

Financial Statements of

**CANADIAN FOUNDATION FOR
HEALTHCARE IMPROVEMENT**

**FONDATION CANADIENNE POUR
L'AMELIORATION DES SERVICES DE
SANTÉ**

Year ended December 31, 2016



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INDEPENDENT AUDITORS' REPORT

To the Directors of the Canadian Foundation for Healthcare Improvement/
Fondation canadienne pour l'amélioration des services de santé

We have audited the accompanying financial statements of the Canadian Foundation for Healthcare Improvement/Fondation canadienne pour l'amélioration des services de santé, which comprise the statement of financial position as at December 31, 2016, the statements of operations, changes in deferred contributions 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Foundation for Healthcare Improvement/ Fondation canadienne pour l'amélioration des services de santé as at December 31, 2016, and its results of operations, changes in deferred contributions and 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

March 23, 2017

Ottawa, Canada

**CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/
FONDATION CANADIENNE POUR L'AMÉLIORATION DES
SERVICES DE SANTÉ**

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash	\$ 1,653,028	\$ 1,939,324
Accounts receivable	626,924	381,212
Prepaid expenses	166,442	120,032
Short-term investments (note 2)	3,800,000	7,899,176
	<u>6,246,394</u>	<u>10,339,744</u>
Investments (note 2)	–	455,371
Employee future benefits (note 5)	1,005,548	618,497
Tangible capital and intangible assets (note 3)	295,858	91,520
Investments - Wind-Up Reserve (note 7)	8,536,975	–
	<u>\$ 16,084,775</u>	<u>\$ 11,505,132</u>

Liabilities and Deferred Contributions

Current liabilities:		
Accounts payable and accrued liabilities (note 4)	\$ 1,413,628	\$ 1,033,068
Current portion of capital lease obligations	–	10,601
Deferred revenue	124,066	–
	<u>1,537,694</u>	<u>1,043,669</u>
Deferred contributions:		
Restricted - Operations (note 6)	3,903,191	10,461,463
Restricted - Wind-Up Reserve (note 7)	10,643,890	–
	<u>14,547,081</u>	<u>10,461,463</u>
	<u>\$ 16,084,775</u>	<u>\$ 11,505,132</u>

Commitments (note 12)

See accompanying notes to financial statements.

Approved by the Board:

Ms. R. Lynn Stevenson, Chair, Board of Directors

Mr. Tom Closson, Chair, Finance and Audit Committee

Ms. Maureen O'Neil, O.C., President

Ms. Nancy Quattrocchi, Vice-President, Corporate Services

**CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/
FONDATION CANADIENNE POUR L'AMÉLIORATION DES
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Statement of Operations

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Program support revenue	\$ 376,844	\$ 390,781
Other revenue	239,950	445,320
Recognition of deferred contributions relating to operations of the current year	10,399,016	10,507,024
Recognition of deferred contributions relating to tangible capital and intangible assets	108,298	78,647
	<u>11,124,108</u>	<u>11,421,772</u>
Expenses:		
Collaboration for Innovation and Improvement	3,182,461	3,396,502
Patient Engagement for Healthcare Improvement	1,123,696	1,821,110
Education and Training	1,565,367	2,086,540
Evaluation and Performance Management	791,291	549,286
Northern and Indigenous Health	1,868,768	947,842
Communications	1,759,762	1,486,398
Administration	692,186	1,045,045
Amortization of tangible capital and intangible assets	108,298	78,647
Investment management fees	33,909	36,826
Employee future benefits	(1,630)	(26,424)
	<u>11,124,108</u>	<u>11,421,772</u>
Excess of revenue over expenses	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

**CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/
FONDATION CANADIENNE POUR L'AMÉLIORATION DES
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Statement of Deferred Contributions

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Deferred contributions - Operations:		
Balance, beginning of year	\$ 10,461,463	\$ 20,609,979
Transfer to deferred contributions - Wind-Up Reserve	(10,461,463)	-
Health Canada contribution	14,000,000	-
Recognition of deferred contributions relating to operations	(10,399,016)	(10,507,024)
Recognition of deferred contributions relating to tangible capital and intangible assets	(108,298)	(78,647)
Re-measurement and other items related to employee future benefits	385,421	(78,132)
Investment income - restricted	25,084	490,255
Change in allowance for uncollectability of investments (note 8)	-	25,032
Balance, end of year	\$ 3,903,191	\$ 10,461,463

Deferred contributions - Wind-Up Reserve:

	2016	2015
Balance, beginning of year	\$ -	\$ -
Transfer from deferred contributions - Operations	10,461,463	-
Investment income - restricted	9,591	-
Change in allowance for uncollectability of investments (note 8)	172,836	-
Balance, end of year	\$ 10,643,890	\$ -

See accompanying notes to financial statements.

**CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/
FONDATION CANADIENNE POUR L'AMÉLIORATION DES
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Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ -	\$ -
Items not involving cash:		
Amortization of tangible capital and intangible assets	108,298	78,647
Recognition of deferred contributions relating to tangible capital and intangible assets	(108,298)	(78,647)
Recognition of deferred contributions relating to operations of the current year	(10,399,016)	(10,507,024)
Change in employee future benefits asset	(1,630)	(26,424)
Change in non-cash operating working capital:		
Decrease in co-sponsor contributions receivable	-	50,111
Decrease (increase) in accounts receivable	(245,712)	112,440
Increase in prepaid expenses	(46,410)	(17,615)
Increase (decrease) in accounts payable and accrued liabilities	380,560	(690,350)
Decrease in deferred contributions from co-sponsors	-	(70,019)
Increase (decrease) in deferred revenue	124,066	(405,850)
	(10,188,142)	(11,554,731)
Investing activities:		
Transfer of funds to short-term investments	(3,800,000)	-
Tangible capital and intangible asset acquisitions	(312,636)	(25,998)
Change in allowance for uncollectability of investments	(172,836)	25,032
Investment income - restricted	34,675	490,255
	(4,250,797)	489,289
Financing activities:		
Repayment of obligations under capital lease	(10,601)	(10,287)
Contribution from Health Canada	14,000,000	-
Net withdrawals from deferred contributions - Wind-Up Reserve	163,244	11,478,180
	14,152,643	11,467,893
Increase (decrease) in cash	(286,296)	402,451
Cash, beginning of year	1,939,324	1,536,873
Cash, end of year	\$ 1,653,028	\$ 1,939,324

See accompanying notes to financial statements.

CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/ FONDATION CANADIENNE POUR L'AMÉLIORATION DES SERVICES DE SANTÉ

Notes to Financial Statements

Year ended December 31, 2016

The Canadian Foundation for Healthcare Improvement (“CFHI”) is dedicated to accelerating healthcare improvement and transformation for Canadians. As such, it collaborates with governments, policy-makers, and health system leaders to convert evidence and innovative practices into actionable policies, programs, tools and leadership development. CFHI changed its name from the Canadian Health Services Research Foundation effective April 5, 2012.

CFHI is a registered charity and accordingly, is exempt from income taxes under paragraph 149(1)(l) of the Income Tax Act (Canada). The organization became operational in fiscal 1997 and is incorporated under the Canada Corporations Act. Effective June 17, 2014, CFHI was continued under the Canada Not-for-profit Corporations Act.

Under the Federal Budget 1996, the Government authorized Health Canada to pay \$55,000,000 to CFHI (then CHSRF) over a five-year period. As part of the same agreement, the Medical Research Council agreed to contribute \$10,000,000 and the Social Sciences and Humanities Research Council of Canada agreed to contribute \$1,500,000 over the same five-year period. In 1999, the Federal Government granted \$35,000,000 to CFHI for participation in the Canadian Institutes of Health Research (this partnership led to the development and implementation of the Capacity for Applied and Developmental Research and Evaluation (CADRE) program), and another \$25,000,000 to support a ten-year nursing research fund. In 2003, the Federal Government provided \$25,000,000 for the implementation of the Executive Training for Research Application (EXTRA) program over a thirteen-year period.

In 2009, CFHI entered into a Comprehensive Funding Agreement with Health Canada. This agreement supersedes the previous agreements. Under this agreement CFHI was directed to hold all investments in fixed income securities within a single investment portfolio. The agreement enabled CFHI to report their operations under a single program.

On March 16, 2016, CFHI signed a contribution agreement with Health Canada, providing \$14 million of funding to CFHI to continue its operations until March 2017. On November 10, 2016, CFHI signed an amendment to the contribution agreement, providing an additional \$39 million of funding to CFHI for eligible expenditures up to March 31, 2019. The new agreement allows CFHI to reserve its unused deferred contribution balance as at December 31, 2015 in the event of a possible wind-up. In response to this, the Board of Directors approved a revised investment policy on October 20, 2016 with the objective to protect the reserve from undue risk and to enable growth where appropriate.

CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/ FONDATION CANADIENNE POUR L'AMÉLIORATION DES SERVICES DE SANTÉ

Notes to Financial Statements (continued)

Year ended December 31, 2016

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

(a) Basis of presentation:

CFHI uses the deferral method of accounting for contributions for not-for-profit organizations.

(b) Revenue recognition:

Unrestricted contributions are recognized as revenue when received or receivable.

Externally-restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred.

Externally-restricted contributions applied towards the acquisition of tangible capital and intangible assets are deferred and amortized to revenue, at a rate corresponding with the amortization rate of the related tangible capital and intangible assets.

CFHI receives contributions from co-sponsors to fund programming. Revenue from co-sponsors is deferred and amortized to revenue as related expenses are incurred.

Investment income earned is restricted to be used for the specific purpose of the related externally-restricted contribution. Investment income earned is initially recorded in deferred contributions and is recognized as revenue in the year the related expenses are incurred.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. CFHI has elected to carry all investments at fair value.

Approximately \$565,069 (2015 - \$910,742) of CFHI's investments are valued at the fair value reported by a Fund Manager. These investments are not readily marketable and the fair value of CFHI's investment represents CFHI's proportionate share of the fair value of the underlying net assets of the pooled fund at year-end. Their estimated fair value is subject to uncertainty and therefore may differ from the investments' realizable value.

CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/ FONDATION CANADIENNE POUR L'AMÉLIORATION DES SERVICES DE SANTÉ

Notes to Financial Statements (continued)

Year ended December 31, 2016

1. Significant accounting policies (continued):

(c) Financial instruments (continued):

Sales and purchases of investments are recorded on the trade date. 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. These costs are amortized using the effective interest rate method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year. Where an indicator of impairment is present, CFHI 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 CFHI 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 impairment charge.

(d) Tangible capital and intangible assets:

Purchased tangible capital and intangible assets are recorded at cost. Repair and maintenance costs are charged to expense. When a tangible capital and intangible asset no longer contribute to CFHI's ability to provide services, their carrying amounts are written down to their residual value.

Tangible capital and intangible assets are amortized on a straight-line basis over the following useful lives:

Asset	Useful life
Tangible capital assets:	
Computer equipment	3 years
Telephone equipment	4 years
Furniture and fixtures	5 years
Leasehold improvements	Lease term
Intangible assets:	
Computer software	3 years

CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/ FONDATION CANADIENNE POUR L'AMÉLIORATION DES SERVICES DE SANTÉ

Notes to Financial Statements (continued)

Year ended December 31, 2016

1. Significant accounting policies (continued):

(e) Leases:

Leases are classified as either capital or operating. Capital leases are those which substantially transfer the benefits and risks of ownership to the lessee. Assets acquired under capital leases are amortized at the rates for their capital asset class as described in note 1(d). Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to expense.

(f) Foreign currency transactions:

Foreign currency transactions are initially recorded at the rate of exchange prevailing at the date of the transaction. Thereafter, monetary assets and liabilities are translated at the exchange rates in effect at the statement of financial position date. Gains and losses resulting from the translation are included in unrealized investment income in the statement of deferred contributions.

(g) Employee future benefits:

CFHI has a defined benefit pension plan for its employees. The benefits are based on years of service and the employee's average compensation over the best five years.

CFHI uses the immediate recognition approach to account for the above plan. CFHI accrues its obligations under the defined benefit plan as the employees render the services necessary to earn the pension benefits. The actuarial determination of the accrued benefit obligations for pensions uses the projected benefit method prorated on service (which incorporates management's assumptions used for funding purposes, other cost escalation, retirement ages of employees and other actuarial factors). The measurement date of the plan assets, which are recorded at fair value, and accrued benefit obligation coincides with CFHI's fiscal year. The most recent actuarial valuation of the defined benefit pension plan for funding purposes was as of June 1, 2014, and the next required valuation for funding purposes will be as of June 1, 2017.

In years between valuations, CFHI uses a quarterly roll-forward technique to estimate the accrued benefit obligation. CFHI recognizes the accrued benefit obligation net of the fair value of the plan amounts adjusted for any valuation allowance in the statement of financial position at the end of the year.

The annual benefit cost is recorded in the statement of operations and the actuarial gains and losses are recognized in the statement of deferred contributions.

CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/ FONDATION CANADIENNE POUR L'AMÉLIORATION DES SERVICES DE SANTÉ

Notes to Financial Statements (continued)

Year ended December 31, 2016

1. Significant accounting policies (continued):

(h) Allocation of general support costs:

CFHI presents its statement of operations by function, except for amortization of tangible capital and intangible assets, investment management fees, and employee future benefits fair value adjustment.

CFHI incurs general support costs that are common to the administration of CFHI and each of its functions. General support costs include occupancy costs, personnel, finance, information technology, human resources and legal costs.

CFHI allocates these general support costs from the Administration function to the other functions on a per employee basis. These usage rates are used to allocate all the general support costs to administration and each of its functions.

(i) Use of estimates:

The preparation of 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 revenues and expenses during the reporting period. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

Significant management estimates include assumptions used in determining the employee future benefits asset.

2. Investments:

December 31, 2016	Fair value	Cost
Cash and cash equivalents	\$ 3,800,000	\$ 3,800,000
Less: short-term investments	(3,800,000)	(3,800,000)
	\$ —	\$ —

**CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/
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Notes to Financial Statements (continued)

Year ended December 31, 2016

2. Investments (continued):

December 31, 2015	Fair value	Cost
Cash and cash equivalents	\$ 1,224	\$ 1,225
Fixed income securities	7,897,952	8,059,832
Equity securities	455,371	271,882
	8,354,547	8,332,939
Less: short-term investments	(7,899,176)	(8,061,057)
	\$ 455,371	\$ 271,882

In the current period, CFHI moved its previously held investments to restricted investment for the Wind-Up Reserve to be in line with the new Contribution Agreement signed on March 16, 2016. See note 7 for details of long-term investments restricted for Wind-Up Reserve. Short-term investments are primarily highly liquid government bonds with short-term maturity dates. Funds invested in short-term investments will be used for the funding of CFHI's operations during the year.

3. Tangible capital and intangible assets:

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Tangible capital assets:				
Computer equipment	\$ 771,402	\$ 665,895	\$ 105,507	\$ 29,655
Telephone equipment	115,062	109,377	5,685	8,286
Furniture and fixtures	422,583	335,228	87,355	11,318
Equipment under capital lease	99,530	99,530	—	10,727
Leasehold improvements	899,377	839,598	59,779	27,921
Intangible assets:				
Computer software	430,308	392,776	37,532	3,613
	\$ 2,738,262	\$ 2,442,404	\$ 295,858	\$ 91,520

Cost and accumulated amortization of tangible capital and intangible assets amounted to \$2,425,626 and \$2,334,106, respectively as at December 31, 2015.

CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/ FONDATION CANADIENNE POUR L'AMÉLIORATION DES SERVICES DE SANTÉ

Notes to Financial Statements (continued)

Year ended December 31, 2016

4. Accounts payable and accrued liabilities:

At year end, CFHI had no amounts payable for government remittances, such as goods and services tax/harmonized sales tax and payroll-related taxes.

5. Employee future benefits:

(a) Plan assets and obligations:

CFHI administers the Canadian Foundation for Healthcare Improvement Employees' Pension Plan, which is a defined benefit plan registered with the Financial Services Commission of Ontario, and covers most of CFHI's employees. CFHI uses a measurement date of December 31 for estimating the plan assets and obligation.

The latest actuarial valuation of the pension plan for funding purposes was performed as at June 1, 2014. The next actuarial valuation for funding purposes is required to be completed as at June 1, 2017, in accordance with the requirements of the Pension Benefits Act (Ontario).

As part of the regulations governing provincially regulated pension plans, pension plans must meet certain solvency requirements which assume the plans are wound up/liquidated as of the valuation date. The actuarial valuation for funding purposes performed as at June 1, 2014 reported a solvency surplus of \$660,975 and a going-concern surplus of \$411,218, based on economic assumptions applicable at June 1, 2014.

CFHI reviews the performance of the plan on a quarterly basis to determine if additional payments should be made to the plan. In fiscal 2016, CFHI was not required to make any additional contributions (2015 - \$Nil).

The reconciliation of the funded status of the defined benefit pension plan to the amount recorded in the financial statements is as follows:

	2016	2015
Plan assets at fair value	\$ 10,782,864	\$ 9,871,584
Less: Accrued benefit obligation	9,777,316	9,253,087
Employee future benefits asset	\$ 1,005,548	\$ 618,497

**CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/
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Notes to Financial Statements (continued)

Year ended December 31, 2016

5. Employee future benefits (continued):

(b) Plan assets:

	2016	2015
Plan assets at fair value, beginning of year	\$ 9,871,584	\$ 8,902,410
Actual gain on plan assets	928,358	426,426
Employer contributions	489,976	466,278
Employee contributions - current service	324,479	309,374
Benefits paid	(831,533)	(232,904)
Plan assets at fair value, end of year	\$ 10,782,864	\$ 9,871,584

(c) Accrued benefit obligation:

	2016	2015
Accrued benefit obligation, beginning of year	\$ 9,253,087	\$ 8,232,205
Current service cost	846,842	785,810
Interest cost	508,920	467,976
Benefits paid	(831,533)	(232,904)
Accrued benefit obligation, end of year	\$ 9,777,316	\$ 9,253,087

(d) Assumptions:

The significant assumptions used in the actuarial valuation of the defined benefit plan at December 31 are as follows:

	2016	2015
Discount rate	5.50%	5.50%
Rate of compensation increases	4.50%	4.50%
Expected long-term rate of return on plan assets	5.50%	5.50%
Rate of inflation	2.00%	2.00%

CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/ FONDATION CANADIENNE POUR L'AMÉLIORATION DES SERVICES DE SANTÉ

Notes to Financial Statements (continued)

Year ended December 31, 2016

6. Deferred contributions - Operations:

All of the deferred contributions of CFHI are subject to externally imposed restrictions in accordance with the related Comprehensive Funding Agreement. Investment income earned on the grants received from the Government of Canada is also restricted. Accordingly, these amounts are deferred and recognized as revenue as the related expenses are incurred resulting in CFHI having no net asset balance at the end of the year. Deferred contributions restricted for operations are invested in short-term investments and are available for the operations of programs for CFHI.

7. Deferred contributions - Wind-Up Reserve:

In order to comply with the contribution agreement signed with Health Canada on March 16, 2016, CFHI has restricted the balance of unused funds as at December 31, 2015 from the previous Comprehensive Funding Agreement in case of a future wind-up of the Foundation, should Health Canada elect to terminate its funding after 2019. The amounts have been assigned for future costs related to employee severance and pension contributions. Investments have been restricted for this use along with any investment income earned by those investments. The remaining amount of the Wind-Up Reserve is part of CFHI's working capital. The investment balance consists of the following:

December 31, 2016	Fair value	Cost
Cash and cash equivalents	\$ 14,845	\$ 14,845
Fixed income securities	8,239,595	8,279,214
Equity securities	282,535	196,891
Total	\$ 8,536,975	\$ 8,490,950

Investments are managed as a pool by investment managers who are under the direction of the Investment Committee reporting to the Board of Directors. Investments include:

(a) Cash and cash equivalents:

Cash and cash equivalents consist of cash and debt securities with a variety of interest rates and having original maturity dates of less than 90 days.

(b) Fixed income securities:

Fixed income securities consist of Canadian government and commercial bonds or funds investing primarily in fixed income securities with various interest rates and terms to maturity. The fixed income securities have effective interest rates ranging from 1.39% to 2.43% with maturity dates ranging from two weeks to four years. The value of these securities is subject to interest rate and exchange rate fluctuations.

CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/ FONDATION CANADIENNE POUR L'AMÉLIORATION DES SERVICES DE SANTÉ

Notes to Financial Statements (continued)

Year ended December 31, 2016

7. Deferred contributions - Wind-Up Reserve (continued):

(c) Equity securities:

Equity securities consist of funds invested primarily in equity securities. These securities are subject to market value and exchange rate fluctuations.

As at December 31, 2016, CFHI held equity investments of US\$427,280 (2015 - US\$668,807). Of this amount, US\$213,640 (2015 - US\$334,404) has been allowed for uncollectability as disclosed in note 8 to these financial statements.

8. Investment allowance for uncollectability:

Allowance for uncollectability:

	2016	2015
Allowance for uncollectability (US\$)	\$ 213,640	\$ 334,403
Foreign exchange to CDN\$	68,894	120,968
Allowance for uncollectability (CDN\$)	\$ 282,534	\$ 455,371

Included in CFHI's investments is \$565,068 (2015 - \$910,741) that is in the process of being liquidated. In 2012, CFHI was informed that it could realize immediate collection of these investments at a discount of 50%. Based on this information, CFHI has maintained an allowance for these investments of 50% of their fair market value.

9. Allocation of general support costs:

General support costs of \$2,196,539 (2015 - \$2,062,200) have been allocated to specific functions from Administration as follows:

	2016	2015
Collaborative for Innovation and Improvement	\$ 357,304	\$ 845,400
Patient Engagement for Healthcare Improvement	351,446	421,100
Education and Training	395,377	381,300
Evaluation and Performance Management	316,302	192,300
Northern and Indigenous Health	322,159	222,100
Communications	453,951	-
	\$ 2,196,539	\$ 2,062,200

CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/ FONDATION CANADIENNE POUR L'AMÉLIORATION DES SERVICES DE SANTÉ

Notes to Financial Statements (continued)

Year ended December 31, 2016

10. Capital management:

CFHI considers its capital to consist of its unused externally restricted contributions which are presented as deferred contributions in the statement of financial position. CFHI's objectives with respect to managing capital are to comply with externally imposed restrictions which fund its ongoing operations and its future wind-up costs. CFHI monitors its capital requirements and objectives through its budgeting process, its financial statement review process and reviews of the terms and conditions contained in its agreement with Health Canada.

CFHI is also subject to external restrictions on its capital with respect to requirements to fund post-employment benefits in accordance with related regulations. CFHI monitors its compliance with these requirements by following the funding recommendations provided by the plan's actuary. The Board of Directors believes that CFHI has adhered to all externally imposed restrictions.

11. Financial risks:

(a) Credit risk:

CFHI is exposed to credit risk relating to its receivables. Credit exposure is minimized by dealing mostly with creditworthy counterparties. Management does not believe CFHI is exposed to significant credit risk from its receivables. CFHI assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in an allowance for doubtful accounts. At year end, there were no amounts allowed for in accounts receivable.

(b) Liquidity risk:

CFHI does not believe that it is exposed to significant liquidity risk.

(c) Market rate risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in currency exchange rates, interest rates or changes in market prices.

(i) Interest rate risk:

CFHI is exposed to interest rate risk with respect to its interest-bearing investments as disclosed in notes 2 and 8.

CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/ FONDATION CANADIENNE POUR L'AMÉLIORATION DES SERVICES DE SANTÉ

Notes to Financial Statements (continued)

Year ended December 31, 2016

11. Financial risks (continued):

(c) Market rate risk (continued):

(ii) Foreign currency and market risk:

Foreign currency exposure arises from CFHI's holdings of non-Canadian financial instruments. At year end, CFHI held U.S. dollar denominated investment in equity funds of CAD \$282,534 (2015 - CAD \$455,371).

(iii) Other price risk:

CFHI does not believe that it is exposed to other price risk.

CFHI believes that it is not exposed to significant financial risks arising from its financial instruments. There has been no change to the risk exposures from 2015.

12. Commitments:

Operating:

CFHI is committed to payments under operating leases for its premises. The lease held for CFHI's current premises will expire June 30, 2017. On February 14 2017, CFHI signed a proposal to lease new premises which is set to expire in November 2027. At the current rate of operating costs, the amount of the rent is approximately:

2017	\$	73,251
2018		323,904
2019		593,542
2020		652,492
Thereafter		5,120,638

In the normal course of business, CFHI entered into a lease agreement for the rental of its premises. It is common in such lease transactions for CFHI as the lessee to agree to indemnify the lessor for liabilities that may arise from the use of the leased premises. The maximum amount potentially payable under the foregoing indemnities cannot be reasonably estimated. CFHI has liability insurance that relates to the indemnifications described above.