

Financial Statements of

ONTARIO LUNG ASSOCIATION

And Independent Auditors' Report thereon

Year ended March 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Members of Ontario Lung Association

Qualified Opinion

We have audited the financial statements of Ontario Lung Association (the Entity), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, except for the possible effect of the matter described in the "***Basis for Qualified Opinion***" section of our auditors' report, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, 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.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Entity derives revenue from fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Entity.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- the current assets reported in the statements of financial position as at March 31, 2019 and March 31, 2018
- the fundraising revenues and deficiency of revenue over expenses reported in the statements of operations for the years ended March 31, 2019 and March 31, 2018



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- the unrestricted net assets, at the beginning and end of the year reported in the statements of changes in net assets for the years ended March 31, 2019 and March 31, 2018
- the deficiency of revenue over expenses reported in the statements of cash flows for the years ended March 31, 2019 and 2018

Our opinion on the financial statements for the year ended March 31, 2018 was qualified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.



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Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 21, 2019

ONTARIO LUNG ASSOCIATION

Statement of Financial Position

March 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 405,196	\$ 464,364
Restricted cash (note 2)	191,966	202,703
Accounts receivable	213,386	160,916
Prepaid expenses and deposits	–	5,894
Short-term investments (note 3)	124,980	25,555
	<u>935,528</u>	<u>859,432</u>
Investments (note 3)	4,416,287	4,500,402
Capital assets (note 5)	3,235,989	3,347,960
	<u>\$ 8,587,804</u>	<u>\$ 8,707,794</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,291,803	\$ 1,228,280
Deferred contributions (note 6)	474,743	98,208
	<u>1,766,546</u>	<u>1,326,488</u>
Net assets:		
Investment in capital assets (note 7)	3,235,989	3,347,960
Endowment (note 8)	279,239	279,239
Unrestricted	3,306,030	3,754,107
	<u>6,821,258</u>	<u>7,381,306</u>
Commitments (note 9)		
	<u>\$ 8,587,804</u>	<u>\$ 8,707,794</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

ONTARIO LUNG ASSOCIATION

Statement of Operations

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Grants	\$ 2,790,266	\$ 3,256,826
Direct mail programs	1,669,040	1,751,593
Corporate, employee and other fundraising	1,411,158	937,131
Other fundraising events (note 12)	1,379,822	1,677,452
Investment income (loss), net	611,475	(42,325)
Bequests	538,935	788,400
Services and program fees	435,375	332,942
Memorials	290,025	358,797
Other	161,333	204,794
	<u>9,287,429</u>	<u>9,265,610</u>
Expenses:		
Provincial and community programs (Schedule):		
Services and programs	6,293,248	6,455,203
Research programs	1,617,788	1,614,850
Fundraising	635,102	627,283
Administration	262,863	282,943
Other fundraising events (note 12)	518,844	519,251
National programs	298,782	301,512
	<u>9,626,627</u>	<u>9,801,042</u>
Deficiency of revenue over expenses before the undernoted	(339,198)	(535,432)
Unrealized gain (loss) on investments	(220,850)	36,397
Deficiency of revenue over expenses	<u>\$ (560,048)</u>	<u>\$ (499,035)</u>

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Statement of Changes in Net Assets

Year ended March 31, 2019, with comparative information for 2018

2019	Investment in capital assets (note 7)	Endowment (note 8)	Unrestricted	Total
Balance, beginning of year	\$ 3,347,960	\$ 279,239	\$ 3,754,107	\$ 7,381,306
Deficiency of revenue over expenses	(111,971)	–	(448,077)	(560,048)
Balance, end of year	\$ 3,235,989	\$ 279,239	\$ 3,306,030	\$ 6,821,258

2018	Investment in capital assets (note 7)	Endowment (note 8)	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

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (560,048)	\$ (499,035)
Items not involving cash:		
Amortization of capital assets	111,971	111,971
Unrealized loss (gain) on investments	(220,850)	36,397
Change in non-cash operating working capital	393,482	(266,177)
	(275,445)	(616,844)
Investing activities:		
Net change in investments	205,540	690,616
Increase (decrease) in cash	(69,905)	73,772
Cash, beginning of year	667,067	593,295
Cash, end of year	\$ 597,162	\$ 667,067
Represented by:		
Cash	\$ 405,196	\$ 464,364
Restricted cash	191,966	202,703
	\$ 597,162	\$ 667,067

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements

Year ended March 31, 2019

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, 2019

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%

(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, 2019

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, 2019

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, 2019

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:

	2019	2018
Cash:		
Canadian	\$ 603,091	\$ 400,192
U.S.	51,037	119,153
	<u>654,128</u>	<u>519,345</u>
Pooled funds:		
Canadian	3,631	2,578
Foreign	272,760	402,890
	<u>276,391</u>	<u>405,468</u>
Common and preferred shares:		
Canadian common shares	659,459	1,624,931
Canadian preferred shares	122,291	280,255
U.S. common shares	1,755,644	874,206
	<u>2,537,394</u>	<u>2,779,392</u>
Fixed income:		
RBC Canadian debentures	1,073,354	746,182
RBC U.S. debentures	—	75,570
	<u>1,073,354</u>	<u>821,752</u>
	<u>4,541,267</u>	<u>4,525,957</u>
Less short-term investments:		
RBC Canadian debentures	124,980	25,555
	<u>\$ 4,416,287</u>	<u>\$ 4,500,402</u>

The debentures are all at fixed rates and have a weighted average effective interest rate of 2.099% (2018 - 2.326%) and a weighted average term to maturity of 5.41 years (2018 - 5.94 years). It is the Association's policy to only invest in debt of counterparties with BBB investment ratings or higher.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

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, 2019, 45.79% (2018 - 32.52%) 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 2018.

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, 2019

5. Capital assets:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Building and building improvements	\$ 3,921,846	\$ 720,670	\$ 3,201,176	\$ 3,299,222
Furniture, equipment and other	139,252	104,439	34,813	48,738
	\$ 4,061,098	\$ 825,109	\$ 3,235,989	\$ 3,347,960

6. Deferred contributions:

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

	2019	2018
Tetra Pharma Grant	\$ 150,000	\$ —
Astra Zeneca Pan-Canadian Project	120,000	—
Cancer Care Ontario Project	75,017	—
Tetra Pharma Support	50,000	—
Pfizer Research Grant	50,000	—
Patients First - Trudell	12,000	12,000
Top it Up	9,037	13,880
#44 Gretzky Golf Tournament	5,000	1,500
Prepaid Rent Suite 408	1,809	1,809
ABLA RE Support	1,490	1,490
ORCS Membership	295	1,710
OTS Membership	95	4,560
OTS Unspent Grant	—	26,872
Ministry of Education Grant	—	20,007
York Region Radon Grant	—	11,757
ORCS Unspent Grant	—	1,403
Grand Fondo Ottawa	—	500
Facebook Ads	—	421
NBLA RE Support	—	299
	\$ 474,743	\$ 98,208

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

7. Investment in capital assets:

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

	2019	2018
Capital assets	\$ 3,235,989	\$ 3,347,960

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

	2019	2018
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 has committed to spend approximately \$1,214,960 for research purposes in Fiscal 2020.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

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 2019, the OLA recorded expenditures in the amount of \$598,569 (2018 - \$523,837) to support the activities administered by the CLA. Of that amount, \$299,787 (2018 - \$222,325) was for research and \$298,782 (2018 - \$301,512) was for national programs.

12. Other fundraising events:

			2019	2018
	Revenue	Expenses	Net	Net
Gaming/raffles	\$ 320,386	\$ 149,499	\$ 170,887	\$ 175,241
Biking events	—	—	—	8,770
Employee funds	166,118	11,601	154,517	145,747
Pull for Kids	—	34	(34)	3,136
Tulip Days	171,528	103,913	67,615	70,136
Dinners/galas/auctions	157,830	87,352	70,478	88,270
Festival of Trees	83,727	35,373	48,354	52,627
Walks/runs	—	—	—	9,937
Gardening festivals	75,542	59,078	16,464	28,322
Golf-related events	80,361	39,916	40,445	46,296
Community events	324,330	32,078	292,252	529,719
	\$ 1,379,822	\$ 518,844	\$ 860,978	\$ 1,158,201

ONTARIO LUNG ASSOCIATION

Schedule of Expenses

Year ended March 31, 2019, with comparative information for 2018

2019	Services and programs	Research programs	Fundraising	Administration	Total
Board and committee meetings	\$ 12,885	\$ 1,718	\$ 1,374	\$ 1,203	\$ 17,180
Housing	195,806	26,107	20,886	18,275	261,074
Amortization	83,978	11,197	8,958	7,838	111,971
Direct mail program	474,313	86,239	301,836	–	862,388
Donor fulfilment centre	51,624	9,386	32,852	–	93,862
Community services and programs	2,950,924	–	–	–	2,950,924
Professional fees	27,874	3,717	2,973	2,602	37,166
General and office	199,561	26,608	21,286	18,626	266,081
Postage	10,936	1,458	1,166	1,021	14,581
Staff travel and development	42,453	5,660	4,528	3,962	56,603
Salaries and employee benefits	2,108,964	281,195	224,956	196,837	2,811,952
Strategic spend	111,555	14,874	11,899	10,412	148,740
Provincial blanket insurance	22,375	2,985	2,388	2,087	29,835
Research grants and awards	–	1,146,644	–	–	1,146,644
	\$ 6,293,248	\$ 1,617,788	\$ 635,102	\$ 262,863	\$ 8,809,001

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