

Multiple Sclerosis Society of Canada

Combined Financial Statements
December 31, 2017



May 22, 2018

Independent Auditor's Report

To the Members of Multiple Sclerosis Society of Canada

We have audited the accompanying combined financial statements of Multiple Sclerosis Society of Canada, which comprise the combined statement of financial position as at December 31, 2017 and the combined statements of revenue and expenditures, changes in net assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the combined financial position of Multiple Sclerosis Society of Canada as at December 31, 2017 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Professional Accountants

Multiple Sclerosis Society of Canada

Combined Statement of Financial Position



As at December 31, 2017

(in thousands of dollars)

	2017 \$	2016 \$
Assets		
Current assets		
Cash	13,618	9,900
Short-term investments (note 3)	94	68
Accounts receivable (note 6)	4,900	7,511
Prepaid expenses and supplies	1,186	988
	<u>19,798</u>	<u>18,467</u>
Investments (note 3)	8,716	7,542
Capital assets (note 4)	1,955	2,802
Intangible assets (note 5)	680	379
	<u>31,149</u>	<u>29,190</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,194	3,157
Research grants payable	5,103	5,021
Payable to Multiple Sclerosis Scientific Research Foundation (note 6)	1,443	2,358
Deferred revenue	1,868	1,455
Deferred lease inducement	57	49
Deferred capital contributions	154	-
	<u>11,819</u>	<u>12,040</u>
Deferred lease inducement	326	375
Deferred capital contributions	801	1,154
Research grants payable (note 7)	4,355	3,749
	<u>17,301</u>	<u>17,318</u>
Net Assets		
Restricted for endowment purposes	615	615
Internally restricted for research programs	4,197	4,197
Internally restricted for other purposes	1,087	409
Unrestricted	7,949	6,651
	<u>13,848</u>	<u>11,872</u>
	<u>31,149</u>	<u>29,190</u>

Commitments (note 11)

Approved by the Board of Directors

 Director  Director

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

Multiple Sclerosis Society of Canada
Combined Statement of Revenue and Expenditures
For the year ended December 31, 2017

(in thousands of dollars)

	2017 \$	2016 \$
Revenue		
Leadership giving activity		
Bequests	3,657	2,194
endMS Research and Training Network	106	292
endMS Whatever It Takes	1,167	2,140
Corporate and Individual Giving, Major Donors	3,735	3,529
Grants from governments	1,234	1,218
Grants from pharmaceutical companies	519	460
Other grants	552	707
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	10,970	10,540
Signature events	18,139	19,124
Direct marketing	10,919	10,688
Local fundraising initiatives	3,786	3,661
Partnership events and campaigns	2,895	2,597
I Challenge MS	1,218	1,586
Gaming	1,415	1,419
United Way and HealthPartners	1,268	1,608
Public awareness activities	599	657
Sale of goods	189	249
Miscellaneous	431	359
Memberships	33	52
Investment income	765	455
	<hr/>	<hr/>
	52,627	52,995
Fundraising expenditures		
Leadership giving	1,725	1,852
Signature events	6,371	6,512
Direct marketing	7,587	7,271
Local fundraising initiatives	2,138	2,153
Partnership events and campaigns	444	448
I Challenge MS	323	360
Indirect fundraising	2,461	2,259
Gaming	157	189
Cost of goods sold	128	174
	<hr/>	<hr/>
	21,334	21,218
Program and administration expenditures		
Client Services	7,256	7,921
Research	7,482	6,257
Research - endMS Research and Training Network	106	292
Research - endMS Whatever It Takes	1,435	2,330
Public education and awareness	4,619	4,844
Chapter and volunteer support and development	3,060	3,480
Government and community relations	1,139	1,521
MS clinics	-	106
Administration	4,649	5,104
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	29,746	31,855
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	51,080	53,073
Surplus (deficiency) of revenue over expenditures before the undernoted	1,547	(78)
Gain on sale of real estate (note 13)	2,182	-
Research grant to Multiple Sclerosis Scientific Research Foundation (note 13)	(1,502)	-
Fair value change in investments	(251)	31
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Surplus (deficiency) of revenue over expenditures for the year	1,976	(47)

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

Multiple Sclerosis Society of Canada

Combined Statement of Changes in Net Assets

For the year ended December 31, 2017

(in thousands of dollars)

	2017				
	Restricted for endowment purposes \$	Internally restricted for research programs \$	Internally restricted for other purposes \$	Unrestricted \$	Total \$
Balance - Beginning of year	615	4,197	409	6,651	11,872
Endowment contributions	(5)	-	-	-	(5)
Surplus of revenue over expenditures for the year	-	-	-	1,976	1,976
Interfund transfers (note 14)	-	-	678	(678)	-
Interest earned on endowment contributions	5	-	-	-	5
Balance - End of year	615	4,197	1,087	7,949	13,848
	2016				
	Restricted for endowment purposes \$	Internally restricted for research programs \$	Internally restricted for other purposes \$	Unrestricted \$	Total \$
Balance - Beginning of year	574	4,197	416	6,744	11,931
Endowment contributions	15	-	-	-	15
Deficiency of revenue over expenditures for the year	-	-	-	(47)	(47)
Interfund transfers	23	-	(7)	(16)	-
Transfer to deferred capital contributions	-	-	-	(30)	(30)
Interest earned on endowment contributions	3	-	-	-	3
Balance - End of year	615	4,197	409	6,651	11,872

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

Multiple Sclerosis Society of Canada

Combined Statement of Cash Flows

For the year ended December 31, 2017

(in thousands of dollars)

	2017 \$	2016 \$
Cash provided by (used in)		
Operating activities		
Surplus (deficiency) of revenue over expenditures for the year	1,976	(47)
Non-cash items		
Amortization of capital assets	486	460
Gain on sale of capital assets	(2,043)	-
Amortization of intangible assets	353	320
Amortization of deferred capital contributions	(363)	(177)
Amortization of deferred lease inducements	(77)	(57)
Fair value change in investments	251	(31)
Reinvested investment income	(661)	(390)
Net change in non-cash working capital (note 10)	1,948	(937)
Research grants payable	688	1,069
	<u>2,558</u>	<u>210</u>
Investing activities		
Proceeds on sale of investments	98	159
Acquisition of investments	(888)	(54)
Acquisition of capital assets	(482)	(713)
Acquisition of intangible assets	(654)	(204)
Proceeds from sale of capital assets	2,886	
	<u>960</u>	<u>(812)</u>
Financing activities		
(Payment) receipt of endowment	(5)	14
Deferred capital contributions received	164	125
Lease inducements received	36	-
Interest earned on endowment contributions	5	4
	<u>200</u>	<u>143</u>
Increase (decrease) in cash during the year	3,718	(459)
Cash - Beginning of year	9,900	10,359
Cash - End of year	<u>13,618</u>	<u>9,900</u>

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

Multiple Sclerosis Society of Canada

Notes to Combined Financial Statements

December 31, 2017

(in thousands of dollars)

1 Nature of operations

The Multiple Sclerosis Society of Canada (MS Society or the Society) is incorporated under the laws of Canada. The Society is a registered charity under the Income Tax Act (Canada) and is therefore exempt from income taxes and may issue official donation receipts for income tax purposes. Its mission is to be a leader in finding a cure for multiple sclerosis (MS) and to enable people affected by MS to enhance their quality of life. The Society operates through a number of incorporated entities that all contribute to a common mission. The Society comprises six divisions, which are: Alberta and the Northwest Territories; the Atlantic Provinces; British Columbia and Yukon; Manitoba, Ontario and Nunavut and Saskatchewan, and all of the Chapters within their divisional boundaries, and operates in the Province of Quebec through Affiliation Agreements with a number of incorporated entities.

2 Summary of significant accounting policies

Basis of presentation

These combined financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

These combined financial statements represent the assets, liabilities, net assets and operations of the MS Society, its divisions and their Chapters, The Multiple Sclerosis Society of Canada (Quebec Division) and the following incorporated Quebec Chapters:

Abitibi-Témiscamingue Chapter, Banlieue-Ouest Chapter, Bas-Saint-Laurent Chapter, Centre-du-Québec Chapter, Chaudière-Appalaches Chapter, Côte-Nord Chapter, Estrie Chapter, Est-de-Montréal Chapter, Lac-St-Jean Chapter, Lanaudière Chapter, Laurentides Chapter, Laval Chapter, Mauricie Chapter, Montérégie Chapter, Montréal Chapter, Outaouais Chapter, Outaouais Chapter, Region-de-Québec Chapter and Saguenay Chapter.

The combined balances are presented after the elimination of inter-organizational balances and transactions.

Revenue recognition

The Society recognizes unrestricted contributions as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Donations and grants received from contributors, which have attached special provisions for their use, are deferred on receipt and subsequently recognized as revenue when the related specified expenditures are made. Capital contributions are deferred and recognized as revenue as the related costs and capital amortization are recorded as expenditures. Other revenue is recognized when earned. Bequests are accounted for when received. Endowment contributions and income thereon are recognized as direct increases in net assets.

Multiple Sclerosis Society of Canada

Notes to Combined Financial Statements

December 31, 2017

(in thousands of dollars)

Financial assets and liabilities

The Society initially measures its financial assets and financial liabilities at fair value. The Society subsequently measures all its financial assets and liabilities at amortized cost with the exception of investments and research grants payable, which have been elected to be measured at fair value. Changes in fair value are recognized in the combined statement of revenue and expenditures.

Financial assets measured at amortized cost include cash, accounts receivable and short-term investments.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and payable to the Multiple Sclerosis Scientific Research Foundation (the Foundation).

Investments

The Society's investment activities are governed by investment policies set by the Board of Directors. These policies have strict guidelines as to asset categories and mix in accordance with the risk and return objectives established by the Board of Directors and management. Investments are recorded at fair value, which is determined based on the closing unit price. Changes in fair value are recognized in the combined statement of revenue and expenditures. The funds are professionally managed by advisers associated with a major Canadian chartered bank. The national investment committee, which consists of volunteers with investment management experience, meets with the investment manager on a quarterly basis to review the results of the investments and the portfolio mix.

Capital assets

Purchased capital assets are recorded at cost less accumulated amortization and any impairment in value. Contributed capital assets are recorded at their fair value at the date of contribution. Amortization is provided over the assets' estimated useful lives as follows:

Office and computer equipment	3 years straight-line
Buildings	20 years straight-line
Leasehold improvements	over the life of the lease

Intangible assets

Intangible assets comprise computer software, which is recorded at cost, less accumulated amortization and any impairment in value. Computer software assets are amortized using the straight-line method over a period of three years.

Multiple Sclerosis Society of Canada

Notes to Combined Financial Statements

December 31, 2017

(in thousands of dollars)

Research grants payable

Three research review committees, consisting of the Biomedical Committee, the Population & Clinical Health Committee and the Personnel Committee, review and recommend funding of research projects and personnel support on the dual criteria of scientific excellence and relevance to MS. The Medical Advisory Committee provides further advice and oversight and the National Board approves funding to researchers. Research grants payable in future years are recorded as a liability and expensed in the year of approval. Ongoing monitoring of research progress occurs on a continuing basis as part of an overall commitment to monitoring and accountability. Since research grants are usually multi-year commitments, changes in project commitments are adjusted to the research grant expense in the year they occur.

Deferred lease inducements

Lease inducements received by the Society are deferred and amortized as an adjustment to rent expense over the term of the lease on a straight-line basis.

Funds restricted for endowment purposes

The Society has received funds with externally imposed restrictions stipulating that the resources received be maintained permanently while the investment income on those amounts must be used for specific purposes.

Internally restricted funds

The Society has funds that have been internally restricted by the Board of Directors at the national, divisional or chapter level for the following purposes:

- Research program

These funds have been restricted to provide funding for research projects in future years.

- Other purposes

These funds have been restricted by divisions for building replacement, working capital and program services.

Interfund transfers are approved by the Board of Directors at the national, divisional or chapter level as appropriate, and in the current year relate primarily to the reclassification of amounts previously restricted for specific internal purposes on the basis that these amounts are no longer required for their original purpose.

Multiple Sclerosis Society of Canada

Notes to Combined Financial Statements

December 31, 2017

(in thousands of dollars)

Allocation of expenses

The Society provides direct services to people affected by MS, funding for research into the cause of and cure for MS, public education and awareness activities, volunteer development and support, government relations, and stakeholder advocacy programs. The costs of each program include the costs of personnel responsible for delivering these programs as well as expenditures that are directly related to conducting these programs.

The Society also incurs costs related to fundraising, administration and governance. Like the program areas, these costs include the costs of personnel with responsibilities in these areas as well as expenditures that are directly related to these activities.

Where personnel have responsibilities relating to more than one functional area, the costs are charged to each area based on time spent on each function. The charges related to personnel costs are reviewed on an annual basis as part of the budgeting process and adjustments are made during the year for significant changes in an individual's area of responsibility.

In addition to these costs, a number of support expenditures are incurred that are shared between all areas. These include expenses relating to office equipment, amortization of capital assets, office rent and occupancy costs, insurance, office supplies, outside services (such as payroll processing), telephone system expenses, and audit fees. The Society charges all support costs to each area based on the relative head count for each area.

Contributed services and non-capital assets

These combined financial statements do not reflect the substantial value of services and non-capital assets contributed by volunteers and other interested parties.

Use of estimates

The preparation of combined financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Multiple Sclerosis Society of Canada

Notes to Combined Financial Statements

December 31, 2017

(in thousands of dollars)

3 Investments

Investments comprise the following:

	2017	2016
	\$	\$
Pooled funds held with Phillips, Hager & North		
Mortgage Pension Trust, Series O	1,577	1,822
Bond Fund, Series O	1,680	1,758
Canadian Equity Fund, Series O	2,214	1,979
US Equity Fund, Series O	-	788
Canadian Money Market Fund, Series O	97	36
RBC QUBE Low Volatility Equity Fund	1,751	1,106
S&P 500 Index Exchange-Traded Fund	866	-
RBC Emerging Markets Equity Fund, Series O	463	-
Short-Term Bond & Mortgage Fund	89	-
Funds held by other institutions		
Guaranteed investment certificates	70	118
Other	3	3
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	8,810	7,610
Less: Current portion	94	68
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	8,716	7,542

For the year ended December 31, 2017, the total return generated by Phillips, Hager & North was 4.9% (2016 - 6.6%).

4 Capital assets

	2017		2016	
	Cost	Accumulated	Net	Net
	\$	amortization	\$	\$
		\$		
Office and computer equipment	4,051	3,671	380	314
Buildings	365	186	179	486
Leasehold improvements	3,720	2,324	1,396	1,440
Land	-	-	-	562
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	8,137	6,182	1,955	2,802

Multiple Sclerosis Society of Canada

Notes to Combined Financial Statements

December 31, 2017

(in thousands of dollars)

5 Intangible assets

			2017	2016
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Computer software	4,558	3,878	680	379

6 Transactions and balances with the Foundation

The Foundation is an organization established to carry on and promote scientific research in or related to MS. It is incorporated under the Canada Corporations Act and is a registered charity under the Income Tax Act (Canada). The Foundation has a common director with the Society and receives 89% (2016 - 86%) of its revenue from the Society; therefore, the Society is considered to have significant influence over the Foundation. The Society provides overhead and administrative services to the Foundation for an annual charge of \$20 (2016 - \$20).

Included in the transactions with the Foundation is \$408 (2016 - \$386) restricted for the ongoing research funded by the Foundation and \$1,542 (2016 - \$2,935) restricted for the endMS Campaigns. At year-end, \$1,443 (2016 - \$2,358) remains payable to the Foundation.

The Society granted a portion of the proceeds of the sale of capital assets to the Foundation for research in finding treatments for Progressive MS or to slow or halt the progression of MS in the amount of \$1,502 (2016 - \$nil).

The Society received a grant from the Foundation of \$520 (2016 - \$254) related to the endMS Campaigns. On behalf of the Foundation, the Society paid the endMS Campaigns' expenses, professional fees and miscellaneous expenses of \$2,294 (2016 - \$3,532) that were charged to the Foundation. At year-end, \$2,217 (2016 - \$4,875) is remaining in accounts receivable.

7 Long-term research grants payable

Amounts designated to fund research projects are payable as follows:

	2017 \$	2016 \$
Long-term portion of research grants payable in the years ending		
2018	-	2,571
2019	3,077	1,178
2020	1,278	-
	<u>4,355</u>	<u>3,749</u>

The fair value change in research grants payable was \$106 (2016 - \$75), which has been recorded in research expenses in the combined statement of revenue and expenditures.

Multiple Sclerosis Society of Canada

Notes to Combined Financial Statements

December 31, 2017

(in thousands of dollars)

8 Allocation of expenses

Shared support expenditures have been allocated as follows:

	2017 \$	2016 \$
Program and administration expenditures	2,415	2,106
Fundraising expenditures	1,417	1,252
	<u>3,832</u>	<u>3,358</u>

9 Government remittances payable

As at year-end, the Society had remittances payable to the government of \$140 (2016 - \$158). This represents payroll withholdings that were deducted in December 2016 and remitted in January 2017.

10 Net change in non-cash working capital

	2017 \$	2016 \$
Accounts receivable	2,611	(1,447)
Prepaid expenses and supplies	(198)	(15)
Accounts payable and accrued liabilities	37	603
Payable to the Foundation	(915)	547
Deferred revenue	413	(625)
	<u>1,948</u>	<u>(937)</u>

11 Commitments

The Society has leased office premises and equipment for terms expiring in various years to 2026. Future minimum lease payments are as follows:

	\$
2018	2,526
2019	2,209
2020	1,978
2021	1,557
2022	1,144
Thereafter	2,091
	<u>11,505</u>

Multiple Sclerosis Society of Canada

Notes to Combined Financial Statements

December 31, 2017

(in thousands of dollars)

12 Risk management

Financial instruments that potentially subject the Society to concentrations of credit risk are cash, investments and accounts receivable. The Society places its cash in interest bearing accounts or instruments insured by a Canadian chartered bank. The Society believes that an adequate provision has been made for accounts receivable to the extent that collection is doubtful.

Currency risk

The Society is subject to currency risk as the value of its US dollar bank account will fluctuate due to changes in foreign exchange rates. The Society believes it has low exposure to currency risk given the low magnitude and volume of foreign currency transactions.

Interest rate risk

The Society is exposed to interest rate risk as the value of its investments fluctuates in accordance with fluctuations in interest rates. The Society manages its interest rate risk by monitoring the performance of the individual investments and by ensuring compliance by the investment manager with the set investment policies of the organization.

Market risk

Investments are subject to market risk. The Society manages market risk by substantially investing in guaranteed investment certificates and pooled mutual funds that meet specific investment criteria and are designed to adequately diversify the Society's investments to reduce exposure to market risk. Professional investment managers invest and manage the investment portfolio in accordance with the Society's investment policy statement. Investments are recorded at fair value. Fair value estimates are made at a specific point in time and may not be reflective of future value. The Society does not hold or issue financial instruments for trading purposes and does not hold or invest in derivative financial instruments.

13 Sale of real estate

During the year, the Society sold properties in Victoria, B.C. and Kitchener, Ontario, the proceeds of which were directed to mission-related activities. An internally restricted net asset fund in the amount of \$800 was created by the Board of Directors to direct the proceeds of the sale of the Victoria property towards programs and services expenditures on Vancouver Island over a span of ten years beginning in 2018. The balance of the proceeds in the amount of \$1,502 was granted to the Multiple Sclerosis Scientific Research Foundation to be utilized in researching treatments for Progressive MS or to slow or halt the progression of MS.

Multiple Sclerosis Society of Canada

Notes to Combined Financial Statements

December 31, 2017

(in thousands of dollars)

14 Interfund transfers

An internally restricted net asset fund was created by the Board of Directors in fiscal 2017 to direct \$800 of the proceeds of the sale of the Victoria property towards programs and services expenditures on Vancouver Island over a span of ten years beginning in 2018.

Additionally, on the sale of the Kitchener property, \$120 was released from internally restricted net assets to unrestricted net assets. Finally, \$2 was released by the Board of Directors of the Quebec Division (2016 - \$8).

During the year, the Board of Directors approved a net interfund transfer in the amount of \$678 from the unrestricted net assets to internally restricted net assets for other purposes.

15 Comparative figures

Certain comparative figures on the combined statement of revenue and expenditures have been reclassified to conform with the combined financial statement presentation adopted for the current year.