

Canadian Lung Association



Financial Statements

For the year ended March 31, 2018



Canadian Lung Association
Financial Statements
For the year ended March 31, 2018

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Independent Auditor's Report

To the Members of Canadian Lung Association

We have audited the accompanying financial statements of the Canadian Lung Association (the "Association") which comprise the statement of financial position as at March 31, 2018 and the statements of operations, 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 of these financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations and for such internal controls 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 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 of 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 controls 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 audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the association's Breathing as One Campaign derives revenue from fundraising and donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the association and we were not able to determine whether any adjustments might be necessary to fundraising and donations revenue, excess of revenue over expenses, assets and fund balances.



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Independent Auditor's Report (continued)

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion Paragraph, the financial statements present fairly, in all material respects, the balance sheet of Canadian Lung Association as at March 31, 2018, 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.

Collins Barrow Ottawa LLP

Chartered Professional Accountants, Licensed Public Accountants
September 15, 2018
Ottawa, Ontario

Canadian Lung Association Statement of Financial Position

March 31 **2018** **2017**

	General Fund	Research Fund	Breathing As One Campaign	Total	Total
Assets					
Current					
Cash and short-term investments (Note 1)	\$ 377,675	\$ 47,300	\$ 63,468	\$ 488,443	\$ 552,778
Interfund transfers	1,090,378	948,546	(2,038,924)	-	-
Accounts receivable (Note 3)	47,203	63,913	-	111,116	207,471
Government remittances receivable	49,256	2,520	2,085	53,861	89,505
Prepaid expenses	10,106	-	-	10,106	22,495
	1,574,618	1,062,279	(1,973,371)	663,526	872,249
Investments (Note 2)	484,455	669,008	-	1,153,463	1,151,048
Long-term receivables	21,500	-	-	21,500	32,250
Tangible capital assets (Note 4)	8,960	-	-	8,960	10,794
	\$ 2,089,533	\$ 1,731,287	\$ (1,973,371)	\$ 1,847,449	\$ 2,066,341

Liabilities and Fund Balances

Current					
Accounts payable and accrued liabilities	\$ 185,638	\$ 11,872	\$ 150	\$ 197,660	\$ 306,392
Deferred revenue (Note 5)	47,344	90,102	604,968	742,414	702,792
	232,982	101,974	605,118	940,074	1,009,184
Fund Balances					
Unrestricted	1,823,188	1,629,313	(2,578,489)	874,012	1,023,794
Internally restricted - Respiratory conference	33,363	-	-	33,363	33,363
	1,856,551	1,629,313	(2,578,489)	907,375	1,057,157
	\$ 2,089,533	\$ 1,731,287	\$ (1,973,371)	\$ 1,847,449	\$ 2,066,341

On behalf of the Board:

_____ Director _____ Director

Canadian Lung Association Statement of Operations

For the year ended March 31

2018

2017

	General Fund	Research Fund	Breathing As One Campaign	Total	Total
Revenue					
Provincial assessments	\$ 785,734	\$ 500,000	\$ -	\$ 1,285,734	\$ 1,288,360
Program and project contracts	27,649	51,987	-	79,636	114,100
Sponsorship	59,209	43,526	-	102,735	27,879
Donations, bequests and memorials	146,423	-	-	146,423	98,988
Endorsements	20,000	-	-	20,000	20,000
Campaign donations	-	-	114,980	114,980	263,160
Interest and investment income	25,905	30,334	153	56,392	116,497
	1,064,920	625,847	115,133	1,805,900	1,928,984
Expenses (Schedules)					
Admin allocation	(80,179)	80,179	-	-	-
Advertising and promotion	9,878	9,138	15,607	34,623	53,213
Consultants	23,409	31,919	468	55,796	323,628
Meetings and Travel	125,538	31,173	3,999	160,710	197,964
Other operating expenses	127,049	25,294	8,997	161,340	204,426
Office rentals and leases	59,036	422	-	59,458	91,552
Professional fees	242,314	-	-	242,314	126,309
Research grants and awards (Note 8)	-	441,455	55,450	496,905	368,887
Salary	526,101	182,794	7,796	716,691	1,331,826
	1,033,146	802,374	92,317	1,927,837	2,697,805
Excess (deficiency) of revenue over expenses before unrealized items	31,774	(176,527)	22,816	(121,937)	(768,821)
Unrealized loss on investments	(11,695)	(16,150)	-	(27,845)	(9,610)
Excess (deficiency) of revenue over expenses for the year	\$ 20,079	\$ (192,677)	\$ 22,816	\$ (149,782)	\$ (778,431)

Canadian Lung Association Statement of Changes in Fund Balances

For the year ended March 31

2018

2017

	<u>General Fund</u>		<u>Research Fund</u>	<u>Breathing As One Campaign</u>		
	<u>Unrestricted</u>	<u>Internally Restricted Respiratory Conference</u>	<u>Unrestricted</u>	<u>Unrestricted</u>	<u>Total</u>	<u>Total</u>
Balance , beginning of year, as previously stated	\$ 1,803,109	\$ 33,363	\$ 1,584,372	\$ (2,601,305)	\$ 819,539	\$ 1,716,624
Prior period adjustment (Note 7)	-	-	237,618	-	237,618	118,964
Balance , beginning of year, as restated	1,803,109	33,363	1,821,990	(2,601,305)	1,057,157	1,835,588
Excess (deficiency) of revenue over expenses (Note 7)	20,079	-	(192,677)	22,816	(149,782)	(778,431)
Balance , end of year	\$ 1,823,188	\$ 33,363	\$ 1,629,313	\$ (2,578,489)	\$ 907,375	\$ 1,057,157

Canadian Lung Association Statement of Cash Flows

For the year ended March 31	2018	2017
Cash flows from operating activities		
Deficiency of revenue over expenses for the year	\$ (149,782)	\$ (778,431)
Adjustments for		
Amortization of tangible capital assets	7,435	5,649
Gain on sale of investments	(11,875)	(71,219)
Unrealized loss on investments	27,845	9,610
	(126,377)	(834,391)
Changes in non-cash working capital items		
Accounts receivable	96,355	(27,341)
Government remittances receivable	35,644	(25,243)
Due from Canadian Thoracic Society	-	361,920
Prepaid expenses	12,389	(591)
Accounts payable and accrued liabilities	(108,732)	65,679
Due to Canadian Thoracic Society	-	(152,820)
Deferred revenue	39,622	88,444
	(51,099)	(524,343)
Cash flows from investing activities		
Purchase of investments	(287,225)	(296,866)
Sale of investments	255,885	694,604
Long-term receivables	10,750	10,750
Purchase of tangible capital assets	(5,601)	(9,389)
	(26,191)	399,099
Decrease in cash during the year	(77,290)	(125,244)
Cash and short-term investments, beginning of year	751,494	876,738
Cash and short-term investments, end of year	\$ 674,204	\$ 751,494
Represented by:		
Cash and short-term investments (Note 1)	\$ 488,443	\$ 552,778
Cash component of investments (Note 2)	185,761	198,716
	\$ 674,204	\$ 751,494

Canadian Lung Association

Summary of Significant Accounting Policies

March 31, 2018

Nature and Purpose of Organization

The association is a registered charity incorporated in Canada as a not-for-profit organization and was continued under the Canada Not-for-profit Corporations Act on December 12, 2013. The association's mission is to improve respiratory health. The association is exempt from income taxes.

Basis of Presentation

The financial statements were prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations which are part of Canadian generally accepted accounting principles. The association has established funds in accordance with the principles of fund accounting:

General Fund

The General fund accounts for the ongoing operating activities of the association.

Research Fund

Revenues and expenses related to research activities are reported in the Research Fund. A significant portion of the expenses relate to grants and fellowships.

Breathing as One Campaign Fund

Operations for *Breathing As One*, The Lung Association's national fundraising campaign for research, began in 2013-14. The campaign was implemented across the country by the provincial Lung Associations. Core operating costs for the campaign are borne at a national level by the association and reported in the Breathing as One Campaign Fund. Revenues earned through the campaign are reported at a national level in the Breathing as One Campaign Fund.

Use of Estimates

The preparation of financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management's best estimates as additional information becomes available in the future.

Significant estimates include assumptions used in estimating the measurement and collectibility of accounts receivable, in estimating the initial fair value of financial instruments, in establishing the useful lives and related amortization of tangible capital assets, and in estimating provisions for accrued liabilities.

Canadian Lung Association

Summary of Significant Accounting Policies

March 31, 2018

Foreign Currency Translation

At the transaction date, each asset, liability, revenue and expense in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included as a credit or charge to operations in the current period.

Financial Instruments

Financial instruments are financial assets or liabilities of the association where, in general, the association has the right to receive cash or another financial asset from another party or the association has the obligation to pay another party cash or other financial assets.

Measurement of financial instruments

The association initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions.

The association subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in operations.

Financial assets and liabilities measured at amortized cost include cash and short-term investments, accounts receivable, long-term receivables, and accounts payable and accrued liabilities. Bonds, and equity holdings are carried at fair value based on quoted market prices.

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in operations. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in operations.

Transaction costs

The association recognizes its transaction costs in operations in the period incurred. However, the financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Financial Risk Management

The association manages its investment portfolio to earn investment income and invests only in low risk investments. The association is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes.

Canadian Lung Association Summary of Significant Accounting Policies

March 31, 2018

Revenue Recognition	<p>The association follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.</p> <p>The association receives conditional contributions from certain organizations for projects. Terms of the projects and contribution agreements specify that the unexpended amounts remaining at completion of the projects must be returned. Amounts contributed and received are deferred until they are expended in accordance with the terms of the contribution agreements. Project contributions are recognized as revenue as the related expenses are incurred, and unexpended amounts at year end are reflected in current liabilities as deferred revenue.</p>
Investments	<p>Investments are recorded at market value, determined directly by reference to published price quotations in an active market. Interest on investments is accrued as earned. Dividends are recorded when received. Gains and losses on the sale of investments are recognized in the year of disposal. Fair value changes of investments are recorded as unrealized gains or losses and recognized in the statement of operations.</p>
Tangible Capital Assets	<p>Tangible capital assets are stated at cost. Amortization is provided using the straight-line method over three years.</p>
Allocation of Expenses	<p>The association provides several programs as part of their initiative to improve respiratory health. The costs of each program include amounts directly related to providing the program. The association also incurs general support expenses that are common to the administration of the association and each of its programs.</p> <p>The association allocates an allowance for general support expenses to individual projects proportionately based on the proportion of staff working on each project.</p>

Canadian Lung Association Notes to Financial Statements

March 31, 2018

1. Cash and Short-Term Investments

The association's bank accounts are held at one chartered bank and earn interest between 0% and prime less 2.75%.

2. Investments

The carrying values of the investments are as follows:

	2018			2017
	General Fund	Research Fund	Total	Total
Cash and short-term	\$ 78,020	\$ 107,741	\$ 185,761	\$ 198,716
Common equities	91,517	126,380	217,897	307,084
Fixed income	314,918	434,887	749,805	645,248
	\$ 484,455	\$ 669,008	\$ 1,153,463	\$ 1,151,048

The investments in fixed income securities are with the Government of Canada and its Provinces and senior Canadian financial institutions and companies. Interest rates on the bonds range from 1.00% to 4.85% per annum and mature between June 2019 and June 2028.

Investments in common equities include amounts denominated in U.S. dollars of \$87,980 (2017 - \$56,426).

Interest earned on investments was \$23,622 (2017 - \$26,780). A capital gain of \$11,875 was recognized in the current year on the sale of investments (2017 - \$71,219).

3. Accounts Receivable

Accounts receivable are net of an allowance for doubtful accounts of \$116,993 (2017 - \$97,026).

Canadian Lung Association Notes to Financial Statements

March 31, 2018

4. Tangible Capital Assets

	2018			2017		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture, fixtures and office equipment	\$ 22,549	\$ 18,775	\$ 3,774	\$ 21,925	\$ 15,390	\$ 6,535
Computer equipment	11,849	8,005	3,844	12,973	8,714	4,259
Leasehold improvements	1,559	217	1,342	-	-	-
	\$ 35,957	\$ 26,997	\$ 8,960	\$ 34,898	\$ 24,104	\$ 10,794

During the year, property and equipment was purchased for \$5,601 (2017 - \$9,389).

During the year, the association incurred amortization expense of \$7,435 (2017 - \$5,649) which was charged to the departments for which the related equipment was purchased.

During the year, property and equipment with a cost basis of \$10,633 (2017 - \$47,379) was disposed of as the assets were no longer in use.

5. Deferred Revenue

	Balance at Beginning of Year	Contributions	Expenses Incurred and Revenue Recognized	Balance at End of Year
General Fund				
Corporate Funds Development	\$ 6,107	\$ -	\$ -	\$ 6,107
Consumer Health Information	27,947	-	-	27,947
Government relations	22,499	-	9,209	13,290
	56,553	-	9,209	47,344
Research Fund				
Research Grants	113,628	-	23,526	90,102
Breathing as One Campaign				
Future Research Competition	368,595	136,753	-	505,348
Asthma Control in Canada Report	8,946	5,000	13,946	-
Patient Engagement	50,000	-	-	50,000
Grants	105,070	-	55,450	49,620
	532,611	141,753	69,396	604,968
	\$ 702,792	\$ 141,753	\$ 102,131	\$ 742,414

Canadian Lung Association Notes to Financial Statements

March 31, 2018

6. Commitments

The association is committed to monthly premises lease payments of \$3,795 ending December 31, 2022, an equipment lease of \$897 per quarter ending June 30, 2020, and a consulting agreement of \$4,583 per month ending August 31, 2018.

Minimum payments over the next four years to meet the above commitments is as follows:

2019	\$	72,041
2020		49,124
2021		46,433
2022		<u>34,152</u>
	\$	<u>201,750</u>

7. Restatement of Prior Periods

Comparative amounts for the year ended March 31, 2017 have been adjusted to account for Research Fund revenues that were incorrectly recorded as deferred revenues.

Financial statement amounts that have been presented for comparative purposes that have been restated are:

March 31, 2017	Previously reported	Adjustments	Restated
Statement of Operations			
Provincial assessments	\$ 1,169,706	\$ 118,654	\$ 1,288,360
Statement of Financial Position			
Deferred revenue	\$ 940,411	\$ (237,618)	\$ 702,792
Unrestricted fund balances	1,584,372	237,618	1,821,990
Statement of Changes in Fund Balances			
Balance, beginning of year	\$ 1,726,651	\$ 118,964	\$ 1,845,615
Deficiency of revenue over expenses	<u>(142,279)</u>	<u>118,654</u>	<u>(23,625)</u>
Balance, end of year	<u>\$ 1,584,372</u>	<u>\$ 237,618</u>	<u>\$ 1,821,990</u>
Statement of Cash Flows			
Deficiency of revenue over expenses	\$ (897,085)	\$ 118,654	\$ (778,431)
Deferred revenue	207,098	(118,654)	88,444

Canadian Lung Association Notes to Financial Statements

March 31, 2018

8. Studentships, Fellowships, Research Grants and Honorariums

Included in the departmental expenses of the research fund are studentships, fellowships, grants and honorariums as summarized by research centre:

	2018	2017
West Park Healthcare Centre	\$ -	\$ 9,993
Université de Laval	9,978	-
University of British Columbia	59,500	53,000
McMaster University	20,246	10,000
University of Guelph	10,500	6,000
Sinai Health System	21,000	-
St. Michael's Hospital	10,500	10,500
Centre for Heart Lung Innovation	45,000	-
University of Toronto	30,000	5,000
Canadian Respiratory Research Network	217,000	217,000
Memorial University of Newfoundland	10,000	10,000
Research Institute of McGill UHC	9,993	-
University of Western Ontario	(2,262)	-
Ottawa Hospital Research Institute	-	22,500
University of Ottawa	-	9,964
	\$ 441,455	\$ 353,957

Included in the departmental expenses of the Breathing as One campaign funds are studentships, fellowships, grants and honorariums as summarized by research centre:

	2018	2017
University of Laval	\$ 14,930	\$ 14,930
West Park Healthcare Centre	29,670	-
University of British Columbia	10,850	-
	\$ 55,450	\$ 14,930

9. Risks and Concentration

The association is exposed to various risks through its financial instruments. The following analysis provides a measure of the association's risk exposure and concentrations as at March 31, 2018.

Canadian Lung Association Notes to Financial Statements

March 31, 2018

9. Risks and Concentration (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The association's main credit risks relate to its accounts receivable and long-term receivables. The association mitigates its exposure to credit loss by placing its cash with major financial institutions. The association also routinely assesses the financial strength of its contributors and establishes an allowance for doubtful accounts based on credit risk applicable to particular contributors, historical and other information.

Liquidity risk

Liquidity risk relates to the risk that the association will encounter difficulty in meeting its obligations associated with financial liabilities. The association is exposed to this risk mainly in respect of its accounts payable and accrual liabilities and deferred revenue. Management closely monitors cash flow requirements to ensure that it has sufficient cash on demand to meet operational and financial obligations.

Market risk

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

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 exchange risk by virtue of the fact that it transacts in currencies other than the Canadian dollar. This exposure is limited to the extent that these currencies fluctuate between the dates that transactions are made and settlement occurs.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The association's fixed income investments are exposed to interest rate risk. The association's investment managers take steps in the active management of the bond portfolio to mitigate this risk.

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 with respect to equities held.

Changes in risk

There have been no significant changes in the association's risk exposures from the 2017 fiscal year.

Canadian Lung Association Notes to Financial Statements

March 31, 2018

10. Comparative Amounts

The presentation of certain accounts of the previous year has been changed to conform to current year presentation.

Canadian Lung Association Schedule 1 - Summary by Line of Business

For the year ended March 31, 2018

	General Admin	Health Care Professionals	Canadian Respiratory Conference	Consumer Health Information	Communi- cations and Advocacy	National Coordination	Research	Breathing As One Campaign	Total
Expenses									
Admin allocation	\$ (265,856)	\$ -	\$ -	\$ 16,879	\$ 80,180	\$ 88,618	\$ 80,179	\$ -	\$ -
Advertising and promotion	88	-	-	-	9,790	-	9,138	15,607	34,623
Consultants	487	-	-	-	9,446	13,476	31,919	468	55,796
Meetings and travel	4,467	-	-	562	4,446	116,063	31,173	3,999	160,710
Other operating expenses	91,126	-	-	1,026	30,982	3,915	25,294	8,997	161,340
Office rental and leases	54,380	-	-	260	299	4,097	422	-	59,458
Professional fees	25,633	-	-	-	-	216,681	-	-	242,314
Research grants and awards	-	-	-	-	-	-	441,455	55,450	496,905
Salary	162,264	-	-	28,516	138,273	197,048	182,794	7,796	716,691
Total Expense	\$ 72,589	\$ -	\$ -	\$ 47,243	\$ 273,416	\$ 639,898	\$ 802,374	\$ 92,317	\$1,927,837

Canadian Lung Association
Schedule 1 - Summary by Line of Business
(continued)

For the year ended March 31, 2017

	General Admin	Health Care Professionals	Canadian Respiratory Conference	Consumer Health Information	Communi- cations and Advocacy	National Coordination	Research	Breathing As One Campaign	Total
Expenses									
Admin allocation	\$ (315,447)	\$ -	\$ -	\$ 20,504	\$ 92,741	\$ 136,589	\$ 65,613	\$ -	\$ -
Advertising and promotion	-	-	-	-	49,372	4	-	3,837	53,213
Consultants	3,638	-	-	-	30,408	6,171	15,567	267,844	323,628
Meetings and travel	3,650	-	-	1,236	24,035	89,984	36,948	42,111	197,964
Other operating expenses	109,138	-	-	1,763	48,761	4,942	13,954	25,868	204,426
Office rental and leases	86,643	-	-	29	923	3,581	376	-	91,552
Professional fees	71,176	-	-	-	11,544	41,703	1,886	-	126,309
Research grants awards	-	-	-	-	-	-	353,957	14,930	368,887
Salary	177,511	1,528	571	30,273	153,512	298,679	155,157	514,595	1,331,826
Total Expense	\$ 136,309	\$ 1,528	\$ 571	\$ 53,805	\$ 411,296	\$ 581,653	\$ 643,458	\$ 869,185	\$2,697,805