

The Terry Fox Foundation

Financial Statements

March 31, 2016



September 26, 2016

Independent Auditor's Report

To the Board of Directors of The Terry Fox Foundation

We have audited the accompanying financial statements of The Terry Fox Foundation, which comprise the statement of financial position as at March 31, 2016 and the statements of operations, changes in net assets and cash flows for the year then ended, and the related notes, which comprise 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 qualified audit opinion.

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Basis for qualified opinion

In common with many not-for-profit organizations, The Terry Fox Foundation derives revenues from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of The Terry Fox Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to annual giving, (deficiency) excess of revenues over expenses/distributions and cash flows from operating activities for the year ended March 31, 2016, current assets as at March 31, 2016 and net assets as at April 1, 2015 and March 31, 2016. The predecessor auditor's opinion on the financial statements for the year ended March 31, 2015 was modified because of the possible effects of a similar limitation in scope.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of The Terry Fox Foundation 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.

Other matter

The financial statements for The Terry Fox Foundation for the year ended March 31, 2015 were audited by another auditor who expressed a qualified opinion on those financial statements on November 10, 2015 for the reasons described in the basis for qualified opinion.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

The Terry Fox Foundation

Statement of Financial Position

As at March 31, 2016

| | 2016 \$ | 2015 \$ (Restated - note 3) |
|---|-------------------|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (note 4) | 18,246,820 | 6,944,401 |
| International funds held on behalf of the Foundation (note 3) | 4,033,146 | 3,452,519 |
| Investments (note 4) | 63,401,292 | 81,072,006 |
| Merchandise inventory | 122,728 | 107,233 |
| Other assets (note 5) | 350,767 | 207,280 |
| | <u>86,154,753</u> | <u>91,783,439</u> |
| Equipment (note 6) | 18,453 | 9,232 |
| Due from the Terry Fox Research Institute | - | 47,591 |
| | <u>86,173,206</u> | <u>91,840,262</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 172,569 | 155,527 |
| Due to Terry Fox Centre | 572 | 572 |
| Due to the Terry Fox Research Institute | 20,965 | - |
| | <u>194,106</u> | <u>156,099</u> |
| Liability for post-retirement benefits (note 9) | 585,000 | 615,000 |
| | <u>779,106</u> | <u>771,099</u> |
| Net assets | | |
| Invested in equipment | 18,453 | 9,232 |
| Internally restricted (note 10) | 40,000,000 | 40,000,000 |
| Unrestricted | 45,375,647 | 51,059,931 |
| | <u>85,394,100</u> | <u>91,069,163</u> |
| | <u>86,173,206</u> | <u>91,840,262</u> |
| Commitments (notes 10, 11 and 12) | | |

Approved by the Board of Directors

_____ Director _____ Director

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

The Terry Fox Foundation

Statement of Operations

For the year ended March 31, 2016

| | 2016 | 2015 |
|---|--------------------|-------------------|
| | \$ | \$ |
| Revenue | | |
| Annual giving | | |
| Canada | 20,077,050 | 20,429,426 |
| International | 1,352,238 | 2,151,009 |
| Sale of merchandise | 811,445 | 653,094 |
| Bequests and memoriams | 206,656 | 212,160 |
| Government student grants | 29,632 | 37,082 |
| Royalties | 6,307 | 10,672 |
| | <u>22,483,328</u> | <u>23,493,443</u> |
| Investment income | 3,550,336 | 3,149,829 |
| Unrealized (loss) gain on investments | <u>(2,189,968)</u> | <u>3,345,083</u> |
| | <u>1,360,368</u> | <u>6,494,912</u> |
| | <u>23,843,696</u> | <u>29,988,355</u> |
| Expenses | | |
| Fundraising (note 8) | 3,159,783 | 3,031,031 |
| Administration | 1,824,042 | 1,110,726 |
| Cost of merchandise sold | 700,621 | 517,529 |
| Receipting | <u>110,995</u> | <u>158,082</u> |
| | <u>5,795,441</u> | <u>4,817,368</u> |
| Excess of revenue over expenses before distribution of funds | <u>18,048,255</u> | <u>25,170,987</u> |
| Distribution of funds | | |
| The Terry Fox Research Institute (note 7) | 23,126,582 | 20,946,485 |
| International cancer research organizations | 596,736 | 1,749,157 |
| Canadian Institute of Health Research | - | <u>970,458</u> |
| | <u>23,723,318</u> | <u>23,666,100</u> |
| (Deficiency) excess of revenue over expenses/distributions | <u>(5,675,063)</u> | <u>1,504,887</u> |

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

The Terry Fox Foundation

Statement of Changes in Net Assets

For the year ended March 31, 2016

| | Invested in equipment \$ | Internally restricted \$ | Unrestricted \$ | Total \$ |
|--|--------------------------------|--------------------------------|--------------------|-------------|
| Balance - April 1, 2014 (as previously reported) | 11,342 | 40,000,000 | 47,073,918 | 87,085,260 |
| Restatement (note 3) | - | - | 2,479,016 | 2,479,016 |
| Balance - April 1, 2014 (as restated) | 11,342 | 40,000,000 | 49,552,934 | 89,564,276 |
| (Deficiency) excess of revenue over expenses/distributions | (7,523) | - | 1,512,410 | 1,504,887 |
| Investment in equipment | 5,413 | - | (5,413) | - |
| Balance - March 31, 2015 | 9,232 | 40,000,000 | 51,059,931 | 91,069,163 |
| Excess (deficiency) of revenue over expenses/distributions | 4,272 | - | (5,679,335) | (5,675,063) |
| Investment in equipment | 4,949 | - | (4,949) | - |
| Balance - March 31, 2016 | 18,453 | 40,000,000 | 45,375,647 | 85,394,100 |

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

The Terry Fox Foundation

Statement of Cash Flows

For the year ended March 31, 2016

| | 2016 \$ | 2015 \$ (Restated - note 3) |
|--|--------------------|---|
| Cash provided by (used in) | | |
| Operating activities | | |
| (Deficiency) excess of revenue over expenses/distributions | (5,675,063) | 1,504,887 |
| Items not affecting cash | | |
| Amortization | 4,272 | 7,523 |
| Unrealized loss (gain) on investments | 2,189,968 | (3,345,083) |
| Liability for post-retirement benefits | (30,000) | 130,000 |
| | <u>(3,510,823)</u> | <u>(1,702,673)</u> |
| Changes in non-cash operating working capital | | |
| International funds held on behalf of the Foundation | (580,627) | (281,363) |
| Merchandise inventory | (15,495) | 30,907 |
| Other assets | (143,487) | 49,242 |
| Accounts payable and accrued liabilities | 17,042 | 1,367 |
| Due to (from) the Terry Fox Research Institute - net | 68,556 | (31,914) |
| | <u>(4,164,834)</u> | <u>(1,934,434)</u> |
| Investing activities | | |
| Net proceeds from sale of investments | 15,480,746 | 1,704,334 |
| Additions to equipment | (13,493) | (5,413) |
| | <u>15,467,253</u> | <u>1,698,921</u> |
| Increase (decrease) in cash and cash equivalents | 11,302,419 | (235,513) |
| Cash and cash equivalents - Beginning of year | <u>6,944,401</u> | <u>7,179,914</u> |
| Cash and cash equivalents - End of year | <u>18,246,820</u> | <u>6,944,401</u> |

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

The Terry Fox Foundation

Notes to Financial Statements

March 31, 2016

1 General

The Terry Fox Foundation (the “Foundation”) was established in 1988 to maintain the vision and principles of Terry Fox while raising money for innovative cancer research in an annual event known as The Terry Fox Run, The National School Run Day, planned giving, and in memoriam gifts.

The Foundation is a registered charitable organization under the Income Tax Act and, accordingly, is exempt from income taxes.

The Foundation was established as a Trust on May 26, 1988. On March 12, 1993, the Trustees of the Trust caused the incorporation of an entity known as The Terry Fox Foundation under the laws of Canada. On March 31, 1994, the Trustees transferred all of the assets and operations of the Trust to the new corporation and the corporation assumed the liabilities of the Trust.

The Terry Fox Research Institute (“TFRI”) oversees the Foundation’s cancer research programs and works with various other organizations that specialize in managing cancer research projects. The TFRI is not considered a controlled entity and, accordingly, is not consolidated in these financial statements.

2 Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants Canada Handbook - Accounting. The Foundation’s significant accounting policies are as follows:

Revenue recognition

The Foundation follows the deferred method of accounting for contributions.

Revenue from donations, sale of merchandise, royalties, planned giving and in memoriam gifts received in Canada are recorded in the year received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Revenue from donations received outside of Canada and used for cancer research in those countries have been combined in these financial statements. The Foundation supports and coordinates these international activities.

Interest income on short-term and long-term investments is recorded on an accrual basis.

Government grants are recorded as revenue in the fiscal year that the grants are designated to support and when collection is reasonably assured.

The Terry Fox Foundation

Notes to Financial Statements

March 31, 2016

International funds held on behalf of the Foundation

The mission and vision of Terry Fox transcend beyond Canadian borders as many nations hold events to raise funds in Terry's name to support and promote cancer research in their countries. The Foundation and TFRI collaborate with local charitable organizations and research institutions to identify cancer research projects and programs for funding. International funds held on behalf of the Foundation represent amounts fundraised internationally held on behalf of the Foundation by various international organizations and financial institutions.

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments with maturity dates of less than 90 days from the date of purchase.

Financial instruments

Financial instruments are recorded at fair value on initial recognition and subsequently at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Foundation has elected to carry its investments 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.

Equipment

Equipment is stated at cost, less accumulated amortization. Donated equipment is recorded at fair market value when received. Amortization is provided using the straight-line method and following annual rates:

| | |
|--------------------------|---------|
| Transportation equipment | 5 years |
| Furniture and equipment | 5 years |
| Computer equipment | 3 years |
| Leasehold improvements | 5 years |

Donated goods and services

Donated goods and services are recorded at fair value if they would have otherwise been purchased and if fair value can be determined.

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Notes to Financial Statements

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Employee future benefit plans

The Foundation participates in a registered pension plan as an Affiliated Organization of the Registered Pension Plan for the Employees of the Canadian Cancer Society and Affiliated Organizations. The plan offers a defined contribution plan and in the past the plan offered a defined benefit plan. As of January 1, 2016, the defined benefit provision of the pension plan was closed and no further defined benefit current service contributions were added. All active members switched to the defined contribution provision of the pension plan.

The defined benefit plan provides pensions based on length of service and final average earnings. Some employees in the plan are eligible for certain post-retirement benefits. The benefits include medical services, life insurance, and extended health care benefits. The cost of these benefits is actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

The Foundation's contributions to the defined benefit pension plan and defined contribution plan are expensed when paid. Defined pension benefits and assets are estimated for all members of the plan. The liabilities for the defined benefit plan are unfunded and are not segregated by the entity and therefore no plan assets are reported.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the prevailing rates of exchange at the statement of financial position date. Revenue and expenses are translated to Canadian dollars at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in earnings.

Use of estimates

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations which require management estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Significant areas requiring management estimates include accrued liabilities and accrued payroll-related liabilities. Actual results could differ from those estimates.

3 Restatement

During the year, the Foundation reviewed its assessment of control over international funds held on behalf of the Foundation and identified additional funds that should have been recorded. The Foundation also identified additional funds held internationally that had not been recorded. As a result, international funds held on behalf of the Foundation as at March 31, 2015 and net assets as at April 1, 2014 were increased by \$2,479,016.

The Terry Fox Foundation

Notes to Financial Statements

March 31, 2016

4 Cash and cash equivalents and investments

| | 2016 | 2015 |
|---|-------------|-------------|
| | \$ | \$ |
| Cash and cash equivalents | 18,246,820 | 6,944,401 |
| Fixed income | 32,757,591 | 51,080,421 |
| Canadian equities | 13,873,007 | 13,892,607 |
| Foreign equities | 16,770,694 | 16,098,978 |
| | <hr/> | <hr/> |
| Total cash and cash equivalents and investments | 81,648,112 | 88,016,407 |

The decrease in investments and increase in cash and cash equivalents as at March 31, 2016 relate to timing as several investments matured and were reinvested as cash equivalents during the year.

5 Other assets

| | 2016 | 2015 |
|----------------------|-------------|-------------|
| | \$ | \$ |
| Sales tax receivable | 159,442 | 126,105 |
| Other | 191,325 | 81,175 |
| | <hr/> | <hr/> |
| | 350,767 | 207,280 |

6 Equipment

| | 2016 | | 2015 | |
|--------------------------|-------------|-------------------------------------|-------------|------------|
| | Cost | Accumulated amortization | Net | Net |
| | \$ | \$ | \$ | \$ |
| Transportation equipment | 2,080 | 2,080 | - | - |
| Furniture and equipment | 128,474 | 128,474 | - | 692 |
| Computer equipment | 242,126 | 223,939 | 18,187 | 8,167 |
| Leasehold improvements | 9,724 | 9,458 | 266 | 373 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 382,404 | 363,951 | 18,453 | 9,232 |

Amortization for the year amounted to \$4,272 (2015 - \$7,523) and is included in fundraising and administration expenses.

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Notes to Financial Statements

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7 Related party transactions

During the year, the Foundation distributed funds of \$23,126,582 (2015 - \$20,946,485) to the TFRI. The TFRI then distributed \$21,220,121 (2015 - \$19,414,867) of the total funds received to various institutes for cancer research. The remaining funds were invested or used for administrative expenses by the TFRI.

Information on the expenses is provided in the audited financial statements of TFRI.

The Foundation has signed a memorandum of understanding with the TFRI that sets a minimum funding commitment of \$50,000,000 over an undefined period of time. The total amount of funding provided to the TFRI since its inception has been \$96,661,637.

The TFRI is a not-for-profit organization incorporated by letters patent to promote, advance and fund scientific research into the treatment and prevention of cancer. The Foundation provides the TFRI with certain administrative functions including finance and payroll, at no charge to the TFRI.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8 Fundraising

Included in fundraising expenses is \$2,150,892 (2015 - \$1,964,623) paid as remuneration to employees whose principal duties involve fundraising.

9 Employee future benefit plans

The Foundation participates in a registered pension plan with a defined contribution component and a defined benefit component as disclosed in note 2. The Foundation made employer contributions to the pension plan in the amount of \$224,875 (2015 - \$210,678).

Defined benefit component

Defined benefit obligations are measured using actuarial valuations prepared for accounting purposes, based on the projected benefit method prorated on service (which incorporates estimates of future salary levels, other cost escalation, retirement ages of employees and other actuarial assumptions). The measurement date of the plan assets and defined obligations is January 31.

The Registered Pension Plan for the Employees of the Canadian Cancer Society and Affiliated Organizations had an unfunded liability for the defined benefit plan of \$21,180,500 as of January 31, 2016, the date of the last actuarial valuation. The unfunded liability is not allocated to individual employers such as the Foundation.

The liability for the defined benefit post-retirement benefits as allocated to the Foundation was estimated at \$585,000 (2015 - \$615,000).

The Terry Fox Foundation

Notes to Financial Statements

March 31, 2016

The following assumptions were used:

| | 2016 | 2015 |
|------------------|-------------|-------------|
| | % | % |
| Discount rate | 4.1 | 3.5 |
| Salary increases | 3.5 | 3.5 |
| Inflation | 2.25 | 2.25 |

10 Internally restricted net assets

Internally restricted net assets consist of the Research Fund, representing funds received from the Province of BC and the Marathon of Hope Legacy Fund. The funds have been internally restricted by the Board of Directors for future use and are as follows:

| | 2016 | 2015 |
|-------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Research Fund | 30,000,000 | 30,000,000 |
| Marathon of Hope Legacy Trust | 10,000,000 | 10,000,000 |
| | <u>40,000,000</u> | <u>40,000,000</u> |

11 Commitments

Future minimum rental commitments under operating leases on leased premises are as follows:

| | \$ |
|------|----------------|
| 2017 | 201,299 |
| 2018 | 138,699 |
| 2019 | 129,277 |
| 2020 | 120,346 |
| 2021 | 83,067 |
| | <u>672,688</u> |

In addition, a number of the lease commitments for premises and equipment are typically short term and are subject to annual renewal.

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Notes to Financial Statements

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12 Distribution commitments

The Foundation's single mission is to raise funds for cancer research. As such, it seeks advice and management for its cancer research programs from other organizations.

The TFRI was established in 2007 to focus on translational cancer research projects and the Foundation committed to provide the TFRI funding for its research programs and operations. The TFRI is also developing and managing training and new investigator programs on behalf of the Foundation. In October 2009, the TFRI was given the responsibility of overseeing all of the Foundation's cancer research programs, working in collaboration with others who also specialize in managing cancer research projects.

A summary of the amounts the Foundation has committed to fund through the above-noted organizations for research programs over the next five years is as follows:

| | International | The Terry Fox Research Institute (research) | Total |
|------|----------------------|--|-------------------|
| | \$ | \$ | \$ |
| 2017 | 479,003 | 18,087,848 | 18,566,851 |
| 2018 | 169,706 | 13,306,341 | 13,476,047 |
| 2019 | - | 7,345,058 | 7,345,058 |
| 2020 | - | 3,413,629 | 3,413,629 |
| 2021 | - | 1,572,192 | 1,572,192 |
| | <u>648,709</u> | <u>43,725,068</u> | <u>44,373,777</u> |

In addition to the research funding, the Foundation has committed \$1,678,467 for operations for the TFRI for 2017. The operations funding commitment is re-evaluated each fiscal year, and funding is approved by the Foundation Board of Directors.

13 Risk management

a) Interest rate risk

The Foundation's fixed income securities are subject to the risk that the values of the investments will fluctuate due to changes in market interest rates.

b) Market risk and foreign currency risk

The Foundation's foreign equities are subject to the risk that values of the investments will fluctuate due to changes in foreign exchange rates. Returns on the Foundation's investments are subject to risk factors specific to general economic conditions. The market value presents the Foundation's maximum exposure to market/credit risk. The Foundation mitigates this risk by investing in a portfolio that is diversified.