

Financial Statements of

**THE CANADIAN RED
CROSS SOCIETY**

And Independent Auditors' Report
thereon

Year ended March 31, 2020

THE CANADIAN RED CROSS SOCIETY

Year ended March 31, 2020

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Members of the Canadian Red Cross Society

Opinion

We have audited the financial statements of the Canadian Red Cross Society (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements and schedule, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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 opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

August 27, 2020

THE CANADIAN RED CROSS SOCIETY

Statement of Financial Position

March 31, 2020, with comparative information for 2019
(In thousands of dollars)

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 200,903	\$ 249,743
Accounts receivable	38,124	34,393
Inventory and prepaid expenses	22,082	21,643
	<u>261,109</u>	<u>305,779</u>
Long-term investments (note 4)	61,046	34,189
Tangible capital and intangible assets (note 5)	53,603	51,565
Assets held for sale (note 6)	1,014	912
Defined benefit pension plan asset (note 10)	5,927	7,012
	<u>\$ 382,699</u>	<u>\$ 399,457</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 36,659	\$ 41,887
Deferred contributions - short-term (note 8)	146,453	172,369
	<u>183,112</u>	<u>214,256</u>
Deferred contributions - long-term (note 8)	30,542	25,441
Deferred contributions related to tangible capital and intangible assets (note 9)	9,501	9,487
Other defined benefit plans liability (note 10)	7,040	6,617
	<u>230,195</u>	<u>255,801</u>
Net assets (note 11):		
Invested in tangible capital and intangible assets	45,116	42,990
Restricted for endowment purposes (note 12)	1,629	1,626
Internally restricted (note 13)	83,929	61,889
Unrestricted	21,830	37,151
	<u>152,504</u>	<u>143,656</u>
Commitments, contingent liabilities and guarantees (notes 14 and 15)		
	<u>\$ 382,699</u>	<u>\$ 399,457</u>

See accompanying notes to financial statements.

On behalf of the Board:



Chair



Chair, Audit and Finance Committee

THE CANADIAN RED CROSS SOCIETY

Statement of Operations

Year ended March 31, 2020, with comparative information for 2019
(In thousands of dollars)

	2020	2019
	(Schedule)	
Revenue:		
Organizational capacity:		
Fundraising (note 16)	\$ 110,529	\$ 75,086
Investment (loss) income	(2,923)	2,531
Gain on sale of tangible capital assets and assets held for sale (notes 5 and 6)	421	5,624
	108,027	83,241
Core programs	246,729	308,163
Total revenue	354,756	391,404
Expenses:		
Organizational capacity:		
Fundraising (note 16)	39,923	36,952
Investment expense	86	259
Governance and general management	14,644	13,869
	54,653	51,080
Core programs:		
International operations	54,202	72,074
Emergency management	148,202	176,679
Prevention and safety	19,216	17,931
Health and community wellness	68,371	59,434
	289,991	326,118
Total expenses	344,644	377,198
Excess of revenue over expenses	\$ 10,112	\$ 14,206

See accompanying notes to financial statements.

THE CANADIAN RED CROSS SOCIETY

Statement of Changes in Net Assets

Year ended March 31, 2020, with comparative information for 2019
(In thousands of dollars)

	Invested in tangible capital and intangible assets	Restricted for endowment purposes	Internally restricted	Unrestricted	2020
Net assets, beginning of year	42,990	\$ 1,626	\$ 61,889	\$ 37,151	\$ 143,656
Excess of revenue over expenses	\$ —	(31)	—		10,112
Receipt of endowed funds (note 12)	—	34	—	—	34
Remeasurement gain on defined benefit pension plan asset and other defined benefit plans liability	—	—	10,143	(1,298)	(1,298)
Investment in tangible capital and intangible assets (note 18)	2,126	—	—	(2,126)	—
Internally restricted (note 13)	—	—	22,040	(22,040)	—
Net assets, end of year	45,116	\$ 1,629	\$ 83,929	\$ 21,830	\$ 152,504
\$					
	Invested in tangible capital and intangible assets	Restricted for endowment purposes	Internally restricted	Unrestricted	2019
Net assets, beginning of year	42,220	\$ 1,400	\$ 53,604	\$ 31,738	\$ 128,962
Excess of revenue over expenses	\$ —	(39)	—		14,206
Receipt of endowed funds (note 12)	—	265	—	(47)	218
Remeasurement loss on defined benefit pension plan asset and other defined benefit plans liability	—	—	14,245		270
Investment in tangible capital and intangible assets (note 18)	770	—	—	(770)	—
Internally restricted (note 13)	—	—	8,285	(8,285)	—
Net assets, end of year	42,990	\$ 1,626	\$ 61,889	\$ 37,151	\$ 143,656

See accompanying notes to financial statements.

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THE CANADIAN RED CROSS SOCIETY

Statement of Cash Flows

Year ended March 31, 2020, with comparative information for 2019
(In thousands of dollars)

	2020	2019
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 10,112	\$ 14,206
Items not involving cash:		
Increase (decrease) in net employee future benefits	210	(205)
Amortization of tangible capital and intangible assets	6,812	5,898
Amortization of deferred contributions related to tangible capital and intangible assets	(1,696)	(1,300)
Decrease in cumulative unrealized gains on investments	(5,742)	(1,108)
Gain on sale of tangible capital assets and assets held for sale	(421)	(5,624)
Change in non-cash operating working capital:		
Accounts receivable	(3,731)	1,533
Inventory and prepaid expenses	(439)	3,667
Accounts payable and accrued liabilities	(5,228)	(583)
Deferred contributions	(20,815)	(51,062)
	(20,938)	(34,578)
Investing activities:		
Net purchase of long-term investments	(21,115)	(496)
Proceeds on sale of tangible capital assets and assets held for sale	782	12,175
Acquisitions of tangible capital and intangible assets	(9,325)	(12,958)
	(29,658)	(1,279)
Financing activities:		
Deferred contributions related to tangible capital and intangible assets	1,722	1,039
Endowment contributions	34	218
	1,756	1,257
Decrease in cash and cash equivalents	(48,840)	(34,600)
Cash and cash equivalents, beginning of year	249,743	284,343
Cash and cash equivalents, end of year	\$ 200,903	\$ 249,743
Represented by:		
Unrestricted	\$ 13,502	\$ 32,883
Externally restricted	163,843	188,454
Internally restricted	23,558	28,406
Cash and cash equivalents	\$ 200,903	\$ 249,743

See accompanying notes to financial statements.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements

Year ended March 31, 2020
(In thousands of dollars)

1. Purpose of the organization:

The Canadian Red Cross Society (the "Society") is a not-for-profit volunteer-based humanitarian organization dedicated to helping people in Canada and around the world with situations that threaten their survival and safety, their security and well-being, or their human dignity. The Society relies on continuing support from various levels of governments, corporations and fundraising from other donors.

The Society, which is incorporated without share capital under the laws of Canada, is a registered Canadian charity and, as such, is exempt from income taxes under paragraph 149(1)(f) of the Income Tax Act (Canada).

2. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and reflect the following significant accounting policies:

(a) Basis of presentation:

These financial statements reflect the assets, liabilities, revenues and expenses of the operations of the Society including all operations within Canada and internationally.

The Organizational Capacity and Core Programs section on the statement of operations reflect the revenue and expenses after application of the Society's common support services expenses for programs. The Schedule provides a detailed summary of the net contributions of these functions after common support services expenses.

(b) Revenue recognition:

The Society follows the deferral method of accounting to account for contributions for not-for-profit organizations.

The Society receives donations from annual fundraising campaigns for operating purposes and from special campaigns for disaster relief programs in Canada and internationally.

Unrestricted donations are recognized as revenue when received. Restricted donations, other than endowments, are deferred and recognized as revenue in the year in which the related expenses are recognized. Revenue from the sale of goods or services are recognized when the goods are delivered or services rendered.

Externally restricted donations used to purchase depreciable tangible capital and intangible assets are deferred and amortized over the life of the related tangible capital and intangible asset. Externally restricted contributions used to purchase land are recorded as a direct increase in the net assets invested in tangible capital and intangible assets.

Externally restricted contributions that have not been expended are recorded as deferred contributions on the statement of financial position.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Endowment contributions are recognized as direct increases in net assets restricted for endowment purposes.

The fair value of donated tangible capital and intangible assets is deferred and amortized to income on the same basis as the related depreciable tangible capital and intangible assets are amortized.

Investment income includes dividend and interest income, realized and unrealized investment gains and losses, and where applicable, charges for other than temporary impairment of investments. Dividend and interest income as well as realized and unrealized gains and losses have been recorded directly in the statement of operations.

Unrealized gains and losses on financial assets are included in investment income and recognized as revenue in the statement of operations or deferred depending on the nature of any external restrictions imposed on the investment income.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Society has elected to carry its investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

2. Significant accounting policies (continued):

(c) Financial instruments (continued):

Financial assets measured at cost or amortized cost are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Society determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Society expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(d) Cash and cash equivalents:

Cash and cash equivalents represent cash and equivalents that mature within six months and those that can be readily converted to cash.

(e) Donated services:

The Society benefits greatly from donated services in the form of volunteer work for various activities. The value of donated services is not recognized in the financial statements because of the difficulty of measurement.

(f) Inventory:

Inventory consists of current materials and supplies necessary for the conduct of the Society's operations. Inventory is valued at the lower of cost and replacement value. Cost is determined using the first in first out method.

(g) Tangible capital and intangible assets:

Purchased tangible capital and intangible assets are recorded at cost. Contributed tangible capital assets are recorded at their estimated fair value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful lives of the asset as follows:

Asset	Useful life
Buildings	20 to 40 years
Building improvements	10 to 20 years
Leasehold improvements	Life of related lease
Furniture, office and healthcare equipment	3 to 5 years
Vehicles	2 to 5 years
Computer hardware	2 to 3 years
Intangible assets	5 to 7 years

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

2. Significant accounting policies (continued):

(g) Tangible capital and intangible assets (continued):

Land is not amortized due to its infinite life. Assets under development are only amortized once they are put into use by the Society. Intangible assets includes purchased and internally developed software. When a tangible capital or intangible asset no longer contributes to the Society's ability to provide services, its carrying amount is written down to its residual value.

(h) Post-retirement benefits:

The cost of post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of discount rate, retirement ages of employees and expected health care costs. Plan obligations are discounted using current market interest rates and plan assets are presented at fair market value.

The Society measures its accrued benefits obligations for accounting purposes as at March 31 of each year by extrapolating the value from the most recent actuarial valuation prepared for funding purposes.

The benefit plan expense for the year consists of the current service and finance costs. Re-measurements and other items are recorded directly on the Statement of Changes in Net Assets.

(i) Allocation of expenses:

The Society incurs common support service expenses that are common to its programs and administration.

Governance and general management expenses are not allocated and are accounted for as part of organizational capacity. Other common support service expenses are allocated directly to the programs.

Fund Development expenses are not allocated and are accounted for directly in Fundraising expense.

(j) Use of estimates:

The preparation of these financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. In the opinion of management, these financial statements reflect, within reasonable limits of materiality, all adjustments necessary to present fairly the results for the years presented. Actual results could differ from these estimates. Key management estimates include the assumptions underlying the employee future benefit liability calculations.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

3. Cash and cash equivalents:

Cash and cash equivalents related to deferred contributions are restricted externally for specified purposes and not available for the Society's general operations. Cash and cash equivalents internally restricted have been allocated to specific activities identified by management and approved by the Board of Directors. The funds are not available for the Society's general operations. Total cash and cash equivalents is allocated as follows:

	2020	2019
Cash:		
Unrestricted	\$ 13,020	\$ 30,236
Externally restricted - General	62,715	25,660
Externally restricted - Alberta Fires	7,166	2,574
Externally restricted - BC Fires	9,737	470
Internally restricted	3,058	3,406
	95,696	62,346
Cash equivalents:		
Unrestricted	482	2,647
Externally restricted - General	37,725	68,000
Externally restricted - Alberta Fires	25,000	49,250
Externally restricted - BC Fires	21,500	42,500
Internally restricted	20,500	25,000
	105,207	187,397
Total cash and cash equivalents	\$ 200,903	\$ 249,743

4. Long-term investments:

	2020		2019	
	Fair value and carrying value	Cost	Fair value and carrying value	Cost
Investments:				
Fixed income	\$ 31,749	\$ 32,044	\$ 17,238	\$ 16,861
Equities	29,297	33,673	16,951	16,257
	\$ 61,046	\$ 65,717	\$ 34,189	\$ 33,118

The fair values of investments are based on quoted market prices.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

4. Long-term investments (continued):

Fixed income investments are comprised of government and corporate bonds with maturity dates ranging from 2020 to 2116, earning interest up to 25% (2019 - ranging from 2019 to 2054, earning interest up to 8.50%).

5. Tangible capital and intangible assets:

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Land	\$ 5,559	\$ —	\$ 5,559	\$ 5,683
Buildings and building improvements	47,135	28,690	18,445	19,607
Leasehold improvements	4,620	332	4,288	3,973
Furniture, office and healthcare equipment	28,750	24,943	3,807	3,386
Vehicles	7,756	7,028	728	1,202
Computer hardware	6,806	5,822	984	1,065
Intangible assets	19,888	5,188	14,700	11,811
Assets under development	5,092	—	5,092	4,838
	\$ 125,606	\$ 72,003	\$ 53,603	\$ 51,565

Cost and accumulated amortization at March 31, 2019 amounted to \$119,176 and \$67,611, respectively.

During the year the Society disposed of tangible capital assets with a net book value of \$33 (2019 - \$1,703) for proceeds on disposal of \$195 (2019 - \$1,475), resulting in a gain on disposal of \$162 (2019 - loss on disposal of \$228).

6. Assets held for sale:

As part of the Society's strategy to reduce its physical footprint to deliver its services, certain properties were considered as redundant and contracted for sale during the past few years.

During the current year the Society disposed of assets previously held for sale with a net book value of \$340 (2019 - \$4,848) for proceeds on disposal of \$587 (2019 - \$10,700), resulting in a gain on disposal of \$247 (2019 - \$5,852).

Assets currently classified as held for sale are comprised of buildings located in New Brunswick and Ontario. The value of the buildings have been measured at the lower of its carrying amount or fair value less cost to sell.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

7. Accounts payable and accrued liabilities:

As at March 31, 2020, the Society had \$127 (2019 - \$193) payable for government remittances, including harmonized sales tax, goods and services tax and payroll remittances.

8. Deferred contributions:

Deferred contributions are comprised of amounts restricted for the funding of expenses to be incurred in the future. The movement of the deferred contributions is as follows:

	2020			
	General	Alberta fires	BC fires	Total
Opening balance	\$ 107,018	\$ 51,823	\$ 38,969	\$ 197,810
Donations and grants received	130,638	—	—	130,638
Interest earned and deferred	1,904	1,199	819	3,922
Recognized as revenue	(123,557)	(20,856)	(10,653)	(155,066)
Reallocated to deferred contributions related to tangible capital and intangible assets	(309)	—	—	(309)
Closing balance	115,694	32,166	29,135	176,995
Deferred contributions - short-term	115,694	17,677	13,082	146,453
Deferred contributions - long-term	\$ —	\$ 14,489	\$ 16,053	\$ 30,542

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Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

8. Deferred contributions (continued):

	2019			
	General	Alberta fires	BC fires	Total
Opening balance	\$ 110,687	\$ 71,360	\$ 66,825	\$ 248,872
Donations and grants received	131,240	58	25,045	156,343
Interest earned and deferred	1,065	1,017	722	2,804
Recognized as revenue	(135,832)	(20,612)	(53,623)	(210,067)
Reallocated to deferred contributions related to tangible capital and intangible assets	(142)	—	—	(142)
Closing balance	107,018	51,823	38,969	197,810
Deferred contributions - short-term	107,018	32,156	33,195	172,369
Deferred contributions - long-term	\$ —	\$ 19,667	\$ 5,774	\$ 25,441

The amounts recognized as revenue in respect of the Alberta Fires and BC Fires are included as part of the Emergency Management program revenue in the detailed statement of operations schedule.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

9. Deferred contributions related to tangible capital and intangible assets:

Deferred contributions related to tangible capital and intangible assets represent the unamortized amount of donations and grants received and used for the purchase of tangible capital and intangible assets. The changes in the deferred contributions balance for the year are as follows:

	2020	2019
Balance, beginning of year	\$ 9,487	\$ 10,016
Donations and grants received, used for the purchase of tangible capital and intangible assets during the year	1,722	1,039
Amortization of deferred contributions related to tangible capital and intangible assets	(1,696)	(1,300)
Gain on sale of tangible capital assets and assets held for sale	(12)	(268)
Balance, end of year	\$ 9,501	\$ 9,487

10. Employee future benefits:

The Society is the sponsor and administrator of a defined contribution and a defined benefit pension plan. During the year ended March 31, 2020, the Society's contribution to its employees' defined contribution pension plan was \$2,920 (2019 - \$2,732).

The Society discontinued the defined benefit option of its pension plan on September 30, 1998. Members were given the option to convert their entitlements to a defined contribution basis or to have an annuity purchased on their behalf. Certain members' elections with respect to the conversion of past service benefits accrued to the date of discontinuation have not been finalized; therefore, no annuities have been purchased on behalf of these individuals. The Society remains responsible for the frozen benefits accrued under the defined benefit option of the Plan up to September 30, 1998.

The Society also sponsors life and health care benefits for its retired employees (Other Benefit Plans). These benefits are not pre-funded.

The most recent actuarial valuation for the Society's defined benefit pension plan was performed in September 2019 and extrapolated to March 31, 2020. The next valuation for this plan will be performed as of September 2022. The most recent actuarial valuations for the Society's other defined benefit plans were performed in March 2019. The next valuation for these plans will be performed by March 2022.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

10. Employee future benefits (continued):

The information about the employee benefit plans is presented in the tables below:

	Defined benefit pension plan		Other defined benefit plans	
	2020	2019	2020	2019
Accrued benefit obligations,				
beginning of year	\$ 3,244	\$ 3,336	\$ 6,617	\$ 7,310
Current service cost	–	–	–	62
Past service cost	–	–	413	–
Finance cost	135	138	275	303
Benefits paid	(350)	(226)	(606)	(669)
Actuarial loss (gain)	388	(4)	341	(389)
Accrued benefit obligations,				
end of year	3,417	3,244	7,040	6,617
Fair value of plan assets	9,344	10,256	–	–
Defined benefit asset (liability)	\$ 5,927	\$ 7,012	\$ (7,040)	\$ (6,617)

The significant actuarial assumptions adopted in measuring the Society's accrued benefit obligations are as follows:

	Defined benefit pension plan		Other defined benefit plans	
	2020	2019	2020	2019
Discount rate for obligations	4.00%	4.15%	4.15%	4.15%
Discount rate for expenses	4.15%	4.15%	4.15%	4.15%
Post-retirement indexation	1.75%	1.75%	– %	– %
Dental cost increases			4.00%	4.00%
Extended healthcare cost escalations, 6.60% per annum in 2019 grading down to 4.00% per annum in and after 2040			6.47%	6.60%
Hospital benefit cost escalation			4.00%	4.00%

Other information about the Society's benefit plans is as follows:

	Defined benefit pension plan		Other defined benefit plans	
	2020	2019	2020	2019
Employees and employer contributions	\$ –	\$ –	\$ 606	\$ 669
Benefits paid	350	226	606	669

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Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

11. Net assets:

The Society defines its capital as its net assets. Its objectives in managing capital are:

- (a) to ensure that sufficient financial resources are in place to deliver on the operational plan priorities approved by the Board of Directors;
- (b) to maintain a minimum reserve in its net assets under the Legacy Fund of \$35 million to ensure the ability to continue operations in the face of unexpected events;
- (c) to invest funds in financial instruments permitted under the Board of Directors' approved Statements of Investment Policies and Procedures ("SIP&P"); and
- (d) to manage grants and donations with external restrictions in order to comply with the conditions for using these financial resources.

The Society monitors its net assets by reviewing various financial metrics, including cash flows and variances to forecasts and budgets.

Net asset management objectives, policies and procedures are unchanged since the preceding year.

The Society has complied with all the external requirements, including the requirements respecting the external restrictions.

12. Restricted for endowment purposes:

Contributions restricted for endowment purposes consist of monies received which the donor has designated as endowment funds. The annual income earned from funds designated as endowment by the donor may be expended only for the purpose designated. If no purpose is designated by the donor then the income is expended at the direction of the Board.

Actual investment income earned in excess of the distributed amount is accumulated in the endowment fund for future distribution and to maintain capital.

	2020	2019
Donations and bequests	\$ 34	\$ 265
Investment loss	(31)	(39)
Net change in year	3	226
Fund balance, beginning of year	1,626	1,400
Fund balance, end of year	\$ 1,629	\$ 1,626

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

12. Restricted for endowment purposes (continued):

The endowment balance consists of:

	2020	2019
Cumulative endowment principal	\$ 1,236	\$ 1,202
Cumulative undistributed investment income	393	424
Endowment balance on endowment investments	\$ 1,629	\$ 1,626

13. Internally restricted funds:

The Society restricts the use of portions of its unrestricted net assets for specific future uses. When incurred, related expenses are charged to operations and the balance of internally restricted net assets is reduced accordingly.

Internally restricted funds are comprised of:

- Contingency Reserve: The contingency fund increased from \$33.5M as at March 31, 2019 to \$36.1M as at January 31, 2020. Following Board approval on January 31, 2020, the fund was transferred to the newly created Legacy Fund.
- Legacy Fund: On January 31, 2020, a new fund was created by combining the Contingency Reserve with new donations of \$31.2M to provide investment income to support operations. As at March 31, 2020, the cumulative amount of \$60.4M is reserved to ensure the ability to continue operations in the face of unexpected events and provide investment income to support operations.
- Strategic Investment Reserve Fund (SIRF): A cumulative amount of \$23.3M (2019 - \$27.8M) is reserved to finance strategic initiatives.
- Tsunami Fund: Interest and investment income in the amount of \$nil (2019 - \$nil) was appropriated from the internally restricted funds and an amount of \$331 (2019 - \$64) was expended on the objectives of the Tsunami Fund leaving a remaining balance of \$229 (2019 - \$560) as internally restricted.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

14. Commitments:

The Society has entered into various operating leases for buildings and equipment. The minimum annual lease payments for the next five fiscal years are as follows:

2021	\$	7,027
2022		5,676
2023		3,777
2024		2,114
2025		1,807

The Society has also committed a total amount of \$59,426 (2019 - \$87,922) under signed contracts where the services have yet to be delivered. In addition, \$10,126 (2019 - \$14,479) of uncontracted commitments have been agreed to. Of this amount, all are expected to be expended within five years.

15. Contingent liabilities and guarantees:

The Society received contributions from Global Affairs Canada (GAC) and other funding agencies that are subject to restrictions as to the use of the funds. The Society's accounting records, as well as those of member institutions subcontracted to execute the projects, are subject to audit by GAC and other funding agencies to identify instances, if any, in which the amounts charged to projects have not complied with the agreed terms and conditions, and which, therefore, would be refundable to the funding agency. Adjustments to the financial statements as a result of these audits will be recorded in the period in which they become known.

In the normal course of operations, the Society provides indemnification agreements with various counterparties in transactions such as service agreements, software licenses, leases, and purchases of goods. Under these agreements, the Society agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Society in relation to the agreement. The nature of the indemnification agreements prevents the Society from making a reasonable estimate of the maximum potential amount that the Society would be required to pay such counterparties.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

16. Fundraising:

Fundraising revenue and expenses are as follows:

	2020	2019
Revenue:		
Bequests	\$ 43,508	\$ 11,063
Direct marketing	50,950	48,832
Lotteries and gaming	852	959
Special events and other fundraising	15,219	14,232
	110,529	75,086
Direct expenses:		
Bequests	1,159	1,227
Direct marketing	25,469	22,590
Lotteries and gaming	748	790
Special events and other fundraising	12,547	12,345
	39,923	36,952
	\$ 70,606	\$ 38,134

During the year, the Society received \$110,529 (2019 - \$75,086) in unrestricted donations. In addition, the Society received restricted donations accounted for as program revenue of \$10,170 (2019 - \$10,971) and restricted donations accounted for as deferred contributions of \$29,433 (2019 - \$25,686), for total fundraising of \$150,132 (2019 - \$111,743) raised during the year.

17. Allocation of expenses:

Net support services are allocated directly to programs. During the year, they were allocated as follows:

	2020	2019
Organizational capacity	\$ 14,644	\$ 13,869
International operations	6,166	6,024
Emergency management	16,542	15,206
Prevention and safety	5,867	4,615
Health and community wellness	9,638	10,390
	\$ 52,857	\$ 50,104

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

18. Statement of changes in net assets:

Net changes in investment in tangible capital and intangible assets is comprised of the following:

	2020	2019
Amortization of tangible capital and intangible assets	\$ (6,812)	\$ (5,898)
Amortization of deferred contributions related to tangible capital and intangible assets	1,696	1,300
Gain on sale of tangible capital assets and assets held for sale	421	5,624
Proceeds on sale of tangible capital assets and assets held for sale	(782)	(12,175)
Acquisitions of tangible capital and intangible assets	9,325	12,958
Increase of deferred contributions related to tangible capital and intangible assets	(1,722)	(1,039)
	\$ 2,126	\$ 770

19. Financial risks:

(a) Foreign currency risk:

The Society operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. Foreign exchange risk is not significant as risk is limited to USD and other foreign currency cash holdings totaling \$741 (2019 - \$561).

(b) Liquidity risk:

Liquidity risk is the risk that the Society will be unable to fulfill its obligations associated with financial liabilities or to meet cash requirements on a timely basis or a reasonable cost. The Society manages its liquidity risk by monitoring its operating requirements. The Society prepares budgets and cash forecasts to ensure it has sufficient fund to fulfill its obligations.

(c) Credit risk:

Credit risk arises from the potential that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Society's accounts receivable represent credit provided for the Society's programs. The Society extends credit to its authorized providers and funding agencies. The Society's Health and Community Wellness and Emergency Management programs represent 84% (2019 - 74%) of the total accounts receivable. The credit is provided mainly to provincial governments and, accordingly, presents minimal credit risk to the Society.

The maximum credit exposure of the Society is represented by the fair value of the investments and amounts receivable as presented in the statement of financial position. The Society has an allowance for doubtful accounts of \$808 (2019 - \$347).

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

19. Financial risks (continued):

(d) Interest rate risk:

Interest rate risk refers to adverse consequences of interest rate changes on the Society cash flows, financial position, investment income and interest expense. The Society's exposure to interest rate risk is limited to its fixed income investments as disclosed in note 4. The potential impact of adverse changes in rates is not considered significant.

(e) 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. The Society believes that it is not exposed to significant other price risk arising from its financial instruments.

There has been no significant change in the risk exposures of the Society in the year other than the impact of the COVID-19 pandemic disclosed in note 22.

20. Restructuring:

During 2019, the Board approved the discontinuance of the Atlantic Home Support program, a program under the Society's Health and Community Wellness program. The exit of the Atlantic Home Support programs was announced in February 2020. The planned exit will result in obligations being incurred at the balance sheet date in relation to the termination of various Government contracts.

During 2020, previously announced restructuring initiatives continued for the Health and Community Wellness Program in Ontario and the Prevention and Safety Program, as well as selected support services.

The obligations accrued and settled are as follows:

2020					
	Health and Community Wellness	Prevention and Safety	Support Services	Total	
Employment-related obligations	\$ 6,828	\$ 167	\$ —	\$	6,995
Support service obligations	871	213	—		1,084
Amounts settled in year	(64)	(380)	—		(444)
Remaining obligations	\$ 7,635	\$ —	\$ —	\$	7,635

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

20. Restructuring (continued):

	2019				
	Health and Community Wellness	Prevention and Safety	Support Services		Total
Employment-related obligations	\$ 2,208	\$ 1,017	\$ 250	\$	3,475
Support service obligations	115	592	—		707
Amounts settled in year	(2,259)	(1,229)	(250)		(3,738)
Remaining obligations	\$ 64	\$ 380	\$ —	\$	444

21. Adoption of new accounting standards:

The Society has adopted the following new Canadian Not-for-Profit Accounting Standards effective on April 1, 2019:

- Section 4433, to replace Section 4431, Tangible Capital Assets Held by Not-for-Profit Organizations
- Section 4434, to replace Section 4432, Intangible Assets Held by Not-for-Profit Organizations
- Section 4441, to replace Section 4440, Collections Held by Not-for-Profit Organizations

The Society has adopted these standards on a prospective basis.

The Society will apply the componentization approach for capitalization and amortization to significant tangible capital assets acquired in future years, as required under Section 4433.

The Society has determined that there is no need for a write-down of intangible assets upon adoption of Section 4434.

The Society does not have assets that meet the definition of a collection under Section 4441.

The adoption of these new accounting standards did not result in any adjustments to the amounts reported in the financial statements for the year ended March 31, 2020 and the comparative information.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020
(In thousands of dollars)

22. Effects of COVID-19:

Prior to the Society's year-end, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and societal impact. There were no significant impacts to the Society prior to year end.

At the time of approval of these financial statements, the Society has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic:

- The Society activated its programs to assist Canadians through the pandemic, including the redeployment of certain employees.
- The interruption of certain deliverables within Health and Community Wellness, Prevention & Safety and International Operations programming. Where possible, employees were re-deployed to other programs to provide support where needed.
- Revisions to the delivery of a number of services in order to limit the potential for transmission within the Society, including:
 - The implementation of a working-from-home requirement for certain employees.
 - The closure of offices to the public.
 - The suspension of all non-essential travel.
- Plans to reduce CRC's vacation liabilities were impacted due to pandemic early warning signals and subsequent travel restrictions during the winter vacation and March break period.

The COVID-19 pandemic is dynamic and the duration and magnitude of the impact on operating revenues and expenditures of the Society is not known at this time.

23. Comparative information:

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.

THE CANADIAN RED CROSS SOCIETY

Detailed Statement of Operations - Schedule

Year ended March 31, 2020, with comparative information for 2019
(In thousands of dollars)

	2020			2019		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Organizational capacity:						
Fundraising (note 16)	\$ 110,529	\$ 39,923	\$ 70,606	\$ 75,086	\$ 36,952	\$ 38,134
Other income and expenses:						
Investment (loss) income	(2,923)	86	(3,009)	2,531	259	2,272
Gain on sale of tangible capital assets and assets held for sale (notes 5 and 6)	421	—	421	5,624	—	5,624
Governance and general management	—	14,644	(14,644)	—	13,869	(13,869)
	(2,502)	14,730	(17,232)	8,155	14,128	(5,973)
	108,027	54,653	53,374	83,241	51,080	32,161
Core programs:						
International operations	48,729	54,202	(5,473)	68,959	72,074	(3,115)
Emergency management	124,941	148,202	(23,261)	164,680	176,679	(11,999)
Prevention and safety	18,398	19,216	(818)	18,808	17,931	877
Health and community wellness	54,661	68,371	(13,710)	55,716	59,434	(3,718)
	246,729	289,991	(43,262)	308,163	326,118	(17,955)
Excess of revenue over expenses	\$ 354,756	\$ 344,644	\$ 10,112	\$ 391,404	\$ 377,198	\$ 14,206