



Financial Statements

**Canadian Diabetes Association (o/a
Diabetes Canada)**

December 31, 2019

Contents

	Page
Independent auditor's report	1 - 3
Statement of financial position	4
Statement of revenue and expenses	5
Statement of changes in fund balances	6
Statement of cash flows	7
Notes to the financial statements	8 - 21

Grant Thornton LLP

11th Floor
200 King Street West, Box 11
Toronto, ON
M5H 3T4

T +1 416 366 0100
F +1 416 360 4949

Independent auditor's report

To the Members of
Canadian Diabetes Association (o/a Diabetes Canada)

Qualified Opinion

We have audited the financial statements of Canadian Diabetes Association (o/a Diabetes Canada) (the "Organization"), which comprise the statement of financial position as at December 31, 2019, the statements of revenue and expenses, changes in fund balances and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of Canadian Diabetes Association (o/a Diabetes Canada) as at December 31, 2019, 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.

Basis for Qualified Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

In common with many charitable organizations, the Canadian Diabetes Association (o/a Diabetes Canada) 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 (o/a Diabetes Canada). Therefore, we were not able to determine whether any adjustments might be necessary to support from the public, excess of revenue over expenses, and cash flows from operations for the year ended December 31, 2019 and 2018, current assets as at December 31, 2019 and 2018 and fund balances as at December 31, 2019 and 2018.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are

based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLP

Toronto, Canada
March 5, 2020

Chartered Professional Accountants
Licensed Public Accountants

Canadian Diabetes Association (o/a Diabetes Canada)

Statement of financial position

As at December 31

(In thousands of dollars)

	2019	2018
Assets		
Current		
Cash	\$ 5,397	\$ 1,004
Restricted cash (Note 3)	2,486	778
Investments (Note 3)	2,519	2,246
Restricted investments (Note 3)	312	266
Accounts receivable	1,119	1,581
Amount due from National Diabetes Trust (Note 13)	1,769	1,239
Promissory note due from National Diabetes Trust (Note 13)	1,000	-
Prepaid expenses	718	875
Total current assets	<u>15,320</u>	<u>7,989</u>
Long-term		
Restricted investments (Note 3)	708	612
Accounts receivable	-	25
Property and equipment (Note 4)	2,263	2,660
Intangible assets (Note 5)	3,305	3,808
Total assets	<u>\$ 21,596</u>	<u>\$ 15,094</u>

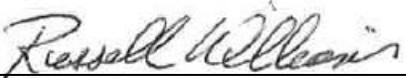
Liabilities and fund balances

Current		
Accounts payable and accrued liabilities (Note 6)	\$ 2,526	\$ 2,396
Deferred revenue (Note 7)	1,570	2,122
Research grants and personnel awards payable (Note 8)	2,280	1,280
Total current liabilities	<u>6,376</u>	<u>5,798</u>
Long-term		
Deferred revenue (Note 7)	3,098	1,090
Employee future benefits (Note 9)	616	653
Total liabilities	<u>10,090</u>	<u>7,541</u>
Total fund balances (Page 6)	<u>11,506</u>	<u>7,553</u>
Total liabilities and fund balances	<u>\$ 21,596</u>	<u>\$ 15,094</u>

Commitments (Note 11)

Approved by the Board of Directors


Catherine Potechin, Chair of the Board


Russell Williams, Acting, Chief Executive Officer

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

Canadian Diabetes Association (o/a Diabetes Canada)

Statement of revenue and expenses

Year ended December 31

(In thousands of dollars)

	2019	2018
Revenue		
Support from the public	\$ 28,151	\$ 25,870
Income from National Diabetes Trust (Notes 1 and 13)	6,306	5,035
Education services	1,238	1,425
Camp services	1,119	1,152
Income from other charitable activities	2,087	2,736
Investment and other income (Note 14)	<u>251</u>	<u>11</u>
Total revenue	<u>39,152</u>	<u>36,229</u>
Expenses		
Improving management and prevention	10,114	12,090
Research	4,332	5,116
Drive for excellence in diabetes care	3,080	3,239
Helping children and adults with T1D	<u>4,089</u>	<u>4,564</u>
Total program expenses	<u>21,615</u>	<u>25,009</u>
Support		
Administration	2,646	2,599
Public relations and development	<u>10,975</u>	<u>11,804</u>
Total support expenses	<u>13,621</u>	<u>14,403</u>
Total expenses	<u>35,236</u>	<u>39,412</u>
Excess (deficiency) of revenue over expenses	\$ 3,916	\$ (3,183)

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

Canadian Diabetes Association (o/a Diabetes Canada)

Statement of changes in fund balances

Year ended December 31, 2019

(In thousands of dollars)

	<u>Operating Fund</u>	<u>Charles H. Best Fund (Note 2)</u>	<u>Endowments (Note 12)</u>	<u>2019 Total</u>	<u>2018 Total</u>
Balances, beginning of year	\$ 6,297	\$ -	\$ 1,256	\$ 7,553	\$ 10,940
Revenue	38,250	902	-	39,152	36,229
Expenses	(31,715)	(3,521)	-	(35,236)	(39,412)
Transfers between funds	(2,619)	2,619	-	-	-
Withdrawal	-	-	-	-	(276)
Contributions and investment income	-	-	-	-	19
Re-measurements and other items relating to employee future benefits	<u>37</u>	<u>-</u>	<u>-</u>	<u>37</u>	<u>53</u>
Balances, end of year	<u>\$ 10,250</u>	<u>\$ -</u>	<u>\$ 1,256</u>	<u>\$ 11,506</u>	<u>\$ 7,553</u>

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

Canadian Diabetes Association (o/a Diabetes Canada)

Statement of cash flows

Year ended December 31

(In thousands of dollars)

	2019	2018
Operating activities		
Excess (deficiency) of revenue over expenses	\$ 3,916	\$ (3,183)
Add non-cash items		
Amortization of property and equipment	521	538
Amortization of intangible assets	733	541
Amortization of deferred revenue related to capital assets	(146)	(139)
Adjustment for employee future benefits	-	(20)
	<u>5,024</u>	<u>(2,263)</u>
Changes in non-cash operating items		
Amount due from National Diabetes Trust	(530)	844
Accounts receivable	487	9
Prepaid expenses	157	(245)
Accounts payable and accrued liabilities	130	(1,785)
Deferred revenue	1,602	369
Research grants and personnel awards payable	1,000	139
	<u>7,870</u>	<u>(2,932)</u>
Investing activities		
Promissory note due from National Diabetes Trust	(1,000)	-
Purchase of property and equipment	(124)	(673)
Purchase of intangible assets	(230)	(673)
(Increase) decrease in investments, net	(415)	3,489
	<u>(1,769)</u>	<u>2,143</u>
Financing activity		
Endowment contributions and investment income (Note 12)	-	19
Increase (decrease) in cash during the year	6,101	(770)
Cash, beginning of year	1,782	2,552
Cash, end of year	<u>\$ 7,883</u>	<u>\$ 1,782</u>
Cash consists of:		
Cash	\$ 5,397	\$ 1,004
Restricted cash	<u>2,486</u>	<u>778</u>
Cash, end of the year	<u>\$ 7,883</u>	<u>\$ 1,782</u>

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

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

1. Description of the organization

Canadian Diabetes Association (the “Organization” or “Diabetes Canada”) is an independent, self-financing organization. Effective February 13, 2017, the Organization changed its operating name to Diabetes Canada. 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. Diabetes Canada’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. Diabetes Canada is national, and membership based.

Controlled entities

Diabetes Association (Foothills)

Diabetes Association (Foothills) was incorporated on September 23, 1993 as a not-for-profit organization under the Alberta Charitable Fundraising Act. Foothills was substantially inactive as of December 31, 2016, and was dissolved on December 18, 2019 with any remaining assets being transferred to Diabetes Canada upon dissolution. Diabetes Canada controlled 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, Diabetes Canada transferred its clothing collection and recycling operations to the National Diabetes Trust (the “Trust”), which was established to develop, invest and operate the clothing collection and recycling 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 Diabetes Canada’s clothing collection and recycling operations as at January 1, 2012 were transferred from Diabetes Canada to the Trust at their carrying amounts as at that date.

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

The investment in the Trust is accounted for using the equity method, of which the financial information is provided in Note 13.

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019
(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, 2019, a transfer of \$2,619 (2018 - \$3,259) 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 Diabetes Canada'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.

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

2. Significant accounting policies (continued)

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 Diabetes Canada. These donations are tax receipted by Diabetes Canada 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 externally restricted contributions require the capital to be retained for a specified period of time. These contributions are recorded as deferred revenue. On expiry of the retention period, the capital is recognized as revenue of the Operating Fund.

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 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.

Diabetes Canada has contracted with the Ontario government to undertake the processing of claims for reimbursement of certain diabetes related expenses. All related expenses are funded by cash advances from the Provincial Government. Revenue is recognized as the related expenses are incurred. Cash received from the Provincial Government in advance is deferred.

Financial instruments

Diabetes Canada 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. Diabetes Canada accounts for the following as financial instruments:

- cash
- receivables
- promissory notes
- investments
- payables

Initial measurement

Diabetes Canada's financial instruments are measured at fair value when issued or acquired.

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

2. Significant accounting policies (continued)

Subsequent measurement

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

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.

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 4). 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.

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

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.

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

2. Significant accounting policies (continued)

Employee future benefits

Diabetes Canada provides extended health care and life insurance benefits to current retirees of Diabetes Canada and for eligible employees retiring before August 5, 2017. This plan is accounted for as a defined benefit plan. The accrued benefit obligation is calculated using the projected benefit method, pro-rated on service. The cost of Diabetes Canada's defined benefit plan is determined periodically by an independent actuary. Diabetes Canada 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 Diabetes Canada'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 investments, property and equipment and intangibles (amortization), amounts payable and accrued liabilities, employee future benefits and allocated expenses.

3. Investments

Investments may include 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 2% to 2.25% (2018 - 2% to 2.2%) with maturity dates ranging from 8 months to 2.5 years (2018 - 16 months to 2.5 years).

a) Unrestricted investments

	<u>2019</u>	<u>2018</u>
Short-term investments		
GICs and cash equivalents	\$ 2,317	\$ 2,023
Canadian equities	<u>202</u>	<u>223</u>
	<u>\$ 2,519</u>	<u>\$ 2,246</u>

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

3. Investments (continued)

b) Restricted cash and investments

The following summarizes Diabetes Canada's restricted investments at December 31:

	<u>2019</u>	<u>2018</u>
Restricted cash	<u>\$ 2,486</u>	<u>\$ 778</u>
Restricted investments		
Short-term investments		
GICs and cash equivalents	\$ 10	\$ -
Fixed income	<u>302</u>	<u>266</u>
	<u>312</u>	<u>266</u>
Long-term investments		
Fixed income	<u>708</u>	<u>612</u>
Total restricted investments	<u>\$ 1,020</u>	<u>\$ 878</u>
Total restricted cash and investments	<u>\$ 3,506</u>	<u>\$ 1,656</u>

The amounts are restricted for the following:

	<u>2019</u>	<u>2018</u>
Government health programs	\$ 680	\$ 389
Research	<u>1,037</u>	<u>11</u>
Endowments	<u>1,789</u>	<u>1,256</u>
	<u>\$ 3,506</u>	<u>\$ 1,656</u>

4. Property and equipment

	<u>2019</u>	<u>2018</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 25	\$ -	\$ 25	\$ 25
Buildings	2,756	1,140	1,616	1,750
Computer hardware	1,798	1,614	184	239
Furniture and equipment	1,482	1,097	385	526
Leasehold improvements	<u>1,420</u>	<u>1,367</u>	<u>53</u>	<u>120</u>
	<u>\$ 7,481</u>	<u>\$ 5,218</u>	<u>\$ 2,263</u>	<u>\$ 2,660</u>

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

4. Property and equipment (continued)

In 1981, Diabetes Canada 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, Diabetes Canada was the recipient of a parking lot adjacent to Banting House, which was recorded in Diabetes Canada's financial records for two dollars.

Diabetes Canada has \$11 (2018 - \$39) of property and equipment not being amortized at year end as they relate to projects not yet complete.

5. Intangible assets

	<u>2019</u>	<u>2018</u>
	<u>Net Book Value</u>	<u>Net Book Value</u>
<u>Cost</u>	<u>Accumulated Amortization</u>	
Computer software	<u>\$ 6,176</u>	<u>\$ 2,871</u>
	<u>\$ 3,305</u>	<u>\$ 3,808</u>

Diabetes Canada has \$98 of computer software (2018 - \$316) not being amortized at year end as they relate to projects not yet complete.

6. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$Nil (2018 - \$Nil) with respect to amounts owing to the Government.

7. Deferred revenue

Current

	<u>2019</u>	<u>2018</u>
Fundraising, bequests and other	<u>\$ 816</u>	<u>\$ 928</u>
Government health programs	<u>649</u>	<u>312</u>
Capital contributions	<u>93</u>	<u>150</u>
Government grants	<u>12</u>	<u>732</u>
	<u>\$ 1,570</u>	<u>\$ 2,122</u>

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

7. Deferred revenue (continued)

Long-term

Long-term deferred revenue is comprised of deferred revenue related to each of property and equipment and donations. 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>2019</u>	<u>2018</u>
Long-term deferred revenue, beginning balance	\$ 1,215	\$ 933
Additions	2,097	421
Revenue recognized	<u>(146)</u>	<u>(139)</u>
Long-term deferred revenue, ending balance	3,163	1,215
Current portion of deferred capital contributions	(93)	(150)
Deferred donations from Charitable remainder trust	<u>25</u>	<u>25</u>
	<u>\$ 3,095</u>	<u>\$ 1,090</u>

8. Research grants and personnel awards payable

Under the authority of the Board of Directors, through the budget process, Diabetes Canada awarded research grants and personnel awards in the amount of \$3,521 during the year ended December 31, 2019 (2018 - \$4,430) 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.

9. Employee future benefits

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

	<u>2019</u>	<u>2018</u>
Discount rate	3.0%	3.8%
Extended health care trend rates	8.0%	8.5%

For measurement purposes, an 8.0% annual rate of increase of covered health care benefits was assumed for 2019. The rate is assumed to remain at 8.0% for two years and then decrease by 1% per annum to an ultimate 5.00% per annum in 5 years.

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

9. Employee future benefits (continued)

The measurement date for the accrued benefit obligation, as calculated in Diabetes Canada's actuarial valuation for post-retirement benefits was performed as of December 31, 2018 and was extrapolated forward to December 31, 2019.

Accrued benefit liability	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 653	\$ 726
Service cost for year	2	2
Interest on accrued obligation	20	23
Benefit payments	(50)	(45)
Actuarial gains during the year	<u>(9)</u>	<u>(53)</u>
Balance, end of year	<u>\$ 616</u>	<u>\$ 653</u>

10. Pension plan

Substantially all full time, permanent employees participate in a defined contribution pension plan. Diabetes Canada's contribution to employee plans for the year amounted to \$362 (2018 - \$451).

11. Commitments

Operating leases

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

2020	\$ 1,789
2021	1,642
2022	1,322
2023	1,172
Thereafter	<u>1,117</u>
	<u>\$ 7,042</u>

In addition, Diabetes Canada is committed to its share of realty taxes and operational costs for its rented premises.

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

12. Endowments

	<u>2019</u>	<u>2018</u>
Jamie Malcolm endowment	\$ 1,013	\$ 1,013
Camp endowment	50	50
Research endowment	<u>193</u>	<u>193</u>
	<u>\$ 1,256</u>	<u>\$ 1,256</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.

The Camp Endowment Fund consists of a \$50 endowment gift and was established to support camp subsidies in Manitoba. The original capital of \$50 is to be held in perpetuity and invested, and the investment income is to be expended in accordance with the purpose of the Fund.

The Research Endowment Fund was established to support diabetes research and research projects for Type 1 diabetes. The capital of \$193 is to be held in perpetuity and invested, and the investment income is to be expended in accordance with the purpose of the Fund.

Investment income earned on endowments amounted to \$18. Amounts were expended in accordance with the respective endowment fund requirements during the year, and as such interest income has been recognized in investment and other income on the statement of revenue and expenses.

13. Related parties

Diabetes Ontario Trust

The Organization entered into an agreement with the Juvenile Diabetes Research Foundation to form Diabetes Canada in 1982. As of 2016, this organization is now Diabetes Ontario Trust. Diabetes Ontario Trust was established to raise funds to be used to promote medical research and a greater understanding of diabetes. Effective September 30, 1991, Diabetes Ontario Trust ceased active fundraising operations with the exception of fundraising from the Ontario Federated Health Campaign.

Under the terms of the trust agreement, Diabetes Canada receives a portion of the net proceeds from fundraising according to a formula determined by the Diabetes Ontario Trust Board. Included in support from the public is \$86 (2018 - \$68) representing Diabetes Canada's share of net proceeds from fundraising by Diabetes Ontario Trust.

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

13. Related parties (continued)

National Diabetes Trust

The financial information of National Diabetes Trust is as follows:

Balance sheet

	<u>2019</u>	<u>2018</u>
Assets	<u>\$ 8,731</u>	<u>\$ 5,845</u>
Liabilities	<u>\$ 9,783</u>	<u>\$ 6,933</u>
Deficit	<u>(1,052)</u>	<u>(1,088)</u>
	<u>\$ 8,731</u>	<u>\$ 5,845</u>

Liabilities include \$1,769 (2018 - \$1,239) that is payable to Diabetes Canada and is shown as due from the Trust on Diabetes Canada's statement of financial position. The amount is due on demand and is non-interest bearing. Diabetes Canada's investment in the National Diabetes Trust is recorded at \$Nil, since its equity is in a deficit position.

Statement of income

	<u>2019</u>	<u>2018</u>
Revenue	<u>\$ 51,745</u>	<u>\$ 48,367</u>
Expenses	<u>45,403</u>	<u>43,747</u>
Net income before distribution to Diabetes Canada	<u>6,342</u>	<u>4,620</u>
Distribution of income to Diabetes Canada	<u>(6,306)</u>	<u>(5,035)</u>
Net income (loss) for the year	<u>\$ 36</u>	<u>\$ (415)</u>

Included in expenses are administrative services provided by Diabetes Canada in the amount of \$1,642 (2018 - \$2,435), in accordance with an agreement dated January 1, 2012 between Diabetes Canada and the Trust, whereby Diabetes Canada 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. The administration costs are estimates based on usage of IT, human resources and other staff time required to run the Trust in a cost efficient manner.

Statement of cash flows

	<u>2019</u>	<u>2018</u>
Cash flows from		
Operating activities	<u>\$ (2,660)</u>	<u>\$ 4,474</u>
Financing activities	<u>2,338</u>	<u>(389)</u>
Investing activities	<u>(1,721)</u>	<u>(1,621)</u>
Net increase (decrease) in cash and cash equivalents during the year	<u>(1,993)</u>	<u>2,464</u>
Cash and cash equivalents (bank indebtedness), beginning of year	<u>1,859</u>	<u>(605)</u>
Cash and cash equivalents (bank indebtedness), end of year	<u>\$ (134)</u>	<u>\$ 1,859</u>

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

13. Related parties (continued)

Promissory notes due from National Diabetes Trust

	<u>2019</u>	<u>2018</u>
Promissory note	<u>\$ 1,000</u>	<u>\$ -</u>

On December 9, 2019, the Organization loaned \$500 to the Trust under the short-term lending agreement. On December 19, 2019 the Organization loaned another \$500 under the same agreement. The note bears interest at prime rate of a Canadian Chartered Bank + 0.25% per annum and was repaid in full in January 2020.

14. Investment and other income

	<u>2019</u>	<u>2018</u>
Investment income (loss) - unrestricted	\$ 112	\$ (112)
Investment income – externally restricted	18	-
Advertising and royalty income	116	118
Miscellaneous revenue	<u>5</u>	<u>5</u>
	<u>\$ 251</u>	<u>\$ 11</u>

15. Allocation of expenses

Diabetes Canada 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. Common expenses are essential for programming to exist and hence a portion of these expenses are directly allocated to programs and public relations and development.

All costs of fundraising are included in public relations and development; none are allocated to programs.

Diabetes Canada has allocated its common expenses as follows:

	<u>2019</u>	<u>2018</u>
Programs	\$ 9,016	\$ 11,482
Public relations and development	5,855	6,858
Administration	<u>1,036</u>	<u>1,027</u>
	<u>\$ 15,907</u>	<u>\$ 19,367</u>

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

16. Line of credit

Diabetes Canada has an unused line of credit of \$2,000 (2018 - \$2,000) at the bank's prime rate plus 0.25%. The line of credit is secured by the assets of Diabetes Canada. The line of credit was not utilized during the year.

17. Financial instruments

Diabetes Canada 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 Diabetes Canada. Diabetes Canada's credit risk relates to its receivables, promissory notes and fixed income investments.

Liquidity risk

Liquidity risk is the risk that Diabetes Canada will encounter difficulty in meeting its obligations. Diabetes Canada 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. Diabetes Canada is subject to interest rate risk on its fixed income investments.

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. Diabetes Canada 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. Diabetes Canada is exposed to other price risk through its investments quoted in an active market.

Canadian Diabetes Association (o/a Diabetes Canada)

Notes to the financial statements

December 31, 2019

(In thousands of dollars)

18. Contingencies

Certain claims arising out of the normal course of operations have been filed against Diabetes Canada. 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.