

Financial Statements of

**ST. BONIFACE HOSPITAL
FOUNDATION INC.**

Year ended December 31, 2016



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INDEPENDENT AUDITORS' REPORT

To the Member of St. Boniface Hospital Foundation Inc.

We have audited the accompanying financial statements of St. Boniface Hospital Foundation Inc., which comprise the statement of financial position as at December 31, 2016, the statements of operations and changes in fund balances and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of St. Boniface Hospital Foundation Inc. as at December 31, 2016, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants

March 24, 2017

Winnipeg, Canada

ST. BONIFACE HOSPITAL FOUNDATION INC.

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Cash	\$ 5,304,484	\$ 5,659,659
Accounts receivable	1,779,130	3,142,692
Prepaid expenses	64,553	129,571
Investments (note 3)	56,388,714	48,228,884
Cash surrender value of life insurance (note 4)	483,976	479,623
Capital assets (note 5)	720,180	449,336
	<hr/>	<hr/>
	\$ 64,741,037	\$ 58,089,765

Liabilities and Fund Balances

Accounts payable and accrued liabilities (note 10)	\$ 450,485	\$ 760,610
Grants payable (note 10)	4,127,248	4,824,943
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	4,577,733	5,585,553
Fund balances:		
Unrestricted (notes 8 and 12)	905,261	84,333
Endowment (note 7)	38,759,001	32,137,028
Sustaining (notes 7, 8 and 12)	11,119,304	10,022,024
Restricted designated (note 12)	9,379,738	10,260,827
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	60,163,304	52,504,212
Commitments (note 12)		
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	\$ 64,741,037	\$ 58,089,765

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

Approved on behalf of the Board of Directors:





ST. BONIFACE HOSPITAL FOUNDATION INC.

Statement of Operations and Changes in Fund Balances

Year ended December 31, 2016, with comparative information for 2015

	Unrestricted Fund	Endowment Fund	Sustaining Fund	Restricted Designated Fund	2016 Total	2015 Total
Revenue:						
Contributions:						
Major gifts (note 10)	\$ 117,594	\$ 2,040,467	\$ —	\$ 2,868,355	\$ 5,026,416	\$ 5,214,961
Development	2,012,003	430,229	—	666,883	3,109,115	3,100,066
Investments (note 6)	343,185	33,703	402,871	1,279,994	2,059,753	2,147,239
Unrealized changes in fair value of investments	202,205	1,896,524	540,536	—	2,639,265	727,847
	2,674,987	4,400,923	943,407	4,815,232	12,834,549	11,190,113
Lotteries:						
Lottery revenue	12,079,285	—	—	—	12,079,285	10,208,655
Cost of lotteries	9,619,900	—	—	—	9,619,900	8,068,012
	2,459,385	—	—	—	2,459,385	2,140,643
	5,134,372	4,400,923	943,407	4,815,232	15,293,934	13,330,756
Expenses:						
Administration	801,040	—	—	—	801,040	805,808
Major gifts	1,038,949	—	—	—	1,038,949	1,084,442
Development	969,726	—	—	—	969,726	904,598
	2,809,715	—	—	—	2,809,715	2,794,848
Excess of revenue over expenses before grants	2,324,657	4,400,923	943,407	4,815,232	12,484,219	10,535,908
Grants (note 10)	1,299,856	—	—	3,525,271	4,825,127	4,896,188
Excess of revenue over expenses	1,024,801	4,400,923	943,407	1,289,961	7,659,092	5,639,720
Fund balances, beginning of year	84,333	32,137,028	10,022,024	10,260,827	52,504,212	46,864,492
Inter-fund transfers for designated donations	(50,000)	2,221,050	—	(2,171,050)	—	—
Inter-fund transfers per Foundation's policies (note 8)	(153,873)	—	153,873	—	—	—
Fund balances, end of year	\$ 905,261	\$ 38,759,001	\$ 11,119,304	\$ 9,379,738	\$ 60,163,304	\$ 52,504,212

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

ST. BONIFACE HOSPITAL FOUNDATION INC.

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 7,659,092	\$ 5,639,720
Items not involving cash:		
Unrealized changes in fair value of investments	(2,639,265)	(727,847)
Amortization	145,757	114,385
Cash surrender value of life insurance	(4,353)	(5,315)
Change in non-cash operating working capital:		
Accounts receivable	1,363,562	(307,368)
Prepaid expenses	65,018	(71,221)
Accounts payable and accrued liabilities	(310,125)	(189,681)
Grants payable	(697,695)	771,261
	5,581,991	5,223,934
Investing activities:		
Capital assets acquired	(416,601)	(25,985)
Increase in investments, net	(5,520,565)	(4,481,026)
	(5,937,166)	(4,507,011)
Increase (decrease) in cash	(355,175)	716,923
Cash, beginning of year	5,659,659	4,942,736
Cash, end of year	\$ 5,304,484	\$ 5,659,659

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

ST. BONIFACE HOSPITAL FOUNDATION INC.

Notes to Financial Statements

Year ended December 31, 2016

1. Purpose of the organization:

The St. Boniface Hospital Foundation Inc. (the "Foundation") is a self-funded organization, which raises funds to provide quality health care research as well as programs for improved quality of life and respect for individuals. As the primary fundraising organization for the St. Boniface General Hospital, the Foundation is an integral part of the continuing threefold objective of providing excellence in patient care, education and research.

The Foundation was incorporated in the Province of Manitoba as a not-for-profit organization and is a registered charity under the *Income Tax Act*.

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook.

(a) Fund accounting:

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

The Unrestricted Fund consists of contributions for which donors have not designated a specific purpose and revenue related to general fundraising. Amortization of capital assets and unrestricted investment income are recognized in this Fund.

Endowment funds are contributions designated by donors to remain in perpetuity. The investment income earned by these funds is either restricted by the donor for specific use, or for the general use of the Foundation. Investment income is allocated to each endowment fund annually. A portion of the investment income is often redirected to build the principal balance while the remaining amount is granted as directed by the donor.

The Foundation has established a Sustaining Fund. Investment income earned on this fund is recognized in the Sustaining Fund to ensure the viability and the fulfillment of grant requirements for the maintenance of patient care, education and research projects currently underway, and those planned for the future.

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Notes to Financial Statements, page 2

Year ended December 31, 2016

2. Significant accounting policies (continued):

The Restricted Designated Fund consists of restricted contributions related to specific areas of excellence in patient care, education and research, including funds for the capital and development costs of the Clinical Research and Cardiac Centres of St. Boniface General Hospital.

(b) Revenue recognition:

Externally restricted contributions are recognized as revenue when received or receivable in the Restricted Designated Fund, if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted contributions are recognized as revenue when received or receivable in the Unrestricted Fund, if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as revenue when received in the Endowment Fund.

Unrestricted investment income is recognized in the Unrestricted Fund. Restricted investment income is allocated to the appropriate Endowment, Sustaining or Restricted Fund. All other fund raising proceeds and donations are recorded in the Unrestricted Fund.

Pledges made to the Foundation are recorded in the year in which the funds are received.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Foundation has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Fixed income, international equity, Canadian equity and real estate and infrastructure fund units are recorded at fair values established by the respective fund manager.

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Notes to Financial Statements, page 3

Year ended December 31, 2016

2. Significant accounting policies (continued):

(d) Contributed services:

Volunteers are an integral part of carrying out the activities of the Foundation. Contributed services are not recognized in the financial statements because of the difficulty in determining their fair market value.

(e) Grants:

Grants are expensed in the fiscal year for which they are approved.

(f) Cash surrender value of life insurance:

Life insurance policies that have been assigned irrevocably by donors are valued at their current cash surrender value.

(g) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value on the date of contribution. Capital assets are amortized on a straight-line basis over their estimated useful lives. Any gain or loss on disposal of these assets is recorded in the statement of operations in the year of disposal.

The estimated useful lives of capital assets are as follows:

Asset	Years
Leasehold improvements	10
Furniture and equipment	5
Computer equipment	3 - 10

(h) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 items subject to such estimates and assumptions include the carrying amount of capital assets and investments. Actual results could differ from those estimates.

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Year ended December 31, 2016

3. Investments:

	2016	2015
International equity funds	\$ 20,635,976	\$ 19,722,156
Fixed income funds	20,488,428	17,956,981
Canadian equity funds	14,951,368	10,245,123
Real estate and infrastructure fund	312,942	304,624
	<u>\$ 56,388,714</u>	<u>\$ 48,228,884</u>

4. Cash surrender value of life insurance:

	2016	2015
Balance, beginning of year	\$ 479,623	\$ 474,308
Increase during the year, net of amounts received	4,353	5,315
Balance, end of year	<u>\$ 483,976</u>	<u>\$ 479,623</u>

The Foundation is the designated beneficiary of nine (2015 - nine) life insurance policies. Proceeds receivable on the demise of the donors will be approximately \$1,172,000 (2015 - \$1,169,000).

5. Capital assets:

	2016		2015	
	Cost	Accumulated amortization	Net book value	Net book value
Leasehold improvements	\$ 685,114	\$ 352,823	\$ 332,291	\$ 379,794
Furniture and equipment	187,859	179,766	8,093	24,125
Computer equipment	543,121	163,325	379,796	45,417
	<u>\$ 1,416,094</u>	<u>\$ 695,914</u>	<u>\$ 720,180</u>	<u>\$ 449,336</u>

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Year ended December 31, 2016

6. Investments revenue:

	2016	2015
International equity funds	\$ 1,175,342	\$ 955,210
Fixed income funds	575,908	546,392
Canadian equity funds	476,031	777,622
Bank interest	55,071	56,161
Real estate and infrastructure fund	51,839	26,556
Other	(26,729)	6,929
Investment management fees	(247,709)	(221,631)
	<u>\$ 2,059,753</u>	<u>\$ 2,147,239</u>

7. Endowment and Sustaining Funds:

Investment income allocation:

The calculation and allocation of investment income earned by the Endowment and Sustaining Funds is performed at December 31 each year. The investment income available for granting is calculated at 5.0 percent (2015 - 5.0 percent) of the Endowment and Sustaining Funds' average market value over the three preceding years less an administration fee of 0.5 percent of the current market value of the Endowment and Sustaining Funds.

8. Inter-fund transfers:

The Foundation has a policy to transfer 10 percent of excess funds from the Unrestricted Fund to the Sustaining Fund. During fiscal 2016, the Foundation transferred excess funds from the year ended December 31, 2015 of \$153,873.

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Year ended December 31, 2016

9. Pledges:

Pledges made to the Foundation, but not recorded are as follows:

	Unrestricted Fund	Endowment Fund	Restricted Designated Fund
2017	\$ 21,802	\$ 125,235	\$ 265,256
2018	14,965	109,160	205,368
2019	8,612	43,439	100,247
2020	5,340	—	54,766
2021	5,200	—	54,766
Thereafter	2,100	—	33,067
	<u>\$ 58,019</u>	<u>\$ 277,834</u>	<u>\$ 713,470</u>

10. Related parties:

During the year, the Foundation had transactions with the following related parties. These entities are without share capital and are related due to common control.

	2016	2015
Amounts due to St. Boniface General Hospital are included in the following accounts:		
Accounts payable and accrued liabilities	\$ 6,953	\$ 2,865
Grants payable	4,127,248	4,824,943
	<u>2016</u>	<u>2015</u>
Revenue:		
Contribution from Dorais Charities Inc.	\$ 1,000,000	\$ —
Expenses:		
Grants to St. Boniface General Hospital	4,825,127	4,896,188

The above transactions occurred in the ordinary course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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Year ended December 31, 2016

11. Pension plan:

All eligible employees of the Foundation are members of the Healthcare Employees' Pension Plan - Manitoba (HEPP), a multi-employer defined benefit pension plan.

During the year, the Foundation contributed \$127,112 (2015 - \$123,579) on behalf of its employees. The most recent funding actuarial valuation of the plan as at December 31, 2015, reported the plan had a deficiency of actuarial value of net assets over actuarial value of pension obligations as well as a solvency deficiency. Based on a solvency exemption granted to HEPP, the plan is not required to fund on a solvency basis but is required to fund on a going concern basis. The going concern deficiency will be funded by special payments out of current contributions. Any contribution deficiencies in the plan would be addressed through pension benefit reductions or contribution rate increases from the participating members.

On April 1, 2014, with the inclusion of contributions toward the Healthcare Employees' Pension Plan - Manitoba, Cost of Living Adjustment Plan (HEPP-COLA), the Foundation's contribution rates increased to 8.7 percent of pensionable earnings up to the yearly maximum pensionable earnings limit (YMPE) and 10.3 percent on earnings in excess of YMPE. On April 1, 2015, with an additional 0.2 percent contribution toward HEPP-COLA, the Foundation's contribution rate increased to 8.9 percent of pensionable earnings up to the YMPE and 10.5 percent on earnings in excess of YMPE.

12. Commitments:

The Foundation has committed to grants in future years from the Unrestricted Fund and has estimated timing of commitments from the Restricted Designated Fund as follows:

	Unrestricted Fund	Restricted Designated Fund	Total
2017	\$ 2,324,657	\$ 3,279,994	\$ 5,604,651
2018	85,000	6,099,744	6,184,744
2019	85,000	—	85,000
2020	85,000	—	85,000
2021	85,000	—	85,000
	<u>\$ 2,664,657</u>	<u>\$ 9,379,738</u>	<u>\$12,044,395</u>

As approved by the Board of Directors, the Unrestricted Fund was loaned \$850,000 from the Sustaining Fund for leasehold improvement and equipment costs in 2011. The funds will be repaid by the Unrestricted Fund to the Sustaining Fund over a period of ten years in the amount of \$85,000 per year, which commenced in 2012. The remaining annual commitment is reflected in the table above.

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Year ended December 31, 2016

13. Financial risks:

(a) Investment risk:

The Foundation's investments in equities are sensitive to market fluctuations. To properly manage the Foundation's other price risk, appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks are set and monitored.

The Foundation is exposed to financial risks as a result of exchange rate fluctuations on certain of its investments and the volatility of these rates. In the normal course of business, the Foundation holds investments denominated in U.S. dollars. The Foundation does not currently enter into forward contracts to mitigate this risk.

The Foundation's fixed income investments are exposed to the risk that the value of interest-bearing investments will fluctuate due to changes in the level of market interest rates. To properly manage the Foundation's interest rate risk, appropriate guidelines on the weighting and duration for fixed income investments are set and monitored. There has been no change to the risk exposure from 2015.

(b) Liquidity risk:

Liquidity risk is the risk that the Foundation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Foundation manages its liquidity risk by monitoring its operating requirements. The Foundation prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2015.

14. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.