

**THE FRIENDS OF UNIVERSITY
HOSPITALS**
Financial Statements
Year Ended March 31, 2017

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THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

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June 29, 2017
Edmonton, Alberta

Independent Auditor's Report

To the Members of The Friends of University Hospitals:

We have audited the accompanying financial statements of The Friends of University Hospitals, which comprise the statement of financial position as at March 31, 2017 and the statements of operations, changes in net assets and cash flow 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 qualified audit opinion.

Basis of Qualified Opinion

In common with many charitable organizations, the organization derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to donation income, deficiency of revenues over expenses, current assets and net assets.

Qualified Opinion

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenue referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of The Friends of University Hospitals as at March 31, 2017 and the results of its operations and its cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Kingston Ross Pasnak LLP

Chartered Professional Accountants

Statement of Operations

THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

			<u>2017</u>	<u>2016</u>
SALES			\$ 1,459,286	\$ 1,412,758
Less: Cost of sales			930,916	876,472
GROSS PROFIT ON SALES			528,370	536,286
OTHER REVENUE (EXPENSES)				
Atrium revenue			122,070	125,027
Gift shop salaries and benefits			(240,953)	(218,829)
GIFT SHOP CONTRIBUTION			409,487	442,484
	Operating	Arts in	Grants	
	Administration	Health Care	to U of A	
EXPENDITURES				
Salaries and benefits	\$ 147,493	\$ 49,164	\$ 298,225	-
Grants paid to UAH (Note 6)	-	-	-	22,092
Other	60,861	499	47,299	-
Volunteer travel and meals	-	31,269	-	-
Professional fees	13,269	-	11,568	-
	<u>221,623</u>	<u>80,932</u>	<u>357,092</u>	<u>22,092</u>
			681,738	773,595
REVENUE				
Grants and donations	(19,917)	-	(160,317)	(2,061)
Fundraising	(3,992)	-	(4,160)	-
Interest	(3,281)	-	(672)	-
	<u>(27,190)</u>	<u>-</u>	<u>(165,149)</u>	<u>(2,061)</u>
			(182,295)	(178,834)
			(8,152)	(28,164)
			(3,953)	(6,890)
Net cost	\$ 194,433	\$ 80,932	\$ 191,943	\$ 20,031
			487,338	559,707
DEFICIENCY OF REVENUE OVER EXPENDITURES BEFORE AMORTIZATION			(77,851)	(117,223)
AMORTIZATION OF PROPERTY AND EQUIPMENT			(26,579)	(10,271)
DEFICIENCY OF REVENUE OVER EXPENDITURES			\$ (104,430)	\$ (127,494)

Statement of Changes in Net Assets

THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

	Balance Beginning of Year	(Deficiency) Excess of Revenue over Expenses	Investment in Property and Equipment	Interfund Transfers (Note 8)	Balance End of Year
Operating Fund:					
Invested in property and equipment	\$ 177,972	\$ (26,579)	\$ 9,244	\$ -	\$ 160,637
Unrestricted	63,517	(56,431)	(9,244)	2,939	781
	241,489	(83,010)	-	2,939	161,418
Internally Restricted:					
Capital Improvements Project Fund	65,058	-	-	-	65,058
Contingency Fund	154,913	-	-	(40,000)	114,913
Nancy Lieberman Special Purpose Fund	13,714	(22,092)	-	42,061	33,683
McMullen Gallery Fund	95,716	672	-	-	96,388
Kaye Edmonton Clinic Art Acquisition Fund	26,715	-	-	(5,000)	21,715
	356,116	(21,420)	-	(2,939)	331,757
	\$ 597,605	\$ (104,430)	\$ -	\$ -	\$ 493,175

Statement of Financial Position

THE FRIENDS OF UNIVERSITY HOSPITALS

March 31, 2017

ASSETS	2017	2016
CURRENT		
Cash (Note 3)	\$ 395,934	\$ 466,017
Restricted cash (Note 4)	101,359	47,628
Accounts receivable	3,863	33,977
Prepaid expense	-	3,069
Inventories	203,798	187,239
	<hr/>	<hr/>
	704,954	737,930
PROPERTY AND EQUIPMENT (Note 5)	160,637	177,972
	<hr/>	<hr/>
	\$ 865,591	\$ 915,902
	<hr/>	<hr/>
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable and accrued liabilities (Note 6)	\$ 171,577	\$ 264,245
Goods and Services Tax payable	8,440	6,424
Deferred contributions (Note 7)	192,399	47,628
	<hr/>	<hr/>
	372,416	318,297
COMMITMENTS (Note 9)		
NET ASSETS		
Invested in property and equipment	160,637	177,972
Internally restricted	331,757	356,116
Unrestricted	781	63,517
	<hr/>	<hr/>
	493,175	597,605
	<hr/>	<hr/>
	\$ 865,591	\$ 915,902
	<hr/>	<hr/>

APPROVED BY THE BOARD

_____ Director

_____ Director

Statement of Cash Flow

THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

	<u>2017</u>	<u>2016</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers and donors	\$ 1,801,919	\$ 1,742,242
Cash paid to suppliers and employees	(1,812,980)	(1,787,295)
Interest received	3,953	6,890
Change in restricted cash balance	(53,731)	21,221
	<hr/> (60,839)	<hr/> (16,942)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(9,244)	(176,707)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(70,083)	(193,649)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	466,017	659,666
CASH, END OF YEAR	<hr/> \$ 395,934	<hr/> \$ 466,017

THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

Note 1

Authority and Purpose

The Friends of the University Hospitals ("The Friends") was incorporated as an association on April 25, 1986 under the Companies Act of the Province of Alberta. The Friends is registered as a charitable organization with Canada Revenue Agency and is therefore exempt from income taxes.

The Friends are dedicated to providing a caring, comforting hospital experience for patients, families, volunteers and staff supported by social enterprise and fund raising, innovative programs, community engagement and the arts.

Under the terms of its Memorandum of Understanding with Alberta Health Services the Friends manage and carry out the day-to-day activities associated with the operation of the Alberta Health Services art collection housed at the University Hospital. As at March 31, 2017 there were 1858 works in the collection with an estimated value of \$2,300,923.

Note 2

Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO"). Significant accounting policies observed in the preparation of the financial statements are summarized below.

THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

Note 2

Significant
Accounting Policies
continued. . .

Fund Accounting

The accounts of The Friends are maintained in accordance with the principles of fund accounting. Major fund groupings include:

- Operating Fund

This fund consists of the operating activities of The Friends which includes the gift shop, support for the volunteer resources and The Artists in Health Care Program.

- Capital Improvement Projects Fund

This fund is internally restricted for capital expenditures expected to be incurred for various capital improvements to space controlled by The Friends.

- Contingency Fund

This fund is internally restricted to pay for unanticipated expenses which are approved by the Board of Directors, insurance deductibles up to \$20,000, annual operating deficits and unanticipated repairs and maintenance to the Gift Shop and the McMullen Gallery that are not the responsibility of the University of Alberta Hospital.

- Nancy Lieberman Special Purpose Fund

This fund is internally restricted and provides grants for patient care and comfort at the University of Alberta Hospital.

- McMullen Gallery Fund

This fund is internally restricted by the Board of Directors. Revenue consists primarily of interest earned on the balance of the funds held on deposit.

- Kaye Edmonton Clinic - Art Acquisition Fund

This fund is internally restricted by the Board of Directors. Funds have been allocated from the McMullen Gallery Fund for the purpose of art acquisition and installation for the Kaye Edmonton Clinic Facility.

THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

Note 2

Significant
Accounting Policies
continued. . .

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances less cheques issued and outstanding.

Revenue Recognition

The Friends follows the deferral method of accounting for contributions. Restricted contributions and the interest earned thereon are recognized as revenue in the period in which the related expenses are incurred. Unrestricted contributions and the interest earned thereon are recognized as revenue when received or receivable. Donations and other contributions are recorded as receivable if the amount to be received can be reasonably estimated and its collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets. Cash donations are recorded as revenue when they are received. Revenues from Gift Shop sales and Atrium sales are recognized at the time of sale. Revenues from the Casino and the HELPP fund are deferred and recognized as revenue when the expenses are incurred.

Inventories

Inventories are recorded at the lower of cost and net realizable value, with cost being determined principally on a weighted average basis. Inventory expensed in the year corresponds to the cost of sales as presented on the Statement of Operations.

Property and Equipment

The Friends provides amortization on its property and equipment using the straight-line basis over the estimated useful lives of the assets at the following rates:

Gift shop	ten years
Website	ten years
Fixtures	five years
Computer equipment	three years
Equipment	ten years

THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

Note 2

Significant
Accounting Policies
continued. . .

Measurement Uncertainty

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates relate to amortization of property and equipment, collectibility of accounts receivable, and inventory costing, net realizable value and obsolescence. Actual results could differ from those estimates.

Financial Instruments

All financial instruments are initially measured at fair value, and unless, otherwise noted, The Friends subsequently measures its financial instruments at amortized cost.

Allocated Expenditures

Expenditures which benefit more than one program of The Friends are allocated among the functions. Salaries and benefits are allocated amongst funds based on hours spent. All other operating expenses are allocated amongst funds in accordance to the nature of each expenditure. General support expenses classified under "Operating Administration" and "Volunteers" on the Statement of Operations are not allocated. The Friends does not incur any direct fundraising expenses.

Contributed Materials and Services

Contributed materials are only recognized in the financial statements when the fair value can be reasonably estimated and when the materials would otherwise have been purchased. Volunteers contribute numerous hours in carrying out the activities of the Friends. Due to the difficulty in determining the fair value, contributed services are not recognized in the financial statements.

Note 3

Cash

Cash balances are maintained in interest bearing chequing accounts earning interest at TD Canada Trust's composite prime rate (2.00% as of March 31, 2017) less 1.30%.

Notes to the Financial Statements

THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

Note 4

Restricted Cash

Restricted cash consists of cash maintained in interest bearing chequing accounts earning interest at TD Canada Trust's composite prime rate (2.00% as of March 31, 2017) less 1.30%. Included in restricted cash are the following accounts, which are subject to restrictions by the Alberta Gaming and Liquor Commission.

	<u>2017</u>	<u>2016</u>
HELPP fund account	\$ 63,929	\$ 46,113
Casino fund account	37,430	1,515
	<u>\$ 101,359</u>	<u>\$ 47,628</u>

Note 5

Property and Equipment

			<u>2017</u>	<u>2016</u>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Gift shop	\$ 437,661	\$ 295,420	\$ 142,241	\$ 157,702
Website	6,915	346	6,569	-
Fixtures	8,077	3,029	5,048	7,067
Computer equipment	25,102	20,110	4,992	13,158
Equipment	24,042	22,255	1,787	45
	<u>\$ 506,246</u>	<u>\$ 345,609</u>	<u>\$ 160,637</u>	<u>\$ 177,972</u>

THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

Note 6
Related Party
Transactions

The Friends provides donations of money and services to the University of Alberta Hospital Site (the "Hospital"). These donations allow the Hospital to provide patient services, equipment, education and research not funded from other sources. During the year, The Friends approved \$96,267 and allocated funds for \$22,092 in donations. At year end, \$33,683 (2016 - \$13,714) was remaining in the Nancy Lieberman Special Purpose Fund.

In addition, The Friends reimbursed the Hospital for the cost of certain salaries, benefits and general services provided amounting to \$735,836; (2016 - \$753,822). At year end, accounts payable included balances payable to the Hospital of \$59,100; (2016 - \$238,665).

The Friends operates out of the University of Alberta Hospital site. There is no rent paid to the Hospital. Additional services provided by the Hospital without consideration include IT services, phone and fax machine services, utilities and general insurance.

Notes to the Financial Statements

THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

Note 7

Deferred Contributions

	Beginning of the year	Receipts	Disbursements	2017
HELPP Fund	\$ 46,113	\$ 21,808	\$ 3,992	\$ 63,929
NAUC Project	-	71,437	22,037	49,400
Haryett Phase II Project	-	48,206	6,566	41,640
Casino Proceeds	1,515	73,115	37,200	37,430
	\$ 47,628	\$ 214,566	\$ 69,795	\$ 192,399

Included in Casino proceeds are contributions restricted by the Alberta Gaming and Liquor Commission to assist in the payment of The Friends monthly salary expense. HELPP fund contributions are also restricted by the Alberta Gaming and Liquor Commission and is to be remitted to the University Hospital for the purpose of purchasing medical equipment. Included in the NAUC project and the Haryett Phase II project are contributions restricted by the University Hospital Foundation for artwork purchases and installation.

Note 8

Interfund Transfers

In the year, the Board of Directors approved a \$40,000 transfer from the Contingency Fund to the Nancy Lieberman Special Purposes Fund to maintain the Nancy Lieberman granting program.

In addition, The Friends transferred \$5,000 from the Kaye Edmonton Clinic Art Acquisition Fund to the Unrestricted Operating Fund to support general collection costs. The Board also approved the transfer of \$2,061 from the Unrestricted Operating Fund to the Nancy Lieberman Fund in order to fund the cash outlays for patient emergency toiletry kits.

Note 9

Commitments

The Friends operations are dependent upon the University of Alberta Hospital Site providing the retail space for the gift shop and the office facilities. This dependence and other respective responsibilities are outlined in a memorandum of understanding with Alberta Health Services. The Friends have \$74,175 (2016 - \$2,822) outstanding commitments in grants out of the Nancy Lieberman Special Purpose Fund.

THE FRIENDS OF UNIVERSITY HOSPITALS

Year ended March 31, 2017

Note 10

Financial Instruments

The Friends is exposed to various risks through its financial instruments. The following analysis provides information about The Friends' risk exposure and concentration as of March 31, 2017. Unless other noted, The Friends' risk exposure has not changed from the prior year.

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Friends is exposed to the credit risk from customers and the maximum exposure to this risk is the carrying value of accounts receivable on the balance sheet. In order to reduce its credit risk. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Friends have limited receivables and therefore credit risk is normal.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the market interest rates. Friends is exposed to interest rate risk primary through its bank accounts.

Note 11

Volunteer Labour

Through the Volunteer Services of the University of Alberta Hospital Site, an estimated total of 55,034; (2016 - 61,343) hours were contributed to the University Hospital by The Friends. Due to the difficulty of determining the fair value of contributed services, they are not recognized in the financial statements.

Note 12

Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.