

Financial Statements of

ONTARIO LUNG ASSOCIATION

Year ended March 31, 2012



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INDEPENDENT AUDITORS' REPORT

To the Members of the Ontario Lung Association

Report on the Financial Statements

We have audited the accompanying financial statements of Ontario Lung Association, which comprise the statement of financial position as at March 31, 2012, 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, 2012 and March 31, 2011, any adjustments might be necessary to donation 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, 2011.

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, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the Corporations Act (Ontario), we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

September 29, 2012
Toronto, Canada

ONTARIO LUNG ASSOCIATION

Statement of Financial Position

March 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash	\$ 1,196,595	\$ 1,530,963
Restricted cash (note 2)	48,554	55,359
Accounts receivable	267,893	237,892
Prepaid expenses and deposits	10,779	47,011
	<u>1,523,821</u>	<u>1,871,225</u>
Investments (note 3)	4,744,758	3,269,137
Capital assets (note 4)	3,455,278	1,279,352
	<u>\$ 9,723,857</u>	<u>\$ 6,419,714</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,467,237	\$ 1,549,385
Current portion of due to the Canadian Lung Association (note 5)	57,144	57,144
Current portion of obligations under capital leases (note 6)	–	8,435
Deferred contributions	521,225	608,111
	<u>2,045,606</u>	<u>2,223,075</u>
Due to Canadian Lung Association (note 5)	228,568	285,712
Net assets:		
Investment in capital assets (note 6)	3,455,278	1,270,917
Internally restricted (note 7)	83,726	124,781
Endowment (note 8)	279,239	279,239
Unrestricted	3,631,440	2,235,990
	<u>7,449,683</u>	<u>3,910,927</u>
Commitments (note 9)		
	<u>\$ 9,723,857</u>	<u>\$ 6,419,714</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

ONTARIO LUNG ASSOCIATION

Statement of Operations

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Grants	\$ 4,070,485	\$ 3,806,760
Direct mail programs	2,604,193	2,865,108
Other fundraising events (note 11)	1,861,925	1,618,372
Bequests	1,740,208	1,506,683
Services and program fees	1,314,480	1,223,083
Memorials	457,948	439,548
Corporate, employee and other fundraising	387,969	362,963
Investment income, net	105,317	5,792
Other	56,510	56,083
	<u>12,599,035</u>	<u>11,884,392</u>
Expenses:		
Provincial and community programs (Schedule):		
Services and programs	8,703,264	8,561,691
Research programs	1,591,530	1,609,320
Fundraising	715,987	820,365
Administration	282,699	288,072
Other fundraising events (note 11)	697,801	596,285
National programs (note 10)	296,753	296,753
Reorganization	40,727	20,000
	<u>12,328,761</u>	<u>12,192,486</u>
Excess (deficiency) of revenue over expenses before the undernoted	270,274	(308,094)
Net proceeds of Relocation Project (note 4)	3,273,598	—
Unrealized gain (loss) on investments	(5,116)	116,739
Excess (deficiency) of revenue over expenses	<u>\$ 3,538,756</u>	<u>\$ (191,355)</u>

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Statement of Changes in Net Assets

Year ended March 31, 2012, with comparative figures for 2011

					2012	2011
	Investment in capital assets	Internally restricted	Endowment	Unrestricted	Total	Total
Balance, beginning of year	\$ 1,270,917	\$ 124,781	\$ 279,239	\$ 2,235,990	\$ 3,910,927	\$ 4,102,282
Excess (deficiency) of revenue over expenses	(89,551)	–	–	3,628,307	3,538,756	(191,355)
Net change in investment in capital assets (note 6)	2,273,912	–	–	(2,273,912)	–	–
Internally restricted (note 7)	–	(41,055)	–	41,055	–	–
Balance, end of year	\$ 3,455,278	\$ 83,726	\$ 279,239	\$ 3,631,440	\$ 7,449,683	\$ 3,910,927

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 3,538,756	\$ (191,355)
Items not involving cash:		
Amortization of capital assets	89,551	159,824
Gain on sale of capital assets (note 4)	(3,370,300)	–
Unrealized loss (gain) on investments	5,116	(116,739)
Deferred contributions	(86,886)	377,414
Change in non-cash operating working capital	(75,917)	205,321
	100,320	434,465
Financing activities:		
Principal payments to the Canadian Lung Association	(57,144)	(57,144)
Principal payments on obligations under capital leases	(8,435)	(7,495)
	(65,579)	(64,639)
Investing activities:		
Proceeds from Relocation Project (note 4)	4,605,270	–
Acquisition of capital assets	(3,500,447)	(73,101)
Purchase of investments	(1,480,737)	(11,133)
	(375,914)	(84,234)
Increase (decrease) in cash and restricted cash	(341,173)	285,592
Cash and restricted cash, beginning of year	1,586,322	1,300,730
Cash and restricted cash, end of year	\$ 1,245,149	\$ 1,586,322
Represented by:		
Cash	\$ 1,196,595	\$ 1,530,963
Restricted cash	48,554	55,359
	\$ 1,245,149	\$ 1,586,322
Supplemental cash flow information:		
Interest paid	\$ –	\$ 880

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements

Year ended March 31, 2012

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, 2012

1. Significant accounting policies (continued):

(d) Investments:

Investments are comprised of guaranteed investment certificates, common shares and 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	2.5%
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 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 the carrying amount of capital assets, inventories, investments and accounts payable and accrued liabilities. Actual results could differ from those estimates.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2012

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 the 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) Disclosure of allocated 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 long-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.
- Promotes the prevention of tobacco use especially among children and youth.
- Encourages the public to adopt a healthy lifestyle by quitting tobacco use.
- Carries out fundraising initiatives to facilitate these core programs.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2012

1. Significant accounting policies (continued):

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%
Research programs	55%
Research	10%

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%

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, 2012

3. Investments:

	2012		2011	
	Fair value	Cost	Fair value	Cost
Cash (overdraft)	\$ 3,644	\$ 3,644	\$ (8,356)	\$ (8,356)
Pooled funds:				
Renaissance high interest	54,033	55,125	484,517	484,518
RBC investment savings	314,602	314,601	—	—
Canadian equity	168,163	136,594	282,385	201,522
U.S. equity	103,348	94,848	167,125	171,085
International equity	101,747	93,514	165,928	150,234
Global equity	131,871	130,713	241,142	249,217
Emerging markets equity	39,469	23,041	59,392	30,214
Canadian fixed income	370,426	342,356	602,019	577,829
Dundee U.S. investment	—	—	74,806	76,977
Dynamic DMP resources	1,770	1,737	—	—
	1,285,429	1,192,529	2,077,314	1,941,596
Common shares:				
Cdn. common shares	1,636,110	1,651,517	53,360	53,162
U.S. common shares	421,169	400,762	101,087	98,863
	2,057,279	2,052,279	154,447	152,025
Fixed income:				
RBC non-redeemable guaranteed investment certificate	1,071,876	1,036,990	1,045,732	1,036,990
RBC debentures	326,530	317,550	—	—
	1,398,406	1,354,540	1,045,732	1,036,990
	\$ 4,744,758	\$ 4,602,992	\$ 3,269,137	\$ 3,122,255

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2012

4. Capital assets:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ –	\$ –	\$ –	\$ 373,850
Building and leasehold improvements	3,334,803	41,685	3,293,118	885,018
Furniture, equipment and other	139,252	6,963	132,289	4,029
Computer equipment and software	52,294	22,423	29,871	16,455
	<u>\$ 3,526,349</u>	<u>\$ 71,071</u>	<u>\$ 3,455,278</u>	<u>\$ 1,279,352</u>

On September 1, 2011, land and building and leasehold improvements with net book values of \$373,850 and \$861,120, respectively, were sold for net proceeds of \$4,605,270, resulting in a gain on sale of \$3,370,300. The gain was recorded, net of moving expenses, as net proceeds of Relocation Project in the statement of operations, in the amount of \$3,273,598.

In December 2011, the Association purchased a building in the amount of \$3,334,803.

5. Due to the Canadian Lung Association:

The amount due to the Canadian Lung Association is interest-free, payable in annual instalments of \$57,144 and due in February 2017.

	2012	2011
Long-term debt due to the Canadian Lung Association	\$ 285,712	\$ 342,856
Less current portion	57,144	57,144
	<u>\$ 228,568</u>	<u>\$ 285,712</u>

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2012

6. Investment in capital assets:

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

	2012	2011
Capital assets	\$ 3,455,278	\$ 1,279,352
Less amounts financed by capital leases	–	8,435
	<u>\$ 3,455,278</u>	<u>\$ 1,270,917</u>

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

	2012	2011
Excess (deficiency) of revenue over expenses:		
Amortization of capital assets	\$ (89,551)	\$ (159,824)
Net change in investment in capital assets:		
Capital assets acquired, net of disposals	\$ 2,265,477	\$ 73,101
Principal repayments related to obligations under capital leases	8,435	7,495
	<u>\$ 2,273,912</u>	<u>\$ 80,596</u>

7. Internally restricted net assets:

	2012	2011
Dr. C.C. Gray Fellowship Fund	\$ 83,726	\$ 112,401
Ross Reid Education and Development Fund	–	12,380
	<u>\$ 83,726</u>	<u>\$ 124,781</u>

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.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2012

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 and photocopiers as follows:

2013	\$ 128,000
2014	64,000
2015	64,000
2016	23,000
	<hr/>
	\$ 279,000

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 \$1,129,543 (2012 - \$1,075,417) for research purposes in fiscal 2013, of which approximately \$217,541 (2012 - \$217,541) will support National Research Programs.

10. 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.

In fiscal 2012, the OLA recorded expenses in the amount of \$514,294 (2011 - \$514,294) to support the activities administered by the CLA. Of that amount, \$217,541 (2011 - \$217,541) was for research and \$296,753 (2011 - \$296,753) was for national programs.

The OLA is committed to contributing an amount of \$514,294 in fiscal 2013 to support the CLA. Of this amount, \$217,541 is for research and \$296,753 is for national programs.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2012

11. Other fundraising events:

			2012	2011
	Revenue	Expenses	Net	Net
Gaming/raffles	\$ 329,220	\$ 209,672	\$ 119,548	\$ 116,342
Biking events	60,724	11,892	48,832	37,441
Employee funds	256,515	11,941	244,574	233,023
Pull for Kids	12,925	1,276	11,649	15,968
Tulip Days	203,998	110,109	93,889	88,203
Dinners/Galas/Auctions	151,376	66,007	85,369	96,062
Festival of Trees	68,471	44,911	23,560	31,013
Walks/runs	66,701	15,768	50,933	82,399
Gardening festivals	112,222	49,271	62,951	67,411
Golf-related events	150,097	39,456	110,641	62,645
Other community events	449,676	137,498	312,178	191,580
	\$ 1,861,925	\$ 697,801	\$ 1,164,124	\$ 1,022,087

12. Financial instruments:

The carrying amounts of cash, 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 approximate their fair values as the terms and conditions of the arrangements are comparable to current market terms and conditions for similar terms.

13. 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.

14. Comparative figures:

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

ONTARIO LUNG ASSOCIATION

Schedule of Expenses

Year ended March 31, 2012, with comparative figures for 2011

					2012	2011
	Services and programs	Research programs	Fundraising	Administration	Total	Total
Board and committee meeting	\$ 24,153	\$ 3,221	\$ 2,576	\$ 2,254	\$ 32,204	\$ 48,340
Housing	319,816	42,642	34,114	29,850	426,422	407,987
Amortization	67,163	8,955	7,164	6,269	89,551	159,824
Direct mail program	617,419	112,258	392,903	–	1,122,580	1,403,262
Community services and programs	5,056,928	–	–	–	5,056,928	4,703,429
Professional fees	26,557	3,541	2,833	2,479	35,410	31,144
General and office	216,080	28,811	23,048	20,167	288,106	247,872
Postage	34,504	4,600	3,680	3,220	46,004	30,986
Staff travel and development	84,122	11,216	8,973	7,851	112,162	124,653
Salaries and employee benefits	2,215,743	295,432	236,346	206,803	2,954,324	3,022,846
Provincial blanket insurance	40,779	5,437	4,350	3,806	54,372	41,640
Research grant and awards	–	1,075,417	–	–	1,075,417	1,057,465
	\$ 8,703,264	\$ 1,591,530	\$ 715,987	\$ 282,699	\$ 11,293,480	\$ 11,279,448