
Financial statements of
The Kidney Foundation of Canada

December 31, 2017

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Independent Auditor's Report

To the directors of
The Kidney Foundation of Canada

We have audited the accompanying financial statements of The Kidney Foundation of Canada, which comprise the statement of financial position as at December 31, 2017, the statements of operations, changes in fund balances, and cash flows for the year then ended, 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 that we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Similarly to many not-for-profit organizations, The Kidney Foundation of Canada derives revenue from fundraising activities, 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 Kidney Foundation of Canada. Therefore, we were not able to determine whether any adjustments might be necessary to public support, bequests and in memoriam, transfer of surplus from The Canadian Kidney Corporation, excess of revenue over expenditures, and cash flows from operations for the years ended December 31, 2017 and 2016, current assets as at December 31, 2017 and 2016, and fund balances as at January 1 and December 31, 2017 and 2016. Our audit opinion on the financial statements for the year ended December 31, 2016 was also modified because of the possible effects of this limitation in scope.

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 Kidney Foundation of Canada as at December 31, 2017, 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.



June 9, 2018

¹ CPA auditor, CA, public accountancy permit No. A125888

The Kidney Foundation of Canada

Statement of operations

Year ended December 31, 2017

	2017	2016
	\$	\$
Revenue		
Public support	21,784,584	22,758,759
Bequests and in memoriam	4,306,889	3,187,770
Transfer of surplus from The Canadian Kidney Trustee Corporation (Note 14)	1,165,197	1,285,744
Investment income allocated to operations (Note 5)	652,482	462,926
	27,909,152	27,695,199
Fundraising expenditures	11,330,732	13,370,058
Net revenue	16,578,420	14,325,141
Expenditures		
Programs		
Research	4,136,890	3,642,585
Patient services	2,880,877	2,807,532
Organ donation	1,026,579	970,897
Public education services and communications	2,628,602	2,455,814
Kidney Foundation development	833,300	539,661
	11,506,248	10,416,489
Management and administration	3,357,853	2,838,927
Loss on disposal of capital assets	5,137	—
	14,869,238	13,255,416
Excess of revenue over expenditures before the following Investment income not allocated to operations (Notes 5)	1,709,182 219,022	1,069,725 97,526
Excess of revenue over expenditures	1,928,204	1,167,251

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

The Kidney Foundation of Canada
Statement of changes in fund balances
Year ended December 31, 2017

	Unrestricted	Invested in capital assets	Internally restricted (Note 10)	Internally restricted for endowments (Note 8)	Externally restricted for endowments (Note 9)	Total
	\$	\$	\$	\$	\$	\$
Fund balances, January 1, 2016	1,138,166	474,278	5,311,410	1,910,156	4,397,880	13,231,890
Excess (deficiency) of revenue over expenditures excluding investment income not allocated to operations	1,129,239	(67,110)	7,596	—	—	1,069,725
Investment income not allocated to operations	—	—	97,526	—	—	97,526
Endowment contributions	—	—	—	—	50,639	50,639
Reinvested investment income	—	—	—	—	10,088	10,088
Interfund transfers	(1,082,558)	76,173	981,300	25,085	—	—
Fund balances, December 31, 2016	1,184,847	483,341	6,397,832	1,935,241	4,458,607	14,459,868
Excess (deficiency) of revenue over expenditures excluding investment income not allocated to operations	527,501	(76,098)	1,257,779	—	—	1,709,182
Investment income not allocated to operations	—	—	219,022	—	—	219,022
Endowment contributions	—	—	—	—	61,147	61,147
Reinvested investment income	—	—	—	—	10,491	10,491
Transfer internally restricted for endowments	—	—	1,935,241	(1,935,241)	—	—
Transfer operating reserve	1,000,000	—	(1,000,000)	—	—	—
Interfund transfers	594,022	19,391	(613,413)	—	—	—
Fund balances, December 31, 2017	3,306,370	426,634	8,196,461	—	4,530,245	16,459,710

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

The Kidney Foundation of Canada
Statement of financial position
As at December 31, 2017

	2017	2016
	\$	\$
Assets		
Current assets		
Cash	3,051,802	1,886,379
Due from The Canadian Kidney Trustee Corporation (Note 14)	1,181,931	789,404
Interest and sundry receivable	1,306,245	1,649,978
Prepaid expenses	315,157	396,390
	5,855,135	4,722,151
Capital assets (Note 3)	988,907	1,077,626
Investments (Note 4)	16,077,000	14,808,053
	22,921,042	20,607,830
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	1,243,231	1,085,833
Deferred contributions (Note 7a)	4,169,796	4,109,218
Deferred contributions – KRESCENT program (Note 7b)	486,031	358,626
Deferred contributions – capital assets (Note 7c)	562,274	594,285
	6,461,332	6,147,962
Commitments and contractual obligations (Note 12)		
Fund balances		
Unrestricted	3,306,370	1,184,847
Contributed land	335,000	335,000
Invested in capital assets	91,634	148,341
Internally restricted (Note 10)	8,196,461	6,397,832
Internally restricted for endowments (Note 8)	—	1,935,241
Externally restricted for endowments (Note 9)	4,530,245	4,458,607
	16,459,710	14,459,868
	22,921,042	20,607,830

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

Approved by the Board



_____, Director



_____, Director

The Kidney Foundation of Canada

Statement of cash flows

Year ended December 31, 2017

	2017	2016
	\$	\$
Operating activities		
Excess of revenue over expenditures	1,928,204	1,167,251
Adjustments for:		
Amortization of capital assets	109,549	105,928
Amortization of deferred contributions – capital assets	(39,563)	(38,818)
Loss on disposal of capital assets	5,137	—
Gain on sale of investments	(1,936,270)	(323,623)
Unrealized change in fair value of investments	1,191,530	130,265
Deferred contributions recognized as revenue	(1,402,184)	(1,588,367)
	(143,597)	(547,364)
Changes in non-cash operating working capital items		
Due from The Canadian Kidney Trustee Corporation	(392,527)	(338,248)
Interest and sundry receivable	343,733	72,255
Prepaid expenses	81,233	193,246
Accounts payable and accrued liabilities	157,398	67,975
	189,837	(4,772)
Increase in deferred contributions	1,400,578	1,807,211
Increase in deferred contributions – restricted investment income	197,141	32,258
	1,597,719	1,839,469
	1,643,959	1,287,333
Investing activities		
Acquisition of investments	(16,120,913)	(3,308,658)
Proceeds on sale of investments	15,596,706	2,153,704
Acquisition of capital assets	(26,942)	(76,173)
Proceeds on sale of capital assets	975	—
	(550,174)	(1,231,127)
Financing activities		
Endowment contributions	61,147	50,639
Reinvested investment income	10,491	10,088
	71,638	60,727
Net increase in cash	1,165,423	116,933
Cash, beginning of year	1,886,379	1,769,446
Cash, end of year	3,051,802	1,886,379

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

1. Mission of The Kidney Foundation

The Kidney Foundation of Canada (the "Kidney Foundation") exists for the enhancement of kidney health and the reduction and, if possible, the elimination of the burden of kidney disease. The primary beneficiaries are people at risk of and/or affected by kidney disease. The Kidney Foundation provides:

- Hope through research and its translation into the treatment, prevention, and slowing of the progression of kidney disease;
- Support through access to care, comfort, and transplantation;
- Empowerment through knowledge, capacity building, and community; and
- Engagement through an informed public and effective public policies and strategies.

The Kidney Foundation relies on its extensive network of qualified volunteers working in partnership with staff to deliver its programs and services throughout Canada. The Kidney Foundation is a registered charity under the *Income Tax Act* and is incorporated under the laws of Canada.

2. Significant accounting policies

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

Financial instruments

Financial assets and liabilities are initially recognized at fair value when the Kidney Foundation becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost, except for investments, which are measured at fair value at the closing date. The fair value of investments is based on closing prices. Fair value fluctuations, including interest earned, interest accrued, gains and losses realized on sale, and unrealized gains and losses, are included in investment income.

Transaction costs related to investments are expensed as incurred. Transaction costs related to the other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statement of operations as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Kidney Foundation recognizes in the statement of operations an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the statement of operations in the period the reversal occurs.

2. Significant accounting policies (continued)

Revenue recognition

The Kidney Foundation uses the deferral method of accounting for contributions. Contributions are recognized during the year in which they are received. Pledged contributions not received are not recorded. Unrestricted contributions are recognized as revenue when received. Restricted contributions are recorded as deferred contributions and recognized as revenue when the related expense is incurred or the related capital assets are amortized. Contributions for endowments are recognized as direct increases in the endowment fund balance.

Unrestricted investment income is recognized as revenue when earned. Restricted investment income is recorded as a deferred contribution and is recognized when the related expense is incurred. Investment income required to be added to the endowment is recognized as a direct increase in the endowment fund balance.

Up to 4% of the fair value of investments is reported as investment income allocated to operations. With the approval of the National Board of Directors, additional investment income may be allocated to operations for specific purposes. The excess or shortfall, if any, is reported as investment income not allocated to operations and is transferred to the investment income reserve.

Revenues from fundraising activities are presented on a gross basis when the Kidney Foundation is considered to be the principal involved in the activity. Certain revenues generated from highly regulated government programs that result in net proceeds to the Kidney Foundation are recorded at the amount of net proceeds generated.

Donated services

The Kidney Foundation derives significant benefit from time and services donated by volunteers. These valuable contributions are not recorded in the financial statements.

Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives. Furniture and fixtures and other capital assets are amortized over five years. Leasehold improvements are amortized over the remaining term of the lease. Computer equipment is amortized over three years. The building was donated and recorded at its appraised fair value and is being amortized over 25 years.

Allocations

The Kidney Foundation classifies its activities between Kidney Foundation development, management, and administration activities, and its four program-related activities: research, patient services, organ donation, and public education services and communications. The cost of each activity includes the direct costs associated with those activities, including personnel costs and other direct expenses. In addition, the Kidney Foundation incurs a certain number of common operating expenses in connection with these activities. The Kidney Foundation performs a review of its cost allocations on an annual basis to ensure that they remain consistent with changes to its operating activities. Changes to such allocations are applied in the year of the revision.

Where shared or indirect costs relate to more than one activity, the Kidney Foundation allocates these costs according to the efforts of each activity. These costs include expenditures related to administrative staff, rental costs, and other operating costs that cannot be charged directly to a specific activity. Eligible expenditures are allocated based on either physical space used or staff time allocated to an activity.

The Kidney Foundation allocates a portion of its fundraising costs to public education for one of its fundraising activities on the basis that some of the communication messages used in this activity are primarily educational in nature and promote public engagement. The costs are allocated based on management's best estimate of the portion of the direct costs of the educational materials that apply to a non-fundraising activity.

2. Significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from these estimates.

3. Capital assets

	2017			2016
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	335,000	—	335,000	335,000
Building	930,000	367,500	562,500	599,700
Computer equipment	965,134	913,306	51,828	84,843
Furniture and fixtures	314,703	278,504	36,199	39,268
Leasehold improvements	157,746	157,746	—	7,590
Other	60,017	56,637	3,380	11,225
	2,762,600	1,773,693	988,907	1,077,626

4. Investments

	2017			2016		
	Fair value	Cost	Unrealized gain (loss)	Fair value	Cost	Unrealized gain (loss)
	\$	\$	\$	\$	\$	\$
Money market funds	2,011,709	2,017,538	(5,829)	1,204,299	1,206,870	(2,571)
Bond funds	4,201,530	4,298,399	(96,869)	6,778,445	6,878,482	(100,037)
Canadian equity funds	3,518,653	3,437,897	80,756	2,511,468	2,501,304	10,164
International equity funds	6,345,108	6,298,661	46,447	4,313,841	3,005,362	1,308,479
	16,077,000	16,052,495	24,505	14,808,053	13,592,018	1,216,035

5. Investment income

Investment income is composed of:

	2017	2016
	\$	\$
Gain on sale of investments	1,936,270	323,623
Fund distribution related to dividends and interest	346,185	409,440
Unrealized change in fair value of investments	(1,191,530)	(130,265)
	1,090,925	602,798

The presentation of investment income in the financial statements is as follows:

	2017	2016
	\$	\$
Statement of operations		
Investment income allocated to operations	652,482	462,926
Investment income not allocated to operations (Note 6)	219,022	97,526
Direct increase in deferred contributions		
Investment income from externally restricted endowments (Note 7a)	197,141	25,940
Investment income allocated to deferred contributions	11,789	6,318
Statement of changes in fund balances		
Investment income reinvested in endowment capital	10,491	10,088
	1,090,925	602,798

In 2017, The National Board of Directors approved an additional \$200,000 of investment income to be allocated to operations to establish an Innovation Fund.

6. Investment income reserve

In accordance with the Kidney Foundation's income appropriation policy, investment income allocated to operations is determined at the beginning of the year as a percentage of the fair value of investments, with a maximum allocation of 4%. With the approval of the National Board of Directors, additional investment income may be allocated to operations for specific purposes. Excess income over the amount allocated is recorded as investment income not allocated to operations. In the event that the actual income is less than the amount allocated, the shortfall is taken from the investment income reserve and is recorded as a negative in the investment income not allocated to operations. The objectives of this policy are to provide a more stable amount of investment income to operations annually and to help maintain the capital, including in years when the market does not perform well.

	2017	2016
	\$	\$
Balance, beginning of year	1,521,984	1,424,458
Investment income not allocated to operations	219,022	97,526
Transfer to fund internally restricted for Innovation Fund	(135,644)	—
Balance, end of year	1,605,362	1,521,984

The investment income reserve is a component of internally restricted funds (Note 10).

7. Deferred contributions

a) Deferred contributions

Deferred contributions consist of contributions which the donor has restricted to a specific purpose, plus restricted investment income on externally restricted endowments. These amounts are only recognized in income when expenditures meeting the restriction are incurred. The Kidney Foundation complies with these external restrictions.

	Beginning	Additions	Disbursements	Balance, end of year
	\$	\$	\$	\$
Investment income on externally restricted endowments (Note 5)	1,048,159	403,552	206,411	1,245,300
Public education	758,477	382,644	224,683	916,438
Organ donation	791,929	250,150	343,626	698,453
Patient services	668,600	163,823	171,380	661,043
Research	673,959	225,066	389,233	509,792
Others	168,094	37,527	66,851	138,770
	4,109,218	1,462,762	1,402,184	4,169,796

b) Deferred contributions – KRESCENT program

The Kidney Foundation is responsible for the Kidney Research Scientist Core Education and National Training Program (KRESCENT) secretariat that manages the overall program and raises and administers funds for the initiative. The funds raised by the Kidney Foundation, and dedicated to the program, are subject to the normal accounting policies and practices of the Kidney Foundation's research program.

	2017	2016
	\$	\$
Balance, beginning of year	358,626	266,921
Plus: sponsorships and donations received	127,405	91,705
Balance, end of year	486,031	358,626

c) Deferred contributions – capital assets

This balance includes donated capital assets and capital assets purchased with funds restricted for that purpose.

	2017	2016
	\$	\$
Balance, beginning of year	594,285	633,103
Plus: contributions received	7,552	—
Less: amount recognized as revenue during the year	(39,563)	(38,818)
Balance, end of year	562,274	594,285

8. Internally restricted for endowments

The endowment fund balance includes funds which have been designated as internally restricted endowments by the National Board of Directors and classified as internally restricted. In 2017, the internally restricted endowments were transferred to the internally restricted fund.

	2017	2016
	\$	\$
Research	—	1,524,693
Other designated activities	—	220,000
Undesignated	—	190,548
	—	1,935,241

9. Externally restricted for endowments

Externally restricted for endowments consist of the original endowment contribution amounts.

	2017	2016
	\$	\$
Research	2,192,174	2,154,287
Other designated activities	2,006,238	1,973,267
Undesignated	331,833	331,053
	4,530,245	4,458,607

The fair value adjustment for the externally restricted endowments is reflected in the deferred contributions.

10. Internally restricted fund balance

The internally restricted fund balance consists of resources designated by the National Board of Directors for specific purposes. This fund balance is composed of the following components:

	2017	2016
	\$	\$
Commitment for research (including the KRESCENT program)	3,934,559	3,023,279
Investment income reserve (Note 6)	1,605,362	1,521,984
Surpluses for use in future years	2,000,590	684,610
Capacity building for Manitoba	213,805	—
Capacity building for Saskatchewan	190,548	—
Innovation Fund	135,644	—
Future capital expenditures in Southern Alberta	80,000	80,000
Programs in Manitoba	35,953	38,689
Operating reserve	—	1,000,000
Research in Southern Alberta	—	49,270
	8,196,461	6,397,832

10. Internally restricted fund balance (continued)

In 2016, the National Board of Directors approved a policy to encourage long-term fiscal responsibility. This policy permits Branches and the National Office to carry forward a portion of their share of the consolidated surplus for spending in future years. This resulted in a significant inter-fund transfer from the unrestricted fund balance to the internally restricted fund balance. In 2017, the operating reserve was transferred in the unrestricted fund.

11. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$12,034 (\$24,747 as at December 31, 2016), of government remittances.

12. Commitments and contractual obligations

The Kidney Foundation has commitments for research (including the KRESCENT program). These commitments less deferred contributions for research amount to \$2,541,750. In addition, the Kidney Foundation signed an agreement for five years in 2016 with Canadians Seeking Solutions and Innovations to Overcome Chronic Kidney Disease (Can SOLVE-CKD). The commitment for this project represents \$1,392,809. The Kidney Foundation has minimum rental obligations under existing long-term operating leases, exclusive of certain operating costs, for which the Kidney Foundation is also responsible totalling \$2,542,422. These amounts are expected to be disbursed in the forthcoming years as follows:

	Research commitments	Contractual obligations
	\$	\$
2018	2,136,298	802,873
2019	1,257,778	725,475
2020	540,483	503,181
2021	—	279,072
2022	—	206,286
2023 and thereafter	—	25,535

13. Allocations

As described in the accounting policies, management and administration expenditures have been allocated as follows:

	2017	2016
	\$	\$
Patient services	579,782	652,912
Research	307,476	262,297
Public education services and communications	289,701	330,064
Fundraising expenditures	244,831	397,876
Organ donation	183,982	190,412
Kidney Foundation development	168,453	66,090

13. Allocations (continued)

As described in the accounting policies, certain expenditures incurred coincidentally with fundraising have been allocated to other activities as follows:

	2017	2016
	\$	\$
Public education services and communications	134,024	84,037

14. Related-party transactions

The Kidney Foundation has an economic interest in The Canadian Kidney Trustee Corporation (the "Trust"), since the Trust is the national volunteer organization committed to raise funds in support of The Kidney Foundation of Canada by collecting and selling donated items, including clothing and household goods. During the year, the Kidney Foundation carried out transactions with the Trust, which took place during the normal course of business and are measured at the exchange amount. The balance due between these related parties is presented separately in the financial statements.

During the year, the Kidney Foundation charged the Trust management fees of \$87,284 (\$146,592 in 2016) for administrative services rendered.

The summary of financial information of the Trust as at December 31, 2017 and 2016, and for the years then ended, is as follows:

	2017	2016
	\$	\$
Statement of financial position		
Assets	1,563,300	1,293,496
Liabilities	1,563,300	1,293,496
Liabilities include accounts payable to The Kidney Foundation of Canada for an amount of \$1,181,931 (\$789,404 in 2016)		
Statement of operations		
Total revenue	6,505,418	6,412,746
Total expenses	5,340,221	5,127,002
Transfer of surplus to The Kidney Foundation of Canada	1,165,197	1,285,744
Excess of revenue over expenditures	—	—
Statement of cash flows		
Operating activities	450,471	397,279
Investing activities	(16,586)	(5,376)
Financing activities	(11,571)	(33,804)
Net increase in cash	422,314	358,099

15. Financial instruments

Credit risk

The Kidney Foundation is exposed to credit risk to the extent that its donors and debtors may experience financial difficulty and would be unable to meet their obligations; however, the Kidney Foundation has a large number of diverse donors and debtors, which minimizes concentration of credit risk.

Market risks

The Kidney Foundation's investment portfolios are subject to market risk, which is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. These risks include exposure to fluctuations in interest rates and in foreign currencies. The Kidney Foundation's investment portfolio is professionally managed following a diversified investment strategy to manage risk. The portfolio is monitored on a periodic basis by the Kidney Foundation's National Finance and Audit Committee.

Liquidity risk

The Kidney Foundation's objective is to have sufficient liquidity to meet its liabilities when due. The Kidney Foundation monitors its cash balances and cash flows generated from operations to meet its requirements. As at December 31, 2017, the most significant financial liabilities are accounts payable and accrued liabilities.

16. Supplemental information

In 2017, the total remuneration paid to employees of the province of Alberta whose principal duties include fundraising was \$183,116.

17. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.