

**HEALTH SCIENCES CENTRE
FOUNDATION INC.**

Financial Statements
For the year ended March 31, 2018

HEALTH SCIENCES CENTRE FOUNDATION INC.

Financial Statements

For the year ended March 31, 2018

Table of Contents

Independent Auditor's Report	2
Financial Statements	
Statement of Financial Position	3
Statement of Operations and Changes in Fund Balances	4
Statement of Cash Flows	5
Notes to Financial Statements	6



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Independent Auditor's Report

To the Board of Directors of
Health Sciences Centre Foundation Inc.

We have audited the accompanying financial statements of Health Sciences Centre Foundation Inc., which comprise the statement of financial position as at March 31, 2018, and the statements of operations and changes in fund balances, 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Health Sciences Centre Foundation Inc. as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Professional Accountants

Winnipeg, Manitoba
June 19, 2018

HEALTH SCIENCES CENTRE FOUNDATION INC.

Statement of Financial Position

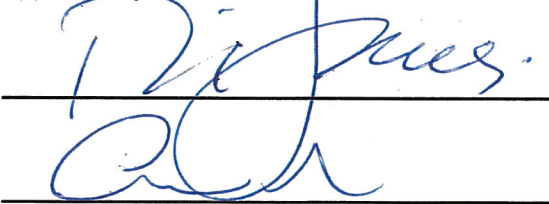
As at March 31, 2018

	Unrestricted Fund	Restricted Funds	2018 Total	2017 Total
				(Restated Note 9)
Assets				
Current Assets				
Cash	\$ 773,934	\$ 4,525,989	\$ 5,299,923	\$ 6,491,052
Due (to) from other funds	(419,602)	419,602	-	-
Accounts receivable (Note 7)	130,131	23,058	153,189	112,773
Pledges receivable - Current (Note 3)	-	1,088,188	1,088,188	1,563,797
Prepaid expenses	27,885	-	27,885	69,670
	512,348	6,056,837	6,569,185	8,237,292
Investments (Note 2)	-	29,441,272	29,441,272	27,079,489
Pledges receivable - Long-term (Note 3)	-	1,214,391	1,214,391	1,642,322
Capital assets (Note 4)	110,608	6,344,509	6,455,117	6,669,647
	\$ 622,956	\$ 43,057,009	\$ 43,679,965	\$ 43,628,750

Liabilities and Fund Balances

Current Liabilities				
Accounts payable and accrued liabilities (Note 7)	\$ 622,956	\$ -	\$ 622,956	\$ 586,518
Deferred revenue	-	5,000	5,000	32,564
	622,956	5,000	627,956	619,082
Fund Balances				
Unrestricted	-	-	-	-
Endowment	-	16,561,406	16,561,406	15,466,019
Restricted	-	14,364,141	14,364,141	15,383,488
JBRC Capital	-	12,126,462	12,126,462	12,160,161
	-	43,052,009	43,052,009	43,009,668
	\$ 622,956	\$ 43,057,009	\$ 43,679,965	\$ 43,628,750

Approved by the Board of Directors:



HEALTH SCIENCES CENTRE FOUNDATION INC.
Statement of Operations and Changes in Fund Balances
For the year ended March 31, 2018

	Unrestricted Fund		Restricted Funds		2018	2017
	2018	2017	2018	2017	Total	Total
						(Restated Note 9)
Revenue						
Donations	\$ 1,265,981	\$ 1,098,062	\$ 366,067	\$ 230,996	\$ 1,632,048	\$ 1,329,058
Lotteries, net (Note 5)	1,489,945	2,251,458	1,110,000	250,000	2,599,945	2,501,458
Ventures, net (Note 6)	344,275	280,858	(60,640)	(46,250)	283,635	234,608
Net realized investment income	65,632	57,446	677,955	588,690	743,587	646,136
Net unrealized investment gains (losses)	-	-	841,045	1,785,207	841,045	1,785,207
Major and planned gifts	41,459	18,250	4,304,463	3,567,754	4,345,922	3,586,004
Funding commitments	15,745	22,015	45,310	41,653	61,055	63,668
	3,223,037	3,728,089	7,284,200	6,418,050	10,507,237	10,146,139
Expenses						
Office administration	916,481	833,386	-	-	916,481	833,386
Donor development	716,351	637,854	135	198	716,486	638,052
Major and planned gifts	531,263	351,912	141,102	44,931	672,365	396,843
Marketing and communications	100,966	48,393	(14,160)	(6,192)	86,806	42,201
Amortization	13,591	25,044	206,139	274,086	219,730	299,130
	2,278,652	1,896,589	333,216	313,023	2,611,868	2,209,612
Excess of revenue over expenses before funding commitments	944,385	1,831,500	6,950,984	6,105,027	7,895,369	7,936,527
Funding commitments	(524,783)	(1,560,782)	(7,328,245)	(2,254,043)	(7,853,028)	(3,814,825)
Excess (deficiency) of revenue over expenses for the year	419,602	270,718	(377,261)	3,850,984	42,341	4,121,702
Fund balances, beginning of year, as previously reported	-	-	39,935,193	36,047,688	39,935,193	36,047,688
Correction of HSCF Operations Grant Trust (Note 9)	-	-	3,074,475	2,840,278	3,074,475	2,840,278
Fund balances, beginning of year, restated	-	-	43,009,668	38,887,966	43,009,668	38,887,966
Net transfer between fund balances (Note 1c)	(419,602)	(270,718)	419,602	270,718	-	-
Fund balances, end of year	\$ -	\$ -	\$ 43,052,009	\$ 43,009,668	\$ 43,052,009	\$ 43,009,668

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

HEALTH SCIENCES CENTRE FOUNDATION INC.

Statement of Cash Flows

For the year ended March 31	2018	2017
		(Restated Note 9)
Cash Flows from Operating Activities		
Excess of revenue over expenses for the year	\$ 42,341	\$ 4,121,702
Items not affecting cash		
Amortization	219,730	299,130
Gain relating to the accretion of pledges receivable	(18,599)	(44,833)
Net unrealized investment gains	(841,045)	(1,785,207)
	(597,573)	2,590,792
Changes in non-cash operating working capital items		
Accounts receivable	(40,414)	(35,039)
Pledges receivable	922,139	37,500
Prepaid expenses	41,785	(6,733)
Accounts payable and accrued liabilities	36,438	219,189
Deferred revenue	(27,564)	27,400
	334,811	2,833,109
Cash Flows from Investing and Financing Activities		
Net change in investments	(855,137)	(717,832)
Purchase of investments	(665,603)	(1,906,549)
Acquisition of capital assets	(5,200)	(132,221)
	(1,525,940)	(2,756,602)
Net increase (decrease) in cash and cash equivalents during the year	(1,191,129)	76,507
Cash and cash equivalents, beginning of year	6,491,052	6,414,545
Cash and cash equivalents, end of year	\$ 5,299,923	\$ 6,491,052

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2018

1. Nature of Operations and Summary of Significant Accounting Policies

a) Nature and Purpose of Organization

Health Sciences Centre Foundation Inc. (the "Foundation") was incorporated in 1976 under The Corporations Act of Manitoba. The Foundation's mandate is to raise, invest and allocate funds in support of medical research and health care excellence. The Foundation is a registered charity for purpose of the Income Tax Act and accordingly is exempt from income taxes.

b) Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

c) Fund Accounting

The Foundation follows the restricted fund method of accounting for contributions.

The Unrestricted Fund reports revenue from the Foundation's general fundraising activities together with all administrative expenses. Investment income earned in this fund is unrestricted. Each year, funds are transferred between the Unrestricted and Restricted Funds so that the fund balance in the Unrestricted Fund is nil at the statement of financial position date. For the year ended March 31, 2018, \$419,602 (\$270,718 in 2017) was transferred from the Unrestricted Fund to the Restricted Fund.

Included in Restricted Funds are amounts related to the following specific funds:

- i) The Endowment Fund which includes endowment, bequest and gift planning contributions donated to the Foundation which are directed for a specific use together with expenses for a significant portion of research grants. Unless specified by the donor, investment income earned on the Endowment Fund is reinvested in the Endowment Fund.
- ii) The Restricted Fund which represents funds donated to the Foundation which are directed for a specific use together with the funds internally restricted by the Foundation's Board of Directors.
- iii) The JBRC Capital Fund which represents funds donated to the Foundation that are directed and restricted for the John Buhler Research Centre for capital purchases and research expenses.

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2018

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

d) Revenue Recognition

Restricted Contributions are recognized as revenue of the appropriate restricted fund. Unrestricted contributions are recognized as revenue of the Unrestricted Fund. Contributions are recognized in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

e) Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equities traded in an active market are reported at fair value, with any unrealized gains and losses reported in operations. In addition, all fixed income portfolio investments, bonds and guaranteed investment certificates have been designated to be in the fair value category, with gains and losses reported in operations. 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 remeasured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

f) Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand and amounts owing (to) from funds.

g) Pledges Receivable

A pledge for which the amount to be received can be reasonably estimated and collection is reasonably assured is recognized as revenue in the fiscal year in which the pledge is committed. The related receivable is classified as current or long-term depending on the expected timing of the cash collection.

Pledges receivable are adjusted to net realizable value from time to time as determined by management when it is reasonable to expect that the recovery of the pledge is unlikely. Pledges receivable are written off against the allowance for doubtful accounts if an allowance had previously been recognized. If no allowance had been recognized, the pledges receivable written off are recognized as expenses against the current year net income.

h) Investments

Portfolio investments, which are comprised of pooled funds and exchange traded funds, are recorded at fair market value which is determined using quoted market values. Interest, dividends, gains and losses from underlying investments are recorded as earned or realized. Net changes in unrealized gains and losses are reflected in the statement of operations. Real Property is recorded at cost. The investment in Real Property is written down when the impairment in value is determined to be other than temporary.

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2018

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

i) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization expense is provided for on a straight-line basis as follows:

Computer equipment	4 years
Furniture and fixtures	10 years
Buildings	50 years
Tenant improvements	10 years
Leasehold improvements	5 years

j) Deferred Revenue

Deferred revenue represents rental revenue that has been received for future periods as well as proceeds that have been received relating to fundraising events that will occur in the next fiscal year.

k) Grants

Grants to qualified recipients are reflected as an expense in the fiscal year in which the grants are approved and committed.

l) Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates include the value of pledges receivable and the useful lives of capital assets. Actual amounts could differ materially from those estimates.

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2018

2. Investments

The following is a summary of the Foundation's investments:

	2018	2017
Pooled Funds and Exchange Traded Funds	\$ 24,088,596	\$ 21,998,444
HSCF Operations Grant Trust	3,057,146	3,074,475
Real Property		
Irrevocable interest in real property	2,006,570	2,006,570
Other	288,960	-
	\$ 29,441,272	\$ 27,079,489

a) Pooled Funds and Exchange Traded Funds

The following provides fair value details regarding the Foundation's investments in Pooled Funds and Exchange Traded Funds:

	2018	2017
Fixed income, including cash and mortgages	\$ 7,554,090	\$ 6,934,143
Global real estate	779,278	781,062
Canadian equity	5,746,535	5,177,134
Global equity	10,008,693	9,106,105
	\$ 24,088,596	\$ 21,998,444

b) HSCF Operations Grant Trust

The Foundation is the sole beneficiary of the HSCF Operations Grant Trust established by the Province of Manitoba in 2001 to fund operating costs of the Foundation's interest in the John Buhler Research Centre. The funds are held in trust with the University of Manitoba ("University") and are included in its investments. As disclosed in the University's audited financial statements for the year ended March 31, 2017, which is the most current available, investments consist of cash and money market funds, canadian equities, US equities, bonds and fixed income securities, as well as pooled international equities and real estate funds. The University, through the work of its investment committees and Treasury office, has an investment policy statement in place governing asset mix, permitted investments, diversification, and minimum credit quality.

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2018

2. Investments

c) Real Property

During prior years, the Foundation received gifts and title to irrevocable interests in Real Property. These gifts were recorded in revenue when received under an established restricted fund. The asset is recorded as a long-term asset as the date of the transfer of the entire interest is not known. Upon receipt of the entire interest, the asset will be classified as an asset held for sale and the Foundation will dispose of the asset in order to generate cash for the restricted fund.

Real Property also includes an investment in land and the construction of a home for the Foundation's lottery program. Total costs are not expected to exceed \$847,750 with construction completion anticipated in August 2018.

3. Pledges Receivable

	2018	2017
Gross pledges receivable	\$ 2,462,525	\$ 3,384,663
Less: impact of discounting and other	(159,946)	(178,544)
Amortized cost of pledges receivable	2,302,579	3,206,119
Less current portion	(1,088,188)	(1,563,797)
Pledges receivable, long-term	\$ 1,214,391	\$ 1,642,322

The amortized cost has been determined based on the expected payment terms of the respective pledges, which range from one to eight years, and an appropriate discount rate.

4. Capital Assets

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Unrestricted Fund				
Computer equipment	\$ 76,924	\$ 76,924	\$ 76,924	\$ 76,924
Furniture and fixtures	94,188	94,188	94,188	94,188
Furniture and fixtures - New office	137,421	26,813	132,221	13,222
	\$ 308,533	\$ 197,925	\$ 303,333	\$ 184,334
Net book value	\$ 110,608		\$ 118,999	

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2018

4. Capital Assets (continued)

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Restricted Funds				
Buildings	\$ 8,573,661	\$ 2,229,152	\$ 8,573,661	\$ 2,057,679
Tenant improvements	2,676,125	2,676,125	2,676,125	2,641,459
Leasehold improvements	200,000	200,000	200,000	200,000
	\$ 11,449,786	\$ 5,105,277	\$ 11,449,786	\$ 4,899,138
Net book value		\$ 6,344,509		\$ 6,550,648
Total net book value for all Funds		\$ 6,455,117		\$ 6,669,647

The Foundation has a beneficial interest in certain capital assets as noted below which are not included in the Statement of Financial Position.

Pursuant to an agreement dated March 19, 1985, the Foundation contributed \$4.9 million towards the construction of the seventh level of the MS Building of Health Sciences Centre which is commonly referred to as MS7.

In the event Health Sciences Centre exercises its option to obtain occupancy of MS7, in accordance with the terms of this agreement, the consideration to be paid by Health Sciences Centre to the Foundation shall be the aggregate of:

- i) the original capital costs;
- ii) all furniture, fixtures, equipment and improvements relating to MS7 that cannot be usefully relocated; and
- iii) reasonable moving expenses.

5. Lotteries

	2018	2017
Revenue	\$ 6,431,075	\$ 6,351,067
Expenses	(3,831,130)	(3,849,609)
	\$ 2,599,945	\$ 2,501,458

Lotteries include the HSC campus revenue from the 2017 Tri-Hospital Dream Lottery program run in partnership with St. Boniface Hospital Foundation and the Children's Hospital Foundation of Manitoba, and the revenues and expenses of the 2017 HSC Millionaire Lottery program run by the HSC Foundation.

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2018

6. Ventures

	2018	2017
Revenue	\$ 344,655	\$ 281,164
Expenses	(61,020)	(46,556)
	<u>\$ 283,635</u>	<u>\$ 234,608</u>

Ventures include JBRC rental revenue, a component of investment income related to the Sustainability and Grants Legacy Endowment Funds, and administrative fees (one half of one percent charged to the fund at the end of the fiscal year).

7. Related Party Transactions

The Foundation earned rental income from the Health Sciences Centre in the amount of \$55,368 (\$55,368 in 2017).

At March 31, 2018, the Foundation had a receivable from the Health Sciences Centre of \$23,058 (\$21,425 in 2017) and a payable to the Health Sciences Centre of \$280,539 (\$173,231 in 2017).

During the year, \$256,896 (\$333,309 in 2017) in funds were distributed to the Health Sciences Centre and the University of Manitoba to finance research projects; \$1,242,531 (\$713,424 in 2017) in funds were distributed to the Kleyesen Institute for Advanced Medicine, including the building shell and the Centre for Surgical Innovation on the second floor; \$4,500,000 in funds were distributed to the Health Sciences Centre in support of the Varian Edge equipment; and \$59,982 in funds were distributed to the Health Sciences Centre in support of the Plastic Surgery Clinic.

8. Financial Instrument Risk Management

The Foundation, through its financial assets and liabilities, is exposed to various risks in the normal course of operations. The Foundation has implemented a Statement of Investment Policies and Procedures which establishes the asset allocation strategy, diversification requirements and acceptable investments for the Foundation. The Foundation's objective in risk management is to optimize the risk return trade-off, within set limits, by applying integrated risk management and control strategies, policies and procedures throughout the Foundation's activities. The following analysis provides a measurement of those risks at year end.

a) Credit Risk

Credit risk is the risk that the Foundation will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist primarily of cash, accounts receivable, pledges receivable and investments. The maximum amount of credit risk relates to the carrying value of the financial assets

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2018

8. Financial Instrument Risk Management (continued)

b) Liquidity Risk

Liquidity risk is the risk that the Foundation will not be able to meet its obligations as they fall due. The Foundation maintains adequate levels of working capital to ensure all its obligations can be met when they fall due.

c) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market conditions and interest rates. A portion of the Foundation's investments are held in fixed-income securities and accordingly the value of those securities will be impacted by changes in interest rates.

d) Price Risk

Price risk is the potential for price changes resulting from volatility in equity markets.

e) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Foundation is exposed to foreign exchange risk since it holds a portion of its investments in U.S. and global securities.

9. Prior Period Adjustment for HSCF Operations Grant Trust

During the year, the Foundation became aware that it is the sole beneficiary of the HSCF Operations Grant Trust. The assets held in trust, investment income, funding commitments and fund balances had not previously been reported in the Foundation's financial statements. Comparative amounts presented in these financial statements have been retroactively restated as follows:

	As Previously Reported	Adjustment	Restated
<u>Statement of Financial Position</u>			
Investments	\$ 24,005,014	\$ 3,074,475	\$ 27,079,489
Fund balances as at March 31, 2016	36,047,688	2,840,278	38,887,966
Fund balances as at March 31, 2017	39,935,193	3,074,475	43,009,668
<u>Statement of Operations and Changes in Fund Balances</u>			
Net unrealized investment gains	1,448,886	336,321	1,785,207
Funding commitments	(2,151,919)	(102,124)	(2,254,043)
Excess of revenue over expenses for the year	3,887,505	234,197	4,121,702