

HOPE AIR

DECEMBER 31, 2018

Audited Financial
Statements

INDEPENDENT AUDITOR'S REPORT

To the Members,
Hope Air

Qualified Opinion

We have audited the financial statements of Hope Air which comprise the statement of financial position as at December 31, 2018, and the statements of operations and changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Hope Air as at December 31, 2018 and the 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 Hope Air derives revenue from donations and fundraising revenue, the completeness of which is not susceptible of satisfactory audit verification. Donation and fundraising revenue is therefore limited to the amounts recorded in Hope Air's records of the organization, and we were not able to determine whether any adjustments to these amounts were necessary for the years ended December 31, 2018 and 2017, current assets as at December 31, 2018 and 2017, and net assets as at January 1, 2018 and 2017 and December 31, 2018 and 2017.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Hope Air 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 of 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 Hope Air's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate Hope Air or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Hope Air's financial reporting process.

Auditor's 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 auditor's 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. 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 these 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 Hope Air'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 Hope Air's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw your attention in our auditor's 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 auditor's report. However, future events or conditions may cause Hope Air 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.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable related safeguards.

Cowperthwaite Mehta

Chartered Professional Accountants
Licensed Public Accountants

March 20, 2019
Toronto, Ontario


HOPE AIR


STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

	2018	2017
ASSETS		
Current assets		
Cash	\$ 15,894	\$ 266,184
Short-term investments (note 3 and 4)	2,327,816	1,803,375
Accounts receivable	19,349	39,660
Sales taxes recoverable	44,120	45,444
Prepaid expenses (note 5)	<u>72,927</u>	<u>35,487</u>
	2,480,106	2,190,150
Capital assets (note 6)	<u>12,160</u>	<u>4,832</u>
	<u>\$ 2,492,266</u>	<u>\$ 2,194,982</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 77,824	\$ 47,043
Deferred revenue (note 7)	<u>915,242</u>	<u>819,002</u>
	<u>993,066</u>	<u>866,045</u>
Net assets		
Founders' Fund (note 8)	9,231	9,231
Unrestricted	<u>1,489,969</u>	<u>1,319,706</u>
	<u>1,499,200</u>	<u>1,328,937</u>
	<u>\$ 2,492,266</u>	<u>\$ 2,194,982</u>

Approved on behalf of the Board:


_____, Director


_____, Director

see accompanying notes

HOPE AIR**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS****FOR THE YEAR ENDED DECEMBER 31, 2018**

	2018	2017
REVENUE		
Donations and grants -		
Restricted	\$ 2,436,628	\$ 2,716,896
General	1,172,820	1,197,908
Restricted funding for outreach programs	30,000	57,000
Interest and other	<u>1,184</u>	<u>21,568</u>
	<u>3,640,632</u>	<u>3,993,372</u>
EXPENSES		
Flight expenses	2,242,139	2,466,669
Salaries and benefits	789,835	741,231
Public awareness	206,019	174,666
Rent	82,154	81,833
Administration and general	58,169	62,001
Information technology	32,747	35,815
Insurance	14,123	13,161
Travel and conference	13,320	10,672
Professional fees	27,008	7,950
Amortization	<u>4,855</u>	<u>4,225</u>
	<u>3,470,369</u>	<u>3,598,223</u>
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	170,263	395,149
Net assets, beginning of year	<u>1,328,937</u>	<u>933,788</u>
NET ASSETS, END OF YEAR	<u>\$ 1,499,200</u>	<u>\$ 1,328,937</u>

see accompanying notes

HOPE AIR

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	\$ 170,263	\$ 395,149
Adjustments for amortization provisions:		
Amortization expense	4,855	4,225
Net change in non-cash working capital items	<u>111,216</u>	<u>189,725</u>
Cash generated from operating activities	<u>286,334</u>	<u>589,099</u>
FINANCING ACTIVITIES		
Purchase of short-term investments	<u>(524,441)</u>	<u>(446,893)</u>
INVESTING ACTIVITIES		
Purchase of capital assets	<u>(12,183)</u>	<u>nil</u>
NET INCREASE (DECREASE) IN CASH FOR THE YEAR	(250,290)	142,206
Cash, beginning of year	<u>266,184</u>	<u>123,978</u>
CASH, END OF YEAR	<u>\$ 15,894</u>	<u>\$ 266,184</u>
 Net change in non-cash working capital items:		
Decrease (increase) in current assets-		
Accounts receivable	\$ 20,311	\$ (31,650)
Sales taxes recoverable	1,324	(133)
Prepaid expenses	(37,440)	13,234
Increase (decrease) in current liabilities-		
Accounts payable and accrued liabilities	30,781	35,376
Deferred revenue	<u>96,240</u>	<u>172,898</u>
	<u>\$ 111,216</u>	<u>\$ 189,725</u>

see accompanying notes

HOPE AIR

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

Hope Air is a not-for-profit organization incorporated under Part III of the Corporations Act of Ontario without share capital for the purposes of carrying on objects of a charitable nature.

Hope Air is the only national charity providing Canadians in financial need with free travel to specialized medical care that does not exist in their home communities. Since 1986, Hope Air has provided thousands of travel arrangements to patients of all ages and illnesses across the country. Hope Air believes that every Canadian is entitled to have access to the healthcare they need, despite distance or cost of travel.

Hope Air fulfills its mandate by arranging travel to specialized care primarily through flights, but also provides travel assistance for residents of Prince Edward Island who use the Confederation Bridge or the ferry service to the mainland. This is accomplished through the generous support of corporations, foundations, government and individuals donors, commercial airline support, third-party organized special events, volunteers who donate their time and skills to the organization and general aviation pilots who donate their time and aircraft.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the organization are in accordance with Canadian accounting standards for not-for-profit organizations. Outlined below are those policies considered particularly significant:

Financial instruments

Financial instruments include cash, short-term investments, accounts receivable and accounts payable and accrued liabilities. Cash is measured at fair value. The cost of term deposits maturing within a year, plus accrued interest income, approximates the fair value of these instruments. The fair values of mutual funds are the year end quoted prices.

The carrying value of receivables and payables approximates their fair value because of the short-term nature of these instruments.

Investments

Pooled fund investments are valued at the unit values supplied by the investment administrators. These values represent the organization's proportionate share of the underlying net assets at fair values determined using closing market rates. Realized and unrealized gains and losses are recognized as investment income when they arise. Related transaction costs are expensed as incurred.

Capital assets

Capital assets are recorded at cost. Amortization is provided annually at rates calculated to write-off the assets over their estimated useful lives as follows:

Furniture and fixtures	-	5 years straight line
Computer equipment	-	5 years straight line
Leasehold improvements	-	7 years straight line

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Revenue recognition

The organization follows the deferral method of revenue recognition. Its principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

- i) Grants and restricted donations related to current expenditures are reflected in the accounts as a revenue item in the current year. Grants and restricted donations received in the year for expenses to be incurred in the following fiscal year are recorded as deferred revenue. Grants and restricted donations related to the purchase of capital assets are recorded as revenue in the same period the related capital assets are charged to operations.
- ii) Cost reimbursements are available under an Ontario Northern Health Travel Grants program for patients' flights that meet specific criteria. Patients complete claims applications and, if they are successful, the organization receives a refund of its direct flight expenses incurred. Any additional reimbursement amount received by the organization under the government program is paid to the patient. An estimate of grants receivable at year end is calculated based on collection history in prior years and collection is reasonably assured.
- iii) Investment income is recorded when earned.
- iv) Unrestricted contributions received from foundations, corporations, individuals and third-party special events is recorded when funds are received. Unrestricted revenue from fundraising events held by the organization is recognized after the events have occurred and there is reasonable assurance of collection.

Use of Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. Specifically, significant assumptions have been made in arriving at the calculation of deferred revenue that is restricted for specific flight regions and demographics. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

Donations of products and services

Commercial airline partners, sponsors and other interested parties donate a substantial value of products and services to the organization. In addition, volunteers contribute substantial time and services throughout the year to the organization. These donations of in-kind products and services provide considerable financial relief to the organization to run its charity programs. Due to the difficulty of determining the fair market value of these donated products and services, the value is not recorded in these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

2. FINANCIAL RISKS

Certain financial instruments expose the organization to risks which may affect the cash flows of the organization. Specifically:

Interest rate risk results from fluctuations in market interest rates. The organization holds fixed rate guaranteed investment certificates and fluctuations in market interest rates does not affect future cash flows.

Liquidity risk is the risk that the organization will not be able to meet its obligations associated with financial liabilities. The organization expects to meet its financial obligations for accounts payable and accrued liabilities through cash flows generated from operations.

3. SHORT-TERM INVESTMENTS

The short-term investments of \$2,327,816 consist of cashable guaranteed investment certificates (GICs) and mutual funds held at a major Canadian chartered bank. GICs of \$1,100,000 earn interest of 2.40% and mature during 2019. One certificate is held as security for the organization's credit card transactions (see note 4).

4. BANKING ARRANGEMENTS

The organization has entered into a cash collateral agreement with a major Canadian chartered bank to pledge the sum of \$250,000, represented by a guaranteed investment certificate, to secure liabilities which the organization may incur, from time to time, in respect of the organization's credit card transactions.

5. PREPAID EXPENSES

Prepaid expenses are recorded for goods and services to be received in the next fiscal year that were paid for in the current fiscal year. The prepaid expenses are composed of the following:

	2018	2017
Flights purchased to be flown in following year	\$ 64,561	\$ 24,312
Prepaid rent and insurance	<u>8,366</u>	<u>11,175</u>
	<u>\$ 72,927</u>	<u>\$ 35,487</u>

6. CAPITAL ASSETS

Capital assets, recorded at cost, are as follows:

	Cost	Accumulated Amortization	2018 Net	2017 Net
Furniture and fixtures	\$ 42,397	\$ (32,436)	\$ 9,961	\$ 3,936
Computer equipment	<u>9,637</u>	<u>(7,438)</u>	<u>2,199</u>	<u>896</u>
	<u>\$ 52,034</u>	<u>\$ (39,874)</u>	<u>\$ 12,160</u>	<u>\$ 4,832</u>

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NOTES TO THE FINANCIAL STATEMENTS

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7. DEFERRED REVENUE

Deferred revenue represents unspent resources, externally restricted for projects and operating funding, received in the prior and current years that are related to the subsequent year's activities. This deferred revenue is recognized as operating revenue at the time the related expenditure is recognized in the statement of operations and changes in net assets. Deferred revenue is composed of the following:

	2018	2017
Specific flight regions or client demographics	\$ 805,240	\$ 675,000
Outreach programs	30,000	30,000
Other restricted programs	80,002	30,002
Special events		<u>84,000</u>
Deferred revenue, end of year	<u>\$ 915,242</u>	<u>\$ 819,002</u>

Continuity of deferred revenue for the year is as follows:

	2018	2017
Deferred revenue, beginning of year	\$ 819,002	\$ 646,105
Add funds received in year	2,562,868	2,946,793
Less funds recognized in revenue	<u>(2,466,628)</u>	<u>(2,773,896)</u>
Deferred revenue, end of year	<u>\$ 915,242</u>	<u>\$ 819,002</u>

8. FOUNDERS' FUND

The Board of Directors set up a Founders' Fund in 1999 to hold donations given to the organization in the name of its founders. The funds are to be used to further the goals and objectives of Hope Air on the recommendation of the founders.

9. LEASE COMMITMENTS

The organization leases space under a five year lease that expires in 2021. Lease commitments, including basic and estimated additional rent, are as follows:

2019	\$ 88,224
2020	88,224
2021	<u>88,224</u>
	<u>\$ 264,672</u>

10. INCOME TAX STATUS

The organization is exempt from income tax in Canada as a registered charitable organization under the Income Tax Act (Canada). As such, it is exempt from income taxes and able to issue donation receipts for income tax purposes. In order to maintain its status as an organization registered under the Income Tax Act, the organization must meet certain requirements within the Act. In the opinion of management, these requirements have been met.