

INNERCHANGE FOUNDATION
FINANCIAL STATEMENTS

December 31, 2016

INNERCHANGE FOUNDATION

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INNERCHANGE FOUNDATION
Statement of Financial Position
As At December 31, 2016

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash - Note: 2(b)	\$ 1,181,419	\$ 2,480,988
Accounts receivable	-	5,100
GST recoverable	<u>7,206</u>	<u>4,666</u>
	<u>\$ 1,188,625</u>	<u>\$ 2,490,754</u>
Liabilities & Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ <u>10,450</u>	\$ <u>3,999</u>
	<u>10,450</u>	<u>3,999</u>
Net Assets		
Unrestricted	15,008	(24,645)
Externally restricted - Note: 3	<u>1,163,167</u>	<u>2,511,400</u>
	<u>1,178,175</u>	<u>2,486,755</u>
	<u>\$ 1,188,625</u>	<u>\$ 2,490,754</u>

Approved on Behalf of the Board:

_____ Director

The attached notes are an integral part hereof

Independent Auditors' Report

To the Members of InnerChange Foundation:

Report on the financial statements

We have audited the accompanying financial statements of Innerchange Foundation, which comprise the statement of financial position as at December 31, 2016 and the statements of operations and changes in net assets and of 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 qualified audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Innerchange Foundation as at December 31, 2016, and the results of its operations and 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 Society Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Fairhall Zhang & Associates Ltd.

Fairhall Zhang & Associates Ltd.
Chartered Professional Accountants

Burnaby, BC
September 11, 2017

INNERCHANGE FOUNDATION
Statement of Operations and Changes in Net Assets
For The Year Ended December 31, 2016

	Unrestricted Funds	Externally Restricted Funds	2016	2015
Revenues				
Donations - Note: 2(c)	\$ 30,598	\$ 250,000	\$ 280,598	\$ 290,100
Provincial government funds	-	-	-	3,000,000
Interest income	19,142	-	19,142	502
Other revenue	<u>4</u>	<u>-</u>	<u>4</u>	<u>-</u>
	<u>49,744</u>	<u>250,000</u>	<u>299,744</u>	<u>3,290,602</u>
Expenditures				
Advertising and promotion	-	7,448	7,448	-
Bank charges	32	-	32	-
Consulting fees	-	82,154	82,154	85,585
Bad debt expense	100	-	100	-
Insurance	850	-	850	863
Office expenses	1,264	-	1,264	11
Professional fees	4,540	-	4,540	4,650
Research	-	1,500,000	1,500,000	738,600
Sales tax expense	2,539	-	2,539	2,616
Rental	375	-	375	-
Travel	-	8,631	8,631	-
Website	<u>391</u>	<u>-</u>	<u>391</u>	<u>273</u>
	<u>10,091</u>	<u>1,598,233</u>	<u>1,608,324</u>	<u>832,598</u>
(Excess Expenditures Over Revenue) Excess Revenue Over Expenditures	39,653	(1,348,233)	(1,308,580)	2,458,004
Net Assets, beginning of year	<u>(24,645)</u>	<u>2,511,400</u>	<u>2,486,755</u>	<u>28,751</u>
Net Assets, end of year	\$ <u>15,008</u>	\$ <u>1,163,167</u>	\$ <u>1,178,175</u>	\$ <u>2,486,755</u>

The attached notes are an integral part hereof

INNERCHANGE FOUNDATION
Statement of Cash Flows
For The Year Ended December 31, 2016

	2016	2015
<u>CASH POSITION</u>		
Cash and short term deposits	\$ 1,181,419	\$ 2,480,988
<u>Net Cash Position</u>		
Net Cash Position - beginning of year	2,480,988	37,563
Net Cash Position - end of year	<u>1,181,419</u>	<u>2,480,988</u>
(Decrease) Increase In Cash Position	<u>\$ (1,299,569)</u>	<u>\$ 2,443,425</u>
<u>CASH FLOWS</u>		
Cash Flow From Operating Activities		
Excess expenditures over revenues	\$ <u>(1,308,580)</u>	\$ <u>2,458,004</u>
Changes In Non-Cash Working Capital:		
Contributions receivable	5,100	(5,100)
GST recoverable	(2,539)	(1,885)
Prepaid expenses	-	2,137
Accounts payable and accrued charges	<u>6,450</u>	<u>(9,731)</u>
Cash (Used) Provided By Operating Activities	<u>(1,299,569)</u>	<u>2,443,425</u>
Cash Provided By Financing Activities	<u>-</u>	<u>-</u>
Cash Provided By Investing Activities	<u>-</u>	<u>-</u>
Net (Decrease) Increase In Cash & Cash Equivalents	<u>\$ (1,299,569)</u>	<u>\$ 2,443,425</u>

The attached notes are an integral part hereof

INNERCHANGE FOUNDATION
Notes to the Financial Statements
December 31, 2016

1 Purposes of the Foundation

Innerchange Foundation (the "Foundation") was incorporated under the Society Act of British Columbia on March 6, 2007 under the name of Innerchange Charitable Society. On September 23, 2010 the Foundation changed its name to Innerchange Foundation. The Foundation has until November 28, 2018 to transition to the new Societies Act of British Columbia which became effective on November 28, 2016.

The Foundation was founded to explicitly foster the use of evidence in creating more treatment options for addicted people with the goals of both public health and public order (Note 2). The Foundation is a registered charity under the Income Tax Act, as such, is exempted from income taxes and is able to issue donation receipts for income tax purposes.

2 Significant Accounting Policies

These financial statements have been prepared by management in accordance in accordance with Canadian accounting standards for non-for-profit organizations and included the following significant accounting policies:

2(a) Fund accounting

In order to ensure observance of the limitations and restrictions placed on the use of resources available, the Foundation follows the restricted fund method of accounting for contributions. Under the method, restricted contributions are recorded as revenue of the restricted fund to which they relate. Accordingly, resources are classified for accounting and reporting purposes into funds. These funds are held in accordance with the objectives specified by the donors or in accordance with directives issued by the Board of Directors ("the "Board").

The Foundation has classified the accounts into the following funds:

Unrestricted fund

The unrestricted fund comprises donations that are not specifically designated by donors, as well as, investment income earned that is not externally restricted by donors for a specific purpose. General fundraising and administrative costs are charged to the unrestricted fund.

Externally restricted fund

The externally restricted fund comprises funds for which the purposes have been specifically designated by donors. This fund includes amounts which are restricted for use in research.

2(b) Cash and cash equivalents

Cash equivalents are comprised of highly liquid term deposits that are readily convertible to cash with maturities that are less than three months from the date of acquisition. As at December 31, 2016 and 2015, the Foundation did not have any cash equivalents.

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Notes to the Financial Statements
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2(c) **Revenue recognition**

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

Unrestricted contributions are recognized as revenue or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue of the related restricted funds when received.

Investment income on unrestricted and externally restricted funds are recognized in the unrestricted fund when earned.

2(d) **Contributed materials and services**

Contributed materials are recorded at their fair market value where the amounts are reasonably determinable.

Volunteers and corporate support contribute a certain amount of their time and services to the Foundation each year. Because of the difficulty in determining their fair value, these contributed services are not recognized in the financial statements.

2(e) **Contributions to the project**

The contributions to the Project (See Note: 3) are recorded as expenses when payments are made.

2(f) **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 reporting date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

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Notes to the Financial Statements
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2(g) 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. As at December 31, 2016 and 2015, the Foundation did not hold any financial derivatives and has not elected any financial instruments to carry at the fair value.

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

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

3 Collaboration Agreement

On October 22, 2015, the Foundation entered into an agreement with British Columbia Integrated Youth Services Initiative Collaboration Agreement (the "Collaboration Agreement") the St. Paul's Hospital Foundation of Vancouver (SPHF"), Providence Health Care Society ("PHC"), Graham Boeckh Foundation ("GBF"), whereby, all parties agreed to support the prototype phase of British Columbia Integrated Youth Services Initiative (the "Project"). The Collaboration Agreement will end on March 31, 2018 . Pursuant to the Collaboration Agreement, the Foundation agreed to contribute a total of \$4,500,000 over the term of the Project, comprised of \$3,000,000 in funding from the Province of British Columbia (received) held with the Foundation and \$1,500,000 from the Foundation. FPHF and GBF each agreed to contribute \$1,500,000, respectively towards the Project over the term of the Collaboration Agreement.

As at December 31, 2016, the Foundation has raised \$500,000 in connection with the Project. During the year ended December 31, 2016, the Foundation contributed \$1,500,000 (2015 - \$738,600) to the Project.

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December 31, 2016

4 Financial Instruments

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. Most of the Foundation's donation revenue is externally restricted and is not available to cover the Foundation general operating expenses. The Foundation manages its liquidity risk by monitoring its operating requirements.

Credit risk

The Foundation exposure to credit risk is principally derived from cash and cash equivalents. The carrying value of these assets included on the balance sheet represents the Foundation's maximum credit exposure. The Foundation maintains cash with reputable financial institutions. Management considers the risk of non-performance of these instruments to be remote.

5 Disclosure of remuneration

For the year ended December 31, 2016, the Foundation incurred total remuneration of \$82,154 to 3 contractors for services, none of whom received total annual remuneration greater than \$75,000.

6 Comparative Figures

Certain prior year's figures have been reclassified for comparative purposes to conform with current year presentation.