

Financial Statements of

**CANADIAN FOUNDATION FOR  
HEALTHCARE IMPROVEMENT**

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

Year ended December 31, 2013

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

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, 2013, 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, 2013, 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.

**Report on Other Legal Requirements**

As required by the Canada Corporations Act, we report that, in our opinion, the accounting principles in Canadian accounting standards for not-for-profit organizations have been applied on a consistent basis.

Chartered Professional Accountants, Licensed Public Accountants

(date)

Ottawa, Canada

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

December 31, 2013, with comparative information for 2012

	2013	2012
<b>Assets</b>		
Current assets:		
Cash	\$ 1,569,760	\$ 1,161,372
Co-sponsor contributions receivable (note 6)	201,785	398,418
Accounts receivable	1,030,538	566,095
Prepaid expenses	180,204	107,902
Short-term investments (note 2)	10,995,100	13,373,128
	<u>13,977,387</u>	<u>15,606,915</u>
Investments (note 2)	18,308,261	25,232,151
Employee future benefits (note 5)	586,549	–
Tangible capital and intangible assets (note 3)	143,029	229,904
	<u>\$ 33,015,226</u>	<u>\$ 41,068,970</u>

**Liabilities and Deferred Contributions**

Current liabilities:		
Accounts payable and accrued liabilities (note 4)	\$ 1,855,929	\$ 1,446,870
Deferred contributions from co-sponsors (note 6)	386,366	716,587
Deferred revenue	52,517	123,577
Current portion of capital lease obligations (note 7)	9,986	7,823
	<u>2,304,798</u>	<u>2,294,857</u>
Capital lease obligations (note 7)	20,888	–
Deferred lease inducement	7,527	30,108
Employee future benefits (note 5)	–	439,128
Deferred contributions (note 8)	30,682,013	38,304,877
	<u>\$ 33,015,226</u>	<u>\$ 41,068,970</u>

Commitments (note 13)

See accompanying notes to financial statements.

Approved by the Board:

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Dr. Brian D. Postl, Chair, Board of Trustees

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Mr. Tom Closson, Chair, Finance and Audit Committee

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

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Ms. Nancy Quattrocchi, Vice-President, Corporate Services

**CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/  
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Statement of Operations

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Revenue:		
Program support revenue	\$ 513,744	\$ 767,049
Other revenue	476,053	147,498
Co-sponsor revenue	305,662	225,748
Recognition of deferred contributions relating to operations of the current year	8,543,965	9,579,022
Recognition of deferred contributions relating to tangible capital and intangible assets	167,854	175,930
	<u>10,007,278</u>	<u>10,895,247</u>
Expenses:		
Collaboration for innovation and improvement	3,885,947	3,529,081
Education and training	3,800,450	3,564,668
Applied research and policy analysis	948,712	2,202,714
Business development	730,807	222,413
Administration	562,720	746,843
Communications	555,287	369,532
Evaluation and performance management	292,970	391,569
Amortization of tangible capital and intangible assets	167,854	175,930
Investment management fees	88,208	105,551
Employee future benefits fair value adjustment	(1,025,677)	(413,054)
	<u>10,007,278</u>	<u>10,895,247</u>
Excess of revenue over expenses	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to financial statements.

**CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/  
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Statement of Changes in Deferred Contributions

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Balance, beginning of year	\$ 38,304,877	\$ 47,801,235
Recognition of deferred contributions relating to operations	(8,543,965)	(9,579,022)
Recognition of deferred contributions relating to tangible capital and intangible assets	(167,854)	(175,930)
Realized investment income (note 9)	661,624	1,014,798
Net unrealized gain (loss) on investments (note 9)	4,902	(233,506)
Change in allowance for uncollectability of investments (note 9)	422,429	(522,698)
<b>Balance, end of year</b>	<b>\$ 30,682,013</b>	<b>\$ 38,304,877</b>

See accompanying notes to financial statements.

**CANADIAN FOUNDATION FOR HEALTHCARE IMPROVEMENT/  
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Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ -	\$ -
Items not involving cash:		
Amortization of tangible capital and intangible assets	167,854	175,930
Recognition of deferred contributions relating to tangible capital and intangible assets	(167,854)	(175,930)
Recognition of deferred contributions relating to operations of the current year	(8,543,965)	(9,579,022)
Amortization of deferred lease inducement	(22,581)	(22,580)
Change in allowance for uncollectability of investments	(422,429)	522,698
Increase (decrease) in employee future benefits	1,025,677	(413,054)
Change in non-cash operating working capital:		
Decrease in co-sponsor contributions receivable	196,633	706,887
Decrease (increase) in accounts receivable	(464,443)	71,590
Decrease (increase) in prepaid expenses	(72,302)	21,576
Increase (decrease) in accounts payable and accrued liabilities	409,059	(251,470)
Increase (decrease) in deferred contributions from co-sponsors	(330,221)	115,014
Decrease in deferred revenue	(71,060)	(31,273)
	(8,295,632)	(8,859,634)
Investing activities:		
Tangible capital and intangible asset acquisitions	(80,979)	(28,183)
Acquisition of investments	-	(3,000,000)
	(80,979)	(3,028,183)
Financing activities:		
Repayment of capital lease obligations	(7,823)	(15,187)
New capital lease obligations	30,874	-
Net withdrawals from investments	8,761,948	11,466,614
	8,784,999	11,451,427
Increase (decrease) in cash	408,388	(436,390)
Cash, beginning of year	1,161,372	1,597,762
Cash, end of year	\$ 1,569,760	\$ 1,161,372

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, 2013

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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 is a registered charity under the Income Tax Act, and accordingly, is exempt from income taxes under paragraph 149(1)(l) of the Income Tax Act. The organization became operational in fiscal 1997 and is incorporated under Part II of the Canada Corporations Act. CFHI changed its name from the Canadian Health Services Research Foundation effective April 5, 2012.

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. CFHI is transitioning its investments to meet this agreement.

The new Canada Not-for-profit Corporations Act establishes a new legal framework for the governance of not-for-profit organizations, including the CFHI. All not-for-profit organizations must be compliant with the new Act by October 2014. CFHI is adopting the new requirement to meet the deadline.



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

Notes to Financial Statements (continued)

Year ended December 31, 2013

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## 1. Significant accounting policies:

The financial statements have been prepared by management 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 4.8% (2012 – 4.7%) 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, 2013

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## 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) Derivative financial instruments:

CFHI is party to derivative financial instruments which are used to manage CFHI's exposure to market risks from foreign exchange rates. CFHI's policy is not to utilize derivative financial instruments for trading or speculative purposes.

CFHI's investment in derivatives are recorded at fair value on the statement of financial position. Changes in fair value of these derivatives are recognized in realized investment income on the statement of deferred contributions.

### (e) 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 contributes to CFHI's ability to provide services, its carrying amount is written-down to its residual value.

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

Year ended December 31, 2013

**1. Significant accounting policies (continued):**

(e) Tangible capital and intangible assets (continued):

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

(f) 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(e). 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.

(g) Deferred lease inducement:

The value received by CFHI represented by a rent-free period relating to leased premises is deferred and amortized on a straight-line basis over the term of the lease.

(h) 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, 2011, and the next required valuation for funding purposes will be as of June 1, 2014.

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

Notes to Financial Statements (continued)

Year ended December 31, 2013

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## 1. Significant accounting policies (continued):

### (h) Employee future benefits (continued):

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 balance sheet at the end of the year. The cost of the plan, comprising (i) changes in the accrued benefit obligation other than those resulting from benefit payments to plan members and net of any employee contributions; (ii) the actual return on plan assets; and (iii) the change in the valuation allowance is recorded in the statement of operations.

Actuarial gains (losses) on plan assets and past service costs arising from plan amendments are immediately recognized in the statement of operations at the date of the amendment.

### (i) 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 and Communications functions 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.

### (j) 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 changes in deferred contributions.

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

Year ended December 31, 2013

**1. Significant accounting policies (continued):**

(k) 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 and/or liability.

**2. Investments:**

December 31, 2013	Fair value	Cost
Cash and cash equivalents	\$ 1,074,442	\$ 1,074,442
Fixed income securities	27,865,462	28,279,861
Equity securities	363,457	302,474
	29,303,361	29,656,777
Less: short-term investments	(10,995,100)	(11,106,920)
	\$ 18,308,261	\$ 18,549,857

  

December 31, 2012	Fair value	Cost
Cash and cash equivalents	\$ 3,224,076	\$ 3,224,075
Fixed income securities	34,628,346	34,988,210
Equity securities	767,703	729,015
Derivative financial instruments	(14,846)	—
	38,605,279	38,941,300
Less: short-term investments	(13,373,128)	(13,575,639)
	\$ 25,232,151	\$ 25,365,661

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

Notes to Financial Statements (continued)

Year ended December 31, 2013

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## 2. Investments (continued):

Investments are managed as a pool by investment managers who are under the direction of the Investment Committee reporting to the Board of Trustees. 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 and United States 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 1.00% to 5.50% with maturity dates ranging from two weeks to three years. The value of these securities is subject to interest rate and exchange rate fluctuations.

(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, 2013, \$1,361,851 (2012 - \$1,874,391) of the organization's equity investments were denominated in US dollars. Of this amount, \$509,987 (2012 - \$932,416) has been allowed for uncollectability as disclosed in note 9 to these financial statements.

(d) Derivative financial instruments:

In 2013, CFHI entered into a forward exchange contract as part of its investment strategy which was designed to reduce its exposure to the US-Canadian dollar fluctuations. This strategy was reviewed in 2013 by CFHI's Investment Committee. The Investment Committee recommended the elimination of the US currency hedge because the expected currency gains or losses would be small and the hedge was costly to administer. This was approved by the Board of Trustees at their June 13, 2013 meeting.

(e) Short-term investments:

Short-term investments consist of cash and fixed income securities maturing within the next fiscal year.

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

Year ended December 31, 2013

**3. Tangible capital and intangible assets:**

	Cost	Accumulated amortization	2013 Net book value	2012 Net book value
Tangible capital assets:				
Computer equipment	\$ 642,055	603,189	38,866	\$ 49,862
Telephone equipment	95,446	86,857	8,589	13,743
Furniture and fixtures	327,031	317,103	9,928	9,826
Equipment under capital lease	99,530	67,349	32,181	8,623
Leasehold improvements	734,235	688,994	45,241	147,850
Intangible assets:				
Computer software	392,117	383,893	8,224	–
	<b>\$ 2,290,414</b>	<b>\$ 2,147,385</b>	<b>\$ 143,029</b>	<b>\$ 229,904</b>

Cost and accumulated amortization of tangible capital and intangible assets amounted to \$2,209,435 and \$1,979,531 respectively as at December 31, 2012.

**4. Accounts payable and accrued liabilities:**

At year end, CFHI had no amounts payable for government remittances, such as GST/HST and payroll taxes.

**5. Employee future benefits:**

(a) Plan assets and obligations:

CFHI administers the Canadian Foundation for Healthcare Improvement employee pension plan, which is a defined benefit plan that covers most of its 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, 2011. The next actuarial valuation is required to be completed as at June 1, 2014, 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 performed as at June 1, 2011 reported a solvency surplus of \$8,281 and a going concern deficiency of \$346,288, based on economic assumptions applicable at June 1, 2011. CFHI is required to make minimum additional contributions of \$37,992 per annum in future years to eliminate the going concern deficiency under the Pension Benefits Act (Ontario).

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

Year ended December 31, 2013

**5. Employee future benefits (continued):**

(a) Plan assets and obligations (continued):

CFHI reviews the performance of the plan on a quarterly basis to determine if additional payments should be made to the plan. In fiscal 2013, CFHI made additional contributions of \$261,000.

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

	2013	2012
Plan assets at fair value	\$ 7,654,738	\$ 6,306,097
Less: Accrued benefit obligation	7,068,189	6,745,225
<b>Employee future benefits asset (liability)</b>	<b>\$ 586,549</b>	<b>\$ (439,128)</b>

(b) Plan assets:

	2013	2012
Plan assets at fair value, beginning of year	\$ 6,306,097	\$ 5,615,279
Actual gain on plan assets	1,111,517	536,611
Employer contributions	642,271	666,890
Employee contributions - current service	279,688	213,149
Benefits paid	(684,835)	(725,832)
<b>Plan assets at fair value, end of year</b>	<b>\$ 7,654,738</b>	<b>\$ 6,306,097</b>

(c) Accrued benefit obligation:

	2013	2012
Accrued benefit obligation, beginning of year	\$ 6,745,225	\$ 6,467,461
Purchase of past service	10,538	-
Current service cost	578,673	603,212
Interest cost	418,588	400,384
Benefits paid	(684,835)	(725,832)
<b>Accrued benefit obligation, end of year</b>	<b>\$ 7,068,189</b>	<b>\$ 6,745,225</b>



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

Year ended December 31, 2013

**5. Employee future benefits (continued):**

(d) Assumptions:

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

	2013	2012
Discount rate	6.25%	6.25%
Rate of compensation increases	4.50%	4.50%
Expected long-term rate of return on plan assets	6.25%	6.25%
Rate of inflation	2.50%	2.50%

**6. Deferred contributions from co-sponsors:**

For certain funding initiatives, CFHI receives contributions from co-sponsors. CFHI recognizes revenue associated with these co-sponsor contributions when the funds are disbursed. The nature and amount of changes associated with restricted co-sponsor contributions are outlined below:

	2013	2012
Net restricted co-sponsor contributions receivable		
(deferred co-sponsor contributions) beginning of year	\$ (318,169)	\$ 503,732
Contributions received during the year	(685,818)	(1,814,698)
Amounts recognized as co-sponsor revenue	305,662	225,748
Amounts recognized as program support revenue	513,744	767,049
Net deferred co-sponsor contributions, end of year	\$ (184,581)	\$ (318,169)

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

Year ended December 31, 2013

**6. Deferred contributions from co-sponsors (continued):**

Presented in CFHI's statement of financial position as:

	2013	2012
Co-sponsor contributions receivable:		
North Shore Tribal Council	\$ 44,000	\$ –
Canadian Institutes of Health Research	–	270,099
Other	157,785	128,319
	<u>201,785</u>	<u>398,418</u>
Deferred contributions from co-sponsors:		
Canadian Institutes of Health Research	–	193,321
Northern Health Authority	113,176	124,461
Alberta Innovates - Health Solutions	–	175,359
Other	273,190	223,446
	<u>386,366</u>	<u>716,587</u>
Net deferred co-sponsor contributions	<u>\$ (184,581)</u>	<u>\$ (318,169)</u>

**7. Capital lease obligations:**

	2013	2012
2013	\$ –	\$ 7,941
2014	10,800	–
2015	10,800	–
2016	10,800	–
	<u>32,400</u>	<u>7,941</u>
Less amount representing deemed interest at 4%	<u>1,526</u>	<u>118</u>
	<u>30,874</u>	<u>7,823</u>
Current portion	9,986	7,823
Long-term portion	<u>\$ 20,888</u>	<u>\$ –</u>

The capital lease is secured by photocopiers that have an approximate net book value of \$32,181.

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Notes to Financial Statements (continued)

Year ended December 31, 2013

**8. Deferred contributions:**

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.

**9. Investment income:**

Investment income earned consists of the following:

	2013	2012
Interest and dividends	\$ 1,146,567	\$ 1,501,978
Loss on sale of investments	(419,657)	(532,512)
Gain (loss) on sale of derivative instruments	(65,286)	45,332
	<b>\$ 661,624</b>	<b>\$ 1,014,798</b>

Unrealized gain (loss) on investments consists of the following:

	2013	2012
Unrealized investment income (loss)	\$ 4,902	\$ (218,887)
Unrealized loss on derivative financial instruments	–	(14,619)
	<b>\$ 4,902</b>	<b>\$ (233,506)</b>

Allowance for uncollectability:

	2013	2012
Allowance for uncollectability USD\$	\$ 680,926	\$ 937,196
Less: declared redemptions	(201,435)	–
	479,491	937,196
Foreign exchange to CDN\$	30,496	(4,780)
	<b>\$ 509,987</b>	<b>\$ 932,416</b>

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

Year ended December 31, 2013

**9. Investment income (continued):**

CFHI's investments include \$1,448,465 (2012 - \$1,874,391) that are currently 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 adjusted the allowance of these investments to 50% of their fair market value.

The allowance for uncollectability has been reduced by \$201,435 due to a declared redemption of \$402,869 USD by the money manager.

**10. Allocation of general support costs:**

General support costs of \$1,971,700 (2012 - \$2,456,700) have been allocated to specific functions from Administration and Communication as follows:

	2013	2012
Collaborative for innovation and improvement	\$ 936,800	\$ 895,900
Applied research and policy analysis	465,900	737,400
Education and training	416,300	668,400
Evaluation and performance management	54,700	155,000
Business development	98,200	–
	<b>\$ 1,971,900</b>	<b>\$ 2,456,700</b>

**11. 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. 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 Trustees believes that CFHI has adhered to all externally imposed restrictions. CFHI's approach to capital management has not changed from the prior year.

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

Notes to Financial Statements (continued)

Year ended December 31, 2013

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## 12. Financial instruments and risk management:

### (a) Credit and interest rate risk:

CFHI is exposed to credit and interest rate risk with respect to its interest-bearing investments, as disclosed in note 2.

CFHI is also exposed to credit risk relating to its receivables. CFHI reduces its credit risk by dealing 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 co-sponsor contributions 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 and co-sponsor contributions receivable.

### (b) Foreign currency risk:

CFHI is exposed to foreign currency risk with respect to its investments and derivative financial instrument, as disclosed in note 2.

## 13. Commitments:

### (a) Operating:

CFHI is committed to payments under operating leases for premises. At the current rate of operating costs the amount of the rent is approximately:

2014	\$ 411,400
2015	397,100
2016	331,500
	<hr/>
	\$ 1,140,000

In the normal course of business, CFHI has entered into a lease agreement for the rental of their 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.

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SERVICES DE SANTÉ**

Notes to Financial Statements (continued)

Year ended December 31, 2013

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**13. Commitments (continued):**

(b) Grant funding:

Funding is provided by CFHI to researchers in the field of health services. The following are the commitments of CFHI as at December 31, 2013:

	Patient Engagement Projects	Canadian Harkness Fellowship	Saskatchewan Transformation Projects	Total
2014	\$ 36,185	\$ 40,126	\$ 26,739	\$ 103,050

Other sponsors have also made commitments for the above-noted programs, however, these commitments have not been included in these financial statements.