

SANATORIUM BOARD OF MANITOBA

Financial Statements

March 31, 2016

June 16, 2016

INDEPENDENT AUDITORS' REPORT

To the Chair and Members of Sanatorium Board of Manitoba:

We have audited the accompanying financial statements of the Sanatorium Board of Manitoba, which comprise the statement of financial position as at March 31, 2016, and the statements of changes in net assets, operations 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.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Board derives revenue from the general public in the form of donations and fundraising initiatives, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the Board and we were not able to determine whether any adjustments might be necessary to donation revenue, excess of revenues over expenses, assets or net assets.

Qualified Opinion

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of Sanatorium Board of Manitoba as at March 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.



Chartered Accountants

SANATORIUM BOARD OF MANITOBA

Statement of Financial Position

March 31, 2016

	2016			2015		
	General Fund	Research Fund	Building Proceeds Fund	Total	Total	Total
ASSETS						
CURRENT						
Cash and short-term investments (Note 3)	\$ 22,317	\$ 1,379	\$ 72,985	\$ 96,681	\$ 96,681	\$ 44,973
Accounts receivable (Note 4)	113,542	933	635	115,110	115,110	58,983
Prepaid expenses and supplies	39,307	-	-	39,307	39,307	21,467
	175,166	2,312	73,620	251,098	251,098	125,423
INVESTMENTS (Note 5)	-	513,767	596,884	1,110,651	1,110,651	444,658
ASSETS HELD FOR SALE (Note 6)	-	-	-	-	-	155,520
EQUIPMENT (Note 7)	36,044	-	-	36,044	36,044	9,714
	\$ 211,210	\$ 516,079	\$ 670,504	\$ 1,397,793	\$ 1,397,793	\$ 735,315
LIABILITIES AND NET ASSETS (DEFICIT)						
CURRENT						
Due to CIBC Wood Gundy (Note 9)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 175,621
Accounts payable and accrued charges (Note 10)	287,953	-	-	287,953	287,953	269,611
Deferred revenue	44,913	-	-	44,913	44,913	45,893
Inter-fund balance	129,027	12,011	(141,038)	-	-	-
	461,893	12,011	(141,038)	332,866	332,866	491,125
NET ASSETS (DEFICIT)						
Unrestricted (deficit)	(250,683)	-	-	(250,683)	(250,683)	(315,137)
Externally restricted	-	504,068	-	504,068	504,068	558,017
Internally restricted	-	-	811,542	811,542	811,542	1,310
	(250,683)	504,068	811,542	1,064,927	1,064,927	244,190
	\$ 211,210	\$ 516,079	\$ 670,504	\$ 1,397,793	\$ 1,397,793	\$ 735,315

APPROVED BY THE BOARD:

 Director

 Director

SANATORIUM BOARD OF MANITOBA
Statement of Operations

Year Ended March 31, 2016

	2016			2015		
	General Fund	Research Fund	Building Proceeds Fund	Total	Total	Total
REVENUES						
Fundraising						
Christmas Seals	\$ 157,168	\$ -	\$ -	\$ 157,168	\$ 157,168	\$ 173,254
Research and Spring Appeal	80,806	-	-	80,806	80,806	88,306
Corporate, employee and other	390,717	-	-	390,717	390,717	403,466
Memorial donations	36,113	-	-	36,113	36,113	44,037
Molly Hirshburg Research Fund	-	-	-	-	-	1,720
	664,804	-	-	664,804	664,804	710,783
Tuberculosis contracted services	55,234	-	-	55,234	55,234	55,427
Occupational health surveys	103,080	-	-	103,080	103,080	136,001
Health initiatives and other recoveries	195,187	-	-	195,187	195,187	186,973
Interest income	-	4,557	-	4,557	4,557	9,042
Unrealized (loss) gain in fair value of investments	-	(14,105)	(13,455)	(27,560)	(27,560)	4,784
Investment income	313	16,397	11,510	28,220	28,220	20,345
	1,018,618	6,849	(1,945)	1,023,522	1,023,522	1,123,355
	1,357,494	62,108	1,007	1,420,609	1,420,609	1,439,870
EXPENDITURES (Schedule 1)						
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES FOR THE YEAR BEFORE UNDERNOTED ITEMS	(338,876)	(55,259)	(2,952)	(397,087)	(397,087)	(316,515)
GAIN ON DISPOSAL OF ASSETS	1,170,832	-	-	1,170,832	1,170,832	-
OTHER EXPENSES (Schedule 2)	(38,395)	-	-	(38,395)	(38,395)	-
BEQUESTS	85,387	-	-	85,387	85,387	56,248
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES FOR THE YEAR	\$ 878,948	\$ (55,259)	\$ (2,952)	\$ 820,737	\$ 820,737	\$ (260,267)

SANATORIUM BOARD OF MANITOBA

Statement of Changes in Net Assets

Year Ended March 31, 2016

	2016				2015
	General Fund	Research Fund	Building Proceeds Fund	Capital Fund	Total
BALANCE - BEGINNING OF THE YEAR	\$ (315,137)	\$ 558,019	\$ -	\$ 1,308	\$ 244,190
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES FOR THE YEAR	878,948	(55,259)	(2,952)	-	820,737
TRANSFER TO ESTABLISH BUILDING PROCEEDS FUND (Note 14)	(826,004)	-	826,004	-	-
INTERFUND TRANSFER	11,510	1,308	(11,510)	(1,308)	-
BALANCE - END OF THE YEAR	\$ (250,683)	\$ 504,068	\$ 811,542	\$ -	\$ 1,064,927
					\$ 244,190

SANATORIUM BOARD OF MANITOBA

Statement of Cash Flows

Year Ended March 31, 2016

	2016			2015
	General Fund	Research Fund	Building Proceeds Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenditures for the year	\$ 878,948	\$ (55,259)	\$ (2,952)	\$ 820,737
Items not affecting cash and short-term deposits				
Amortization	6,225	-	-	6,225
Disposal of investment in RESPTrec®	22,884	-	-	22,884
Gain on disposal of capital assets	(1,170,832)	-	-	(1,170,832)
Unrealized gain in fair value of investments	-	14,105	13,455	27,560
	(262,775)	(41,154)	10,503	(293,426)
Changes in non-cash working capital items				
(Increase) decrease in accounts receivable	(56,104)	612	(635)	(56,127)
(Increase) decrease in prepaid expenses and supplies	(17,840)	-	-	(17,840)
Increase in accounts payable	18,342	-	-	18,342
(Decrease) increase in deferred revenue	(980)	-	-	(980)
	(56,582)	612	(635)	(56,605)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale of property, plant and equipment (net of proceeds from disposals)	1,292,339	-	-	1,292,339
Redemption (purchase) of investments, net of disposals	-	41,921	(757,815)	(715,894)
	1,292,339	41,921	(757,815)	576,445
CASH FLOW FROM FINANCING ACTIVITIES				
(Repayment) of advances from CIBC Wood Gundy	(174,706)	-	-	(174,706)
	(174,706)	-	-	(174,706)
INTERFUND TRANSFER				
	(820,932)	-	820,932	-
(DECREASE) INCREASE IN CASH AND SHORT-TERM DEPOSITS DURING THE YEAR	(22,656)	1,379	72,985	51,708
CASH AND SHORT-TERM DEPOSITS - BEGINNING OF THE YEAR	44,973	-	-	44,973
CASH AND SHORT-TERM DEPOSITS - END OF THE YEAR	\$ 22,317	\$ 1,379	\$ 72,985	\$ 96,681

SANATORIUM BOARD OF MANITOBA

Notes to Financial Statements

Year Ended March 31, 2016

1. NATURE OF ACTIVITIES

The Sanatorium Board of Manitoba (the "Board") is a registered charity incorporated in the Province of Manitoba under The Sanatorium Board of Manitoba Act. It is exempt from income tax.

The Manitoba Lung Association is the operating unit of the Sanatorium Board of Manitoba.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

Fund Accounting

The Board follows the restricted fund method to account for its activities. The funds are as follows:

General fund

The General Fund accounts are for the ongoing operating activities of the Board.

Research fund

Revenues and expenses related to research activities are reported in the Research Fund. A significant portion of the expenses relate to grants and fellowships. Restricted funds have been restricted by donors and are to be used for research and education in the prevention and management of various lung diseases.

Capital fund

The capital fund was originally established for future capital expenditures. The assets of the fund were transferred to the Research Fund during the year ending March 31, 2016.

Building proceeds fund

The fund was established in September 2015, when a portion of the proceeds from the sale of the land and building was transferred to this fund. The fund is currently being used to finance the operating lease on the current premises. The future purpose of the fund will be established at a later date.

Equipment

Equipment is stated at cost. Amortization is provided using the following methods and rates:

	<u>Basis</u>	<u>Rates</u>
Furniture and equipment	Straight-line	10 years
X-ray and lung function equipment	Straight-line	5 years
Computer equipment	Straight-line	5 years

(continues)

SANATORIUM BOARD OF MANITOBA

Notes to Financial Statements

Year Ended March 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest in joint venture

The Board accounts for its interest in a joint venture using the proportionate consolidation method. The Board's financial statement includes its pro rata share of the joint venture's assets, liabilities, revenues, expenses, changes in equity and cash flows from operating, investing and financing activities.

Revenue recognition

The Board follows the deferral method of accounting for revenue which includes donations and government grants. Unrestricted donations and grants are recognized as revenue when they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are deferred and recognized as revenue in the period in which the related expenses are incurred or the restrictions are met. Interest and investment income are recorded as revenue when earned.

Allocation of expenses

The Board provides several programs as part of their initiative to improve respiratory health. The costs of each program include amounts directly related to providing the program. The Board also incurs general support expenses that are common to the administration of the Board and each of its programs.

The Board allocates an allowance for general support expenses to individual projects proportionately based on sponsorship revenues expected to be received in this program.

Financial instruments

The Board initially measures its financial assets and financial liabilities at fair value. It subsequently measures all its financial assets and liabilities at amortized cost, except for investments in shares of publicly traded companies and government and corporate bonds that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets subsequently measured at amortized cost include cash and short-term investments, and accounts receivable. Financial liabilities subsequently measured at cost include amounts due to CIBC Wood Gundy, accounts payable and accrued liabilities and deferred revenue.

Unless otherwise stated in these financial statements, it is management's opinion that the Board is not exposed to significant interest or currency risk arising from these financial instruments.

Measurement uncertainty

The preparation of financial statements in conformity 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 date of the financial statements and the reported changes in net assets available for benefits during the year.

Significant areas requiring the use of management estimates relate to estimated useful life of the equipment and accrued liabilities. Management believes its estimates to be appropriate; however, actual results could differ from the amounts estimated.

SANATORIUM BOARD OF MANITOBA

Notes to Financial Statements

Year Ended March 31, 2016

3 CASH AND SHORT-TERM INVESTMENTS

	2016		2015
Cash on deposit	\$ 22,317	\$	8,564
RESPTrec® cash on deposit	-		36,409
Funds on deposit with CIBC Wood Gundy	74,364		-
	\$ 96,681	\$	44,973

4 ACCOUNTS RECEIVABLE

	2016		2015
Province of Manitoba	\$ 81,308	\$	6,485
Government of Canada			
Tuberculosis contracted services	-		2,433
Radon services	4,899		-
G.S.T. rebate	6,842		5,046
Other	22,061		45,019
	\$ 115,110	\$	58,983

5. INVESTMENTS

	2016		2015
Investment in shares of publicly traded companies	\$ 917,786	\$	284,853
Government and corporate bonds, 2.58% to 5.625%, maturing March 2018 to March 2027	192,865		159,805
	\$ 1,110,651	\$	444,658

6. ASSETS HELD FOR SALE

In March 2013, the Board of Directors approved a motion to pursue the disposal of the Board's land and building on McDermot Avenue. Accordingly, the Board ceased to amortize the building and the land and building were reclassified as assets held for sale. At March 31, 2015, the carrying value of the land was \$32,270 and the carrying value of the building was \$123,250.

In January 2015, the Board signed an offer to purchase with a third party. The change in ownership of the property occurred on August 31, 2015. Proceeds of the sale are \$1,400,000.

SANATORIUM BOARD OF MANITOBA

Notes to Financial Statements

Year Ended March 31, 2016

7. EQUIPMENT

	2016			2015
	Cost	Accumulated Amortization	Net	Net
Furniture and equipment	\$ 33,953	\$ 1,973	\$ 31,980	\$ 1,210
Computer and lung function equipment	43,307	43,307	-	-
Computer equipment	28,629	24,565	4,064	8,504
	\$ 239,646	\$ 229,932	\$ 36,044	\$ 9,714

Amortization of equipment included in the schedule of expenditures amounts to \$6,225 (2015 - \$5,643)

8. EQUITY IN RESPTrec©, A JOINT VENTURE

The Sanatorium Board of Manitoba and the Lung Association of Saskatchewan (LAS) had entered into a joint venture to develop and deliver an asthma education program for health care professionals. All assets, liabilities, revenues and expenses of the joint venture were to be shared equally and jointly. The Board has proportionately consolidated in these financial statements the following aggregate amounts which represent its 50% share of the joint venture interest:

	2016	2015
Assets	\$ -	\$ 36,699
Liabilities	-	13,815
Revenues	-	7,288
Expenditures	-	12,797
(Deficiency) of revenues over expenditures	-	(5,509)
Cash (used in) provided by operating activities	\$ -	\$ (6,588)

The LAS has discontinued the distribution of current and prior years' surpluses. The investment in RESPTrec© has been written off in the current year based on communication from LAS that the Board does not have a financial interest in RESPTrec©. Management of the Board continues to actively investigate the legitimacy of LAS's representation and will pursue full recovery of all amounts duly owed.

SANATORIUM BOARD OF MANITOBA

Notes to Financial Statements

Year Ended March 31, 2016

9. DUE TO CIBC WOOD GUNDY

The Board has a margined investment account with CIBC Wood Gundy which allows it to borrow against the value of its investments held with them. The margin account bears interest at 3.6% and is secured by its investments held with CIBC Wood Gundy that have a carrying value of \$513,767. In the current year there is no amount due to the broker.

10. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2016	2015
Canadian Lung Association	\$ 7,935	\$ 4,170
Salaries, wages and benefits	43,938	43,383
Pre-retirement benefit (<i>Note 11</i>)	30,897	44,000
Suppliers	205,183	178,058
	<u>\$ 287,953</u>	<u>\$ 269,611</u>

11. PRE-RETIREMENT BENEFIT

Employees who had attained ten years of service prior to 2007 and have reached the age of 55 are entitled to a pre-retirement benefit when they retire. The amount of the benefit is based on their years of service and level of compensation.

Based on management's best estimate, the future liability for this pre-retirement benefit is \$30,897.

12. PENSION PLAN

The Sanatorium Board of Manitoba is a participating employer in the Healthcare Employees Pension Plan – Manitoba, a multi-employer defined pension plan. The Board has insufficient information to be able to account for the plan as a defined benefit pension plan. The most recent actuarial valuation prepared as at December 31, 2013 by AON Hewitt, the Plan's actuary, reported a deficiency of the actuarial value of net assets over the actuarial present value of accrued pension benefits in the amount of \$203,558,000, as well as a solvency deficiency of \$1,097,114,000.

13. RESIDUARY INTERESTS

The Board has a residuary interest in various estates or trusts which continue to be administered by executors and trustees, and for which no values have been recorded in these financial statements.

SANATORIUM BOARD OF MANITOBA

Notes to Financial Statements

Year Ended March 31, 2016

14. TRANSFER TO ESTABLISH BUILDING PROCEEDS FUND

In September 2015, the board of directors approved a transfer of a portion of the building proceeds, in the amount of \$826,004, from the general fund to establish the building proceeds fund.

15. COMMITMENT

The Board has entered into an operating lease for office and storage space. The lease expires August 31, 2020. The basic minimum annual payments for the term of the lease are as follows:

2017	\$53,634
2018	\$55,125
2019	\$56,190
2020	\$56,190
2021	\$23,412

In addition to the basic minimum payments, the Board is also obligated to pay a proportionate share of the operating costs of the building. The lease has an option to be renewed for an additional five years.

16. FINANCIAL INSTRUMENTS

The Board is exposed to certain risks through its financial instruments and has a risk management framework to monitor, evaluate and manage the risk. The following analysis provides information about the Board's risk exposure and concentration as of March 31, 2016. There has been no change in the risks from prior year.

Credit risk

The Board is exposed to credit risk with respect to the accounts receivable and grants receivable. The grants were received soon after year end. The Board assesses, on a continuous basis, accounts receivable on the basis of amounts it is virtually certain to receive.

Other price risk

The Board is exposed to other price risk with respect to the investment in publicly-traded securities in the equity market. The risk is that the shares fair value will fluctuate because of changes in market prices.

SANATORIUM BOARD OF MANITOBA

Schedule 1

Schedule of Expenditures

Year Ended March 31, 2016

	2016	2015
GENERAL FUND		
Fundraising	\$ 518,624	\$ 460,358
Tuberculosis contracted services	57,733	52,647
Occupational health surveys	133,731	156,518
Health initiatives	260,998	285,531
Westman expense	6,648	16,347
National programs	28,291	4,169
Administrative support	351,469	400,870
	<u>\$ 1,357,494</u>	<u>\$ 1,376,440</u>
RESEARCH FUND		
Canadian Institute of Health Research	\$ 30,000	\$ 30,000
Canadian Lung Association Research	19,701	12,095
CIBC Wood Gundy investment fee	4,636	4,578
Grant - Manitoba Health Research Council	3,719	8,925
Legal fees	-	3,311
Margin account interest expense	4,052	4,521
	<u>\$ 62,108</u>	<u>\$ 63,430</u>
BUILDING PROCEEDS FUND		
CIBC Wood Gundy investment fee	\$ 1,007	\$ -
	<u>\$ 1,420,609</u>	<u>\$ 1,439,870</u>

SANATORIUM BOARD OF MANITOBA

Schedule 2

Schedule of Expenditures

Year Ended March 31, 2016

	2016	2015
OTHER EXPENSES		
Disposal of investment in RESPTrec®	\$ 22,884	\$ -
Moving expenses	15,511	-
	<u>38,395</u>	<u>-</u>