

Crohn's and Colitis Canada

Financial Statements

For the year ended June 30, 2016

Crohn's and Colitis Canada

Financial Statements

For the year ended June 30, 2016

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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, 2016 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 basis for our qualified audit opinion on the results of operations and cash flows and our unmodified opinion on the financial position.



Basis for Qualified Opinion on the Results of Operations and Cash Flows

The predecessor auditor was not able to audit the completeness of revenue from gifts and fundraising events. Since revenue affects the determination of the results of operations and cash flows, the predecessor auditor was unable to determine whether adjustments to the results of operations, changes in fund balances and cash flows might be necessary for the year ended June 30, 2015. The predecessor auditor's opinion on the financial statements for the year ended June 30, 2015 was modified accordingly. Our opinion on the current year's financial statements for the year ended June 30, 2016 is also modified because of the possible effects of this matter on the comparability of the current year's figures and the comparative information.

Qualified Opinion on the Results of Operations and Cash Flows

In our opinion, except for the possible effects on the comparative information of the matter described in the Basis for Qualified Opinion on the Results of Operations and Cash Flows paragraph, the statements of revenue and expenses, changes in fund balances and cash flows present fairly, in all material respects, the results of operations and cash flows of Crohn's and Colitis Canada for the year ended June 30, 2016 in accordance with Canadian accounting standards for not-for-profit organizations.

Opinion on the Financial Position

In our opinion, the statement of financial position presents fairly, in all material respects, the financial position of Crohn's and Colitis Canada as at June 30, 2016 in accordance with Canadian accounting standards for not-for-profit organizations.

Other Matter

The financial statements of Crohn's and Colitis Canada for the year ended June 30, 2015 were audited by another auditor who expressed a modified opinion on September 19, 2015 on the statements of revenue and expenditures, changes in fund balances and cash flows for the year ended June 30, 2015 and statement of financial position as at June 30, 2015 for the reasons described in the Basis for Qualified Opinion on the Results of Operations, Changes in Fund Balances and Cash Flows paragraph.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

September 24, 2016
Toronto, Ontario

Crohn's and Colitis Canada Statement of Financial Position

June 30 **2016** **2015**

Assets

Current

Cash (Note 3)	\$ 5,226,594	\$ 1,158,563
Externally restricted cash (Note 4)	141,874	118,420
Investments (Note 5)	2,894,322	3,179,208
Accounts receivable	503,117	849,861
Prepaid expenses	115,106	87,469

8,881,013 **5,393,521**

Investments (Note 5)

4,306,601 **4,892,478**

Property and equipment (Note 6)

117,818 **170,096**

\$ 13,305,432 **\$ 10,456,095**

Liabilities

Current

Accounts payable and accrued liabilities	\$ 705,322	\$ 757,312
Deferred revenue (Note 7)	2,808,864	547,716

3,514,186 **1,305,028**

Deferred revenue (Note 7)

442,739 **433,329**

3,956,925 **1,738,357**

Fund Balances (Note 9)

Endowment	467,758	-
Internally restricted research reserve	3,763,861	4,244,412
Internally restricted property and equipment	117,818	170,096
Internally restricted operating	1,400,000	1,450,000
Unrestricted	3,599,070	2,853,230

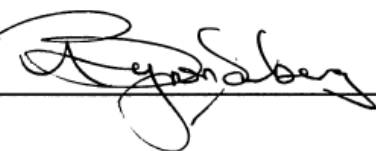
9,348,507 **8,717,738**

\$ 13,305,432 **\$ 10,456,095**

On behalf of the Board of Directors:



Harvey Doerr, président



Byron Sonberg, trésorier

Crohn's and Colitis Canada Statement of Revenue and Expenses

For the year ended June 30	2016	2015
Revenue		
Gifts	\$ 8,038,822	\$ 6,291,033
Fundraising event proceeds	5,966,360	7,450,505
Investment income (Note 5)	188,646	589,128
	14,193,828	14,330,666
Expenses (Note 11)		
Program costs		
Research	6,583,829	6,002,125
Education/awareness/advocacy	1,622,503	1,995,426
Volunteer/chapter services	790,970	861,496
	8,997,302	8,859,047
Support costs		
Fundraising expenses	3,614,754	4,365,445
General and administrative	1,287,147	1,625,754
	4,901,901	5,991,199
Total expenses	13,899,203	14,850,246
Excess (deficiency) of revenue over expenses before undernoted	294,625	(519,580)
Foreign exchange gain (loss)	(131,614)	43,416
Excess (deficiency) of revenue over expenses for the year	\$ 163,011	\$ (476,164)

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

	2016					2015	
	Endowment fund <small>(Note 9)</small>	Internally restricted research reserve fund <small>(Note 9)</small>	Internally restricted property and equipment <small>(Note 9)</small>	Internally restricted operating fund <small>(Note 9)</small>	Unrestricted <small>(Note 9)</small>	Total	Total
Fund balances, beginning of year	\$ -	\$ 4,244,412	\$ 170,096	\$ 1,450,000	\$ 2,853,230	\$ 8,717,738	\$ 9,193,902
Excess (deficiency) of revenue over expenses for the year	-	-	(52,278)	-	215,289	163,011	(476,164)
Externally restricted endowment fund	467,758	-	-	-	-	467,758	-
Internally restricted research reserve fund and unrestricted fund balances	-	(480,551)	-	-	480,551	-	-
Internally restricted operating fund and unrestricted fund balance	-	-	-	(50,000)	50,000	-	-
Fund balances, end of year	\$ 467,758	\$ 3,763,861	\$ 117,818	\$ 1,400,000	\$ 3,599,070	\$ 9,348,507	\$ 8,717,738

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	2016	2015
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	\$ 163,011	\$ (476,164)
Adjustments to reconcile excess (deficiency) of revenue over expenses for the year to cash provided by operating activities		
Amortization	52,278	86,808
Unrealized (gain) loss on investments (Note 5)	265,829	(112,492)
Changes in non-cash working capital balances		
Accounts receivables	346,744	(170,443)
Prepaid expenses	(27,637)	63,117
Accounts payables and accrued liabilities	(51,990)	59,189
Deferred revenue	2,270,558	(105,244)
	3,018,793	(655,229)
Investing activities		
Investment activity (net)	(395,412)	(969,163)
Proceeds from disposal of investments	1,200,000	1,500,000
Acquisition of property and equipment	-	(3,846)
	804,588	526,991
Financing activity		
Repayment of bank indebtedness	-	(230,000)
Contribution to endowment fund	268,104	-
	268,104	(230,000)
Increase (decrease) in cash during the year	4,091,485	(358,238)
Cash, beginning of year	1,276,983	1,635,221
Cash, end of year	\$ 5,368,468	\$ 1,276,983
Cash:		
Unrestricted	\$ 5,226,594	\$ 1,158,563
Externally restricted (Note 4)	141,874	118,420
Net cash	\$ 5,368,468	\$ 1,276,983
Non-cash transaction:		
Life insurance policy (Note 5)	\$ 199,654	-

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

Crohn's and Colitis Canada Notes to Financial Statements

June 30, 2016

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, 2016

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, 2016

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, depreciation 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, 2016

3. Cash

Included in cash are funds of \$4,396,710 (2015 - \$1,004,683) held in a premium interest account with an effective interest rate of 0.76% (2015 - 0.87%).

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 \$442,739 (2015 - \$433,329).

	2016	2015
Cash included in investments accounts	\$ 711,219	\$ 256,719
Guaranteed investment certificate	170,000	340,000
Listed Equities		
Canadian	895,434	975,312
United States	573,581	867,496
International	544,088	739,681
Current investments	2,894,322	3,179,208
Fixed income (bonds)	4,106,947	4,892,478
Life insurance policy (Note 9)	199,654	-
Long term investments	4,306,601	4,892,478
	\$ 7,200,923	\$ 8,071,686

The Guaranteed investment certificate bears interest at 0.50% (2015 - 0.78%) and matures June 2017 (2015 - June 2016). Bonds have interest rates ranging from 1.25% to 4.5% and mature between September 2018 and June 2025.

The Organization has assigned guaranteed investment certificate of \$170,000 (2015 - \$340,000), as security for the Organization's foreign exchange contract with the Bank.

Investment income consists of the following:

	2016	2015
Dividend income	\$ 33,619	\$ 35,838
Interest income (including interest on cash balances)	184,138	234,711
Realized gain on sale of investments	236,718	206,087
Unrealized gain (loss) on investments	(265,829)	112,492
	\$ 188,646	\$ 589,128

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

June 30, 2016

6. Property and Equipment

	2016			2015
	Cost	Accumulated Amortization	Carrying Amount	Carrying Amount
Computers and software	\$ 594,642	\$ 583,780	\$ 10,862	\$ 40,162
Furniture and fixtures	130,931	82,803	48,128	59,901
Leasehold improvements	125,310	66,482	58,828	70,033
	\$ 850,883	\$ 733,065	\$ 117,818	\$ 170,096

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

June 30, 2016

7. Deferred Revenue

	Government Grants	Ross McMaster Memorial Donation	Mentoring and Camp	IBD - Sponsor- ships	GEM Project (Note 8b)	PACE Project	Other	2016 Total	2015 Total
Balance, beginning of year	\$ 86,145	\$ 433,329	\$ 130,975	\$ 249,746	\$ -	\$ -	\$ 80,850	\$ 981,045	\$ 1,086,289
Add: Received	510	9,410	360,150	365,302	2,484,221	825,000	273,712	4,318,305	2,261,074
Less: Recognized	(86,655)	-	(229,525)	(465,517)	(1,000,000)	-	(266,050)	(2,047,747)	(2,366,318)
Balance, end of year	\$ -	\$ 442,739	\$ 261,600	\$ 149,531	\$ 1,484,221	\$ 825,000	\$ 88,512	\$ 3,251,603	\$ 981,045

Crohn's and Colitis Canada Notes to Financial Statements

June 30, 2016

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:

2017	\$ 139,000
2018	129,000
2019	126,000
2020	131,000
2021 and thereafter	<u>166,000</u>
	<u>\$ 691,000</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, 2016, the Organization has received U.S. \$5,558,526 from the Helmsley Charitable Trust and has expended \$4,268,325 with the remaining balance recognized as deferred revenue. The Organization itself is committed to \$1,060,731 towards the GEM Project of which \$707,000 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 \$467,758, including \$199,654 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, 2016

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:

	2016	2015
Research grant commitments, beginning of year	\$ 10,778,905	\$ 13,393,741
Research grants approved during the year	5,571,420	2,973,058
Research grants withdrawn/reduced during the year	(9,709)	-
	16,340,616	16,366,799
Research grants paid during the year	(6,155,043)	(5,587,894)
Research grant commitments, end of year	10,185,573	10,778,905
Less: Research grant commitments beyond 12 months	(6,421,712)	(6,534,493)
Research grant commitments within 12 months	\$ 3,763,861	\$ 4,244,412

During the year, the board approved the transfer of \$480,551 from the 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, the board approved the transfer of \$50,000 from the restricted to unrestricted 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, 2016

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, 2016:

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 investments are made in foreign currencies, as disclosed in Note 5. The Organization is also subject to currency risk as a result of the Helmsley Charitable Trust Agreement. To reduce this risk, the Organization entered into foreign currency forward contracts, which have been accounted for in these financial statements as outlined in Note 2. As at June 30, 2016, the Organization had U.S. \$336,984 (2015 - U.S. \$2,290,000) of foreign currency forward contracts which will expire between October 2016 and April 2017 (2015 - October 2015 and April 2016). The fair value of these contracts at June 30, 2016 was immaterial.

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

June 30, 2016

11. Expense Allocation

	Research	Education/ awareness/ advocacy	Volunteer/ chapter services	Fundraising expenses	General and administrative	2016	2015
Direct costs	\$ 6,145,504	\$ 783,967	\$ 134,951	\$ 1,922,271	\$ 107,649	\$ 9,094,342	\$ 9,456,434
Allocated costs							
Salaries and benefits	287,520	713,681	527,471	1,382,987	929,361	3,841,020	3,935,024
General office	120,177	96,208	73,191	222,786	169,584	681,946	1,186,951
Rent	30,628	28,647	55,357	72,895	66,737	254,264	250,114
Insurance	-	-	-	13,815	13,816	27,631	21,723
Total	\$ 6,583,829	\$ 1,622,503	\$ 790,970	\$ 3,614,754	\$ 1,287,147	\$ 13,899,203	\$ 14,850,246