

Crohn's and Colitis Canada

Financial Statements

For the year ended June 30, 2018

Crohn's and Colitis Canada

Financial Statements

For the year ended June 30, 2018

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Independent Auditor's Report

To the Members of Crohn's and Colitis Canada

We have audited the accompanying financial statements of Crohn's and Colitis Canada, which comprise the statement of financial position as at June 30, 2018 and the statements of revenue and expenses, changes in fund balances 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.

Auditor's 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 auditor's 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 auditor considers 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 reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements presents fairly, in all material respects, the financial position of Crohn's and Colitis Canada as at June 30, 2018, 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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

September 29, 2018
Toronto, Ontario

Crohn's and Colitis Canada Statement of Financial Position

| June 30 | 2018 | 2017 |
|--|----------------------|----------------------|
| Assets | | |
| Current | | |
| Cash (Note 3) | \$ 5,513,655 | \$ 4,164,698 |
| Externally restricted cash (Note 4) | 201,088 | 179,290 |
| Investments (Note 5) | 8,255,229 | 7,736,065 |
| Accounts receivable | 832,466 | 714,327 |
| Prepaid expenses | 63,706 | 107,581 |
| | 14,866,144 | 12,901,961 |
| Investments (Note 5) | 357,647 | 329,272 |
| Property and equipment (Note 6) | 140,006 | 185,462 |
| | \$ 15,363,797 | \$ 13,416,695 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 806,975 | \$ 718,922 |
| Deferred revenue (Note 7) | 3,922,298 | 2,634,472 |
| | 4,729,273 | 3,353,394 |
| Deferred revenue (Note 7) | 478,857 | 466,816 |
| | 5,208,130 | 3,820,210 |
| Fund Balances (Note 9) | | |
| Endowment | 565,528 | 521,643 |
| Internally restricted research reserve | 4,256,202 | 3,291,985 |
| Internally restricted property and equipment | 140,006 | 185,462 |
| Internally restricted operating | 1,500,000 | 1,500,000 |
| Unrestricted | 3,693,931 | 4,097,395 |
| | 10,155,667 | 9,596,485 |
| | \$ 15,363,797 | \$ 13,416,695 |

On behalf of the Board of Directors:



Byron Sonberg, Chair



Lawrence Davis, Treasurer

Crohn's and Colitis Canada Statement of Revenue and Expenses

| For the year ended June 30 | 2018 | 2017 |
|--|-------------------|-------------------|
| Revenue | | |
| Gifts | \$ 8,168,985 | \$ 7,425,811 |
| Fundraising event proceeds | 6,239,693 | 6,492,315 |
| Investment income (Note 5) | 466,442 | 399,265 |
| | 14,875,120 | 14,317,391 |
| Expenses (Note 11) | | |
| Program costs | | |
| Research | 6,711,423 | 6,694,961 |
| Education/awareness/advocacy | 1,700,325 | 1,633,872 |
| Volunteer/chapter services | 637,377 | 666,658 |
| | 9,049,125 | 8,995,491 |
| Support costs | | |
| Fundraising expenses | 4,011,521 | 3,734,769 |
| General and administrative | 1,291,127 | 1,368,562 |
| | 5,302,648 | 5,103,331 |
| Total expenses | 14,351,773 | 14,098,822 |
| Excess of revenue over expenses before undernoted | 523,347 | 218,569 |
| Foreign exchange loss | (8,050) | (24,476) |
| Excess of revenue over expenses for the year | \$ 515,297 | \$ 194,093 |

The accompanying notes are an integral part of these financial statements.

**Crohn's and Colitis Canada
Statement of Changes in Fund Balances**

For the year ended June 30

| | Endowment fund | Internally restricted research reserve fund | Internally restricted property and equipment | Internally restricted operating fund | Unrestricted | 2018 Total | 2017 Total |
|---|-------------------|---|--|---|--------------|---------------|---------------|
| | (Note 9) | (Note 9) | (Note 9) | (Note 9) | (Note 9) | | |
| Fund balances, beginning of year | \$ 521,643 | \$ 3,291,985 | \$ 185,462 | \$ 1,500,000 | \$ 4,097,395 | \$ 9,596,485 | \$ 9,348,507 |
| Excess of revenue over expenses for the year | - | - | (46,600) | - | 561,897 | 515,297 | 194,093 |
| Contributions to externally restricted endowment fund | 43,885 | - | - | - | - | 43,885 | 53,885 |
| Internally restricted research reserve fund and unrestricted fund balances | - | 964,217 | - | - | (964,217) | - | - |
| Acquisition of property, plant and equipment | - | - | 1,144 | - | (1,144) | - | - |
| Fund balances, end of year | \$ 565,528 | \$ 4,256,202 | \$ 140,006 | \$ 1,500,000 | \$ 3,693,931 | \$ 10,155,667 | \$ 9,596,485 |

The accompanying notes are an integral part of these financial statements.

Crohn's and Colitis Canada Statement of Cash Flows

| For the year ended June 30 | 2018 | 2017 |
|--|---------------------|---------------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Excess of revenue over expenses for the year | \$ 515,297 | \$ 194,093 |
| Adjustments to reconcile excess of revenue over expenses for the year to cash provided by operating activities | | |
| Amortization | 46,600 | 41,326 |
| Unrealized gain on investments (Note 5) | (190,261) | (111,646) |
| Changes in non-cash working capital balances | | |
| Accounts receivables | (118,139) | (211,210) |
| Prepaid expenses | 43,875 | 7,525 |
| Accounts payables and accrued liabilities | 88,053 | 13,600 |
| Deferred revenue | 1,299,867 | (150,315) |
| | 1,685,292 | (216,627) |
| Investing activities | | |
| Investment activity (net) | (330,893) | (726,383) |
| Acquisition of property and equipment | (1,144) | (108,970) |
| | (332,037) | (835,353) |
| Financing activity | | |
| Contribution to endowment fund | 17,500 | 27,500 |
| Increase (decrease) in cash during the year | 1,370,755 | (1,024,480) |
| Cash, beginning of year | 4,343,988 | 5,368,468 |
| Cash, end of year | \$ 5,714,743 | \$ 4,343,988 |
| Cash: | | |
| Unrestricted | \$ 5,513,655 | \$ 4,164,698 |
| Externally restricted (Note 4) | 201,088 | 179,290 |
| Net cash | \$ 5,714,743 | \$ 4,343,988 |
| Non-cash transaction: | | |
| Life insurance policy (Note 5) | \$ 26,385 | 26,385 |

The accompanying notes are an integral part of these financial statements.

Crohn's and Colitis Canada Notes to Financial Statements

June 30, 2018

1. Purpose of the Organization

Crohn's and Colitis Canada (the "Organization") is a national not-for-profit organization. The Organization's promise is to cure Crohn's disease and ulcerative colitis and improve the lives of children and adults affected by these chronic diseases. The Organization was established under the Canada Corporations Act as a not-for-profit organization without share capital and continued under the Canada Not-for-profit Corporations Act in October 2014.

Crohn's and Colitis Canada is a registered charity within the meaning of the Income Tax Act (Canada) and is exempt from income taxes.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) and include the following significant accounting policies:

National and Regional Operations Including Chapters

The financial statements include all of the national and regional operations of Crohn's and Colitis Canada and its 46 chapters, and the Calgary and Edmonton Societies.

Revenue Recognition

The Organization follows the deferral method of accounting for contributions.

Unrestricted contributions are recorded as revenue when the amount is measurable and ultimate collection is reasonably assured.

Restricted contributions, other than endowment contributions, are deferred until the period in which the related expenses are incurred. Endowment contributions are recognized as direct increases in fund balances.

Amounts received related to a future period are deferred until the period in which the event occurs.

Crohn's and Colitis Canada Notes to Financial Statements

June 30, 2018

2. Summary of Significant Accounting Policies - (Continued)

Financial Instruments

The Organization considers any contract creating a financial asset for one entity and a financial liability or equity instrument of another entity as a financial instrument, except in certain limited circumstances.

Initial Measurement

The Organization's financial instruments are measured at fair value when issued or acquired.

Subsequent Measurement

Investments are recorded at fair value based on the closing bid price at year end. Realized and unrealized gains and losses on investments are recognized as investment income in the statement of revenue and expenses.

Foreign currency forward contracts are recorded at fair value at year end with any changes in fair value recorded in the statement of revenue and expenses as part of the foreign exchange gain (loss).

All other financial assets and liabilities are recorded at amortized cost, less any impairment allowance in the case of financial assets. Any impairment loss is recognized in the statement of revenue and expenses.

Property and Equipment

Purchased property and equipment over \$1,000 is recorded at cost and is amortized over its estimated useful life on a straight-line basis. The annual amortization rates are as follows:

| | |
|------------------------|--------------|
| Computers and software | 3 - 5 years |
| Furniture and fixtures | 5 - 10 years |

Leasehold improvements are amortized straight-line over the period of the lease.

Crohn's and Colitis Canada Notes to Financial Statements

June 30, 2018

2. Summary of Significant Accounting Policies - (Continued)

Research Grants and Awards

Research grants and awards are recorded in the financial statements at the earlier of when a legal obligation exists and when the grants and awards are paid.

Donated Goods and Services

A number of individuals and business organizations have volunteered their time to the Organization's fundraising efforts. Due to the difficulty in determining their fair value, these are not recognized or disclosed in the financial statements.

Expense Allocation

Expenses are allocated (Note 11) using the following allocation method:

Salaries and benefits

Allocated based on staff estimates of time spent on each functional area.

General office

Includes board of director expenses, staff travel, general and administrative costs, publications, amortization and professional services and are allocated based on their applicability to the relevant programs.

Rent

Allocated based on square footage and related departmental salary allocations.

Insurance

Allocated based on an even split between fundraising and administration as the Organization's coverage is based partially on the type and number of fundraising events held and partially on general factors of an administrative nature.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates are reviewed periodically and as adjustments become necessary they are reported in the year in which they become known. Actual results could differ from those estimates.

Crohn's and Colitis Canada Notes to Financial Statements

June 30, 2018

3. Cash

Included in cash are funds of \$4,617,293 (2017 - \$3,425,643) held in premium interest accounts with an effective interest rate of 1.06% (2017 - 0.75%).

4. Externally Restricted Cash

Externally restricted cash comprises gaming revenues earned by the Organization. Use of gaming revenues is restricted for use in the region where the gaming revenues were earned.

5. Investments

Investments are stated at fair value and include the investments of the Ross McMaster memorial donation in the amount of \$478,857 (2017 - \$466,816).

| | 2018 | 2017 |
|---|---------------------|--------------|
| Cash included in investments accounts | \$ 80,728 | \$ 39,149 |
| Guaranteed investment certificates | 2,581,412 | 2,576,734 |
| Corporate bond funds | 1,132,075 | 1,079,666 |
| Listed Equities | | |
| Canadian | 946,350 | 869,715 |
| United States | 1,792,726 | 1,874,789 |
| International | 1,721,938 | 1,296,012 |
| Current investments | 8,255,229 | 7,736,065 |
| Fixed income (federal and provincial bonds) | 105,223 | 103,233 |
| Life insurance policy (Note 9) | 252,424 | 226,039 |
| Long term investments | 357,647 | 329,272 |
| | \$ 8,612,876 | \$ 8,065,337 |

The Guaranteed investment certificates bear interest between 0.50% and 1.88% (2017 - 0.50% and 1.00%) and mature between March 2019 and June 2019 (2017 - March 2018 and June 2018). Bonds have interest rates ranging from 1.25% to 3.7% (2017 - 1.25% to 4.5%) and mature between December 2020 and June 2027 (2017 - December 2018 and June 2026).

The Organization has assigned a \$1,000,000 guaranteed investment certificate, bearing interest at 0.90% (2017 - 1.00%) and maturing March 2019 (2017 - March 2018), as security for a \$1,000,000 line of credit with the Bank.

Crohn's and Colitis Canada Notes to Financial Statements

June 30, 2018

5. Investments - (Continued)

Investment income consists of the following:

| | 2018 | 2017 |
|---|------------|------------|
| Dividend income | \$ 27,521 | \$ 31,402 |
| Interest income (including interest on cash balances) | 155,728 | 151,132 |
| Realized gain on sale of investments | 92,932 | 105,085 |
| Unrealized gain on investments | 190,261 | 111,646 |
| | \$ 466,442 | \$ 399,265 |

6. Property and Equipment

| | 2018 | | 2017 | |
|------------------------|------------|-----------------------------|--------------------|--------------------|
| | Cost | Accumulated Amortization | Carrying Amount | Carrying Amount |
| Computers and software | \$ 704,756 | \$ 624,644 | \$ 80,112 | \$ 101,634 |
| Furniture and fixtures | 130,931 | 107,454 | 23,477 | 36,206 |
| Leasehold improvements | 125,310 | 88,893 | 36,417 | 47,622 |
| | \$ 960,997 | \$ 820,991 | \$ 140,006 | \$ 185,462 |

Crohn's and Colitis Canada Notes to Financial Statements

June 30, 2018

7. Deferred Revenue

| | Research Consortium | Impact of IBD | Ross McMaster Memorial Donation | Scholarship Program | Mentoring and Camp | IBD - Sponsorships | GEM Project (Note 8b) | PACE Project | Advocacy & GoHere | Other | 2018 Total | 2017 Total |
|-----------------------------------|---------------------|-------------------|---------------------------------|---------------------|--------------------|--------------------|-----------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 195,180 | \$ 150,000 | \$ 466,816 | \$ 120,000 | \$ 186,040 | \$ 343,943 | \$ 558,994 | \$ 508,989 | \$ 285,340 | \$ 285,986 | \$ 3,101,288 | \$ 3,251,603 |
| Transfers: | - | - | - | 5,000 | 3,960 | (22,480) | - | - | - | 13,520 | - | - |
| Add: Received | 320,000 | 50,000 | 12,041 | 320,000 | 150,000 | 384,932 | 2,927,048 | 310,000 | 245,000 | 84,453 | 4,803,474 | 2,761,268 |
| Less: Recognized | (135,000) | (35,000) | - | (245,000) | (240,000) | (466,589) | (1,730,923) | (220,395) | (152,740) | (277,960) | (3,503,607) | (2,911,583) |
| Balance, end of year | \$ 380,180 | \$ 165,000 | \$ 478,857 | \$ 200,000 | \$ 100,000 | \$ 239,806 | \$ 1,755,119 | \$ 598,594 | \$ 377,600 | \$ 105,999 | \$ 4,401,155 | \$ 3,101,288 |
| Current | \$ 380,180 | \$ 165,000 | \$ - | \$ 200,000 | \$ 100,000 | \$ 239,806 | \$ 1,755,119 | \$ 598,594 | \$ 377,600 | \$ 105,999 | \$ 3,922,298 | \$ 2,634,472 |
| Long term | - | - | 478,857 | - | - | - | - | - | - | - | 478,857 | 466,816 |
| | \$ 380,180 | \$ 165,000 | \$ 478,857 | \$ 200,000 | \$ 100,000 | \$ 239,806 | \$ 1,755,119 | \$ 598,594 | \$ 377,600 | \$ 105,999 | \$ 4,401,155 | \$ 3,101,288 |

Crohn's and Colitis Canada Notes to Financial Statements

June 30, 2018

8. Commitments and Guarantees

a) Premises and Office Equipment

The Organization has entered into agreements to lease premises and office equipment for various periods until September 2021 for the National and Regional Offices. The Organization is committed to the following rental payments for premises and office equipment:

| | |
|------|-------------------|
| 2019 | \$ 126,000 |
| 2020 | 131,000 |
| 2021 | 133,000 |
| 2022 | <u>34,000</u> |
| | <u>\$ 424,000</u> |

b) Helmsley Charitable Trust

In 2014, the Organization announced a \$9,826,350 five year funding commitment to Crohn's disease research in Canada, of which U.S. \$5,895,810 is a lead gift from Helmsley Charitable Trust. The remaining balance has been committed by the Organization. This funding will support the Genetics, Environmental, Microbial (GEM) Project at Mount Sinai Hospital.

As of June 30, 2018, the Organization has received U.S. \$8,654,367 (2017 - \$5,727,319) from the Helmsley Charitable Trust and has expended \$6,899,280 (2017 - \$5,168,325) with the remaining balance recognized as deferred revenue. The Organization itself is committed to \$2,515,199 (2017 - \$290,398) towards the GEM Project of which \$1,140,000 (2017 - \$290,398) represents its commitment for the next 12 months and is included in internally restricted research reserve fund (Note 9b).

9. Fund Balances

a) Endowment Fund

Endowment fund is The Jaclyn Fisher Endowment Fund which was established to carry out designated activities to support the Organization's Montreal education symposia, youth activities of the Organization and any program used to sensitize teachers and students to the disease and its effect. The capital is to be held in perpetuity. During the year \$43,885 (2017 - \$53,885), including \$26,385 (2017 - \$26,385) of life insurance policy, was contributed to the fund.

b) Internally Restricted Research Reserve Fund

Internally restricted research reserve fund is an internally restricted fund representing the amount estimated for the Organization to honour future research grant commitments within twelve months.

Crohn's and Colitis Canada Notes to Financial Statements

June 30, 2018

9. Fund Balances - (Continued)

b) Internally Restricted Research Reserve Fund - (Continued)

The Organization expenses research grants when paid. Approved research grant commitments are not accrued in the financial statements as these grants are subject to continuous review and can be withdrawn if stipulated conditions are not met. A continuity of future research grant commitments is as follows:

| | 2018 | 2017 |
|--|--------------|---------------|
| Research grant commitments, beginning of year | \$ 8,268,018 | \$ 10,185,573 |
| Research grants approved during the year | 9,591,603 | 4,407,316 |
| Research grants withdrawn/reduced during the year | (53,048) | (72,101) |
| | 17,806,573 | 14,520,788 |
| Research grants paid during the year | (6,224,910) | (6,252,770) |
| Research grant commitments, end of year | 11,581,663 | 8,268,018 |
| Less: Research grant commitments beyond 12 months | (7,325,461) | (4,976,033) |
| Research grant commitments within 12 months | \$ 4,256,202 | \$ 3,291,985 |

During the year, the board approved the transfer of \$964,217 from the unrestricted to the restricted fund (2017 - \$471,876 from restricted to unrestricted fund) to match commitments within the next 12 months as at year end.

c) Internally Restricted Property and Equipment

Internally restricted property and equipment is an internally restricted fund representing the carrying amount of property and equipment, less any indebtedness thereon.

d) Internally Restricted Operating Fund

Internally restricted operating fund is an internally restricted fund representing three months of operating expenses excluding mission spending. During the year, there was no transfer (2017 - \$100,000) from the unrestricted to restricted fund to match requirements of internal restriction of three months operating expenses.

e) Unrestricted Fund

Unrestricted fund balance represents the excess of revenue over expenses accumulated by the Organization that is not internally restricted.

Crohn's and Colitis Canada Notes to Financial Statements

June 30, 2018

10. Financial Instruments

The Organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the Organization's risk exposures at June 30, 2018:

Credit Risk

Credit risk arises as a result of the potential non-performance by counterparties of contract obligations which could lead to a financial loss to the Organization. The Organization's credit risk relates to its receivables and fixed income investments.

Liquidity Risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting its obligations. The Organization meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash.

Interest Rate Risk

Interest rate risk is the risk that the fair value of or future cash flows from a financial instrument will fluctuate because of market changes in interest rates. The Organization is subject to interest rate risk on its fixed income investments, as disclosed in Note 5.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Organization is subject to currency risk to the extent that cash is held and investments are made in foreign currencies. The Organization is also subject to currency risk as a result of the Helmsley Charitable Trust Agreement (Note 8b).

**Crohn's and Colitis Canada
Notes to Financial Statements**

June 30, 2018

11. Expense Allocation

| | Research | Education/ Awareness/ Advocacy | Volunteer/ Chapter Services | Fundraising Expenses | General and Administrative | 2018 | 2017 |
|-----------------------|---------------------|--------------------------------------|-----------------------------------|-------------------------|-------------------------------|----------------------|----------------------|
| Direct costs | \$ 6,285,805 | \$ 825,802 | \$ 93,945 | \$ 2,049,082 | \$ 106,490 | \$ 9,361,124 | \$ 9,280,643 |
| Allocated costs | | | | | | | |
| Salaries and benefits | 357,891 | 719,108 | 452,664 | 1,661,844 | 965,184 | 4,156,691 | 3,825,526 |
| General office | 38,365 | 115,829 | 59,294 | 202,747 | 147,947 | 564,182 | 725,884 |
| Rent | 29,362 | 39,586 | 31,474 | 86,841 | 60,498 | 247,761 | 244,761 |
| Insurance | - | - | - | 11,007 | 11,008 | 22,015 | 22,008 |
| Total expenses | \$ 6,711,423 | \$ 1,700,325 | \$ 637,377 | \$ 4,011,521 | \$ 1,291,127 | \$ 14,351,773 | \$ 14,098,822 |

12. Comparative Amounts

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.