

**HEALTH SCIENCES CENTRE
FOUNDATION INC.**

Financial Statements
For the year ended March 31, 2016

HEALTH SCIENCES CENTRE FOUNDATION INC.

Financial Statements

For the year ended March 31, 2016

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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, 2016, 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, 2016, 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 Accountants

Winnipeg, Manitoba
June 21, 2016

HEALTH SCIENCES CENTRE FOUNDATION INC.

Statement of Financial Position


As at March 31, 2016

	Unrestricted Fund	Restricted Funds	2016 Total	2015 Total
Assets				
Current Assets				
Cash	\$ 300,389	\$ 6,114,156	\$ 6,414,545	\$ 3,673,999
Due (to) from other funds	(80,319)	80,319	-	-
Accounts receivable (Note 6)	67,798	9,936	77,734	91,062
Pledges receivable - Current (Note 3)	4,930	1,020,739	1,025,669	1,510,250
Prepaid expenses	62,937	-	62,937	93,674
	355,735	7,225,150	7,580,885	5,368,985
Investments (Note 2)	-	19,829,624	19,829,624	17,725,698
Pledges receivable - Long-term (Note 3)	4,937	2,168,180	2,173,117	1,708,328
Capital assets (Note 4)	11,821	6,824,734	6,836,555	7,119,868
	\$ 372,493	\$ 36,047,688	\$ 36,420,181	\$ 31,922,879

Liabilities and Fund Balances

Current Liabilities				
Accounts payable and accrued liabilities (Note 6)	\$ 367,329	\$ -	\$ 367,329	\$ 633,470
Deferred revenue	5,164	-	5,164	380,237
	372,493	-	372,493	1,013,707
Fund Balances				
Unrestricted	-	-	-	-
Endowment	-	13,606,509	13,606,509	11,588,350
Restricted	-	13,354,884	13,354,884	9,930,550
JBRC Capital	-	9,086,295	9,086,295	9,390,272
	-	36,047,688	36,047,688	30,909,172
	\$ 372,493	\$ 36,047,688	\$ 36,420,181	\$ 31,922,879

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, 2016

	Unrestricted Fund		Restricted Funds		2016	2015
	2016	2015	2016	2015	Total	Total
Revenue						
Donations	\$ 831,213	\$ 992,354	\$ 180,137	\$ 242,507	\$ 1,011,350	\$ 1,234,861
Special Projects, net (Note 5)	809,751	648,318	50,000	50,000	859,751	698,318
Ventures, net (Note 5)	55,541	43,070	(173)	-	55,368	43,070
Net realized investment income	17,644	18,998	1,652,957	332,666	1,670,601	351,664
Net unrealized investment gains (losses)	-	-	(667,784)	1,421,099	(667,784)	1,421,099
Major and planned gifts	18,439	25,918	7,363,212	4,283,249	7,381,651	4,309,167
Funding commitments	66,297	34,340	19,873	41,270	86,170	75,610
	1,798,885	1,762,998	8,598,222	6,370,791	10,397,107	8,133,789
Expenses						
Office administration	648,544	600,050	-	-	648,544	600,050
Donor development	595,023	661,840	206	544	595,229	662,384
Major and planned gifts	415,210	-	20,596	313,230	435,806	313,230
Marketing and communications	12,971	57,174	(18,364)	(9,432)	(5,393)	47,742
Amortization	9,228	12,976	274,085	439,086	283,313	452,062
Uncollectible pledges	-	-	-	416,791	-	416,791
	1,680,976	1,332,040	276,523	1,160,219	1,957,499	2,492,259
Excess of revenue over expenses before funding commitments	117,909	430,958	8,321,699	5,210,572	8,439,608	5,641,530
Funding commitments	(37,590)	-	(3,263,502)	(1,731,342)	(3,301,092)	(1,731,342)
Excess of revenue over expenses for the year	80,319	430,958	5,058,197	3,479,230	5,138,516	3,910,188
Fund balances, beginning of year	-	-	30,909,172	26,998,984	30,909,172	26,998,984
Net transfer between fund balances (Note 1c)	(80,319)	(430,958)	80,319	430,958	-	-
Fund balances, end of year	\$ -	\$ -	\$ 36,047,688	\$ 30,909,172	\$ 36,047,688	\$ 30,909,172

HEALTH SCIENCES CENTRE FOUNDATION INC.

Statement of Cash Flows

For the year ended March 31	2016	2015
Cash Flows from Operating Activities		
Excess of revenue over expenses for the year	\$ 5,138,516	\$ 3,910,188
Items not affecting cash		
Amortization	283,313	452,062
Gain relating to the accretion of pledges receivable	(97,236)	(30,105)
Equity earnings from Health Sciences Centre Foundation Trust	(1,167,743)	(63,593)
Net unrealized investment losses (gains)	667,784	(1,421,099)
Real Property gift	(590,025)	-
	<u>4,234,609</u>	<u>2,847,453</u>
Changes in non-cash operating working capital items		
Accounts receivable	13,328	103,166
Pledges receivable	117,028	(758,357)
Prepaid expenses	30,737	287,153
Accounts payable and accrued liabilities	(266,141)	(221,973)
Deferred revenue	(375,073)	(1,341,698)
	<u>3,754,488</u>	<u>915,744</u>
Cash Flows from Investing and Financing Activities		
Purchase of investments	(3,070,511)	(851,239)
Proceeds from Health Sciences Centre Foundation Trust	2,056,569	-
	<u>(1,013,942)</u>	<u>(851,239)</u>
Net increase in cash position during the year	2,740,546	64,505
Cash position, beginning of year	3,673,999	3,609,494
Cash position, end of year	\$ 6,414,545	\$ 3,673,999

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2016

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, 2016, \$80,319 (\$430,958 in 2015) 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, 2016

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, 2016

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, 2016

2. Investments

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

	2016	2015
Investment in Pooled Funds and Exchange Traded Funds	\$ 17,823,054	\$ 15,420,327
Investment in Health Sciences Centre Foundation Trust	-	888,826
Investment in Real Property	2,006,570	1,416,545
	\$ 19,829,624	\$ 17,725,698

a) Investment in Pooled Funds and Exchange Traded Funds

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

	2016	2015
Fixed income, including cash and mortgages	\$ 5,395,759	\$ 5,441,820
Global real estate	588,756	503,181
Canadian equity	4,670,193	3,300,367
Global equity	7,168,346	6,174,959
	\$ 17,823,054	\$ 15,420,327

b) Investment in Health Sciences Centre Foundation Trust

The Foundation created the Trust pursuant to a Trust Indenture dated September 12, 2000.

The Foundation was the income and capital beneficiary of the Trust. The Trust purchased real property and a land lease. All net income from these assets was allocated to the Foundation as income beneficiary on or before December 31 in each fiscal year. The Trustees of the Trust are to distribute the Trust property to the Foundation as capital beneficiary on the termination date of the Trust.

In December 2015 the tenant purchased the land from the Trust. The gain on sale of the land was recorded in the December 31, 2015 Trust financial statements. A final return for the Trust was filed for January 1, 2016. As the income and capital beneficiary of the Trust, the Foundation has recorded investment income in the amount of \$1,167,743 for the year ended March 31, 2016. All liabilities of the Trust were paid prior to March 31, 2016.

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2016

2. Investments (continued)

c) Real Property

During the 2014 fiscal year, the Foundation received a gift and title to an irrevocable interest in Real Property. During the current fiscal year, the Foundation received a second gift and title. An actuarial valuation was prepared to test for impairment of the existing investment and to assess the fair value of the new investment.

These gifts were recorded in revenue when received under an established restricted fund. The investment 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 investment will be classified as an asset held for sale and the Foundation will dispose of the investment in order to generate cash for the restricted fund.

3. Pledges Receivable

	2016	2015
Gross pledges receivable	\$ 3,422,231	\$ 3,345,101
Less: allowance for doubtful accounts	-	(12,205)
Less: impact of discounting and other	(223,445)	(114,318)
Amortized cost of pledges receivable	3,198,786	3,218,578
Less current portion	(1,025,669)	(1,510,250)
Pledges receivable, long-term	<u>\$ 2,173,117</u>	<u>\$ 1,708,328</u>

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

4. Capital Assets

	2016		2015	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Unrestricted Fund				
Computer equipment	\$ 76,924	\$ 76,924	\$ 76,924	\$ 75,664
Furniture and fixtures	94,188	82,367	94,188	74,399
	<u>\$ 171,112</u>	<u>\$ 159,291</u>	<u>\$ 171,112</u>	<u>\$ 150,063</u>
Net book value		<u>\$ 11,821</u>		<u>\$ 21,049</u>

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2016

4. Capital Assets (continued)

	2016		2015	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Restricted Funds				
Buildings	\$ 8,573,661	\$ 1,886,205	\$ 8,573,661	\$ 1,714,733
Tenant improvements	2,676,125	2,538,847	2,676,125	2,436,234
Leasehold improvements	200,000	200,000	200,000	200,000
	\$ 11,449,786	\$ 4,625,052	\$ 11,449,786	\$ 4,350,967
Net book value		\$ 6,824,734		\$ 7,098,819
Total net book value for all Funds		\$ 6,836,555		\$ 7,119,868

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. Special Projects and Ventures

Special projects and ventures represent fundraising events held and revenue earned by the Foundation.

a) Special Projects

	2016	2015
Revenue	\$ 4,086,199	\$ 4,412,572
Expenses	(3,226,448)	(3,714,254)
	\$ 859,751	\$ 698,318

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2016

5. Special Projects and Ventures (continued)

a) Special Projects (continued)

Special projects include the revenues and expenses of the 2015 HSCF Winner's Choice Lottery and the 2015 add-ons. Based on the performance of the program in 2015, the Foundation allocated \$50,000 of the net proceeds of this lottery to a restricted fund for the year ended March 31, 2016 (\$50,000 in 2015). The balance of the proceeds support operational expenses, which include \$250,602 in grants awarded during the year ended March 31, 2016.

b) Ventures

	2016	2015
Revenue	\$ 55,541	\$ 55,374
Expenses	(173)	(12,304)
	\$ 55,368	\$ 43,070

6. Related Party Transactions

The Foundation earned rental income from the Health Sciences Centre in the amount of \$55,368 (\$55,368 in 2015).

At March 31, 2016, the Foundation had a receivable from the Health Sciences Centre of \$9,937 (\$19,650 in 2015) and a payable to the Health Sciences Centre of \$64,946 (\$87,694 in 2015).

During the year, \$250,602 (\$214,717 in 2015) in funds were distributed to the Health Sciences Centre and the University of Manitoba to finance research projects; \$1,007,981 (\$614,817 in 2015) in funds were distributed to the Kleysen Institute for Advanced Medicine to finance the building shell and the Centre for Surgical Innovation second floor projects; and \$899,005 in funds were distributed to finance the Integrated Operating Rooms.

During the year, \$3,500,000 was received from a donor in support of new equipment being installed at the Health Sciences Centre. The donor provided \$500,000 for the same equipment during the year ended March 31, 2015. Once the installation of the equipment is complete and the equipment is fully operational, the Foundation will distribute the funds to the Health Sciences Centre. It is expected that the equipment will be operational during the year ending March 31, 2017, and that the payment will be made before March 31, 2017.

HEALTH SCIENCES CENTRE FOUNDATION INC.

Notes to Financial Statements

For the year ended March 31, 2016

7. 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.