

Financial Statements of

CYSTIC FIBROSIS CANADA

Year ended January 31, 2017



KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

INDEPENDENT AUDITORS' REPORT

To the Members of Cystic Fibrosis Canada

We have audited the accompanying financial statements of Cystic Fibrosis Canada, which comprise the statement of financial position as at January 31, 2017, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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 our 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, we 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.



Page 2

Basis for Qualified Opinion

In common with many not-for-profit organizations, Cystic Fibrosis Canada derives revenue from cash donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of Cystic Fibrosis Canada. Therefore, we were not able to determine whether, as at and for the years ended January 31, 2017 and January 31, 2016, any adjustments might be necessary to revenue and deficiency of revenue over expenses reported in the statement of operations, deficiency of revenue over expenses reported in the statement of cash flows and current assets and net assets reported in the statement of financial position. This caused us to qualify our audit opinion on the financial statements as at and for the year ended January 31, 2016.

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 Cystic Fibrosis Canada as at January 31, 2017, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 28, 2017
Vaughan, Canada

CYSTIC FIBROSIS CANADA

Statement of Financial Position
(In thousands of dollars)

January 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 410	\$ 1,216
Short-term investments (note 2)	3,510	4,275
Receivables and other assets	841	1,017
	<u>4,761</u>	<u>6,508</u>
Contributions receivable (note 3)	151	154
Long-term investments (note 2)	11,156	10,846
Capital assets (note 4)	95	109
	<u>\$ 16,163</u>	<u>\$ 17,617</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 637	\$ 579
Deferred revenue	182	213
	<u>819</u>	<u>792</u>
Long-term deferred contributions (note 5)	394	432
Net assets:		
Endowment	94	94
Internally restricted for research and clinics (note 7)	11,220	11,598
Unrestricted	3,636	4,701
	<u>14,950</u>	<u>16,393</u>
Commitments (note 10)		
	<u>\$ 16,163</u>	<u>\$ 17,617</u>

See accompanying notes to financial statements.

On behalf of the Board:

 _____ Director

 _____ Director

CYSTIC FIBROSIS CANADA

Statement of Operations
(In thousands of dollars)

Year ended January 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Chapter	\$ 12,037	\$ 11,683
Bequests	956	2,411
Leadership Gifts and Sponsorship	1,205	1,279
Kin Canada	1,186	1,069
Shinerama	666	862
Royalties	722	522
Other	161	219
	<u>16,933</u>	<u>18,045</u>
Less direct fundraising costs	4,667	4,026
	<u>12,266</u>	<u>14,019</u>
Expenses:		
Program:		
Research (note 8)	5,928	6,290
Clinics (note 8)	2,453	2,370
Quality improvement initiative	206	208
Education/Public awareness	1,476	1,414
Advocacy	403	356
Other	110	100
	<u>10,576</u>	<u>10,738</u>
Other:		
Administration	2,785	2,716
Fundraising	1,324	1,097
	<u>14,685</u>	<u>14,551</u>
Excess of expenses over revenue before the undernoted	(2,419)	(532)
Investment income:		
Realized gains on investments	899	1,145
Unrealized gains (losses) on investments	73	(1,201)
Unrealized derivative gain (loss) on foreign exchange contract	4	(28)
	<u>976</u>	<u>(84)</u>
Deficiency of revenue over expenses	<u>\$ (1,443)</u>	<u>\$ (616)</u>

See accompanying notes to financial statements.

CYSTIC FIBROSIS CANADA

Statement of Changes in Net Assets
(In thousands of dollars)

Year ended January 31, 2017, with comparative information for 2016

				2017	2016
	Endowment	Internally restricted for research and clinics (note 7)	Unrestricted	Total	Total
Net assets, beginning of year	\$ 94	\$ 11,598	\$ 4,701	\$ 16,393	\$ 17,009
Deficiency of revenue over expenses	–		(1,443)	(1,443)	(616)
Transfer between funds	–	(378)	378	–	–
Net assets, end of year	\$ 94	\$ 11,220	\$ 3,636	\$ 14,950	\$ 16,393

See accompanying notes to financial statements.

CYSTIC FIBROSIS CANADA

Statement of Cash Flows
(In thousands of dollars)

Year ended January 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used) in:		
Operating activities:		
Deficiency of revenue over expenses	\$ (1,443)	\$ (616)
Items not involving cash:		
Amortization of capital assets	14	14
Amortization of long-term deferred contributions	(14)	(14)
Realized gains on investments	(899)	(1,145)
Unrealized losses (gains) on investments	(73)	1,201
Unrealized derivative loss (gain) on foreign exchange contract	(4)	28
Change in non-cash operating working capital:		
Receivables and other assets	176	(282)
Accounts payable and accrued liabilities	58	215
Deferred revenue	(31)	(25)
	<u>(2,216)</u>	<u>(624)</u>
Financing activities:		
Decrease in long-term deferred contributions	(21)	(21)
Investing activities:		
Net change in short-term investments	831	610
Proceeds on disposal of long-term investments	600	500
	<u>1,431</u>	<u>1,110</u>
Increase (decrease) in cash and cash equivalents	(806)	465
Cash and cash equivalents, beginning of year	1,216	751
Cash and cash equivalents, end of year	<u>\$ 410</u>	<u>\$ 1,216</u>

See accompanying notes to financial statements.

CYSTIC FIBROSIS CANADA

Notes to Financial Statements
(In thousands of dollars)

Year ended January 31, 2017

Cystic Fibrosis Canada (the "Organization") is a charitable organization incorporated without share capital. The Organization was previously incorporated under the Canada Corporations Act and was continued under the Canada Not-for-profit Corporations Act in April 2012. The Organization is the only non-governmental organization raising funds for cystic fibrosis research and care in Canada. With now more than 50 years as the largest funder of cystic fibrosis research in Canada, the Organization has evolved as one of Canada's top-rated charities; finding a cure continues to be its key goal.

The Organization is a registered charity under the Income Tax Act (Canada) and is, therefore, exempt from income taxes.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The most significant accounting policies are as follows:

(a) Revenue recognition:

The Organization follows the deferral method of accounting for contributions.

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

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

Endowment contributions are recognized as direct increases in endowment net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized when earned.

Donor payments of life insurance policies, which vest irrevocably with the Organization and which are tax-receipted by the Organization, are recognized as an investment and as deferred contributions until such time as the proceeds are received, at which point, they are recognized as revenue.

CYSTIC FIBROSIS CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended January 31, 2017

1. Significant accounting policies (continued):

(b) Cash and cash equivalents:

The Organization considers deposits in banks, guaranteed investment certificates and other short-term investments with maturity expirations within 3 months of the year end as cash and cash equivalents.

(c) Financial instruments:

Financial instruments include cash, investments, receivables and accounts payable and accrued liabilities. Financial instruments are recorded at fair value on initial recognition. Foreign currency contracts 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 Organization has elected to carry all financial investments at fair value. Transaction costs incurred on the acquisition of financial instruments are expensed as incurred.

Financial assets are assessed for impairment on an annual basis. If there is an indicator of impairment, and if the Organization determines 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: (i) present value of the expected cash flows, (ii) the amount that could be realized from selling the financial asset or (iii) the amount the Organization 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.

(d) Capital assets:

Purchased capital assets are recorded at cost. Amortization on capital assets acquired during the year is pro-rated based on the number of months in use. Leasehold improvements are amortized over the lease term.

CYSTIC FIBROSIS CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended January 31, 2017

1. Significant accounting policies (continued):

(e) Allocation of general and fundraising expenses:

The Organization classifies expenses on the statement of operations by function. The Organization allocates certain costs by identifying the appropriate basis of allocating and applying that basis consistently each year. Allocated expenses and the basis of allocating are as follows:

- (i) Payroll expenses are allocated proportionally on the basis of the amount of time devoted by personnel to each function.
- (ii) Rent, storage, information technology ("IT") and phone expenses are allocated proportionally on the same basis as payroll.
- (iii) Payroll and rent expense for employees directly related to fundraising events and partnerships (Great Strides Walk, Shinerama, Kin Canada, Direct mail) are allocated to direct fundraising costs.

(f) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty in determining the fair value, contributed services are not recognized in the financial statements.

(g) Use of estimates:

The preparation of financial statements 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 amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include allocation of expenses. Actual results could differ from those estimates.

CYSTIC FIBROSIS CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended January 31, 2017

2. Short-term and long-term investments:

	2017	2016
Canadian fixed income ⁽ⁱ⁾	\$ 3,510	\$ 4,275
Pooled Funds:		
Cash and cash equivalents	557	541
Fixed income	4,289	4,325
Canadian equities	2,341	2,181
Foreign equities	3,965	3,827
Foreign exchange contracts, net	4	(28)
	11,156	10,846
	\$ 14,666	\$ 15,121

⁽ⁱ⁾ Short-term investments bear an average yield to maturity of 1.81% (2016 - 1.55%) with maturity dates ranging from four months to thirty five months (2016 - four months to twenty-five months). These fixed income securities consist of guaranteed investment certificates, which are readily convertible to cash.

Financial risks are noted below. There has been no change to the risk exposure from 2016.

(a) Market risk:

The value of equity securities changes with stock market conditions, which are affected by general economic and market conditions and developments within the specific companies or governments which issued the securities.

(b) Credit risk:

Credit risk is the risk of a financial loss occurring as a result in default of a counterparty on its obligation. The Organization mitigates credit risk by dealing with counterparties that have a minimum credit rating of R-1 and by limiting investments in any one issuer of debt securities (excluding Canadian governments and Schedule I banks) to 5% of the fair value of its long-term investment portfolio.

(c) Interest rate risk:

The value of fixed income securities will generally rise if interest rates fall and decrease if interest rates rise. Changes in interest rates may also affect the value of equity securities.

CYSTIC FIBROSIS CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended January 31, 2017

2. Short-term and long-term investments (continued):

(d) Foreign currency risk:

The value of securities denominated in a currency other than Canadian dollars will be affected by changes in the value of the Canadian dollar in relation to the value of the currency in which the security is denominated. The Organization mitigates foreign currency risk by hedging investments denominated in U.S. dollars. As at year end, the Organization has a foreign currency contract outstanding to sell U.S. \$922 at a rate of 1.308 and an obligation to repurchase the same amount at a variable rate. The contract matures on March 17, 2017.

3. Contributions receivable:

The Organization is the beneficiary under life insurance policy contributions recorded at their present value of \$151 (2016 - \$154).

4. Capital assets:

Capital assets consist of leasehold improvements with a cost of \$138 (2016 - \$138) and accumulated amortization of \$43 (2016 - \$29). Amortization expense for the year is \$14 (2016 - \$14) and is included in administration expenses on the statement of operations. Net book value as at January 31, 2017 is \$95 (2016 - \$109).

5. Long-term deferred contributions:

Deferred contributions represent the deferred portion of investments in life insurance contributions, contributions related to future expenses and contributions related to capital assets.

	Balance, January 31, 2016	Amortization/ reduction	Balance, January 31, 2017
Life insurance (note 3)	\$ 154	\$ 3	\$ 151
Deferred rent	169	21	148
Capital assets	109	14	95
	<hr/>	<hr/>	<hr/>
	\$ 432	\$ 38	\$ 394

CYSTIC FIBROSIS CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended January 31, 2017

6. Demand facility:

The Organization has an arrangement with its banker providing for a revolving demand facility in the amount of \$550. The demand facility is unsecured and bears interest at the bank's prime interest rate. As at January 31, 2017, the Organization has not utilized the available demand facility.

7. Net assets internally restricted for research and clinics:

Net assets internally restricted for research and clinics represent the amount of grant commitments approved by the Board of Directors which will be paid as follows:

2018	\$	7,327
2019		2,843
2020		1,050
	\$	11,220

8. Research and clinics grants and awards:

Included in research program expenses are research grants and awards in the amount of \$4,927 (2016 - \$5,387). Included in clinics program expenses are clinic incentive grants and awards in the amount of \$2,056 (2016 - \$1,936).

9. Allocation of expenses:

Total salaries, support and fundraising expenses of \$6,437 (2016 - \$5,742) have been allocated as follows:

Function	Payroll	Occupancy and other	2017	Total	2016
Research	\$ 571	\$ 56	\$ 627	\$	449
Clinics	350	27	377		359
Education/public awareness	935	140	1,075		1,051
Advocacy	252	69	321		309
Administration	1,585	180	1,765		1,578
Fundraising (direct and other)	1,941	331	2,272		1,996
	\$ 5,634	\$ 803	\$ 6,437	\$	5,742

CYSTIC FIBROSIS CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended January 31, 2017

10. Commitments:

The Organization is committed under operating leases with terms extending to January 31, 2024 for office premises and equipment with the following minimum annual rental payments:

2018	\$	544
2019		529
2020		488
2021		458
2022		458
Thereafter		710

11. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.