

Financial Statements of

CYSTIC FIBROSIS CANADA

Year ended January 31, 2014



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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, 2014, 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, our 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 year ended January 31, 2014, any adjustments might be necessary to revenue and excess of revenue over expenses reported in the statement of operations, excess 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, 2013.

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, 2014, 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, 2014
Toronto, Canada

CYSTIC FIBROSIS CANADA

Statement of Financial Position
(In thousands of dollars)

January 31, 2014, with comparative information for 2013

| | 2014 | 2013 |
|----------------------------------|------------------|------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 2,203 | \$ 1,773 |
| Short-term investments (note 2) | 2,795 | 2,440 |
| Receivables and other assets | 932 | 1,198 |
| | <u>5,930</u> | <u>5,411</u> |
| Contribution receivable (note 3) | 159 | 132 |
| Long-term investments (note 2) | 11,589 | 10,803 |
| Capital assets (note 4) | 136 | — |
| | <u>\$ 17,814</u> | <u>\$ 16,346</u> |

Liabilities and Net Assets

| | | |
|---|------------------|------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 447 | \$ 378 |
| Deferred revenue | 367 | 310 |
| | <u>814</u> | <u>688</u> |
| Long-term deferred contributions (note 5) | 457 | 132 |
| Net assets: | | |
| Endowment | 94 | 94 |
| Internally restricted for research and clinics (note 7) | 11,594 | 12,221 |
| Unrestricted | 4,855 | 3,211 |
| | <u>16,543</u> | <u>15,526</u> |
| Commitments (note 9) | | |
| | <u>\$ 17,814</u> | <u>\$ 16,346</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, 2014, with comparative information for 2013

| | 2014 | 2013 |
|---|-----------------|---------------|
| Revenue: | | |
| Chapter - operating | \$ 12,510 | \$ 11,895 |
| Chapter - bequests | 1,132 | 430 |
| Kin Canada | 1,140 | 1,192 |
| Shinerama | 1,117 | 1,035 |
| Corporations | 541 | 720 |
| Royalties | 328 | 407 |
| Other | 151 | 403 |
| | <u>16,919</u> | <u>16,082</u> |
| Less direct fundraising costs | 4,109 | 3,761 |
| Net fundraising revenue | <u>12,810</u> | <u>12,321</u> |
| Expenses: | | |
| Program: | | |
| Research grants and awards | 5,845 | 5,553 |
| Special research initiative | 131 | 96 |
| Clinics | 2,381 | 2,024 |
| Patient services | 608 | 588 |
| Public awareness | 1,074 | 1,228 |
| Other | 113 | 86 |
| | <u>10,152</u> | <u>9,575</u> |
| Other: | | |
| Administration and meetings | 2,590 | 2,566 |
| Fundraising | 929 | 895 |
| | <u>13,671</u> | <u>13,036</u> |
| Excess of expenses over revenue before the undernoted | (861) | (715) |
| Investment income: | | |
| Realized gains on investments | 1,231 | 489 |
| Unrealized gain on investments | 676 | 542 |
| Derivative loss on foreign exchange contracts | (29) | (48) |
| | <u>1,878</u> | <u>983</u> |
| Excess of revenue over expenses | <u>\$ 1,017</u> | <u>\$ 268</u> |

See accompanying notes to financial statements.

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2014, with comparative information for 2013

| | | | | 2014 | 2013 |
|---------------------------------|-----------|---|--------------|-----------|-----------|
| | Endowment | Internally restricted for research and clinics (note 7) | Unrestricted | Total | Total |
| Net assets, beginning of year | \$ 94 | \$ 12,221 | \$ 3,211 | \$ 15,526 | \$ 15,258 |
| Excess of revenue over expenses | – | | 1,017 | 1,017 | 268 |
| Transfer between funds | – | (627) | 627 | – | – |
| Net assets, end of year | \$ 94 | \$ 11,594 | \$ 4,855 | \$ 16,543 | \$ 15,526 |

See accompanying notes to financial statements.

CYSTIC FIBROSIS CANADA

Statement of Cash Flows
(In thousands of dollars)

Year ended January 31, 2014, with comparative information for 2013

| | 2014 | 2013 |
|--|----------|----------|
| Cash provided by (used) in: | | |
| Operating activities: | | |
| Excess of revenue over expenses | \$ 1,017 | \$ 268 |
| Items not involving cash: | | |
| Amortization of capital assets | 2 | – |
| Amortization of long-term deferred contributions | (2) | – |
| Unrealized gain on investments | (676) | (542) |
| Derivative loss on foreign exchange contracts | 29 | 48 |
| Change in non-cash operating working capital: | | |
| Receivables and other assets | 266 | (460) |
| Accounts payable and accrued liabilities | 69 | (142) |
| Deferred revenue | 57 | 162 |
| | 762 | (666) |
| Financing activities: | | |
| Increase in deferred contributions | 300 | – |
| Investing activities: | | |
| Purchase of capital assets | (138) | – |
| Net change in short-term investments | (355) | 1,247 |
| Net change in long-term investments | (139) | (441) |
| | (632) | 806 |
| Increase in cash | 430 | 140 |
| Cash, beginning of year | 1,773 | 1,633 |
| Cash, end of year | \$ 2,203 | \$ 1,773 |

See accompanying notes to financial statements.

CYSTIC FIBROSIS CANADA

Notes to Financial Statements
(In thousands of dollars)

Year ended January 31, 2014

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, 2014

1. Significant accounting policies (continued):

(b) 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.

(c) 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.

(d) 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.

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2014

1. Significant accounting policies (continued):

(iii) Chapter development and training expenses are allocated proportionally on the basis of the functions performed by the Organization's chapters.

(iv) 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.

(e) 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.

(f) 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:

| | 2014 | 2013 |
|---------------------------------|------------------|------------------|
| Cash and cash equivalents | \$ 785 | \$ 1,082 |
| Canadian fixed income | 2,794 | 2,440 |
| Pooled Funds: | | |
| Fixed income | 4,123 | 3,216 |
| Canadian equities | 2,490 | 2,442 |
| Foreign equities | 4,240 | 4,079 |
| Foreign exchange contracts, net | (48) | (16) |
| | <u>\$ 14,384</u> | <u>\$ 13,243</u> |

All short-term and long-term investments are recorded at fair value. The short-term and long-term investments include fixed income securities which bear a yield to maturity of 2.85% (2013 - 2.24%) with maturity dates ranging from one month to seven months (2013 - one month to six months).

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2014

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

(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.

(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 contract outstanding to purchase U.S. \$1,060,000 at a rate of 1.07. The contract matures on March 20, 2014.

3. Contributions receivable:

The Organization is the beneficiary under life insurance policy contributions recorded at their present value of \$159 (2013 - \$132).

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2014

4. Capital assets:

During the year, the Organization incurred \$138 (2013 - nil) on leasehold improvements. Amortization expense for the year is \$2 (2013 - nil) and is included in other expenses on the statement of operations. Net book value as at January 31, 2014 is \$136 (2013 - nil).

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, 2013 | Contributions | Amortization | Balance, January 31, 2014 |
|-------------------------|---------------------------------|---------------|--------------|---------------------------------|
| Life insurance (note 3) | \$ 132 | \$ 27 | \$ – | \$ 159 |
| Deferred rent | – | 164 | 2 | 162 |
| Capital assets | – | 138 | 2 | 136 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | \$ 132 | \$ 329 | \$ 4 | \$ 457 |

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, 2014, the Organization has not utilized the available demand facility.

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2014

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:

| | |
|------|------------------|
| 2015 | \$ 7,007 |
| 2016 | 3,245 |
| 2017 | 1,092 |
| 2018 | 150 |
| 2019 | 100 |
| | \$ 11,594 |

8. Allocation of expenses:

Total salaries, support and fundraising expenses of \$5,381 (2013 - \$5,019) have been allocated as follows:

| General support and fundraising expenses | | | | | | |
|--|-----------------|---------------|-------------------------------------|-----------------|-------|-----------------|
| Function | Payroll | Occupancy | Chapter development/ training | 2014 | Total | 2013 |
| Research grants and awards | \$ 369 | \$ 33 | \$ – | \$ 402 | | \$ 328 |
| Clinics | 340 | 18 | – | 358 | | 181 |
| Patient services | 305 | 64 | – | 369 | | 346 |
| Public awareness | 602 | 131 | 2 | 735 | | 925 |
| Administration and meetings | 1,354 | 274 | 24 | 1,652 | | 1,638 |
| Fundraising | 1,597 | 245 | 23 | 1,865 | | 1,601 |
| | \$ 4,567 | \$ 765 | \$ 49 | \$ 5,381 | | \$ 5,019 |

CYSTIC FIBROSIS CANADA

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

Year ended January 31, 2014

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:

| | |
|------------|--------|
| 2015 | \$ 489 |
| 2016 | 521 |
| 2017 | 494 |
| 2018 | 452 |
| 2019 | 458 |
| Thereafter | 2,086 |

The Organization has provided letters of credit of \$17 to guarantee prizes and awards of lotteries.

10. Comparative information:

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