

Financial Statements of

CYSTIC FIBROSIS CANADA

Year ended January 31, 2012



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INDEPENDENT AUDITORS' REPORT

To the Members of Cystic Fibrosis Canada

Report on the Financial Statements

We have audited the accompanying financial statements of Cystic Fibrosis Canada, which comprise the statement of financial position as at January 31, 2012, 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 generally accepted accounting principles, 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.

Basis for Qualified Opinion

In common with many charitable organizations, Cystic Fibrosis Canada derives revenue from cash donations, 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 Cystic Fibrosis Canada and we were not able to determine whether any adjustments might be necessary to contributions, excess of expenses over revenue, current assets and net assets.

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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, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the Canada Corporations Act, we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 2, 2012
Toronto, Canada

CYSTIC FIBROSIS CANADA

Statement of Financial Position
(In thousands of dollars)

January 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash	\$ 1,633	\$ 1,706
Short-term investments (note 2)	3,687	4,051
Receivables and other assets	870	844
	<u>6,190</u>	<u>6,601</u>
Long-term investments (note 2)	9,868	10,352
	<u>\$ 16,058</u>	<u>\$ 16,953</u>

Liabilities and Net Assets

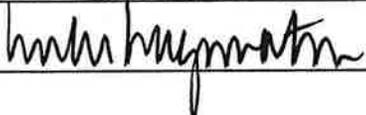
Current liabilities:		
Accounts payable and accrued liabilities	\$ 520	\$ 502
Deferred contributions (note 3)	280	274
	<u>800</u>	<u>776</u>
Net assets:		
Endowment	94	94
Internally restricted for research and clinics (note 5)	12,123	12,868
Unrestricted	3,041	3,215
	<u>15,258</u>	<u>16,177</u>
Commitments (note 9)		
	<u>\$ 16,058</u>	<u>\$ 16,953</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, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Chapter - operating	\$ 13,789	\$ 12,213
Chapter - bequests	564	171
Kin Canada	938	937
Shinerama	1,117	1,004
Corporations	770	196
Foundations	144	141
Royalties	220	366
	<u>17,542</u>	<u>15,028</u>
Less direct fundraising costs	4,836	4,240
Net fundraising revenue	<u>12,706</u>	<u>10,788</u>
Investment income:		
Realized gains on investments	389	414
Unrealized gains (losses) on investments	(357)	749
Derivative gain in foreign exchange contracts (note 2)	32	-
	<u>64</u>	<u>1,163</u>
	<u>12,770</u>	<u>11,951</u>
Expenses:		
Program:		
Research grants and awards	5,814	5,404
Special research initiative	445	300
Breathe Research Initiative	-	175
Clinics	2,110	2,175
Patient services	458	478
Public awareness	1,355	1,315
	<u>10,182</u>	<u>9,847</u>
Other:		
Administration	2,013	1,836
Meetings	625	601
Fundraising	869	849
	<u>13,689</u>	<u>13,133</u>
Deficiency of revenue over expenses	<u>\$ (919)</u>	<u>\$ (1,182)</u>

See accompanying notes to financial statements.

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2012, with comparative figures for 2011

				2012	2011
	Endowment	Internally restricted for research and clinics (note 5)	Unrestricted	Total	Total
Net assets, beginning of year	\$ 94	\$ 12,868	\$ 3,215	\$ 16,177	\$ 17,359
Deficiency of revenue over expenses	-	-	(919)	(919)	(1,182)
Transfer between funds	-	(745)	745	-	-
Net assets, end of year	\$ 94	\$ 12,123	\$ 3,041	\$ 15,258	\$ 16,177

See accompanying notes to financial statements.

CYSTIC FIBROSIS CANADA

Statement of Cash Flows
(In thousands of dollars)

Year ended January 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used) in:		
Operating activities:		
Deficiency of revenue over expenses	\$ (919)	\$ (1,182)
Items not involving cash:		
Unrealized loss (gain) on investments	357	(749)
Derivative gain on foreign exchange contracts	(32)	—
Change in non-cash operating working capital:		
Increase in receivables and other assets	(26)	(216)
Increase (decrease) in accounts payable and accrued liabilities	18	(93)
Increase in deferred contributions	6	57
	<u>(596)</u>	<u>(2,183)</u>
Investing activities:		
Net decrease (increase) in short-term investments	364	(1,159)
Net decrease in long-term investments	159	4,387
	<u>523</u>	<u>3,228</u>
Increase (decrease) in cash	(73)	1,045
Cash, beginning of year	1,706	661
Cash, end of year	<u>\$ 1,633</u>	<u>\$ 1,706</u>

See accompanying notes to financial statements.

CYSTIC FIBROSIS CANADA

Notes to Financial Statements
(In thousands of dollars)

Year ended January 31, 2012

Cystic Fibrosis Canada (the "Organization") is a not-for-profit corporation that 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 generally accepted accounting principles. The most significant accounting policies are as follows:

(a) Revenue recognition:

The Organization follows the deferral method of accounting for contributions.

Unrestricted contributions 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.

(b) Short-term and long-term investments:

Short-term and long-term investments are classified as held-for-trading and stated at fair value. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of operations.

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2012

1. Significant accounting policies (continued):

Fair values of the short-term and long-term investments are determined using the last quoted bid prices. Where quoted bid prices are not available, estimated fair values are calculated using comparable securities. Transaction costs are expensed as incurred.

The Organization periodically enters into derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates on its long-term investments. Realized and unrealized gains and losses are included in the statement of operations. The Organization does not enter into any derivative financial instruments for speculative purposes.

(c) 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) Chapter development and training expenses are allocated proportionally on the basis of the functions performed by the Organization's chapters.
- (iv) In fiscal 2012, 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.

(d) 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.

CYSTIC FIBROSIS CANADA

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended January 31, 2012

1. Significant accounting policies (continued):

(e) 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. Actual results could differ from those estimates.

2. Short-term and long-term investments:

	2012		2011	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 939	\$ 938	\$ 728	\$ 728
Canadian fixed income	6,773	6,834	7,588	7,564
Canadian equities	1,934	2,183	1,797	2,352
Foreign equities	3,860	3,568	3,915	3,759
Foreign exchange contracts, net	—	32	—	—
	<u>\$ 13,506</u>	<u>\$ 13,555</u>	<u>\$ 14,028</u>	<u>\$ 14,403</u>

The short-term and long-term investments include fixed income securities which bear a yield to maturity of 2.34% (2011 - 2.14%) with maturity dates from 2 months to 11 months (2011 - 4 days to 18 months).

(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.

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2012

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

(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.

(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.

3. Deferred contributions:

Deferred contributions represent the deferred portion of investments in life insurance contributions, contributions related to future expenses and contributions made on the condition by the donor that these funds be restricted for a special purpose.

	2012	2011
Balance, beginning of year	\$ 274	\$ 217
Contributions	204	203
	478	420
Recognized as revenue	198	146
Balance, end of year	\$ 280	\$ 274

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2012

4. 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, 2012, the Organization has not utilized the available demand facility.

5. 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:

2013	\$ 7,851
2014	3,054
2015	1,218
	\$ 12,123

6. Allocation of expenses:

General support and fundraising expenses of \$5,042 (2011 - \$4,462) have been allocated as follows:

2011-2012 General support and fundraising expenses					
Function	Payroll	Rent and storage	IT and phone	Chapter development/ training	Total
Research grants and awards	\$ 261	\$ 27	\$ 26	\$ -	\$ 314
Clinics	142	15	14	-	171
Patient services	249	39	32	4	324
Public awareness	766	97	46	9	918
Administration	1,221	193	72	5	1,491
Meetings	136	21	20	-	177
Fundraising	1,353	196	79	19	1,647
	\$ 4,128	\$ 588	\$ 289	\$ 37	\$ 5,042

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2012

6. Allocation of expenses (continued):

2010-2011					
General support and fundraising expenses					
Function	Payroll	Rent and storage	IT and phone	Chapter development/training	Total
Research grants and awards	\$ 257	\$ 26	\$ 19	\$ -	\$ 302
Clinics	138	16	11	-	165
Patient services	294	34	23	3	354
Public awareness	717	86	34	11	848
Administration	1,167	171	54	5	1,397
Meetings	136	18	15	-	169
Fundraising	974	176	56	21	1,227
	\$ 3,683	\$ 527	\$ 212	\$ 40	\$ 4,462

7. Disclosure in compliance with the Imagine Canada Ethical Code:

The Organization has adopted the Ethical Code of Imagine Canada.

	2012	2011
Total fundraising revenue	\$ 17,531	\$ 15,028
Total direct costs and fundraising expenses	5,832	5,089
Total donations receipted for income tax purposes	7,834	7,708
Total expenditures on charitable activities	10,183	9,847

8. Fundraising expenses:

Fundraising expenses include \$546 (2011 - \$434) paid as remuneration to employees whose principal duties involve fundraising.

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2012

9. Commitments:

The Organization is committed under operating leases with terms extending to January 31, 2022 for office premises and equipment with the following minimum annual rental payments:

2013	\$ 476
2014	452
2015	433
2016	405
2017	458
Thereafter	210

The Organization has provided letters of credit of \$254 to guarantee prizes and awards of lotteries.

10. Fair values of financial assets and financial liabilities:

The carrying values of cash, receivables and other assets and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these financial instruments or because they are receivable or payable on demand.

Investments are reported at fair values, as disclosed in note 2.

11. Comparative figures:

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