



Financial Statements

Canadian Diabetes Association

December 31, 2015

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Independent auditor's report

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To the Members of
Canadian Diabetes Association

We have audited the accompanying financial statements of the Canadian Diabetes Association, which comprise the statement of financial position as at December 31, 2015, 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.

Basis for qualified opinion

In common with many charitable organizations, the Canadian Diabetes Association derives revenue from donations, bequests and other fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Canadian Diabetes Association. Therefore, we were not able to determine whether any adjustments might be necessary to individual giving and direct marketing, bequests and events revenue, excess of revenue over expenses, and cash flows from operations for the year ended December 31, 2015 and 16 months ended December 31, 2014, current assets as at December 31, 2015 and December 31, 2014, and fund balances as at January 1, 2015, August 31, 2013, December 31, 2015 and December 31, 2014.

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 the Canadian Diabetes Association as at December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other matter

The prior year comparative financial statements for the 16 months ended December 31, 2014 were audited by another firm of chartered professional accountants who expressed a qualified opinion on those statements on March 26, 2015.



Toronto, Canada
March 10, 2016

Chartered Professional Accountants
Licensed Public Accountants

Canadian Diabetes Association

Statement of financial position

As at December 31
(In thousands of dollars)


| | 2015 | 2014 |
|---|-------------------------|-------------------------|
| Assets | | |
| Current | | |
| Cash | \$ 4,757 | \$ 2,385 |
| Restricted cash (Note 3) | 2,828 | 4,978 |
| Investments (Note 3) | 3,368 | 6,304 |
| Restricted investments (Note 3) | 429 | 200 |
| Accounts receivable | 1,661 | 2,504 |
| Promissory notes from National Diabetes Trust (Note 4) | 603 | 1,047 |
| Amount due from National Diabetes Trust (Note 14) | 2,934 | 1,796 |
| Prepaid expenses | 438 | 566 |
| Inventories | <u>141</u> | <u>288</u> |
| Total current assets | 17,159 | 20,068 |
| Long-term | | |
| Investments (Note 3) | 4,013 | 520 |
| Restricted investments (Note 3) | 608 | 811 |
| Promissory notes from National Diabetes Trust (Note 4) | 112 | 165 |
| Accounts receivable | 25 | 277 |
| Property and equipment (Note 5) | 3,289 | 2,869 |
| Intangible assets (Note 6) | <u>2,673</u> | <u>3,033</u> |
| Total assets | \$ <u>27,879</u> | \$ <u>27,743</u> |
| Liabilities and fund balances | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 7) | \$ 3,710 | \$ 2,892 |
| Deferred revenue (Note 8) | 4,864 | 6,225 |
| Research grants payable and personnel awards payable (Note 9) | <u>2,909</u> | <u>3,093</u> |
| | 11,483 | 12,210 |
| Long-term | | |
| Deferred revenue (Note 8) | 932 | 902 |
| Research grants payable (Note 9) | - | 40 |
| Employee future benefits (Note 10) | <u>1,752</u> | <u>1,918</u> |
| Total liabilities | 14,167 | 15,070 |
| Total fund balances (Page 5) | <u>13,712</u> | <u>12,673</u> |
| Total liabilities and fund balances | \$ <u>27,879</u> | \$ <u>27,743</u> |

Commitments (Note 12)

Approved by the Board of Directors



Chair of the Board



Chief Financial Officer

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

Canadian Diabetes Association

Statement of revenue and expenses

Year ended December 31
(In thousands of dollars)

| | 2015 | 2014 |
|--|---------------|-------------------------|
| | | (16 months) (Note 1) |
| Revenue | | |
| Support from the public | | |
| Individual giving and direct marketing | \$ 9,524 | \$ 15,052 |
| Income from National Diabetes Trust (Notes 1 and 14) | 10,459 | 11,504 |
| Bequests | 10,737 | 9,250 |
| Corporate giving | 6,249 | 6,726 |
| Events | 3,640 | 4,940 |
| Gaming | - | 463 |
| Total support from the public | <u>40,609</u> | 47,935 |
| Government health programs | 2,648 | 5,972 |
| Services | 3,363 | 4,980 |
| Support from other charities and charitable foundations | 2,682 | 3,700 |
| Administrative services and interest - National Diabetes Trust (Note 14) | 1,220 | 1,790 |
| Government grants | 1,156 | 1,589 |
| Other income (Note 15) | <u>589</u> | <u>1,043</u> |
| Total revenue | <u>52,267</u> | <u>67,009</u> |
| Expenses | | |
| Programs | | |
| Services | 22,524 | 27,598 |
| Research | 5,769 | 6,651 |
| Government health programs | <u>2,661</u> | <u>6,007</u> |
| Total program expenses | <u>30,954</u> | 40,256 |
| Support | | |
| Fundraising | 10,928 | 14,546 |
| Administration | <u>9,768</u> | <u>10,108</u> |
| Total support expenses | <u>20,696</u> | <u>24,654</u> |
| Total expenses | <u>51,650</u> | <u>64,910</u> |
| Excess of revenue over expenses | <u>\$ 617</u> | <u>\$ 2,099</u> |

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

Canadian Diabetes Association

Statement of changes in fund balances

Year ended December 31, 2015
(In thousands of dollars)

| | <u>Operating Fund</u> | <u>Charles H. Best Fund (Note 2)</u> | <u>Endowments (Note 13)</u> | <u>2015 Total</u> | <u>2014 Total (16 months) (Note 1)</u> |
|---|---------------------------|--|---------------------------------|-----------------------|--|
| Balances, beginning of year | \$ 11,185 | \$ - | \$ 1,488 | \$ 12,673 | \$ 10,133 |
| Excess (deficiency) of revenue over expenses | 1,597 | (980) | - | 617 | 2,099 |
| Transfers between funds | (916) | 980 | (64) | - | - |
| Contributions and investment income | - | - | 38 | 38 | 60 |
| Re-measurements and other items relating to employee future benefits | <u>384</u> | <u>-</u> | <u>-</u> | <u>384</u> | <u>381</u> |
| Balances, end of year | <u>\$ 12,250</u> | <u>\$ -</u> | <u>\$ 1,462</u> | <u>\$ 13,712</u> | <u>\$ 12,673</u> |

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

Canadian Diabetes Association

Statement of cash flows

Year ended December 31
(In thousands of dollars)

| | 2015 | 2014 |
|--|-----------------|-------------------------|
| | | (16 months) (Note 1) |
| Operating activities | | |
| Excess of revenue over expenses | \$ 617 | \$ 2,099 |
| Add non-cash items | | |
| Amortization of property and equipment | 732 | 858 |
| Loss on disposal of property and equipment | - | 290 |
| Amortization of intangible assets | 456 | 286 |
| Amortization of deferred revenue related to capital assets | (170) | (147) |
| Adjustment for employee future benefits | 218 | 239 |
| Amortization of deferred rent | (66) | (273) |
| | <u>1,787</u> | <u>3,352</u> |
| Changes in non-cash operating items | | |
| Amount due from National Diabetes Trust | (1,138) | 1,823 |
| Accounts receivable | 1,095 | (1,687) |
| Prepaid expenses | 128 | 647 |
| Inventories | 147 | (22) |
| Accounts payable and accrued liabilities | 818 | (1,798) |
| Deferred revenue | (1,095) | (200) |
| Research grants and personnel awards payable | (224) | (2,138) |
| | <u>1,518</u> | <u>(23)</u> |
| Investing activities | | |
| Decrease (increase) in promissory notes from National Diabetes Trust | 497 | (165) |
| Purchase of property and equipment | (1,152) | (1,447) |
| Purchase of intangible assets | (96) | (2,189) |
| (Increase) decrease in investments | (583) | 5,361 |
| | <u>(1,334)</u> | <u>1,560</u> |
| Financing activity | | |
| Endowment contributions and investment income (Note 13) | 38 | 60 |
| Increase in cash during the year | 222 | 1,597 |
| Cash, beginning of year | 7,363 | 5,766 |
| Cash, end of year | <u>7,585</u> | <u>7,363</u> |
| Cash consists of: | | |
| Cash | 4,757 | 2,385 |
| Restricted cash | 2,828 | 4,978 |
| Cash, end of the year | \$ <u>7,585</u> | \$ <u>7,363</u> |

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

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

1. Description of the organization

Canadian Diabetes Association (the "Association") is a national, independent, self-financing organization. It is established as a non-profit corporation under the Canada Not-for-profit Corporations Act and is a registered charity with Canada Revenue Agency, and thus not subject to income taxes. The Association's mission is to lead the fight against diabetes by helping those affected with diabetes to live healthy lives, preventing the onset and consequences of diabetes, while it works to discover a cure. The Association is national and membership based.

In April 2014, the Board of Directors approved a change in the fiscal year end of the Association from August 31 to December 31, effective for calendar year 2014. The 16 month period ended December 31, 2014 represents the financial reporting period required to transition from the August 31 year end date to December 31.

Controlled entities

Diabetes Association (Foothills) ("Foothills")

Diabetes Association (Foothills) was incorporated on September 23, 1993 as a not-for-profit organization under the Alberta Charitable Fundraising Act, and was revived on March 4, 2014.

Foothills was granted Charitable registration status as at January 1, 2015 and has a December 31 year end.

CDA controls the activity of Foothills, and the financial statements of Foothills have been consolidated in these financial statements, as allowed under Canadian generally accepted accounting principles.

National Diabetes Trust

On January 1, 2012, the Association transferred its Clothesline operations to the National Diabetes Trust (the "Trust"), which was established to develop, invest and operate the Clothesline operations. The Trustee of the Trust is the National Diabetes Trustee Corp., a Canadian resident not-for-profit corporation without share capital established to carry out the fiduciary responsibilities of the National Diabetes Trust. The Trustee determines its projects, budgets and direction with a mandate to increase support for those affected by Diabetes.

The assets and liabilities of the Association's Clothesline operations as at January 1, 2012 were transferred from the Association to the Trust at their carrying amounts as at that date.

The income and capital beneficiary of the Trust is the Association, and the Trustee is required to transfer the net income for tax purposes of the Trust to the benefit of the Association in each year.

The investment in the Trust is accounted for using the equity method, of which the financial information is provided in Note 14.

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

2. Significant accounting policies

Basis of presentation

The financial statements have been prepared in accordance with accounting standards for not-for-profit organizations, using the deferral method of reporting restricted contributions.

Fund balances

Fund balances are comprised of the following:

Charles H. Best Fund

The Charles H. Best Fund ("Best Fund") represents amounts to finance research. Although the Best Fund has its own sources of revenue, these are not sufficient to provide for the research commitments approved to date. Funds are transferred from the Operating Fund to the Best Fund in order to cover the approved research commitments. During the year ended December 31, 2015, a transfer of \$980 (16 months ended December 31, 2014 - \$2,045) from the Operating Fund to the Best Fund was undertaken.

Endowment Fund

Endowment funds represent funds received which are externally restricted, where the principal cannot be spent together with any designated unspent interest.

Operating Fund

The Operating Fund represents amounts to fund the Association's activities that are not specifically restricted to research or endowments.

Revenue recognition

Donations, which have been restricted through specific direction from a contributor, are deferred and recorded as revenue when the related expense occurs.

Sponsorships received in advance of the related expense are recorded as deferred revenue. Revenues received prior to year-end relating to fundraising projects not significantly complete by that date are recorded as deferred revenue until the project has been completed.

Donations and grants received specifically for the purchase of property and equipment are deferred and amortized to revenue on the same basis as the amortization of the related property and equipment.

Donations received by way of Charitable Remainder Trusts/Gifts of Residual Interest vest irrevocably with the Association. These donations are tax receipted by the Association and are recorded as contributions receivable and offsetting deferred revenue at the present value of the contribution. At the time of transfer, the face value of the trust's assets will be recognized as revenue, provided no further restriction on their use exists.

Endowment contributions are recognized as direct increases in the fund balance. Certain endowment contributions require the capital to be retained for a specified period of time. On expiry of the retention period, the capital is recognized as a transfer to the Operating Fund.

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

2. Significant accounting policies (continued)

Revenue recognition (continued)

Other restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted investment income is recognized as revenue in the year in which the related expenses are incurred.

All other donations, bequests and grants are recorded when received, unless the amounts have conditions requiring possible repayment, then they are deferred until such time as conditions no longer exist.

Service revenue, including Administrative services to National Diabetes Trust is recognized as revenue in the year in which the service is performed.

Other income is recognized as revenue when performance requirements have been met and collection is reasonably assured.

The Association has contracted with the Ontario and Alberta governments to undertake the processing of claims for reimbursement of certain diabetes related expenses. All related expenses are funded by cash advances from the respective Provincial Governments. Revenue is recognized as the related expenses are incurred. Cash received from the Provincial Government in advance is deferred.

Financial instruments

The Association 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. The Association accounts for the following as financial instruments:

- cash
- receivables
- investments
- payables

Initial measurement

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

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

2. Significant accounting policies (continued)

Investments

Investments are recorded and carried at fair market value. Unrealized gains and losses arising from the change in fair value of investments are recorded in the statement of revenue and expenses.

Short-term investments represent the amounts to be realized within one year. All other investments are considered long-term.

Inventories

Inventories are stated at the lower of average cost and net realizable value.

Property and equipment

Property and equipment are recorded at cost, except for certain land, buildings and equipment, which are carried at a nominal value (Note 5). Buildings, furniture and equipment, and computer hardware are amortized on a straight-line basis over their average estimated useful lives, as follows:

| | |
|-------------------------|---------------|
| Buildings | 10 - 20 years |
| Furniture and equipment | 3 - 20 years |
| Computer hardware | 3 - 5 years |

Leasehold improvements are amortized over the term of the related lease.

Amortization is charged from the date when the asset is put into use.

Intangible assets

Intangible assets consist of computer software and are recorded at cost. The assets are amortized on a straight-line basis over their average estimated useful lives of 3-10 years.

Research

Monies awarded to various individuals and organizations to complete research projects are recorded as liabilities at the time the grants are approved. Should any condition of the award not be met, the monies which have been recorded as payable are credited to research grants expense.

Deferred rent

Deferred rent consisting of lease inducements and free rent is amortized on a straight-line basis over the initial term of the lease.

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

2. Significant accounting policies (continued)

Employee future benefits

The cost of the Association's defined benefit plan is determined periodically by an independent actuary. The Association uses an accounting valuation performed every three years for measuring its defined benefit plan obligations. The estimated cost of future retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service, and management's best estimate of expected extended health care and life insurance cost. Experience gains or losses are recognized as a direct charge to the operating fund in the statement of changes in fund balances.

Use of estimates

The presentation of the Association's financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts in the financial statements and the disclosure in the notes thereto. Actual results could differ from those estimates used in preparing the financial statements. Balances which require some degree of estimation are property and equipment and intangibles (amortization), amounts payable and accrued liabilities, employee future benefits and allocated expenses.

3. Investments

Investments are comprised of GICs and cash equivalents, fixed income instruments, Canadian equities including common and preferred shares, and foreign equities. The fixed income instruments have effective annual interest rates ranging from 1.7% to 5.8% (2014 - 1.2% to 4.6%) with maturity dates ranging from 6 months to 29 years (2014 - 4 months to 5 years).

a) Unrestricted investments

| | <u>2015</u> | <u>2014</u> |
|-------------------------------|-----------------|-----------------|
| <i>Short-term investments</i> | | |
| GICs and cash equivalents | \$ 366 | \$ 1,743 |
| Fixed income | - | 4,560 |
| Canadian equities | 3,000 | 1 |
| Foreign equities | <u>2</u> | <u>-</u> |
| | <u>\$ 3,368</u> | <u>\$ 6,304</u> |
| <i>Long-term investments</i> | | |
| Fixed income | \$ 1,910 | \$ 520 |
| Canadian equities | 979 | - |
| Foreign equities | <u>1,124</u> | <u>-</u> |
| | <u>\$ 4,013</u> | <u>\$ 520</u> |

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

3. Investments (continued)

a) Unrestricted investments (continued)

Short-term investments include \$3,000 of shares of a private company received through a bequest. The Association is not permitted to sell the shares unless they are sold to existing shareholders of the company.

b) Restricted cash and investments

The following summarizes the Association's restricted investments at December 31:

| | <u>2015</u> | <u>2014</u> |
|---------------------------------------|-----------------|-----------------|
| Restricted cash | \$ <u>2,828</u> | \$ <u>4,978</u> |
| Restricted investments | | |
| <i>Short-term investments</i> | | |
| GICs and cash equivalents | \$ 201 | \$ - |
| Fixed income | <u>228</u> | <u>200</u> |
| | 429 | 200 |
| <i>Long-term investments</i> | | |
| Fixed income | <u>608</u> | <u>811</u> |
| Total restricted investments | \$ <u>1,037</u> | \$ <u>1,011</u> |
| Total restricted cash and investments | \$ <u>3,865</u> | \$ <u>5,989</u> |

The amounts are restricted for the following:

| | | |
|----------------------------|-----------------|-----------------|
| Government health programs | \$ 707 | \$ 2,286 |
| Research | 1,696 | 2,237 |
| Endowments | <u>1,462</u> | <u>1,466</u> |
| | \$ <u>3,865</u> | \$ <u>5,989</u> |

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

4. Promissory notes from National Diabetes Trust

| | <u>2015</u> | <u>2014</u> |
|-----------------------|---------------|---------------|
| Promissory note (i) | \$ 165 | \$ 216 |
| Promissory note (ii) | - | 996 |
| Promissory note (iii) | <u>550</u> | <u>-</u> |
| Total | <u>715</u> | <u>1,212</u> |
| Less: current portion | <u>603</u> | <u>1,047</u> |
| Long-term portion | <u>\$ 112</u> | <u>\$ 165</u> |

(i) Promissory note

The balance relates to the transfer of the Association's Clothesline operations to the Trust (Notes 1 and 14). The balance is payable in 60 equal monthly instalments commencing on January 1, 2013, bears interest at 4% per annum and is secured by the present and after acquired assets of the Trust.

(ii) Promissory note

The Association loaned \$996 to the Trust on December 23, 2014. The promissory note was paid in full on January 12, 2015 and had an interest of 4% per annum.

(iii) Promissory note

The Association loaned \$550 to the Trust on December 23, 2015. The promissory note was paid in full on January 11, 2016 and had an interest of 4% per annum.

5. Property and equipment

| | <u>Cost</u> | <u>Accumulated amortization</u> | <u>2015 Net book value</u> | <u>2014 Net book value</u> |
|-------------------------|-----------------|-------------------------------------|------------------------------------|------------------------------------|
| Land | \$ 25 | \$ - | \$ 25 | \$ 25 |
| Buildings | 1,764 | 609 | 1,155 | 1,133 |
| Computer hardware | 1,825 | 934 | 891 | 602 |
| Furniture and equipment | 1,018 | 545 | 473 | 312 |
| Leasehold improvements | <u>1,842</u> | <u>1,097</u> | <u>745</u> | <u>797</u> |
| | <u>\$ 6,474</u> | <u>\$ 3,185</u> | <u>\$ 3,289</u> | <u>\$ 2,869</u> |

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

5. Property and equipment (continued)

In 1981, the Association was granted a parcel of land in Foxtrap, Newfoundland by the Province of Newfoundland and Labrador and in 1993 acquired ownership of the land, buildings and equipment comprising Camp Huronda in Huntsville, Ontario. These assets are being carried at a nominal value of one dollar. In 2002, the Association was the recipient of a parking lot adjacent to Banting House, which was recorded in the Association's financial records for two dollars.

The Association has \$14 of furniture and equipment (2014 - \$88) not being amortized at year end as they relate to projects not yet complete.

6. Intangible assets

| | Cost | Accumulated amortization | 2015 Net book value | 2014 Net book value |
|-------------------|----------|-----------------------------|---------------------------|---------------------------|
| Computer software | \$ 3,415 | \$ 742 | \$ 2,673 | \$ 3,033 |

The Association has \$407 of computer software (2014 - \$47) not being amortized at year end as they relate to projects not yet complete.

7. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$79 (2014 - \$2) with respect to amounts owing to the Government.

8. Deferred revenue

Current

| | 2015 | 2014 |
|---------------------------------|----------|----------|
| Fundraising, bequests and other | \$ 3,209 | \$ 3,196 |
| Government health programs | 855 | 2,256 |
| Restricted bequests | 14 | 93 |
| Capital contributions | 143 | 111 |
| Government grants | 624 | 503 |
| Deferred rent | 19 | 66 |
| | \$ 4,864 | \$ 6,225 |

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

8. Deferred revenue (continued)

Long-term

Long-term deferred revenue is comprised of deferred revenue related to each of property and equipment, donations and rent. Deferred revenue relating to property and equipment represents restricted donations made for the renovation of buildings and various other property and equipment purchases.

The changes in the deferred revenue balance are as follows:

| | <u>2015</u> | <u>2014</u> (16 months) (Note 1) |
|--|---------------|--|
| Deferred capital contributions, beginning balance | \$ 969 | \$ 807 |
| Additions | 251 | 309 |
| Amortization to revenue | <u>(170)</u> | <u>(147)</u> |
| Deferred capital contributions, ending balance | 1,050 | 969 |
| Current portion of deferred capital contributions | (143) | (111) |
| Deferred donations from Charitable remainder trust | 25 | 25 |
| Deferred rent | <u>-</u> | <u>19</u> |
| | <u>\$ 932</u> | <u>\$ 902</u> |

9. Research grants and personnel awards payable

Under the authority of the Board of Directors, through the budget process, the Association awarded research grants and personnel awards in the amount of \$5,356 during the year ended December 31, 2015 (16 months ended December 31, 2014 - \$5,841) which are payable from the Best Fund. As these grants and awards are for varying lengths of time and are paid out in quarterly instalments, a payable, which reflects the difference between the amounts authorized and the amounts paid to date, is recorded. Research grant amounts of \$Nil (2014 - \$40) which are payable beyond one year are recorded as a long-term liability.

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

10. Employee future benefits

The Association provides extended health care and life insurance benefits to future and current retirees of the Association. This plan is accounted for as a defined benefit plan. For all active employees, the accrued benefit obligation was calculated using the projected benefit method pro-rated on service.

The significant actuarial assumption adopted in measuring the Association's accrued benefit obligation for the non-pension post-retirement benefit plans is as follows:

| | |
|----------------------------------|-----------------------|
| Discount rate | 4.00% (2014 - 3.75%) |
| Extended health care trend rates | 11.50% (2014 - 6.75%) |

For measurement purposes, an 11.50% annual rate of increase of covered health care benefits was assumed for 2015 (2014 - 6.75%). The rate is assumed to decrease by 0.50% per annum to an ultimate 5.00% per annum in 7 years.

The measurement date for the accrued benefit obligation, as calculated in the Association's actuarial valuation for post-retirement benefits was performed as of December 31, 2015.

| | <u>2015</u> | <u>2014</u> (16 months) (Note 1) |
|----------------------------------|-----------------|--|
| Accrued benefit liability | | |
| Balance, beginning of year | \$ 1,918 | \$ 2,060 |
| Service cost for year | 162 | 188 |
| Interest on accrued obligation | 77 | 99 |
| Benefit payments | (21) | (48) |
| Actuarial losses during the year | <u>(384)</u> | <u>(381)</u> |
| Balance, end of year | \$ <u>1,752</u> | \$ <u>1,918</u> |

11. Pension plan

Substantially all full time, permanent employees participate in a defined contribution pension plan. The Association's contribution for the year amounted to \$551 (16 months ended December 31, 2014 - \$840).

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

12. Commitments

Operating leases

The Association rents premises and operating equipment under various lease agreements. The minimum annual lease payments are as follows:

| | | |
|------------|----|--------------|
| 2016 | \$ | 2,599 |
| 2017 | | 2,033 |
| 2018 | | 1,762 |
| 2019 | | 1,452 |
| 2020 | | 386 |
| Thereafter | | <u>58</u> |
| | \$ | <u>8,290</u> |

The Association is also committed to its share of realty taxes and operational costs for its rented premises.

13. Endowments

| | Jamie Malcolm Endowment | Camp Endowment | Research Endowment | 2015 Total | 2014 Total (16 months) (Note 1) |
|-----------------------------------|----------------------------|-------------------|-----------------------|-----------------------|--|
| Balance, beginning of the year | \$ 1,156 | \$ 51 | \$ 281 | \$ 1,488 | \$ 1,597 |
| Contributions received | - | - | 10 | 10 | 12 |
| Investment income | 28 | - | - | 28 | 48 |
| Transfers to operating fund | <u>(63)</u> | <u>(1)</u> | <u>-</u> | <u>(64)</u> | <u>(169)</u> |
| Balance, end of year | \$ <u>1,121</u> | \$ <u>50</u> | \$ <u>291</u> | \$ <u>1,462</u> | \$ <u>1,488</u> |

The Jamie Malcolm Endowment Fund was established to assist people who meet certain criteria in the management of their diabetes. The purpose of the Fund was amended in December 2014 to benefit children and youth affected by diabetes. The original capital of \$1,000 is to be held in perpetuity and invested, and the investment income is to be expended in accordance with the purpose of the Fund. During the current fiscal period, \$63 (16 months ended December 31, 2014 - \$169) was transferred to the operating fund to support Camp Huronda.

The Camp Endowment Fund consists of a \$50 endowment gift and was established to support camp subsidies in Manitoba. The investment income was recognized as revenue of the Operating Fund and was used to support camp subsidies in Manitoba.

The Research Endowment Fund was established to support diabetes research and research projects for Type 1 diabetes. The capital of \$291 will be retained. The investment income was recognized as revenue of the Operating Fund and used to support research projects.

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
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14. Related parties

Diabetes Canada

The Association entered into a declaration of trust with the Juvenile Diabetes Research Foundation to form Diabetes Canada. The trust was to raise funds to be used to promote medical research and a greater understanding of diabetes. Effective September 30, 1991, Diabetes Canada ceased active fund-raising operations with the exception of the Ontario Federated Health Campaign.

Under the terms of the trust agreement, the Association receives a portion of the net proceeds from fund raising according to a formula determined by the Diabetes Canada Board from time to time. Included in other revenue is \$71 (2014 - \$80) representing the Association's share of net proceeds from fundraising by Diabetes Canada.

National Diabetes Trust

The financial information of the Trust is as follows:

Balance sheet

| | <u>2015</u> | <u>2014</u> |
|--------------|-----------------|-----------------|
| Assets | \$ 7,460 | \$ 4,837 |
| Liabilities | 8,752 | 6,255 |
| Fund balance | <u>(1,292)</u> | <u>(1,418)</u> |
| | <u>\$ 7,460</u> | <u>\$ 4,837</u> |

Liabilities include \$2,934 (2014 - \$1,796) that is payable to the Association and is shown as due from the Trust on the Association's statement of financial position. The amount is due on demand and is non-interest bearing. The Association's investment in the National Diabetes Trust is recorded at nil, since its fund balance is in a negative position.

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

14. Related parties (continued)

Statement of income

| | <u>2015</u> | <u>2014</u> |
|---|-----------------|-----------------|
| Revenue | \$ 44,304 | \$ 38,115 |
| Expenses before the undernoted | <u>32,499</u> | <u>28,323</u> |
| | 11,805 | 9,792 |
| Administrative services expense | <u>1,220</u> | <u>1,331</u> |
| Net income before distribution to the Association | 10,585 | 8,461 |
| Distribution of income to the Association | <u>(10,459)</u> | <u>(8,716)</u> |
| Net income (loss) for the year | \$ <u>126</u> | \$ <u>(255)</u> |

The administrative services amount of \$1,220 (16 months ended December 31, 2014 - \$1,790) is in accordance with an agreement dated January 1, 2012 between the Association and the Trust, whereby the Association agreed to provide certain services to the Trust. The agreement is for an indefinite term but may be terminated by either party providing 90 days or more notice to the other party.

Statement of cash flows

| | <u>2015</u> | <u>2014</u> |
|---|----------------|---------------|
| Cash flows from | | |
| Operating activities | \$ (103) | \$ (1,387) |
| Financing activities | 1,246 | 1,132 |
| Investing activities | <u>(1,186)</u> | <u>(815)</u> |
| Net decrease in cash and cash equivalents during the year | (43) | (1,070) |
| Cash and cash equivalents (bank indebtedness), beginning of year | <u>(2)</u> | <u>1,068</u> |
| Bank indebtedness, end of year | \$ <u>(45)</u> | \$ <u>(2)</u> |

15. Other income

| | <u>2015</u> | <u>2014</u> (16 months) (Note 1) |
|---|---------------|--|
| Investment income | \$ 145 | \$ 337 |
| Advertising and royalty income | 172 | 316 |
| Expense recoveries | 272 | 340 |
| Other rebates and miscellaneous revenue | <u>-</u> | <u>50</u> |
| | \$ <u>589</u> | \$ <u>1,043</u> |

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
(In thousands of dollars)

16. Allocation of expenses

The Association allocates common expenses consisting of salaries, occupancy costs and other administrative expenses based on the estimated time spent on each activity. Such allocations are reviewed regularly by management.

All costs of fundraising are included in fundraising expenses; none are allocated to services.

The Association has allocated its common expenses as follows:

| | <u>Salaries</u> | <u>Occupancy costs</u> | <u>Information system costs</u> | <u>Other</u> | <u>2015 Total</u> |
|-------------|-----------------|------------------------|---------------------------------|-----------------|-------------------|
| Services | \$ 117 | \$ 423 | \$ 199 | \$ 1,034 | \$ 1,773 |
| Fundraising | - | 266 | 120 | 615 | 1,001 |
| | <u>\$ 117</u> | <u>\$ 689</u> | <u>\$ 319</u> | <u>\$ 1,649</u> | <u>\$ 2,774</u> |

| | <u>Salaries</u> | <u>Occupancy costs</u> | <u>Information system costs</u> | <u>Other</u> | 2014 Total (16 months) (Note 1) |
|-------------|-----------------|------------------------|---------------------------------|-----------------|---------------------------------------|
| Services | \$ 298 | \$ 506 | \$ 222 | \$ 1,245 | \$ 2,271 |
| Fundraising | - | 280 | 99 | 546 | 925 |
| | <u>\$ 298</u> | <u>\$ 786</u> | <u>\$ 321</u> | <u>\$ 1,791</u> | <u>\$ 3,196</u> |

17. Line of credit

The Association has an unused line of credit of \$2,000 (2014 - \$2,000) at the bank's prime rate plus 0.25%. The line of credit is secured by the assets of the Association.

18. Financial instruments

The Association is exposed to various financial risks through transactions in financial instruments.

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 Association. The Association's credit risk relates to its receivables and fixed income investments.

Canadian Diabetes Association

Notes to the financial statements

December 31, 2015
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18. Financial instruments (continued)

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.

Market risk

Market risk is the risk that the fair value or expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk, and other price risk.

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 3.

Foreign 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 Association is exposed to currency risk on its investments held in foreign currencies.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Association is exposed to other price risk through its investments quoted in an active market.

19. Contingencies

Certain claims arising out of the normal course of operations have been filed against the Association. In the opinion of management, the outcome of the claims is not determinable. Any loss resulting from the resolution of these claims will be charged to operations in the year of resolution.

20. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year. These reclassifications relate primarily to accounts and other receivables and current and long-term deferred revenue.