

Northern Ontario School of Medicine
Financial Statements
For the year ended April 30, 2016

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Independent Auditor's Report

To the Chairman and Board of Directors of Northern Ontario School of Medicine

We have audited the accompanying financial statements of Northern Ontario School of Medicine, which comprise the statement of financial position as at April 30, 2016 and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Northern Ontario School of Medicine as at April 30, 2016 and the results of its operations and its cash flows for the year ended April 30, 2016 in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Thunder Bay, Ontario
September 21, 2016

NORTHERN ONTARIO SCHOOL OF MEDICINE

Statement of Financial Position

(Thousands of Dollars)

	As at April 30, 2016	As at April 30, 2015
Assets		
Current assets:		
Cash - operating	\$ 17,048	\$ 15,475
Accounts receivable (Note 2)	1,502	2,513
Prepaid expenses	727	654
Due from host universities (Note 3)	65	422
	19,342	19,064
Capital assets (Note 4)	3,769	4,398
	\$ 23,111	\$ 23,462

Liabilities, Deferred Contributions and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (Note 5)	\$ 7,400	\$ 7,403
Government payroll remittances payable	432	439
Deferred revenue (Note 6)	2,083	1,757
Current portion of obligation under capital lease (Note 7)	44	101
	9,959	9,700
Long term obligation under capital lease (Note 7)	-	44
Deferred capital contributions (Note 8)	3,725	4,253
	13,684	13,997
Net assets:		
Internally restricted (Note 9)	9,427	9,465
	\$ 23,111	\$ 23,462

Funds Held in Trust

Assets

Cash held in trust (Note 10)	\$ 12,965	\$ 14,359
Investments held in trust (Note 10)	3,197	3,114
	\$ 16,162	\$ 17,473

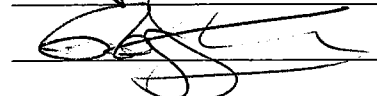
Liabilities

Funds held in trust (Note 10)	\$ 16,162	\$ 17,473
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The accompanying notes are an integral part of these financial statements.

On behalf of the Board:

 Chair, Board of Directors

 President

NORTHERN ONTARIO SCHOOL OF MEDICINE

Statement of Operations

Year ended April 30, 2016, with comparative figures for 2015
(Thousands of dollars)

	2016	2015
Revenue:		
Government grants - Ministry of Training, Colleges and Universities	\$ 22,762	\$ 22,587
Government grants - Ministry of Health and Long Term Care	13,387	13,527
Government grants - Paymaster Program (Note 11)	12,025	11,410
Government grants - Medical Student Bursary Program (Note 12)	620	593
Government and other grants for restricted purposes	2,352	2,127
Tuition fees	5,639	5,366
Administrative Services Fees (Note 13)	90	90
Investment income	136	190
Bursary income	722	457
Miscellaneous income	886	925
Amortization of deferred capital contributions	1,016	1,166
Total revenue	\$ 59,635	\$ 58,438
Expenses:		
Salaries, benefits, and other compensation	\$ 32,151	\$ 31,067
Salaries, benefits, and other compensation - Paymaster Program (Note 11)	12,025	11,410
Travel and accommodations	1,722	2,135
Travel and accommodations - Learners	2,990	2,943
Office	2,255	1,991
Curriculum and faculty development	1,882	2,246
Library	708	608
Technology and telecommunications	1,285	1,386
Facilities	1,462	1,352
Consulting	805	1,016
Medical Student Bursary Program (Note 12)	620	593
Bursaries	752	837
Amortization of capital assets	1,016	1,166
Total expenses	\$ 59,673	\$ 58,750
Deficiency of revenue over expenses	\$ (38)	\$ (312)
Transfers - Internally Restricted Net Assets	\$ 38	\$ 312
Change in Unrestricted Net Assets	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

NORTHERN ONTARIO SCHOOL OF MEDICINE

Statement of Changes in Net Assets

Year ended April 30, 2016, with comparative figures for 2015
(Thousands of dollars)

	Unrestricted	Internally Restricted	Total 2016	Total 2015
Net assets, beginning of year	\$ -	\$ 9,465	\$ 9,465	\$ 9,777
Deficiency of revenue over expenses	(38)	-	(38)	(312)
Transfers	38	(38)	-	-
Net assets, end of year	\$ -	\$ 9,427	\$ 9,427	\$ 9,465

The accompanying notes are an integral part of these financial statements.

NORTHERN ONTARIO SCHOOL OF MEDICINE

Statement of Cash Flows

Year ended April 30, 2016, with comparative figures for 2015
(Thousands of dollars)

	2016	2015
Operating Funds		
Cash flows from operating activities:		
Deficiency of revenue over expenses	\$ (38)	\$ (312)
Items not involving cash:		
Amortization of deferred capital contributions	(1,016)	(1,166)
Amortization of capital assets	1,016	1,166
Changes in non-cash working capital (Note 14)	1,611	(2,069)
	1,573	(2,381)
Cash flows from financing and investing activities:		
Obligation under capital lease	(101)	(95)
Deferred capital contributions	488	627
Capital assets acquired	(387)	(532)
	-	-
Net increase (decrease) in cash	1,573	(2,381)
Cash, beginning of year	15,475	17,856
Cash, end of year	\$ 17,048	\$ 15,475
Represented by:		
Cash - operating	\$ 17,048	\$ 15,475
Funds Held in Trust		
Cash flows from financing and investing activities:		
Research Chair in Aboriginal and Rural Health Trust Funds		
Investment income	\$ 84	\$ 82
Disbursements	(4)	(12)
AMS Hannah Chair in the History of Aboriginal Health Trust Funds		
Funds granted	100	700
Investment income	20	18
Northern Ontario Academic Medicine Association Transitional Funds		
Funds granted	7,007	7,007
Investment income	113	150
Disbursements	(8,631)	(7,132)
	(1,311)	813
Cash, beginning of year	17,473	16,660
Cash, end of year	\$ 16,162	\$ 17,473
Represented by:		
Cash held in trust	\$ 12,965	\$ 14,359
Investments held in trust	3,197	3,114
	\$ 16,162	\$ 17,473

The accompanying notes are an integral part of these financial statements.

NORTHERN ONTARIO SCHOOL OF MEDICINE

Notes to Financial Statements

Year ended April 30, 2016
(Thousands of dollars)

The Northern Ontario School of Medicine ("School") was incorporated without share capital under the laws of Ontario. Working under the auspices of Lakehead University and Laurentian University ("host universities"), the purpose of the School is to establish and operate a medical school which is responsive to the needs of students and to the healthcare needs of the people of Northern Ontario.

The School has received full accreditation for its educational program leading to a medical doctorate from the Liaison Committee on Medical Education and the Committee on Accreditation of Canadian Medical Schools.

1. Significant accounting policies:

The financial statements of the School have been prepared in accordance with Canadian accounting standards for not for profit organizations and follow the accounting policies summarized below:

(a) Revenue recognition:

The School accounts for contributions under the deferral method of accounting as follows:

Operating grants are recorded as revenue in the period to which they relate. Grant amounts relating to future periods are deferred and recognized in the subsequent period when the related activity occurs. Grants approved but not received are accrued.

Tuition fees which relate to academic terms or parts thereof occurring after April 30 are recorded as deferred revenue.

Unrestricted contributions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the period in which the related expenses are recognized. Any surplus that is repayable to the contributor is recorded as accounts payable.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis at rates corresponding to those of the related capital assets.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, bank balances, and guaranteed investment certificates with a duration of less than three months.

(c) Investments:

Investments, which consist of deposit receipts and guaranteed investment certificates, are carried at fair market value.

NORTHERN ONTARIO SCHOOL OF MEDICINE

Notes to Financial Statements

Year ended April 30, 2016
(Thousands of dollars)

1. Significant accounting policies (continued):

(d) Capital assets:

Capital asset purchases are recorded at cost with amortization provided for in the period in which the assets are put into use. Capital assets are amortized on a straight line basis over their estimated useful lives, which are:

Computer software	2 years
Furniture and equipment	5 years
Leasehold improvements	25 years

(e) Capital leases

Leases that transfer substantially all of the benefits and risks of ownership of the property to the School are accounted for as a capital lease. At the time a capital lease is entered into an asset is recorded together with its related long term obligation. Assets under capital lease are amortized on a straight line basis over their estimated useful lives, which are:

Equipment under capital lease	5 years
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(f) Internally restricted net assets:

The School restricts use of portions of its operating assets for specific future uses. When incurred, the related expenses are charged to operations, and the balance of internally restricted assets is reduced accordingly. Internally restricted net assets are established through Board resolution or Board approved policies.

(g) Use of estimates:

The preparation of the financial statements in conformity 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 and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(h) Financial instruments:

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any unrealized gains and losses reported in operations, other than financial instruments related to endowment funds. In addition, all bonds and guaranteed investment certificates have been designated to be in the fair value category, with gains and losses reported in operations, other than financial instruments related to endowment funds. Changes in fair value of financial instruments related to endowment funds are recorded directly in net assets. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items re-measured at fair value at each statement of financial position date and charged to the financial instruments for those measured at amortized cost.

NORTHERN ONTARIO SCHOOL OF MEDICINE

Notes to Financial Statements

Year ended April 30, 2016

(Thousands of dollars)

1. Significant accounting policies (continued):

(i) Employee Future Benefits:

The School accrues its obligation under the Notional DC SuRP benefit plan as the employees render the services necessary to earn the pension and other retirement benefits.

The School accounts for the Notional DC SuRP component of the pension plan using the immediate recognition approach. The School recognizes the amount of the accrued benefit obligation, net of the fair value of the plan assets measured at year-end, adjusted for any valuation allowance, in the statement of financial position. Experienced gains and losses are included in the cost of the plan for the year. The accrued benefit obligation for the pension plan is determined based on an actuarial valuation using accounting assumptions.

2. Accounts receivable:

	2016	2015
Government and other grants and miscellaneous receivables	\$ 447	\$ 735
Harmonized services tax recoverable	313	1,126
Ministry of Health and Long Term Care	742	652
	\$ 1,502	\$ 2,513

3. Due from host universities:

	2016	2015
Lakehead University	\$ 61	\$ 191
Laurentian University	4	231
	\$ 65	\$ 422

The balances are non-interest bearing without fixed terms of repayment.

NORTHERN ONTARIO SCHOOL OF MEDICINE

Notes to Financial Statements

Year ended April 30, 2016
(Thousands of dollars)

4. Capital assets:

	2016			2015		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 20,516	\$ 19,261	\$ 1,255	\$ 20,884	\$ 19,158	\$ 1,726
Equipment under capital lease	464	464	-	464	371	93
Computer software	1,235	1,235	-	1,235	1,235	-
Leasehold improvements	3,742	1,228	2,514	3,657	1,078	2,579
	\$ 25,957	\$ 22,188	\$ 3,769	\$ 26,240	\$ 21,842	\$ 4,398

5. Accounts payable and accrued liabilities:

	2016	2015
Accounts payable and accrued liabilities	\$ 2,617	\$ 2,424
Accrued salaries, benefits, and other compensation	1,803	1,784
Ministry of Health and Long Term Care programs	2,980	3,195
	\$ 7,400	\$ 7,403

6. Deferred revenue:

Deferred revenue represents unspent externally restricted monies received in the current and prior years for services to be provided in a future year as follows:

	2016	2015
Ministry of Health and Long Term Care	\$ 396	\$ 406
Tuition fees	424	387
Government and other grants and miscellaneous income	1,263	964
	\$ 2,083	\$ 1,757

NORTHERN ONTARIO SCHOOL OF MEDICINE

Notes to Financial Statements

Year ended April 30, 2016
(Thousands of dollars)

7. Obligation under capital lease:

The following is a schedule of future minimum lease payments under the capital lease that began on October 1, 2011 and is expiring on September 30, 2016, together with the balance of the obligation under capital lease.

	2016	2015
Year ending April 30		
2016	\$ -	\$ 107
2017	45	45
Total minimum lease payments required	45	152
Amount representing interest at a rate of 5.7%	(1)	(7)
Balance of the obligation under capital lease	44	145
Less current portion	(44)	(101)
Long term portion of the obligation under capital lease	-	44

8. Deferred capital contributions:

Deferred capital contributions represent the unamortized and unspent balances of grants utilized for capital asset acquisitions. Details of the continuity of these funds are as follows:

	2016	2015
Balance, beginning of year	\$ 4,253	\$ 4,792
MTCU funding transferred from deferred contributions	488	592
Ministry of Health and Long Term Care	-	35
Amortization of deferred capital contributions	(1,016)	(1,166)
Balance, end of year	\$ 3,725	\$ 4,253

NORTHERN ONTARIO SCHOOL OF MEDICINE

Notes to Financial Statements

Year ended April 30, 2016
(Thousands of dollars)

9. Internally restricted net assets:

	2016	2015
Bursaries	\$ 657	\$ 708
Research funds	1,658	1,500
Research equipment	400	400
Clinical education infrastructure	14	14
IT infrastructure	1,145	1,073
Facilities regeneration	623	406
PGE requirements	87	175
Accreditation costs	33	-
Union negotiations	192	187
Legal costs	160	152
Recruitment costs	109	78
Short-term leave	300	300
Strategic plan implementation & initiatives	756	1,199
Reserves	3,073	3,073
Self-insurance	220	200
Balance, end of year	\$ 9,427	\$ 9,465

10. Funds held in trust:

	2016	2015
Research Chair in Aboriginal and Rural Health - Trust Funds	3,368	3,288
AMS Hannah Chair in the History of Aboriginal Health - Trust Funds	2,043	1,923
Northern Ontario Academic Medicine Association - Trust Funds	10,751	12,262
Balance, end of year	\$ 16,162	\$ 17,473

(a) Research Chair in Aboriginal and Rural Health - Trust Funds

During a previous fiscal year, the School received \$1,500 from the Ministry of Training, Colleges and Universities to establish a Research Chair in Aboriginal and Rural Health. This grant was matched with a grant of \$1,500 from the Heart and Stroke Foundation of Ontario to bring the total funds held in trust to \$3,000. During the current fiscal year, \$84 (2015 - \$82) was earned on these funds and \$4 (2015 - \$12) of disbursements were used of these funds, to bring the funds held in trust to \$3,368 (2015 - \$3,288).

(b) AMS Hannah Chair in the History of Aboriginal Health - Trust Funds

During the current fiscal year, the School received \$100 (2015 - \$700) from Associated Medical Services Incorporated to establish a Research Chair in the History of Aboriginal Health. During the current fiscal year, \$20 (2015 - \$18) was earned on these funds bringing the funds held in trust to \$2,043 (2015 - \$1,923).

NORTHERN ONTARIO SCHOOL OF MEDICINE

Notes to Financial Statements

Year ended April 30, 2016
(Thousands of dollars)

10. Funds held in trust (continued):

(c) Northern Ontario Academic Medicine Association – Trust Funds

During the current fiscal year, the School received \$7,007 (2015 - \$7,007) from the Ministry of Health and Long Term Care to hold in trust for the Northern Ontario Academic Medicine Association. These funds are to be used by the Northern Ontario Academic Medicine Association to fund the operations of the Academic Health Science Centre Alternative Funding Plan. The balance of these funds held by the school at April 30, 2016 is \$10,751 (2015 - \$12,262).

11. Paymaster Agreement

On July 1, 2007, the School accepted residents into its own accredited Post Graduate Family Medicine program. In an agreement with the Ministry of Health and Long Term Care, the School provides the payroll services for these residents' salaries and benefits in accordance with the PAIRO agreement.

During the fiscal year, the School paid residents' salaries totaling \$12,025 (2015 - \$11,410). During the fiscal year, the School received funding related to residents' salaries totaling \$12,025 (2015 - \$11,410).

12. Medical Student Bursary Program

Beginning in January 2013, the School entered into a funding agreement to administer the Final Year Medical Student Bursary Program that provides bursary payments to medical students in their final year of medical school. The agreement provided funding to pay the bursaries to the students as well as administration costs.

During the fiscal year, the School paid bursaries and administration costs totaling \$620 (2015 - \$593). During the fiscal year, the School received funding related to bursaries and administration costs totaling \$620 (2015 - \$593).

13. Administrative Services Fees:

The School entered into service agreements to provide administrative services to third parties. The School provides accounting and payment services under these agreements and is reimbursed for all incurred expenses and charges an administrative service fee for providing these services.

NORTHERN ONTARIO SCHOOL OF MEDICINE

Notes to Financial Statements

Year ended April 30, 2016
(Thousands of dollars)

14. Changes in non-cash working capital:

	2016	2015
Cash provided by (used in):		
Accounts receivable	\$ 1,011	\$ (596)
Due from/to host universities	357	113
Prepaid expenses	(73)	(158)
Accounts payable and accrued liabilities	(3)	(1,447)
Government payroll remittances payable	(7)	46
Deferred revenue	326	(27)
	<u>\$ 1,611</u>	<u>\$ (2,069)</u>

15. Financial Instruments:

(a) Fair Values

The School's financial instruments are comprised of cash, investments held in trust, accounts receivable, accounts payable and accrued liabilities, government remittances payable and due to/from host universities.

The fair values of cash, investments held in trust, accounts receivable, accounts payable and accrued liabilities, government remittances payable and due to/from host universities approximate their carrying value because of the short term nature of these instruments.

(b) Risks arising from Financial Instruments

It is management's opinion that the School is not exposed to significant currency or interest rate risk.

Credit Risk

Credit risk is the risk of financial loss to the School if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the School's accounts receivable and investments held in trust. The School mitigates its potential credit risk from accounts receivable through credit evaluation, approval and monitoring processes. Furthermore, it evaluates the collectability of accounts receivable and records an allowance for doubtful accounts, which reduces the receivables to the amount management reasonably believes will be collected. Credit risk with respect to short term investments is managed through the investment policies.

Liquidity Risk

Liquidity risk is the risk that the School will not be able to meet all cash flow obligations as they come due. The School mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting.

NORTHERN ONTARIO SCHOOL OF MEDICINE

Notes to Financial Statements

Year ended April 30, 2016
(Thousands of dollars)

16. Related party transactions:

	Lakehead University	Laurentian University
Goods and services - 2016	\$ 1,155	\$ 1,376
- 2015	\$ 1,070	\$ 1,281
Endowment funds - 2016	\$ 351	\$ 325
- 2015	\$ 285	\$ 441

The host universities and the School have agreed to collaborate via a Relationship Agreement in connection with services. These services include facilities and support services, technology and telecommunications services, registration and fee collection, development support, bursary receipt and disbursement, and other educational, research, and operational matters.

The host universities administer the endowment funds for the School. The use of these funds is restricted for student bursaries. The aggregate balance of these funds as at April 30, 2016 is \$22,758 (2015 - \$21,057), of which \$9,670 (2015 - \$8,167) is held by Lakehead University and \$13,088 (2015 - \$12,890) is held by Laurentian University.

17. Other information:

The School, as a result of its affiliation with Laurentian University and Lakehead University, is participating in a reciprocal exchange of insurance risks in association with fifty eight Canadian universities. This self-insurance co-operative involves a contractual agreement to share the insurance property and liability risks of member universities. In the event that premiums are not sufficient to cover claim settlements, the member universities would be subject to an assessment in proportion to their participation.

NORTHERN ONTARIO SCHOOL OF MEDICINE

Notes to Financial Statements

Year ended April 30, 2016
(Thousands of dollars)

18. Pension plan:

The School operates a defined contribution pension plan in which the School contributes a set amount to the plan in respect of individual employees. Contributions made by the School during the year amounted to approximately \$1,035 (2015 - \$1,000).

Prior to January 1, 2005, some NOSM employees participated in the Retirement Plan for the Staff of Laurentian University of Sudbury and its Federated and Affiliated Colleges (1975). Two employees have also accumulated benefits in the Laurentian Supplementary Retirement Plan (SuRP) for compensation of benefits in excess of the limits prescribed by the Income Tax Act. This Laurentian SuRP has been transferred to NOSM as approved by a resolution of the Board of Directors in May 2007 and set up as a Notional DC SuRP.

The benefit obligations as per the most recent actuarial valuation performed as at April 30, 2016, are equal to \$247 (2015 - \$249). The assets as at April 30, 2016 that consist of cash and cash equivalents, are equal to \$86 (2015 - \$85). The pension expense for the fiscal year ended April 30, 2016 is a charge of \$9 (2015 - charge of \$8). The expense includes \$14 (2015 - \$13) in expected interest costs during the fiscal year ended April 30, 2016. The assets set aside for the Notional DC SuRP are part of NOSM's general assets. No cash payments of future benefits were made during the fiscal year (2015 - NIL).

The Fiscal year 2016/2017 expense is estimated to be equal to \$9. The final 2016/2017 expense will be adjusted to incorporate actual interest credited on the notional account balances and investment returns upon the valuation scheduled as at April 30, 2017. The calculation of the fiscal 2015/2016 and estimated fiscal 2016/2017 Notional DC SuRP pension expense are based on expected interest cost of 5.6% per annum in 2015/2016 and 5.4% per annum in 2016/2017 and expected return on assets of 1.9% per annum in 2015/2016 and 1.9% per annum in 2016/2017. The plan's experienced gains and losses shall be fully recognized in the year that they occur.

19. Economic Dependence:

The School is dependent upon transfer payments from the Ministry of Training, Colleges and Universities, the Ministry of Health and Long-Term Care, and other various government agencies to finance its continuing operations.

20. Comparative figures:

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