.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

14. 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.

15. Subsequent event:

On September 1, 2011, land and building and leasehold improvements with net book values at March 31, 2011 of \$373,850 and \$885,018, respectively, were sold for net proceeds of \$4,605,270, resulting in a gain of \$3,370,300.

ONTARIO LUNG ASSOCIATION

Schedule of Expenses

Year ended March 31, 2011, with comparative figures for 2010

					2011	2010
	Services and programs	Research programs	Fundraising	Administration	Total	Total
Board and committee meeting	\$ 36,255	\$ 4,834	\$ 3,867	\$ 3,384	\$ 48,340	\$ 62,447
Housing	305,990	40,799	32,639	28,559	407,987	408,875
Amortization	119,868	15,982	12,786	11,188	159,824	92,094
Direct mail program	771,794	140,326	491,142	–	1,403,262	1,208,640
Community services and programs	4,703,429	–	–	–	4,703,429	4,322,975
Professional fees	23,358	3,114	2,492	2,180	31,144	33,561
General and office	185,904	24,787	19,830	17,351	247,872	216,420
Postage	23,239	3,099	2,479	2,169	30,986	41,115
Staff travel and development	93,490	12,465	9,972	8,726	124,653	83,742
Salaries and employee benefits	2,267,134	302,285	241,828	211,599	3,022,846	2,883,852
Provincial blanket insurance	31,230	4,164	3,330	2,916	41,640	43,063
Research grant and awards	–	1,057,465	–	–	1,057,465	898,914
	\$ 8,561,691	\$ 1,609,320	\$ 820,365	\$ 288,072	\$ 11,279,448	\$ 10,295,698