

MCNALLY HOUSE HOSPICE

Financial Statements
for the Year Ended March 31, 2017
and Independent Auditors' Report to the Board of Directors and Members

MCNALLY HOUSE HOSPICE
FINANCIAL STATEMENTS
MARCH 31, 2017

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CHARTERED
PROFESSIONAL
ACCOUNTANTS

DURWARD JONES BARKWELL
& COMPANY LLP

Big enough to know. SMALL ENOUGH TO CARE.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of McNally House Hospice:

We have audited the accompanying financial statements of McNally House Hospice, which comprise the balance sheet as at March 31, 2017 and the statements of revenue and expenses and fund balance and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for 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 the auditors' 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 for Qualified Opinion

In common with many charitable organizations, the Organization derives revenue from donations and 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 Organization. Therefore, we were unable to determine whether any adjustments might be necessary to donation and fundraising revenue, excess of revenue over expenses, and cash flows from operations for the years ended March 31, 2017 and 2016, current assets as at March 31, 2017 and 2016, and net assets as at April 1 and March 31 for both the 2017 and 2016 years. Our audit opinion on the financial statements for the year ended March 31, 2016 was modified accordingly because of the possible effects of this limitation in scope.

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 McNally House Hospice as at March 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Durward Jones Barkwell + Company LLP

Durward Jones Barkwell & Company LLP
Licensed Public Accountants
September 7, 2017

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MCNALLY HOUSE HOSPICE
STATEMENT OF REVENUE AND EXPENSES AND FUND BALANCE
YEAR ENDED MARCH 31, 2017

| | <u>2017</u> | <u>2016</u> |
|--|--------------------|---------------------|
| REVENUE | | |
| Donations | \$ 323,080 | \$ 331,006 |
| Community sponsored events | 52,535 | 75,210 |
| Fundraising | 404,669 | 343,218 |
| Grants | | |
| Province of Ontario - operating | 691,937 | 603,593 |
| Amortization of capital grants | 40,729 | 45,995 |
| Summer student | 4,958 | 3,960 |
| Investment income | | |
| Interest and other | 47,507 | 46,235 |
| Capital gains (losses) | 113,373 | (15,375) |
| Unrealized loss on short-term investments | - | (19,505) |
| | 1,678,788 | 1,414,337 |
| EXPENSES | | |
| Employment expenses | 1,104,952 | 1,134,200 |
| Depreciation | 64,227 | 71,106 |
| Fundraising | 45,392 | 51,743 |
| Utilities | 33,965 | 31,942 |
| Supplies | 24,204 | 23,229 |
| Office and general | 24,948 | 20,444 |
| Professional fees | 15,060 | 11,118 |
| Repairs and maintenance | 23,773 | 10,827 |
| Insurance | 10,249 | 9,516 |
| Investment management fees | 11,366 | 8,985 |
| Volunteer training and recognition | 39,829 | 7,547 |
| Bank charges | 5,773 | 5,873 |
| Advertising and promotions | 1,604 | 5,187 |
| | 1,405,342 | 1,391,717 |
| EXCESS OF REVENUE OVER EXPENSES FROM OPERATIONS | 273,446 | 22,620 |
| DONATION TO MCNALLY HOSPICE FOUNDATION (Note 9) | 2,134,731 | - |
| EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE) | (1,861,285) | 22,620 |
| FUND BALANCE, BEGINNING OF YEAR | 2,196,964 | 2,174,344 |
| FUND BALANCE, END OF YEAR | \$ 335,679 | \$ 2,196,964 |

MCNALLY HOUSE HOSPICE

BALANCE SHEET
MARCH 31, 2017

| | <u>2017</u> | <u>2016</u> |
|--|--------------|--------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 214,886 | \$ 205,060 |
| Short-term investments | - | 1,478,784 |
| Accounts receivable | - | 1,861 |
| Harmonized Sales Tax recoverable | 15,585 | 11,583 |
| Prepaid expenses | 7,969 | 3,950 |
| | 238,440 | 1,701,238 |
| Funds held in trust - Niagara West Palliative Care Team | 18,087 | 19,522 |
| Building and equipment (Note 2) | 1,385,536 | 1,444,354 |
| | \$ 1,642,063 | \$ 3,165,114 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued charges (Note 3) | \$ 71,812 | \$ 62,024 |
| Deferred revenue | 19,900 | 2,700 |
| | 91,712 | 64,724 |
| Trust liability - Niagara West Palliative Care Team | 18,087 | 19,522 |
| Deferred capital grants (Note 4) | 843,175 | 883,904 |
| Deferred revenue (Note 5) | 353,410 | - |
| Commitment (Note 6) | | |
| | 1,306,384 | 968,150 |
| FUND BALANCE | | |
| Invested in capital assets (Note 7) | 542,361 | 560,450 |
| Unrestricted | (206,682) | 1,636,514 |
| | 335,679 | 2,196,964 |
| | \$ 1,642,063 | \$ 3,165,114 |

Approved by the Board:

..... Director

..... Director

MCNALLY HOUSE HOSPICE
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2017

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------|
| OPERATING ACTIVITIES | | |
| Excess of revenues over expenses (expenses over revenues) | \$(1,861,285) | \$ 22,620 |
| Items not affecting cash | | |
| Amortization of capital grants | (40,729) | (45,995) |
| Unrealized loss on short-term investments | - | 19,505 |
| Depreciation | 64,227 | 71,106 |
| Donation to McNally Hospice Foundation | 1,634,731 | - |
| | (203,056) | 67,236 |
| Changes in non-cash operating assets and liabilities | | |
| Accounts receivable | 1,861 | 799 |
| Harmonized Sales Tax recoverable | (4,002) | 3,017 |
| Prepaid expenses | (4,019) | (77) |
| Accounts payable and accrued charges | 9,788 | 8,549 |
| Deferred revenue | 370,610 | 2,700 |
| | 171,182 | 82,224 |
| INVESTING ACTIVITIES | | |
| Income on short-term investments reinvested | (155,947) | (21,254) |
| Purchase of equipment | (5,409) | (1,086) |
| | (161,356) | (22,340) |
| INCREASE IN CASH | 9,826 | 59,884 |
| CASH, BEGINNING OF YEAR | 205,060 | 145,176 |
| CASH, END OF YEAR | \$ 214,886 | \$ 205,060 |

During the year, the Organization donated \$2,134,731 to McNally Hospice Foundation, of which \$1,634,731 was a transfer of the Organization's short-term investments at fair market value and \$500,000 was a transfer of cash.

MCNALLY HOUSE HOSPICE
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Nature of organization

McNally House Hospice is a charitable organization incorporated without share capital which operates a six bed residential hospice in Grimsby, Ontario. The mission of the Organization is to provide a caring, supportive residential hospice environment to patients and families within Niagara West.

Revenue recognition

Donations and certain fundraising revenue are recognized on a cash basis. All other revenue and expenses are recorded on an accrual basis.

The Organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue when the related expenses are incurred and unrestricted contributions are recognized as revenue when received.

Donated materials and services

The Organization may receive donated materials and relies on the services of volunteers, the value of which is not recorded in the financial statements, as the amounts are not readily determinable.

Building and equipment

Building and equipment are stated at cost and are depreciated using the diminishing-balance method at the rates indicated in Note 2. Depreciation in the year of acquisition is recorded at one-half of the normal rates except for major additions which are recorded in the month they were put into use.

Long-lived assets

Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of the long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Deferred capital grants

Deferred capital grants represent grant subsidies received from the Province of Ontario which were used for the purchase of building and equipment. As the building and equipment have been capitalized, the proceeds from the subsidies are being recognized over the life of the related capital assets in accordance with depreciation taken as indicated in Note 4.

Income taxes

No provision for income taxes is required as the Organization is exempt from income taxes.

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 that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from management's best estimates, as additional information becomes available in the future. Significant estimates and assumptions are used when accounting for items such as impairment of long-lived assets, determination of useful lives of building and equipment and revenue recognition.

MCNALLY HOUSE HOSPICE
 NOTES TO THE FINANCIAL STATEMENTS
 MARCH 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

Financial instruments

(a) Measurement of financial instruments

The Organization initially measures its financial assets and financial liabilities at their fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributed to the instrument.

The Organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments, which are subsequently measured at fair value. Changes in fair value are recognized in excess of revenue over expenses.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued charges.

(b) Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in the statement of revenue and expenses. The write-down reflects the difference between the carrying amount and the higher of:

- (a) the present value of the cash flows expected to be generated by the asset or group of assets;
- (b) the amount that could be realized by selling the asset or group of assets;
- (c) the net realizable value of any collateral held to secure repayment of the asset or group of assets.

When events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized in the statement of revenue and expenses up to the amount of the previously recognized impairment.

2. BUILDING AND EQUIPMENT

| | Annual Depreciation Rates | 2017 | | 2016 | |
|-------------------------------|---------------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| | | Cost | Accumulated Depreciation | Cost | Accumulated Depreciation |
| Building | 3% | \$ 1,692,986 | \$ 402,394 | \$ 1,692,986 | \$ 362,479 |
| Equipment | 20% | 76,979 | 41,263 | 76,979 | 32,333 |
| Furniture and fixtures | 20% | 260,810 | 209,481 | 257,172 | 197,103 |
| Office and computer equipment | 30% | 40,170 | 32,271 | 38,398 | 29,266 |
| | | \$ 2,070,945 | 685,409 | \$ 2,065,535 | 621,181 |
| Net book value | | | \$ 1,385,536 | | \$ 1,444,354 |

MCNALLY HOUSE HOSPICE
 NOTES TO THE FINANCIAL STATEMENTS
 MARCH 31, 2017

3. ACCOUNTS PAYABLE AND ACCRUED CHARGES

| | <u>2017</u> | <u>2016</u> |
|------------------------------------|------------------|------------------|
| Trade accounts | \$ 10,187 | \$ 12,453 |
| Accrued charges | | |
| Professional fees | 7,117 | 6,004 |
| Wages and vacation pay | 53,198 | 42,067 |
| Workplace Safety & Insurance Board | 1,310 | 1,500 |
| | \$ 71,812 | \$ 62,024 |

4. DEFERRED CAPITAL GRANTS

| | Annual Amortization Rates | <u>2017</u> | | <u>2016</u> | |
|-------------------------------|---------------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| | | Capital Grants | Accumulated Amortization | Capital Grants | Accumulated Amortization |
| Building | 3% | \$ 1,034,024 | \$ 253,771 | \$ 1,034,024 | \$ 229,639 |
| Equipment | 20% | 76,760 | 41,170 | 76,760 | 32,272 |
| Furniture and fixtures | 20% | 106,986 | 84,508 | 106,986 | 78,889 |
| Office and computer equipment | 30% | 15,945 | 11,091 | 15,945 | 9,011 |
| | | \$ 1,233,715 | 390,540 | \$ 1,233,715 | 349,811 |
| Net book value | | | \$ 843,175 | | \$ 883,904 |

5. DEFERRED REVENUE

During the year, the Organization received an amount of \$353,410 of a total commitment of \$1,000,000 from a private individual in support of the acquisition and continued operation of a Wellness Centre. The Organization anticipates the Wellness Centre will be operational after fiscal 2019.

6. COMMITMENT

The building owned by the Organization is located on land which is being leased from the West Lincoln Memorial Hospital at a nominal annual rent and with a term of 21 years which expires October 2027.

MCNALLY HOUSE HOSPICE
 NOTES TO THE FINANCIAL STATEMENTS
 MARCH 31, 2017

7. INVESTED IN CAPITAL ASSETS

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|-------------------|
| Balance, beginning of year | \$ 560,450 | \$ 584,475 |
| Purchase of building and equipment | 5,409 | 1,086 |
| Depreciation | (64,227) | (71,106) |
| Amortization of capital grants | 40,729 | 45,995 |
| | <hr/> | <hr/> |
| Balance, end of year | \$ 542,361 | \$ 560,450 |
| | <hr/> | <hr/> |
| Balance consists of: | | |
| Building and equipment, at net book value | \$ 1,385,536 | \$ 1,444,354 |
| Deferred capital grants, at net book value | (843,175) | (883,904) |
| | <hr/> | <hr/> |
| | \$ 542,361 | \$ 560,450 |

8. ECONOMIC DEPENDENCE

Approximately 41% of the Organization's funding is derived by grants received from the Province of Ontario. Should this funding source curtail its support of the Organization, management is of the opinion that continued viable operations of the Organization would be in question.

MCNALLY HOUSE HOSPICE
 NOTES TO THE FINANCIAL STATEMENTS
 MARCH 31, 2017

9. CONTROLLED NOT-FOR-PROFIT ORGANIZATION NOT CONSOLIDATED

McNally House Hospice is related to McNally Hospice Foundation by virtue of the common Board of Director membership of both organizations. McNally Hospice Foundation is a non-profit organization, incorporated November 3, 2016 without share capital under the Ontario Business Act, 1978. McNally Hospice Foundation's primary purpose is to receive and maintain funds to support palliative care in Niagara West. McNally Hospice Foundation has not been consolidated with these financial statements.

Financial information related to McNally Hospice Foundation as at March 31, 2017 is presented below:

Financial position

| | <u>2017</u> |
|------------------------|---------------------|
| Cash | \$ 500,000 |
| Short-term investments | 1,634,731 |
| Total assets | <u>\$ 2,134,731</u> |
| Net assets | <u>\$ 2,134,731</u> |

Results of operations

| | <u>2017</u> |
|--|---------------------|
| Total revenues and excess of revenue over expenses | <u>\$ 2,134,731</u> |

Cash flows

| | <u>2017</u> |
|--|-------------------|
| Cash flows from operations and cash, end of period | <u>\$ 500,000</u> |

The following transactions occurred between McNally House Hospice and McNally Hospice Foundation:

| | <u>2017</u> |
|--|---------------------|
| Donation to McNally Hospice Foundation | <u>\$ 2,134,731</u> |

The above transaction was measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

MCNALLY HOUSE HOSPICE
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

10. FINANCIAL RISK MANAGEMENT

The Organization has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The risks that arise from transacting financial instruments include interest rate risk, market (other price) risk, currency risk, credit risk, and liquidity risk. Price risk arises from changes in interest rates, foreign currency exchange rates and market prices.

(a) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Organization expects that continued cash flows from operations in 2018, together with cash on hand, will be sufficient to fund requirements for investments in working capital however future liquidity will be contingent on the continued support and funding from the Province of Ontario.

It is management's opinion that the Organization is not exposed to significant interest rate, market, currency or credit risks arising from its financial instruments.

11. SUBSEQUENT EVENT

On May 16, 2017 the Organization purchased a property at 19 Lynnwood Avenue in Grimsby, Ontario for an approximate cost of \$454,000, for the purpose of operating a Wellness Centre. This purchase was financed by \$500,000 of funding received from the McNally Hospice Foundation.
