

Financial Statements of

**ST. BONIFACE HOSPITAL
FOUNDATION INC.**

Year ended December 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Member of St. Boniface Hospital Foundation Inc.

Opinion

We have audited the financial statements of St. Boniface Hospital Foundation Inc. (the Entity), which comprise the statement of financial position as at December 31, 2018, the statements of operations and changes in fund balances and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, 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.

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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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 the 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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



Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.



- 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.

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

March 22, 2019

ST. BONIFACE HOSPITAL FOUNDATION INC.

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Cash	\$ 8,889,483	\$ 7,456,683
Accounts receivable (note 10)	106,094	64,886
Prepaid expenses	123,807	97,080
Investments (note 3)	59,910,180	61,020,596
Cash surrender value of life insurance (note 4)	485,202	492,876
Capital assets (note 5)	425,119	575,980
	<u>\$ 69,939,885</u>	<u>\$ 69,708,101</u>

Liabilities and Fund Balances

Accounts payable and accrued liabilities (note 10)	\$ 480,285	\$ 416,989
Grants payable (note 10)	6,747,095	6,590,891
	<u>7,227,380</u>	<u>7,007,880</u>

Fund balances:

Unrestricted (notes 8 and 12)	(86,320)	25,507
Endowment (note 7)	41,579,954	43,069,952
Operating reserve (notes 2(a) and 7)	5,000,000	—
Innovation (notes 2(a), 7, 8 and 12)	6,888,705	12,008,535
Restricted designated (note 12)	9,330,166	7,596,227
	<u>62,712,505</u>	<u>62,700,221</u>

Commitments (note 12)

	<u>\$ 69,939,885</u>	<u>\$ 69,708,101</u>
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The accompanying notes are an integral part of the financial statements.

Approved on behalf of the Board of Directors:



Director



Director

ST. BONIFACE HOSPITAL FOUNDATION INC.

Statement of Operations and Changes in Fund Balances

Year ended December 31, 2018, with comparative information for 2017

	Unrestricted Fund	Endowment Fund	Operating Reserve Fund	Innovation Fund	Restricted Designated Fund	2018 Total	2017 Total
Revenue:							
Contributions:							
Major gifts	\$ 106,314	\$ 441,472	\$ -	\$ -	\$ 2,945,284	\$ 3,493,070	\$ 2,615,945
Development	1,273,810	477,242	-	-	484,992	2,236,044	3,048,628
Investments (note 6)	347,172	(88,530)	-	454,716	1,768,264	2,481,622	1,823,916
Unrealized changes in fair value of investments	(395,779)	(2,380,514)	-	(655,303)	-	(3,431,596)	1,878,461
	1,331,517	(1,550,330)	-	(200,587)	5,198,540	4,779,140	9,366,950
Lotteries:							
Lottery revenue	12,410,750	-	-	-	-	12,410,750	11,501,475
Cost of lotteries	9,711,380	-	-	-	-	9,711,380	9,396,043
	2,699,370	-	-	-	-	2,699,370	2,105,432
	4,030,887	(1,550,330)	-	(200,587)	5,198,540	7,478,510	11,472,382
Expenses:							
Administration	855,192	-	-	-	-	855,192	786,807
Major gifts	952,197	-	-	-	-	952,197	955,453
Development	1,060,422	-	-	-	-	1,060,422	958,542
	2,867,811	-	-	-	-	2,867,811	2,700,802
Excess (deficiency) of revenue over expenses before grants	1,163,076	(1,550,330)	-	(200,587)	5,198,540	4,610,699	8,771,580
Grants (note 10)	1,138,913	-	-	-	3,459,502	4,598,415	6,234,663
Excess (deficiency) of revenue over expenses	24,163	(1,550,330)	-	(200,587)	1,739,038	12,284	2,536,917
Fund balances, beginning of year	25,507	43,069,952	-	12,008,535	7,596,227	62,700,221	60,163,304
Inter-fund transfers for designated donations	-	60,332	-	(55,233)	(5,099)	-	-
Inter-fund transfers per Foundation's policies (note 8)	(135,990)	-	-	135,990	-	-	-
Inter-fund transfer for establishing the Operating Reserve Fund (note 8)	-	-	5,000,000	(5,000,000)	-	-	-
Fund balances, end of year	\$ (86,320)	\$ 41,579,954	\$ 5,000,000	\$ 6,888,705	\$ 9,330,166	\$ 62,712,505	\$ 62,700,221

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

ST. BONIFACE HOSPITAL FOUNDATION INC.

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 12,284	\$ 2,536,917
Items not involving cash:		
Unrealized changes in fair value of investments	3,431,596	(1,878,461)
Amortization	164,279	170,613
Cash surrender value of life insurance	7,674	(8,900)
Change in non-cash operating working capital:		
Accounts receivable	(41,208)	1,714,244
Prepaid expenses	(26,727)	(32,527)
Accounts payable and accrued liabilities	63,296	(33,496)
Grants payable	156,204	2,463,643
	<u>3,767,398</u>	<u>4,932,033</u>
Investing activities:		
Capital assets acquired	(13,418)	(26,413)
Increase in investments, net	(2,321,180)	(2,753,421)
	<u>(2,334,598)</u>	<u>(2,779,834)</u>
Increase in cash	1,432,800	2,152,199
Cash, beginning of year	7,456,683	5,304,484
Cash, end of year	<u>\$ 8,889,483</u>	<u>\$ 7,456,683</u>

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

ST. BONIFACE HOSPITAL FOUNDATION INC.

Notes to Financial Statements

Year ended December 31, 2018

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 an Innovation Fund (formerly the Sustaining Fund). Investment income earned on this fund to December 31, 2018 is recognized in the Innovation 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. Effective December 31, 2018, the Foundation established an Operating Reserve Fund. The Operating Reserve Fund was established through a transfer of \$5,000,000 from the Innovation Fund (note 8), and commencing in fiscal 2019 investment income earned on this fund is to support the long-term viability of the Foundation's operations. In addition, commencing in fiscal 2019, investment income earned on the Innovation Fund is to support the development and growth of the Foundation as well as special projects at the St. Boniface General Hospital Research Centre. Utilization of the funds within the Operating Reserve Fund and Innovation Fund is at the discretion of the Board of Directors of the Foundation.

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Notes to Financial Statements, page 2

Year ended December 31, 2018

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, Operating Reserve, Innovation 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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Year ended December 31, 2018

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, 2018

3. Investments:

	2018	2017
International equity funds	\$ 24,357,487	\$ 24,186,804
Fixed income funds	20,694,999	20,577,344
Canadian equity funds	14,500,428	15,909,435
Real estate and infrastructure fund	357,266	347,013
	<u>\$ 59,910,180</u>	<u>\$ 61,020,596</u>

4. Cash surrender value of life insurance:

	2018	2017
Balance, beginning of year	\$ 492,876	\$ 483,976
Increase during the year, net of amounts received	(7,674)	8,900
Balance, end of year	<u>\$ 485,202</u>	<u>\$ 492,876</u>

The Foundation is the designated beneficiary of eight (2017 - nine) life insurance policies. Proceeds receivable on the demise of the donors will be approximately \$1,115,000 (2017 - \$1,165,000).

5. Capital assets:

	2018		2017	
	Cost	Accumulated amortization	Net book value	Net book value
Leasehold improvements	\$ 685,114	\$ 488,854	\$ 196,260	\$ 264,276
Furniture and equipment	187,859	184,655	3,204	5,631
Computer equipment	582,953	357,298	225,655	306,073
	<u>\$ 1,455,926</u>	<u>\$ 1,030,807</u>	<u>\$ 425,119</u>	<u>\$ 575,980</u>

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Year ended December 31, 2018

6. Investments revenue:

	2018	2017
International equity funds	\$ 1,170,488	\$ 753,540
Canadian equity funds	869,189	629,957
Fixed income funds	577,519	644,671
Bank interest	155,751	70,822
Real estate and infrastructure fund	6,119	14,788
Other	(6,168)	(12,877)
Investment management fees	(291,276)	(276,985)
	<hr/>	<hr/>
	\$ 2,481,622	\$ 1,823,916

7. Endowment and Sustaining Funds:

Investment income allocation:

The calculation and allocation of investment income earned by the Endowment, Operating Reserve and Innovation Funds is performed at December 31 each year. The investment income available for granting is calculated at 5.0 percent (2017 - 5.0 percent) of the Endowment, Operating Reserve and Innovation 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, Operating Reserve and Innovation Funds.

8. Inter-fund transfers:

The Foundation previously had a policy to transfer 10 percent of excess funds along with any remaining annual excess undesignated revenue from the Unrestricted Fund to the Innovation Fund (formerly the Sustaining Fund). During fiscal 2018, the Foundation transferred excess funds from the year ended December 31, 2017 of \$135,990. This policy was discontinued by the Foundation, with the approval of the Board of Directors, effective December 31, 2018.

On December 31, 2018, the Innovation Fund, with the approval of the Board of Directors, transferred \$5,000,000 to the Operating Reserve Fund, a newly formed fund of the Foundation.

ST. BONIFACE HOSPITAL FOUNDATION INC.

Notes to Financial Statements, page 6

Year ended December 31, 2018

9. Pledges:

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

	Unrestricted Fund	Endowment Fund	Restricted Designated Fund
2019	\$ 55,731	\$ 92,879	\$ 656,884
2020	11,404	46,426	115,090
2021	7,694	46,426	55,800
2022	3,640	39,060	9,300
2023	700	—	9,300
Thereafter	700	—	9,300
	\$ 79,869	\$ 224,791	\$ 855,674

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.

	2018	2017
Amounts due from St. Boniface General Hospital are included in the following account:		
Accounts receivable	\$ 7,574	\$ —
Amounts due to St. Boniface General Hospital are included in the following accounts:		
Accounts payable and accrued liabilities	13,673	5,096
Grants payable	6,747,095	6,590,891
	2018	2017
Expenses:		
Grants to St. Boniface General Hospital	\$ 4,598,415	\$ 6,234,663

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.

ST. BONIFACE HOSPITAL FOUNDATION INC.

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Year ended December 31, 2018

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 \$136,567 (2017 - \$133,294) on behalf of its employees. The most recent funding actuarial valuation of the plan as at December 31, 2017, reported the plan had a surplus of actuarial value of net assets over actuarial value of pension obligations and 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, where required. Any 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.

The Foundation's contribution rate is 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
2019	\$ 1,163,076	\$ 9,083,136	\$ 10,246,212
2020	85,000	247,030	332,030
2021	85,000	—	85,000
	<u>\$ 1,333,076</u>	<u>\$ 9,330,166</u>	<u>\$ 10,663,242</u>

As approved by the Board of Directors, the Unrestricted Fund was loaned \$850,000 from the Innovation Fund (formerly the Sustaining Fund) for leasehold improvement and equipment costs in 2011. The funds will be repaid by the Unrestricted Fund to the Innovation 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.

ST. BONIFACE HOSPITAL FOUNDATION INC.

Notes to Financial Statements, page 8

Year ended December 31, 2018

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 2017.

(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 2017.