

**HEALTH SCIENCES CENTRE
FOUNDATION INC.**

**Financial Statements
For the year ended March 31, 2019**

HEALTH SCIENCES CENTRE FOUNDATION INC.

Financial Statements

For the year ended March 31, 2019

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Health Sciences Centre Foundation Inc. ("Foundation"), which comprise the statement of financial position as at March 31, 2019, and the statement of operations and changes in fund balances and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2019, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants

Winnipeg, Manitoba
June 18, 2019

HEALTH SCIENCES CENTRE FOUNDATION INC.

Statement of Financial Position

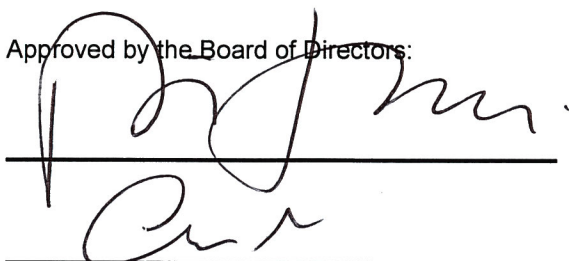
As at March 31, 2019

	Unrestricted Fund	Restricted Funds	2019 Total	2018 Total
Assets				
Current Assets				
Cash and bank	\$ 964,325	\$ 1,780,034	\$ 2,744,359	\$ 2,477,051
Investments (Note 3)	-	12,265,850	12,265,850	2,822,872
Due (to) from other funds	(453,284)	453,284	-	-
Accounts receivable (Note 8)	100,013	17,915	117,928	153,189
Pledges receivable (Note 4)	-	683,026	683,026	1,088,188
Prepaid expenses	27,721	-	27,721	27,885
	638,775	15,200,109	15,838,884	6,569,185
Investments (Note 3)	-	33,185,410	33,185,410	29,441,272
Pledges receivable (Note 4)	-	1,264,083	1,264,083	1,214,391
Capital assets (Note 5)	96,865	6,266,024	6,362,889	6,455,117
	\$ 735,640	\$ 55,915,626	\$ 56,651,266	\$ 43,679,965

Liabilities and Fund Balances

Current Liabilities				
Accounts payable and accrued liabilities (Note 8)	\$ 710,640	\$ -	\$ 710,640	\$ 622,956
Deferred revenue	25,000	-	25,000	5,000
	735,640	-	735,640	627,956
Fund Balances				
Unrestricted	-	-	-	-
Endowment	-	18,775,948	18,775,948	16,561,406
Restricted	-	24,924,218	24,924,218	14,364,141
JBRC Capital	-	12,215,460	12,215,460	12,126,462
	-	55,915,626	55,915,626	43,052,009
	\$ 735,640	\$ 55,915,626	\$ 56,651,266	\$ 43,679,965

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, 2019

	Unrestricted Fund		Restricted Funds		2019	2018	2019	2018	2019	2018
	2019	2018	2019	2018	Total	Total	Total	Total	Total	Total
Revenue										
Donations	\$ 727,783	\$ 1,265,981	\$ 261,526	\$ 366,067	\$ 989,309	\$ 1,632,048				
Lotteries, net (Note 6)	1,625,234	1,489,945	700,000	1,110,000	2,325,234	2,599,945				
Ventures, net (Note 7)	364,021	344,275	(65,590)	(60,640)	298,431	283,635				
Net realized investment income	113,881	65,632	710,201	677,955	824,082	743,587				
Net unrealized investment gains	-	-	799,516	841,045	799,516	841,045				
Major and planned gifts	41,634	41,459	12,238,697	4,304,463	12,280,331	4,345,922				
Funding commitments	16,371	15,745	29,392	45,310	45,763	61,055				
	2,888,924	3,223,037	14,673,742	7,284,200	17,562,666	10,507,237				
Expenses										
Office administration	968,554	916,481	-	-	968,554	916,481				
Donor development	315,270	716,351	-	135	315,270	716,486				
Major and planned gifts	505,092	531,263	151,836	141,102	656,928	672,365				
Marketing and communications	157,436	100,966	(2,695)	(14,160)	154,741	86,806				
Amortization	13,742	13,591	171,473	206,139	185,215	219,730				
	1,960,094	2,278,652	320,614	333,216	2,280,708	2,611,868				
Excess of revenue over expenses before funding commitments	928,830	944,385	14,353,128	6,950,984	15,281,958	7,895,369				
Funding commitments	(475,546)	(524,783)	(1,942,795)	(7,328,245)	(2,418,341)	(7,853,028)				
Excess (deficiency) of revenue over expenses for the year	453,284	419,602	12,410,333	(377,261)	12,863,617	42,341				
Fund balances, beginning of year	-	-	43,052,009	43,009,668	43,052,009	43,009,668				
Interfund transfer (Note 2b)	(453,284)	(419,602)	453,284	419,602	-	-				
Fund balances, end of year	\$ -	\$ -	\$ 55,915,626	\$ 43,052,009	\$ 55,915,626	\$ 43,052,009				

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	2019	2018
Cash Flows from Operating Activities		
Excess of revenue over expenses for the year	\$ 12,863,617	\$ 42,341
Items not affecting cash		
Amortization	185,215	219,730
Loss (gain) relating to the accretion of pledges receivable	25,749	(18,599)
Net unrealized investment gains	(799,516)	(841,045)
	<u>12,275,065</u>	<u>(597,573)</u>
Changes in non-cash operating working capital items		
Accounts receivable	35,261	(40,414)
Pledges receivable	329,721	922,139
Prepaid expenses	164	41,785
Accounts payable and accrued liabilities	87,684	36,438
Deferred revenue	20,000	(27,564)
	<u>12,747,895</u>	<u>334,811</u>
Cash Flows from Investing and Financing Activities		
Net change in investments	(829,130)	1,535,626
Purchase of investments	(11,558,470)	(665,603)
Acquisition of capital assets	(92,987)	(5,200)
	<u>(12,480,587)</u>	<u>864,823</u>
Net increase in cash and cash equivalents during the year	267,308	1,199,634
Cash and cash equivalents, beginning of year	2,477,051	1,277,417
Cash and cash equivalents, end of year	\$ 2,744,359	\$ 2,477,051

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2019

1. Organization

Health Sciences Centre Foundation Inc. ("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.

2. Summary of Significant Accounting Policies

a) Basis of Accounting

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

b) Fund Accounting

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, 2019, \$453,284 (\$419,602 in 2018) 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.

c) Revenue Recognition

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

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. Rental revenue is recognized as revenue in the period it is earned. Fundraising revenue is recognized in the period fundraising events are held. All other revenue is recognized when received or receivable.

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2019

2. Summary of Significant Accounting Policies (continued)

d) 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.

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. All other financial instruments, including real property, 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) 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

g) Grants

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

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2019

2. Summary of Significant Accounting Policies (continued)

h) 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.

3. Investments

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

	2019	2018
Short-term investments	\$ 12,265,850	\$ 2,822,872
Long-term Investments		
Securities	27,233,528	24,088,596
HSCF Operations Grant Trust	3,146,550	3,057,146
Real Property		
Irrevocable interests in real property	2,006,570	2,006,570
Other	798,762	288,960
	<u>33,185,410</u>	<u>29,441,272</u>
Total investments	<u>\$ 45,451,260</u>	<u>\$ 32,264,144</u>

a) Short-term Investments

Short-term investments consist of deposits in a cash management account yielding a higher rate of return as well as investments in Banker's Acceptance Notes and Guaranteed Income Certificates with maturity dates ranging from June 2019 to February 2020. These investments relate to fundraising for capital projects at Health Sciences Centre.

b) Securities

Investments in securities are recorded at fair value in these financial statements as follows at March 31:

	2019	2018
Fixed income, including cash and mortgages	\$ 6,361,129	\$ 7,554,090
Global real estate	520,774	779,278
Canadian equity	4,164,152	5,746,535
Global equity	<u>16,187,473</u>	<u>10,008,693</u>
	<u>\$ 27,233,528</u>	<u>\$ 24,088,596</u>

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2019

3. Investments (continued)

c) 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, 2018, 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.

d) 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. This asset is currently held for sale.

4. Pledges Receivable

	2019	2018
Gross pledges receivable	\$ 2,132,804	\$ 2,462,525
Less: impact of discounting and other	(185,695)	(159,946)
Amortized cost of pledges receivable	1,947,109	2,302,579
Less current portion	(683,026)	(1,088,188)
Pledges receivable, long-term	<u>\$ 1,264,083</u>	<u>\$ 1,214,391</u>

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.

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2019

5. Capital Assets

	2019		2018	
	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	40,556	137,421	26,813
	\$ 308,533	\$ 211,668	\$ 308,533	\$ 197,925
Net book value		\$ 96,865		\$ 110,608
	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Restricted Funds				
Buildings	\$ 8,573,661	\$ 2,400,625	\$ 8,573,661	\$ 2,229,152
Tenant improvements	2,769,113	2,676,125	2,676,125	2,676,125
Leasehold improvements	200,000	200,000	200,000	200,000
	\$ 11,542,774	\$ 5,276,750	\$ 11,449,786	\$ 5,105,277
Net book value		\$ 6,266,024		\$ 6,344,509
Total net book value for all Funds		\$ 6,362,889		\$ 6,455,117

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.

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2019

6. Lotteries

	2019	2018
Revenue	\$ 6,297,244	\$ 6,431,075
Expenses	(3,972,010)	(3,831,130)
	\$ 2,325,234	\$ 2,599,945

Lotteries include the HSC campus revenue from the 2018 Tri-Hospital Dream Lottery program run in partnership with St. Boniface Hospital Foundation and the Children's Hospital Foundation of Manitoba, and the revenue and expenses of the 2018 HSC Millionaire Lottery program run by the HSC Foundation.

7. Ventures

	2019	2018
Revenue	\$ 364,326	\$ 344,655
Expenses	(65,895)	(61,020)
	\$ 298,431	\$ 283,635

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).

8. Related Party Transactions

The Foundation earned rental income from the Health Sciences Centre in the amount of \$55,368 (\$55,368 in 2018).

At March 31, 2019, the Foundation had a receivable from the Health Sciences Centre of \$17,915 (\$23,058 in 2018) and a payable to the Health Sciences Centre of \$385,338 (\$280,539 in 2018).

During the year, \$325,169 (\$256,896 in 2018) in funds were distributed to the Health Sciences Centre and the University of Manitoba to finance research projects; \$518,744 (\$1,242,531 in 2018) in funds were distributed to the Kleysen Institute for Advanced Medicine and the Centre for Surgical Innovation on the second floor; \$87,896 (\$59,982 in 2018) in funds were distributed to the Health Sciences Centre in support of the Plastic Surgery Clinic; and \$Nil (\$4,500,000 in 2018) in funds were distributed to the Health Sciences Centre in support of the Varian Edge equipment

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2019

9. 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

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.

10. Comparative Amounts

Certain of the comparative figures have been restated to conform to the current year's presentation. Excess (deficiency) of revenue over expenses for the year ended March 31, 2018 remains as previously stated.