
Financial statements of
Council of Academic
Hospitals of Ontario

March 31, 2018

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Independent Auditor's Report

To the Members of
Council of Academic Hospitals of Ontario

We have audited the accompanying financial statements of the Council of Academic Hospitals of Ontario, which comprise the statement of financial position as at March 31, 2018, and the statements of revenue and expenses, changes in net assets, and cash flows for the year then ended, and 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.

Auditor's 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 the auditor's 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, the auditor considers 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Council of Academic Hospitals of Ontario as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance Canadian accounting standards for not-for-profit organizations.



Chartered Professional Accountants
Licensed Public Accountants
June 8, 2018

Council of Academic Hospitals of Ontario

Statement of financial position

As at March 31, 2018

	Notes	2018	2017
		\$	\$
Assets			
Current assets			
Cash and cash equivalents			
Special Projects Fund		53	11,739
Operating Fund		322,073	360,093
Short-term investments	4	2,377,442	2,244,278
Prepaid expenses		1,324,480	1,111,625
Accounts receivable		137,742	159,747
Harmonized Sales Tax receivable		—	1,238
		4,161,790	3,888,720
Capital assets	5	45,006	50,823
		4,206,796	3,939,543
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		170,308	322,390
Harmonized Sales Tax payable		3,893	—
Deferred revenue	6	1,352,908	928,894
		1,527,109	1,251,284
Deferred leasehold inducement		26,377	19,359
Deferred revenue	6	—	222,500
		1,553,486	1,493,143
Net assets			
Special Projects Fund	3	1,775,739	1,702,756
Operating Fund		877,571	743,644
		2,653,310	2,446,400
		4,206,796	3,939,543

The accompanying notes to the financial statements are an integral part of this financial statement.

Approved by Council

_____ Director

_____ Director

Council of Academic Hospitals of Ontario

Statement of changes in net assets

Year ended March 31, 2018

Notes	2018			2017
	Special Projects Fund	Operating Fund	ARTIC Project Fund	Total
	\$	\$	\$	\$
Balance, beginning of year	1,702,756	743,644	—	2,446,400
Excess of revenue over expenses for the year	72,983	133,927	—	206,910
Balance, end of year	1,775,739	877,571	—	2,653,310

The accompanying notes to the financial statements are an integral part of this financial statement.

Council of Academic Hospitals of Ontario

Statement of revenue and expenses

Year ended March 31, 2018

Notes	2018				2017			
	Special Projects Fund	Operating Fund	ARTIC Project Fund	Total	Special Projects Fund	Operating Fund	ARTIC Project Fund	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Funding revenue	—	—	1,081,503	1,081,503	—	—	1,620,178	1,620,178
Membership revenue	—	1,348,814	—	1,348,814	—	1,337,624	—	1,337,624
Other revenue	—	204,238	—	204,238	—	101,412	—	101,412
	—	1,553,052	1,081,503	2,634,555	—	1,439,036	1,620,178	3,059,214
Expenses								
Fees - legal, financial, professional, and insurance	87,807	83,259	874,544	1,045,610	38,490	84,220	1,425,579	1,548,289
Salaries and benefits	—	1,010,208	173,061	1,183,269	—	1,024,800	162,278	1,187,078
Communications	6,500	28,122	413	35,035	—	40,301	300	40,601
Management fees	8	70,000	—	70,000	—	70,000	—	70,000
Rent	8	194,756	—	194,756	—	192,314	—	192,314
Office	467	31,586	2,449	34,502	495	26,304	1,283	28,082
Business travel (net of reimbursements)	466	8,737	373	9,576	(500)	12,228	1,712	13,440
Committee	50	16,505	545	17,100	—	11,402	172	11,574
Other sundry	—	3,144	—	3,144	—	3,169	138	3,307
Amortization	—	5,817	—	5,817	—	5,817	—	5,817
(Recovery of) fee for payroll, information technology, finance, rent and administrative costs	—	(30,118)	30,118	—	—	(28,716)	28,716	—
	95,290	1,422,016	1,081,503	2,598,809	38,485	1,441,839	1,620,178	3,100,502
(Deficiency) excess of revenue over expenses for the year before the undernoted	(95,290)	131,036	—	35,746	(38,485)	(2,803)	—	(41,288)
Investment income	150,392	—	—	150,392	78,350	—	—	78,350
Change in fair value of investments	17,881	—	—	17,881	270,517	—	—	270,517
Interest income	—	2,891	—	2,891	—	1,031	—	1,031
Excess (deficiency) of revenue over expenses for the year	72,983	133,927	—	206,910	310,382	(1,772)	—	308,610

The accompanying notes to the financial statements are an integral part of this financial statement.

Council of Academic Hospitals of Ontario

Statement of cash flows

Year ended March 31, 2018

	2018	2017
	\$	\$
Operating activities		
Excess of revenue over expenses	206,910	308,610
Gain on short-term investments	(17,881)	(270,517)
Investment income	(150,392)	(78,350)
Amortization of capital assets	5,817	5,817
Changes in non-cash operating items		
Prepaid expenses	(212,855)	771,269
Accounts receivable	22,005	(11,856)
Harmonized Sales Tax receivable	5,131	8,222
Accounts payable and accrued liabilities	(152,082)	21,316
Deferred leasehold inducement	7,018	19,359
Deferred revenue	201,514	(770,391)
	(84,815)	3,479
Investing activities		
Acquisition of short-term investments	(127,488)	(292,906)
Proceeds on disposal of short-term investments	162,597	425,338
Recovery of amounts paid for capital assets	—	2,096
	35,109	134,528
(Decrease) increase in cash and cash equivalents	(49,706)	138,007
Cash and cash equivalents, beginning of year	371,832	233,825
Cash and cash equivalents, end of year	322,126	371,832
Cash and cash equivalents consist of		
Special Projects Fund	53	11,739
Operating Fund	322,073	360,093
	322,126	371,832

The accompanying notes to the financial statements are an integral part of this financial statement.

Council of Academic Hospitals of Ontario

Notes to the financial statements

March 31, 2018

1. Organization

The Council of Academic Hospitals of Ontario (“CAHO”) (formerly, the Ontario Council of Teaching Hospitals) was formed in 1987 and was incorporated without share capital under the laws of Ontario on December 19, 1988. CAHO is a not-for-profit organization and, therefore, not subject to income taxes.

CAHO is a voluntary organization representing the collective interests of 23 teaching hospitals on those issues of primary importance to its members and to the direction of health policy in Ontario.

CAHO’s purpose is to preserve and advance the role of Ontario’s teaching hospitals as providers of health care and as leaders in health care development. CAHO recognizes this role as having three essential components: the education of health care providers; the development of research initiatives in cooperation with associated universities; and, collectively, the provision of a comprehensive system of exemplary and compassionate health care services ranging from community outreach to the most sophisticated and technologically advanced services available.

2. Significant accounting policies

Fund accounting

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Canadian Chartered Professional Accountants using the deferral method of reporting restricted contributions. CAHO separately discloses the activities of the following funds:

- Special Projects Fund - includes all unrestricted accumulated surpluses which are to be used for one-time special initiatives selected by Council.
- Operating Fund - reflects activities associated with CAHO’s day-to-day operations. It reports unrestricted resources available for immediate purposes.
- ARTIC Project Fund - CAHO, in collaboration with the Ministry of Health and Long Term Care (“MOHLTC”) launched the Adopting Research to Improve Care (“ARTIC”) Program to move research evidence from one hospital into practice across all recipient member hospitals in order to drive quality improvement and benefit the health care system as a whole. The project spanned four years and was completed in March 2015.
- In April 2014, CAHO entered into a collaboration agreement with Health Quality Ontario (“HQO”), the purpose of which was to collaborate on coordinating and co-managing the transition of the ARTIC Program to a provincial platform to serve the uptake of research evidence into practice across the broader health care system in Ontario as a whole. Pursuant to the terms of the agreement, as amended on March 21, 2016, HQO provided funding of \$3.3 million over the project term which ended on July 29, 2016.
- In July 2016, CAHO entered into a new collaboration agreement with HQO that set forth the terms under which they will collaborate to continue to co-lead the ARTIC Program. HQO will provide funding of up to \$3.0 million over the project term ending July 31, 2019.

2. Significant accounting policies (continued)

Financial instruments

CAHO has selected the following classifications and measurements for its financial instrument assets and liabilities:

<u>Asset/liability</u>	<u>Category</u>
Cash and cash equivalents	Amortized cost
Short-term investments	Fair value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

Financial assets and financial liabilities are initially recognized at fair value when CAHO becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost, with the exception of investments which are measured at fair value. Changes in fair value are recorded in the statement of revenue and expenses.

Financial assets measured at amortized cost are assessed at each reporting date for indications of impairment. If such impairment exists, the asset is written down and the resulting impairment loss is recognized in the statement of revenue and expenses.

Revenue recognition

Membership revenue is recognized in the year it is received, as annual membership is voluntary.

Externally restricted contributions are deferred when received and recognized into revenue when the related expenses are incurred.

Investment income is recognized as earned.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and balances with banks and short-term deposits with original maturities of 90 days or less.

Capital assets

Capital assets are recorded at cost. Amortization is based on the estimated useful life of the item using the following methods and terms:

Furniture and fixtures	Straight-line	5 years
Leasehold improvements	Straight-line	Term of the lease

Minor capital asset purchases are expensed when acquired.

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions. These estimates and assumptions 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 reporting period. Actual results could differ from those estimates. Amounts requiring significant estimates and assumptions include accrued liabilities and the useful life of capital assets.

Council of Academic Hospitals of Ontario

Notes to the financial statements

March 31, 2018

3. Special Projects Fund

The Special Projects Fund includes the portion of CAHO's unrestricted accumulated surplus that is to be used for one-time special initiatives. Council is authorized to use funds on one or more one-time special initiatives in any given fiscal year.

4. Short-term investments

Short-term investments consist of amounts invested in managed pooled funds. The cost and market value of the investments are as follows:

	2018		2017	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Pooled funds				
Fixed income	966,606	959,135	796,931	800,697
Canadian equities	606,625	620,140	573,547	599,633
International equities	713,931	798,167	791,301	843,948
	<u>2,287,162</u>	<u>2,377,442</u>	<u>2,161,779</u>	<u>2,244,278</u>

5. Capital assets

	2018		2017	
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Furniture and fixtures	1,208	(809)	399	640
Leasehold improvements	55,759	(11,152)	44,607	50,183
	<u>56,967</u>	<u>(11,961)</u>	<u>45,006</u>	<u>50,823</u>

6. Deferred revenue

Deferred revenue relates to funding received in connection with the collaboration agreements entered into between CAHO and HQO (Note 2) for which the related program expenses will be recognized in future periods. Each research program that receives funding has a specified project term. The program funding and related expenses are recognized over the respective project terms. The balance of funding that is expected to be recognized as revenue within one year from the date of the statement of financial position is classified as a current liability. The following schedule shows the allocation of deferred revenue between its current and non-current balances at March 31:

	2018	2017
	\$	\$
Current	1,352,908	928,894
Non-current	-	222,500
	<u>1,352,908</u>	<u>1,151,394</u>

Council of Academic Hospitals of Ontario

Notes to the financial statements

March 31, 2018

7. Interfund transfers and balances

Interfund transfers

In 2018, \$Nil (2017 - \$9,298) was transferred from the Operating Fund to the Special Projects Fund in the normal course of operations. The inter-fund transfer is presented in the statement of changes in net assets.

Interfund balances

The amounts of interfund loans outstanding at March 31, 2018 follow:

	2018	2017
	\$	\$
Operating Fund		
Due from the Special Projects Fund	592,746	548,851
Special Projects Fund		
Due to the Operating Fund	(592,746)	(548,851)
	-	-

Interfund loans, presented net in the statement of financial position, are unsecured, non-interest bearing and payable on demand.

8. Services provided by the Ontario Hospital Association

During the year, CAHO incurred \$70,000 (2017 - \$70,000) of management fee expense for payroll and information technology services provided by the Ontario Hospital Association ("OHA") and rent on premises rented from the OHA of \$187,739 (2017 - \$172,954).

9. Fair values and risk management

The fair value of short-term investments are based on quoted bid prices.

Interest rate risk

The market value of certain CAHO investments is sensitive to changes in interest rates. CAHO does not enter into derivatives and financial instruments to manage this risk.

Market risk

The market value of CAHO's equity investments is sensitive to fluctuating market forces. CAHO does not enter into derivatives and financial instruments to manage this risk.

Concentration of credit risk

CAHO has no specific concentration of credit risk as its investment portfolio is appropriately diversified.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. CAHO invests in non-Canadian equities and is therefore directly exposed to currency risk, as the value of equities denominated in other currencies will fluctuate due to changes in exchange rates.

10. Operating Leases

CAHO entered into an operating lease for its head office that expires on March 31, 2026. Future minimum lease payments aggregate \$859,437 and include the following amounts payable over the next five years:

	\$
2019	105,299
2020	107,734
2021	107,734
2022	107,734
2023	107,734
Thereafter	323,202
	<u>859,437</u>

11. Guarantees

In the normal course of business, CAHO enters into agreements that meet the definition of a guarantee. CAHO's primary guarantees are as follows:

In the normal course of business, CAHO has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require CAHO to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents CAHO from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, CAHO has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the statement of financial position with respect to these agreements.