

Financial statements

Max Bell Foundation

December 31, 2017



INDEPENDENT AUDITORS' REPORT

To the Directors of
Max Bell Foundation

We have audited the accompanying financial statements of the **Max Bell Foundation**, which comprise the statement of financial position as at December 31, 2017 and the statements of operations, changes in net assets 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.

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 the auditors' 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 auditors 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 the **Max Bell Foundation** as at December 31, 2017 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.

Report on other legal and regulatory requirements

As required by the Companies Act (Alberta), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Calgary, Canada,
May 1, 2018

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Chartered Professional Accountants

Max Bell Foundation

Statement of financial position

[in thousands of dollars]

As at December 31

	2017	2016
	\$	\$
ASSETS		
Current		
Cash	405	387
Accounts receivable and prepaid expenses	83	83
Total current assets	488	470
Investments [note 4]		
Shares	55,287	52,553
Bonds	19,226	19,329
Alternative - Limited Partnership	2,682	764
Alternative - Social Impact Bond	82	82
Total investments	77,277	72,728
Capital assets, net [note 5]	55	42
	77,820	73,240
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued charges	130	130
Commitments [note 6]		
Net assets		
Contributed capital	15,854	15,854
Surplus	61,836	57,256
Total net assets	77,690	73,110
	77,820	73,240

See accompanying notes

On behalf of the Board:

Director

Director

Max Bell Foundation

Statement of operations

[in thousands of dollars]

Year ended December 31

	2017	2016
	\$	\$
REVENUE		
Interest	435	746
Dividends	1,581	2,544
Other revenue	14	12
Unrealized gain on investments <i>[note 4]</i>	4,078	1,696
Realized gain on sale of investments <i>[note 4]</i>	2,033	1,393
	8,141	6,391
EXPENSES		
Grants <i>[schedule]</i>	1,997	1,818
Charitable projects	220	222
Grant administration	648	655
Investment management and other expenses <i>[note 5]</i>	696	755
	3,561	3,450
Excess of revenue over expenses	4,580	2,941

See accompanying notes

Max Bell Foundation

Statement of changes in net assets

[in thousands of dollars]

	Contributed capital	Surplus	Total
	\$	\$	\$
Balance, January 1, 2016	15,854	54,315	70,169
Excess of revenue over expenses	—	2,941	2,941
Balance, December 31, 2016	15,854	57,256	73,110
Excess of revenue over expenses	—	4,580	4,580
Balance, December 31, 2017	15,854	61,836	77,690

See accompanying notes

Max Bell Foundation

Statement of cash flows

[in thousands of dollars]

Year ended December 31

	2017	2016
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses	4,580	2,941
Add (deduct) amounts not involving cash		
Unrealized gain on investments	(4,079)	(1,696)
Realized gain on sale of investments	(2,033)	(1,393)
Depreciation	20	16
	(1,512)	(132)
Net change in non-cash working capital related to operations	—	144
Cash (used in) provided by operating activities	(1,512)	12
INVESTING ACTIVITIES		
Additions to capital assets	(33)	(11)
Purchase of investments <i>[note 4]</i>	(14,902)	(15,135)
Proceeds from disposal of investments <i>[note 4]</i>	16,465	15,311
Increase in cash held with investment managers	—	15
Cash provided by investing activities	1,530	180
Net increase in cash for the year	18	192
Cash, beginning of year	387	195
Cash, end of year	405	387

See accompanying notes

Schedule of grant payments

[in thousands of dollars]

Year ended December 31

	2017	2016
	\$	\$
ACTUA	1	—
Agora Foundation	1	—
Alberta Children Hospital	—	131
BC Association of Family Resource Programs	—	16
Barth Syndrome Foundation of Canada	5	10
C.D. Howe Institute	13	29
Calgary Chamber Voluntary Organization	1	1
Calgary Senior's Resource Society	7	—
Canada West Foundation	82	50
Canadian Environmental Grantmakers' Network	5	5
Canadian Institute for Advanced Research	75	75
Canadian Mental Health - Nova Scotia	60	50
Canadian Mental Health - Calgary	10	—
Canada Women's Foundation	5	5
CIVIX	—	5
Concordia University	—	80
Curtain Razors Theatre	10	5
Dalhousie Medical Research Foundation	—	110
Dalhousie University	140	40
Governors of the University of Alberta (The)	12	35
Heart and Stroke Foundation of Alberta, NWT & Nunavut	—	5
Imagine Canada	10	61
Institute for Work and Health	41	41
Lethbridge School District #51	9	—
MacDonald-Laurier Institute	33	—
Manning Foundation for Democratic Education	—	10
Massey College	5	—
McGill University	129	109
McGill University - Annual Grant	750	644
McMaster University	95	39
Miistakis Institute for the Rockies	75	75
Muttart Foundation	—	10
Nature Conservancy of Canada	1	5
Pamsel Case Foundation	2	—
Philanthropic Foundations Canada	11	11
Pollution Probe Foundation	45	—
Public Policy Forum	1	10
Sage Hill Writing Experience Inc.	10	—
Sheldon Kennedy Child Advocacy Centre	—	5
Social Research and Demonstration Corp.	—	5
Study School Foundation (The)	2	—
University of British Columbia	219	46
University of Calgary	122	45
University of Ottawa	—	42
University of Regina	—	3
University of Toronto	5	—
University of Victoria	2	—
Victoria Hospice & Palliative Care	3	5
Total grants	1,997	1,818

See accompanying notes

Max Bell Foundation

Notes to financial statements

[in thousands of dollars]

December 31, 2017

1. Basis of operation

Max Bell Foundation [the "Foundation"] is established exclusively for charitable purposes. Its mission is to encourage the development of innovative ideas that impact public policies and practices with an emphasis on health and wellness, education, and the environment. The current strategic priority is to support projects that educate Canadians about public policy alternatives regarding health, education and the environment.

2. Summary of significant accounting policies

The financial statements of the Foundation have been prepared in accordance with Part III of the Chartered Professional Accountants of Canada Handbook – Accounting Standards for Not-for-Profit Organizations, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and include the significant accounting policies described hereafter.

Investments

Investments in shares, bonds and limited partnership units that are quoted in an active market, acquired by the Foundation are recorded at fair market value, and the net change in unrealized market value for the year is reflected in the statement of operations. The Foundation's investments in a social impact bond is initially recorded at its fair market value and is subsequently measured at cost, net of any provisions for impairment.

Capital assets

Capital assets are recorded at cost less accumulated depreciation. The Foundation provides for depreciation using the declining balance method at rates designed to depreciate the cost of the capital assets over their estimated lives. The annual depreciation rates are as follows:

Furniture	20%
Telecom equipment	30%
Computer equipment	55%
Computer software	50%

Max Bell Foundation

Notes to financial statements

[in thousands of dollars]

December 31, 2017

Revenue recognition

The Foundation follows the deferral method of accounting for contributions. Dividends are recorded as income on the record date and interest is recorded when earned. Realized gains and losses on investment sales are calculated on the average cost basis. Unrealized gains and losses represent the change in market value since the last reporting period.

Grants

Grants are recorded when disbursed.

Expenses

Expenses are allocated to grant administration and investment management and other expenses based on an estimate of expenses incurred applicable to each category.

Foreign currency translation

Foreign investment purchases, sales and income are recorded in Canadian dollars at exchange rates in effect at the transaction date. Foreign-denominated investments and accrued investment income are translated at year-end exchange rates. The exchange differences arising from this translation are included in the statement of operations.

Financial instruments

Financial instruments, including cash, accounts receivable and accounts payable and accrued charges, are initially recorded at their fair value and are subsequently measured at amortized cost, net of any provisions for impairment.

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Notes to financial statements

[in thousands of dollars]

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3. Charitable Status

The Foundation is a registered charity designated as a private foundation and, while registered, is exempt from income taxes. As part of maintaining its registration, the Foundation must meet an annual Disbursement Quota. The Foundation has amounts carried forward from prior years for a total disbursement excess as at December 31, 2017 of approximately \$1,315. The Disbursement Quota for the fiscal year ending December 31, 2018 will be approximately \$2,637.

4. Investments

	2017			2016	
	Shares	Bonds	Alternative Investments	Total	Total
	\$	\$	\$	\$	\$
Balance, beginning of year	52,553	19,329	846	72,728	69,830
Purchase of investments	5,682	7,435	1,785	14,902	15,135
Proceeds from disposal of investments	(8,952)	(7,513)	-	(16,465)	(15,311)
Change in cash held with investment managers	-	-	-	-	(15)
Gain on sale of investments	2,402	(369)	-	2,033	1,393
Adjustments to market value	3,602	344	133	4,079	1,696
Balance, end of year	55,287	19,226	2,764	77,277	72,728

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Notes to financial statements

[in thousands of dollars]

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Shares

	2017		2016	
	Market value	Cost	Market value	Cost
	\$	\$	\$	\$
Canadian	24,889	20,783	28,575	24,824
Foreign	30,398	18,670	23,978	15,497
	55,287	39,453	52,553	40,321

The Foundation's equity investments are held as portfolio investments and are generally readily marketable. Investments are limited to shares that are publicly traded on a recognized securities market. Any exceptions require Board of Directors approval prior to their purchase. As at December 31, 2017, all equity investments were publicly traded on a recognized exchange.

Bonds

The Foundation's investment managers have invested in bonds and pooled bond funds. As at December 31, 2017, the Foundation held bonds with a cost value of \$20,251 [2016 - \$20,697] and a market value of \$19,226 [2016 - \$19,329].

Alternative Investments

Alternative investments may include units in hedge funds, private equity, infrastructure, real estate pooled funds or social impact bonds. These funds are offered by prospectus or offering memorandum, and by allowable investment structures for private foundations in Canada, including limited partnerships. They have been approved by the Board of Directors prior to investment. Alternative Investments had a cost of \$2,703 [2016 - \$918] and a market value of \$2,764 [2016 - \$846].

Credit risk

Credit risk arises from the potential for an investee to fail or for a counterparty to default on its contractual obligations to the Foundation. The Foundation limits the credit risk by dealing with counterparties that are considered to be high quality.

Max Bell Foundation

Notes to financial statements

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Interest rate risk

Interest rate risk refers to the fair value of future cash flows of an investment due to fluctuations in interest rates. The Foundation's interest bearing investments are exposed to interest rate risk. The most significant exposure to interest rate risk is investment in bonds.

Other price risk

Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices [other than those arising from foreign currency or interest rate risk], whether those changes are caused by factors specific to the individual investments or factors affecting all securities traded in the market.

Foreign currency risk

Foreign currency exposure arises from the Foundation's foreign equity holdings. As at December 31, 2017, total foreign equity holdings are 42.8% [December 31, 2016 – 34.0%] of the Foundation's investments based on market value.

5. Capital assets

	2017		
	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
Furniture	56	46	10
Telecom equipment	8	8	—
Computer equipment	60	52	8
Computer software	87	62	25
Art	11	—	11
	222	168	54

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Notes to financial statements

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	2016		Net book value \$
	Cost \$	Accumulated depreciation \$	
Furniture	56	43	13
Telecom equipment	8	8	—
Computer equipment	50	48	2
Computer software	64	48	16
Art	11	—	11
	<u>189</u>	<u>147</u>	<u>42</u>

The amount of depreciation recorded in 2017 included in investment management and other expenses in the statement of operations was \$20 [2016 - \$16].

6. Commitments

The Foundation has approved grants to fund projects, other than McGill University, aggregating \$2,739 payable in the years ending December 31 as follows:

	\$
2018	1,869
2019	739
2020	131
	<u>2,739</u>

Payment of some of these commitments is subject to certain terms and conditions, which must be fulfilled by recipients prior to disbursement of the funds.

In addition, and in accordance with the Foundation's letters patent, at least 30% of all grants will be donated to McGill University subject to certain terms and conditions.

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The Foundation has future commitments in relation to certain investments in the amount of \$6,397.

In October 2017, the Foundation entered into a lease agreement with The Kahanoff Centre for Charitable Activities [the Landlord] for office space Suite 970, 105 – 12 Avenue SE Calgary, Alberta commencing April 1, 2018. The Landlord will provide a five-year loan at an interest rate of 3% to complete the cost of the tenants work as per this lease to approximately \$64. The loan payment of approximately \$1 + GST will be invoiced and paid monthly by the Foundation – the exact loan amount will be determined following the completion of construction.

The 10 year lease for the office premises runs until March 31, 2028 and requires minimum annual lease payments of \$27 for the period April 1, 2018 to March 31, 2019. Minimum lease payments increase by the percentage of the consumer price index for the following four years, after which minimum lease payments will be set at market rental rates less approximately 25% of such amounts as approved by the landlord's Board of Directors.

7. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

