

Financial Statements of

ONTARIO LUNG ASSOCIATION

Year ended March 31, 2014



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INDEPENDENT AUDITORS' REPORT

To the Members of Ontario Lung Association

We have audited the accompanying financial statements of Ontario Lung Association, which comprise the statement of financial position as at March 31, 2014, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Basis for Qualified Opinion

In common with many charitable organizations, Ontario Lung Association derives revenue from fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of Ontario Lung Association. Therefore, we were not able to determine whether, as at and for the years ended March 31, 2014 and 2013, any adjustments might be necessary to fundraising revenue, excess of revenue over expenses reported in the statements of operations, excess 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, 2013.

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, 2014, 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 21, 2014
Toronto, Canada

ONTARIO LUNG ASSOCIATION

Statement of Financial Position

March 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash	\$ 1,708,919	\$ 1,235,590
Restricted cash (note 2)	112,298	81,704
Accounts receivable	277,974	317,325
Prepaid expenses and deposits	66,526	12,764
	<u>2,165,717</u>	<u>1,647,383</u>
Investments (note 3)	4,671,950	4,234,480
Capital assets (note 5)	3,800,243	3,922,820
	<u>\$ 10,637,910</u>	<u>\$ 9,804,683</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,098,174	\$ 1,521,149
Current portion of due to the Canadian Lung Association (note 6)	57,144	57,144
Deferred contributions (note 7)	1,327,934	340,813
	<u>2,483,252</u>	<u>1,919,106</u>
Due to the Canadian Lung Association (note 6)	114,280	171,424
Net assets:		
Investment in capital assets	3,800,243	3,922,820
Internally restricted (note 8)	24,511	56,236
Endowment (note 9)	279,239	279,239
Unrestricted	3,936,385	3,455,858
	<u>8,040,378</u>	<u>7,714,153</u>
Commitments (note 10)		
	<u>\$ 10,637,910</u>	<u>\$ 9,804,683</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

ONTARIO LUNG ASSOCIATION

Statement of Operations

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Revenue:		
Grants	\$ 3,330,695	\$ 3,289,061
Direct mail programs	2,206,330	2,409,425
Other fundraising events (note 13)	1,888,135	1,736,463
Bequests	1,170,046	1,571,675
Corporate, employee and other fundraising	930,813	913,306
Services and program fees	590,635	1,328,989
Memorials	406,501	481,169
Investment income, net	202,649	231,265
Other	212,069	124,425
	<u>10,937,873</u>	<u>12,085,778</u>
Expenses:		
Other fundraising events (note 13)	676,333	786,704
Provincial and community programs (Schedule):		
Services and programs	7,171,685	7,948,118
Research programs	1,819,050	1,707,258
Fundraising	673,925	761,738
Administration	290,235	299,510
National programs (note 12)	296,753	296,753
	<u>10,927,981</u>	<u>11,800,081</u>
Excess of revenue over expenses before the undernoted	9,892	285,697
Unrealized gain (loss) on investments	316,333	(21,227)
Excess of revenue over expenses	<u>\$ 326,225</u>	<u>\$ 264,470</u>

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Statement of Changes in Net Assets

Year ended March 31, 2014, with comparative information for 2013

2014	Investment in capital assets	Internally restricted	Endowment	Unrestricted	Total
Balance, beginning of year	\$ 3,922,820	\$ 56,236	\$ 279,239	\$ 3,455,858	\$ 7,714,153
Excess (deficiency) of revenue over expenses	(122,577)	–	–	448,802	326,225
Interfund transfer, net (note 8)	–	(31,725)	–	31,725	–
Balance, end of year	\$ 3,800,243	\$ 24,511	\$ 279,239	\$ 3,936,385	\$ 8,040,378

2013	Investment in capital assets	Internally restricted	Endowment	Unrestricted	Total
Balance, beginning of year	\$ 3,455,278	\$ 83,726	\$ 279,239	\$ 3,631,440	\$ 7,449,683
Excess (deficiency) of revenue over expenses	(119,500)	–	–	383,970	264,470
Net change in investment in capital assets	587,042	–	–	(587,042)	–
Interfund transfer, net (note 8)	–	(27,490)	–	27,490	–
Balance, end of year	\$ 3,922,820	\$ 56,236	\$ 279,239	\$ 3,455,858	\$ 7,714,153

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 326,225	\$ 264,470
Items not involving cash:		
Amortization of capital assets	122,577	119,500
Unrealized loss (gain) on investments	(316,333)	21,227
Change in non-cash operating working capital	549,735	(177,917)
	682,204	227,280
Financing activities:		
Repayment to Canadian Lung Association	(57,144)	(57,144)
Investing activities:		
Acquisition of capital assets	—	(587,042)
Net change in investments	(121,137)	489,051
	(121,137)	(97,991)
Increase in cash	503,923	72,145
Cash, beginning of year	1,317,294	1,245,149
Cash, end of year	\$ 1,821,217	\$ 1,317,294
Represented by:		
Cash	\$ 1,708,919	\$ 1,235,590
Restricted cash	112,298	81,704
	\$ 1,821,217	\$ 1,317,294

See accompanying notes to financial statements.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements

Year ended March 31, 2014

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 Associations in Part III of the Chartered Professional Accountants of Canada Handbook:

(a) Revenue recognition:

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

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. No accruals are made for other monies pledged but not yet received.

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

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

(b) Capital assets:

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

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

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

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

(c) Volunteer services:

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

(d) Commitments:

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

(e) Financial instruments:

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

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

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Association determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Association expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include allocation of expenses and the carrying amount of capital assets. Actual results could differ from those estimates.

(g) Disclosure of allocated expenses:

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

- Funding for research on respiratory health and related risk factors.
- Conducts educational seminars and workshops for health care professionals providing them with the most up-to-date information on lung-health issues and practice guidelines.
- Provides advice and support to individuals with lung-health issues, their families and caregivers through toll-free information line and other services.
- Provides health education information about respiratory health and risk factors 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, 2014

1. Significant accounting policies (continued):

- 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.
- Advocates to policy-makers for programs and legislation aimed at improving lung health.

The costs of each program include the costs of personnel, premises and other expenses that are directly related to providing the program. The OLA also incurs general support expenses that are common to the administration of the Association and each of its 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%
Service and programs	55%
Research programs	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%

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, 2014

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:

	2014	2013
Cash (overdraft)	\$ 266,968	\$ (17,735)
Pooled funds:		
Foreign securities	56,455	—
CIBC Alerian	347,290	115,555
U.S. other	45,750	101,393
	449,495	216,948
Common and preferred shares:		
Canadian common shares	2,264,191	2,497,445
U.S. common shares	493,058	418,718
Canadian preferred shares	317,157	52,400
U.S. preferred shares	23,944	22,851
	3,098,350	2,991,414
Fixed income:		
GIC:		
RBC Investment Savings	—	516,734
RBC U.S. Investment Savings	—	25,319
RBC debentures	857,137	501,800
	857,137	1,043,853
	\$ 4,671,950	\$ 4,234,480

The debentures are all at fixed rates and have a weighted average effective interest rate of 4.762% (2013 - 5.467%) and a weighted average term to maturity of 2.35 years (2013 - 4.90 years). It is the Association's policy to only invest in debt of counterparties with BBB investment ratings and higher.

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.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

4. Financial risks:

(a) Interest rate risk:

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

(b) Other price risk:

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

(c) Foreign currency risk:

The Association is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. As of March 31, 2014, 14% (2013 - 13%) 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 2013.

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, 2014

5. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Building and building improvements	\$ 3,921,845	\$ 230,440	\$ 3,691,405	\$ 3,789,452
Furniture, equipment and other	139,252	34,813	104,439	118,364
Computer equipment and software	52,294	47,895	4,399	15,004
	\$ 4,113,391	\$ 313,148	\$ 3,800,243	\$ 3,922,820

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

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

	2014	2013
Long-term debt due to the Canadian Lung Association	\$ 171,424	\$ 228,568
Less current portion	57,144	57,144
	\$ 114,280	\$ 171,424

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

7. Deferred contributions:

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

	2014	2013
Docs on Ice	\$ –	\$ 190,925
Value Demonstrating Initiative	832,596	–
Better Care Faster	160,607	–
Pfizer Research grant	100,000	–
Lung Cancer Summit	55,000	–
Tuberculosis conference	51,619	56,619
Top It Up Campaign	48,025	47,828
Other	39,330	35,401
National Research Campaign	38,803	–
Ontario Respiratory Care Society Research	1,954	1,954
Ontario Thoracic Society research	–	8,086
	<u>\$ 1,327,934</u>	<u>\$ 340,813</u>

8. Internally restricted net assets:

The internally restricted net assets are comprised of a Board of Directors established fund.

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. During the year, the Board of Directors approved to transfer net \$31,725 (2013 - \$27,490) from internally restricted net assets to unrestricted net assets.

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 used for the support of medical research and school programs.

ONTARIO LUNG ASSOCIATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

10. Commitments:

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

2015	\$ 167,000
2016	125,000
2017	81,000
2018	43,000
	<hr/>
	\$ 416,000

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 \$1,203,036 for research purposes in fiscal 2015, of which approximately \$217,541 will support National Research Programs.

11. 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.

12. Related party transactions:

The OLA is a member of 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, 2014

12. Related party transactions (continued):

In fiscal 2014, the OLA recorded expenses in the amount of \$514,294 (2013 - \$514,294) to support the activities administered by the CLA. Of that amount, \$217,541 (2013 - \$217,541) was for research and \$296,753 (2013 - \$296,753) was for national programs.

The OLA is committed to contributing an amount of \$514,294 in fiscal 2015 to support the CLA. Of this amount, \$217,541 is for research and \$296,753 is for national programs.

13. Other fundraising events:

			2014	2013
	Revenue	Expenses	Net	Net
Other community events	\$ 660,929	\$ 240,450	\$ 420,479	\$ 175,772
Employee funds	225,971	13,633	212,338	211,241
Tulip Days	220,098	94,938	125,160	73,424
Gaming/raffles	201,548	90,519	111,029	133,134
Dinners/Galas/Auctions	178,779	81,093	97,686	109,151
Golf-related events	132,230	51,609	80,621	71,912
Gardening festivals	111,262	52,763	58,499	59,578
Festival of Trees	72,599	27,802	44,797	45,433
Biking events	42,391	9,336	33,055	34,228
Walks/runs	32,750	13,175	19,575	30,197
Pull for Kids	9,578	1,015	8,563	5,689
	<u>\$ 1,888,135</u>	<u>\$ 676,333</u>	<u>\$ 1,211,802</u>	<u>\$ 949,759</u>

14. 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, 2014, with comparative information for 2013

2014	Services and programs	Research programs	Fundraising	Administration	Total
Board and committee meetings	\$ 27,397	\$ 3,653	\$ 2,922	\$ 2,557	\$ 36,529
Housing	354,790	47,305	37,844	33,114	473,053
Amortization	91,933	12,258	9,806	8,580	122,577
Direct mail program	528,539	96,098	336,344	–	960,981
Donor fulfilment centre	9,248	1,681	5,885	–	16,814
Community services and programs	3,524,241	–	–	–	3,524,241
Professional fees	27,000	3,600	2,880	2,520	36,000
General and office	217,448	28,993	23,195	20,295	289,931
Postage	17,418	2,322	1,858	1,626	23,224
Staff travel and development	67,866	9,049	7,239	6,334	90,488
Salaries and employee benefits	2,283,498	304,466	243,573	213,127	3,044,664
Provincial blanket insurance	22,307	2,974	2,379	2,082	29,742
Research grants and awards	–	1,306,651	–	–	1,306,651
	\$ 7,171,685	\$ 1,819,050	\$ 673,925	\$ 290,235	\$ 9,954,895

2013	Services and programs	Research programs	Fundraising	Administration	Total
Board and committee meetings	\$ 28,686	\$ 3,825	\$ 3,060	\$ 2,677	\$ 38,248
Housing	352,720	47,029	37,623	32,921	470,293
Amortization	89,625	11,950	9,560	8,365	119,500
Direct mail program	652,722	118,677	415,368	–	1,186,767
Donor fulfilment centre	6,398	1,163	4,071	–	11,632
Community services and programs	4,079,958	–	–	–	4,079,958
Professional fees	21,165	2,822	2,258	1,975	28,220
General and office	258,336	34,445	27,556	24,111	344,448
Postage	36,550	4,874	3,899	3,411	48,734
Staff travel and development	78,587	10,478	8,383	7,335	104,783
Salaries and employee benefits	2,315,821	308,776	247,021	216,144	3,087,762
Provincial blanket insurance	27,550	3,673	2,939	2,571	36,733
Research grants and awards	–	1,159,546	–	–	1,159,546
	\$ 7,948,118	\$ 1,707,258	\$ 761,738	\$ 299,510	\$ 10,716,624