

Financial Statements of

**THE CANADIAN RED CROSS
SOCIETY**

Year ended March 31, 2018

Financial Statements of

THE CANADIAN RED CROSS SOCIETY

Year ended March 31, 2018

	Page
Independent Auditors' Report.....	1 - 2
Statement of Financial Position.....	3
Statement of Operations.....	4
Statement of Change in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements.....	7 - 23
Detailed Statement of Operations – Schedule	24



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INDEPENDENT AUDITORS' REPORT

To the Members of the Canadian Red Cross Society

We have audited the accompanying financial statements of the Canadian Red Cross Society, which comprise the statement of financial position as at March 31, 2018, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Red Cross Society as at March 31, 2018, and its results of operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

May 29, 2018

THE CANADIAN RED CROSS SOCIETY

Statement of Financial Position

March 31, 2018, with comparative information for 2017
(In thousands of dollars)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 284,343	\$ 265,554
Accounts receivable	35,926	26,753
Inventory and prepaid expenses	25,310	25,891
	<u>345,579</u>	<u>318,198</u>
Long-term investments (note 4)	32,585	27,204
Capital assets (note 5)	47,388	48,819
Assets held for sale (note 6)	4,848	-
Defined benefit pension plan asset (note 10)	7,230	7,707
	<u>\$ 437,630</u>	<u>\$ 401,928</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 42,485	\$ 25,449
Deferred contributions - short-term (note 8)	231,230	190,653
	<u>273,715</u>	<u>216,102</u>
Deferred contributions - long-term (note 8)	17,627	47,165
Deferred contributions related to capital assets (note 9)	10,016	10,318
Other defined benefit plans liability (note 10)	7,310	14,195
	<u>308,668</u>	<u>287,780</u>
Net assets (note 11):		
Invested in capital assets	42,220	38,501
Restricted for endowment purposes (note 12)	1,400	1,374
Internally restricted - General (note 13)	52,980	50,604
Internally restricted - Tsunami interest (note 13)	624	1,346
Unrestricted	31,738	22,323
	<u>128,962</u>	<u>114,148</u>
Commitments, contingent liabilities and guarantees (notes 14 and 15)		
	<u>\$ 437,630</u>	<u>\$ 401,928</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, 2018, with comparative information for 2017

(In thousands of dollars)

	Actual 2018	Actual 2017
	(Schedule)	
Revenue:		
Organizational capacity:		
Fundraising (note 16)	\$ 80,358	\$ 73,150
Investment income (note 4)	2,240	4,001
Gain on sale of buildings and other (note 5)	1,273	9,311
	<u>83,871</u>	<u>86,462</u>
Core programs	381,732	435,374
Total revenue	<u>465,603</u>	<u>521,836</u>
Expenses:		
Organizational capacity:		
Fundraising (note 16)	35,017	32,776
Investment expense	93	207
Governance and general management	12,839	11,998
	<u>47,949</u>	<u>44,981</u>
Core programs:		
International operations	80,140	65,050
Disaster management	221,067	273,853
Prevention and safety	26,672	25,538
Health and community wellness	81,402	100,512
	<u>409,281</u>	<u>464,953</u>
Total expenses	<u>457,230</u>	<u>509,934</u>
Net Tsunami expenses (note 13)	(722)	(1,039)
Excess of revenue over expenses	<u>\$ 7,651</u>	<u>\$ 10,863</u>

See accompanying notes to financial statements.

THE CANADIAN RED CROSS SOCIETY

Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017
(In thousands of dollars)

	Invested in capital assets	Restricted for endowment purposes		2018
		Internally restricted	Unrestricted	
Net assets, beginning of year	\$ 38,501	\$ 1,374	\$ 51,950	\$ 114,148
Excess of revenue over expenses	-	26	-	7,651
Remeasurement loss on defined benefit pension plan asset and other defined benefit plans liability	-	-	-	(54)
Remeasurement gain on defined benefit pension plan amendment (note 10)	-	-	-	7,217
Investment in capital assets (note 18)	3,719	-	-	(3,719)
Internally restricted (note 13)	-	-	1,654	(1,654)
Net assets, end of year	\$ 42,220	\$ 1,400	\$ 53,604	\$ 128,962
	Invested in capital assets	Restricted for endowment purposes		2017
Net assets, beginning of year	\$ 43,608	\$ 1,343	\$ 46,760	\$ 104,562
Excess of revenue over expenses	-	31	-	10,863
Remeasurement loss on defined benefit pension plan asset and other defined benefit plans liability	-	-	-	(1,277)
Investment in capital assets (note 18)	(5,107)	-	-	5,107
Internally restricted (note 13)	-	-	5,190	(5,190)
Net assets, end of year	\$ 38,501	\$ 1,374	\$ 51,950	\$ 114,148

See accompanying notes to financial statements.

THE CANADIAN RED CROSS SOCIETY

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017
(In thousands of dollars)

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 7,651	\$ 10,863
Items not involving cash:		
Increase in net employee future benefits	755	706
Amortization of deferred capital contributions	(1,455)	(1,817)
Amortization of capital assets	5,555	5,298
Investment (income) loss	(2,240)	1,623
Gain on disposal of capital assets	(1,273)	(9,311)
	8,993	7,362
Change in non-cash operating working capital:		
Accounts receivable	(9,173)	(7,614)
Inventory and prepaid expenses	581	3,517
Accounts payable and accrued liabilities	17,036	3,416
Deferred contributions	11,039	90,247
	19,483	89,566
Investing activities:		
Net purchase of long-term investments	(3,141)	(7,824)
Proceeds on disposal of capital assets	1,960	15,340
Acquisitions of capital assets	(9,659)	(5,501)
	(10,840)	2,015
Financing activities:		
Deferred contributions related to capital assets	1,153	1,098
Increase in cash and cash equivalents	18,789	100,041
Cash and cash equivalents, beginning of year	265,554	165,513
Cash and cash equivalents, end of year	\$ 284,343	\$ 265,554
Represented by:		
Unrestricted	\$ 32,322	\$ 34,787
Externally restricted	230,260	205,304
Internally restricted	21,761	25,463
Cash and cash equivalents	\$ 284,343	\$ 265,554

See accompanying notes to financial statements.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements

Year ended March 31, 2018
(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 management and administration. 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.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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

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

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

The fair value of donated capital assets is deferred and amortized to income on the same basis as the related depreciable capital 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, 2018
(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 externally restricted, internally restricted and unrestricted cash and equivalents that mature within three 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 includes 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 moving average method.

(g) Capital assets:

Purchased capital assets are recorded at cost. Contributed 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 years
Furniture, office and healthcare equipment	3 to 5 years
Vehicles	2 to 5 years
Computer hardware and software	2 to 7 years

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

2. Significant accounting policies (continued):

(g) Capital assets (continued):

Land is not amortized due to its infinite life. 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 using actuarial valuations on a funding basis.

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 the Fundraising line of the Society's financial statements.

(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, 2018
(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:

	2018 Cost and fair value	2017 Cost and fair value
Cash:		
Unrestricted	\$ 31,967	\$ 16,021
Externally restricted - General	46,232	39,673
Externally restricted - Haiti	843	520
Externally restricted - Alberta Fires	5,521	29,684
Externally restricted - BC Fires	42,801	-
Internally restricted - General	1,271	9,041
Internally restricted - Tsunami	624	11
	129,259	94,950
Cash equivalents:		
Unrestricted	354	4,893
Externally restricted - General	52,524	69,709
Externally restricted - Haiti	-	9,591
Externally restricted - Alberta Fires	65,839	70,000
Externally restricted - BC Fires	16,500	-
Internally restricted - General	19,867	15,077
Internally restricted - Tsunami	-	1,334
	155,084	170,604
Total cash and cash equivalents	\$ 284,343	\$ 265,554

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

4. Long-term investments:

	2018		2017	
	Fair value and carrying value	Cost	Fair value and carrying value	Cost
Investments:				
Fixed income	\$ 15,305	\$ 15,201	\$ 12,021	\$ 11,675
Equities	17,280	17,421	15,183	14,331
	\$ 32,585	\$ 32,622	\$ 27,204	\$ 26,006

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

Fixed income investments are comprised of government and corporate bonds with maturity dates ranging from 2018 to 2054, earning interest up to 7.41% (2017 - ranging from 2017 to 2064, earning interest up to 4.2%).

Gross investment income recognized as revenue is reported as follows:

	2018	2017
Investment income - General	\$ 2,240	\$ 4,001
Investment income - Tsunami (note 13)	4	6
	\$ 2,244	\$ 4,007

Investment income earned from the Haiti fund of \$84 (2017 - \$55) is externally restricted and allocated to Haiti deferred contributions.

Investment income earned from the General fund of \$783 (2017 - \$244) is externally restricted and allocated to General deferred contributions.

Investment income earned from the Alberta Fires fund of \$1,016 (2017 - \$174) is externally restricted and allocated to Alberta Fires deferred contributions.

Investment income earned from the BC Fires fund of \$429 (2017 - \$Nil) is externally restricted and allocated to BC Fires deferred contributions.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

5. Capital assets:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Land	\$ 7,775	\$ —	\$ 7,775	\$ 7,816
Buildings	49,755	28,418	21,337	27,495
Furniture, office and healthcare equipment	24,716	22,606	2,110	2,209
Vehicles	9,355	7,451	1,904	2,870
Computer hardware and software	20,386	6,124	14,262	8,429
	<u>\$ 111,987</u>	<u>\$ 64,599</u>	<u>\$ 47,388</u>	<u>\$ 48,819</u>

Cost and accumulated amortization at March 31, 2017 amounted to \$113,824 and \$65,005, respectively.

During the year the Society disposed of capital assets with a net book value of \$688 (2017 - \$6,029) for proceeds on disposal of \$1,960 (2017 - \$15,340), resulting in a gain on disposal of \$1,273 (2017 - \$9,311).

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 year. These assets have been classified as held for sale and are comprised of buildings located in Quebec and Ontario. The value of the buildings have been measured at the lower of its carrying amount or fair value less cost to sell. As at March 31, 2018, one of these properties had incurred a write-down loss of \$89, recorded as part of allocated support services.

7. Accounts payable and accrued liabilities:

As at March 31, 2018, the Society had \$758 (2017 - \$655) payable for government remittances, including harmonized sales tax/goods and services tax and payroll remittances.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars)

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:

	2018				
	General	Haiti	Alberta fires	BC fires	Total
Opening balance	\$ 131,992	\$ 4,479	\$ 101,347	\$ –	\$ 237,818
Donations and grants received	119,944	2,712	354	136,787	259,797
Interest earned and deferred	783	84	1,016	429	2,312
Recognized as revenue	(143,410)	(5,912)	(31,357)	(70,391)	(251,070)
Closing balance	109,309	1,363	71,360	66,825	248,857
Deferred contributions - short-term	109,309	1,363	53,733	66,825	231,230
Deferred contributions long-term	\$ –	\$ –	\$ 17,627	\$ –	\$ 17,627
	2017				
	General	Haiti	Alberta fires	BC fires	Total
Opening balance	\$ 133,718	\$ 13,853	\$ –	\$ –	\$ 147,571
Donations and grants received	149,819	1,414	323,369	–	474,602
Interest earned and deferred	244	55	174	–	473
Recognized as revenue	(151,789)	(10,843)	(222,196)	–	(384,828)
Closing balance	131,992	4,479	101,347	–	237,818
Deferred contributions - short-term	131,992	3,661	55,000	–	190,653
Deferred contributions long-term	\$ –	\$ 818	\$ 46,347	\$ –	\$ 47,165

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

8. Deferred contributions (continued):

The amounts recognized as revenue in respect of Haiti are included as part of the international operations revenue in the detailed statement of operations Schedule. The amounts recognized as revenue in respect of the Alberta Fires and BC Fires are included as part of the disaster management program revenue in the detailed statement of operations Schedule.

9. Deferred contributions related to capital assets:

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

	2018	2017
Balance, beginning of year	\$ 10,318	\$ 11,037
Donations and grants received and used for the purchase of capital assets during the year	1,153	1,098
Amortization of deferred capital contributions	(1,455)	(1,817)
Balance, end of year	\$ 10,016	\$ 10,318

10. Employee future benefits:

The Society has a defined contribution and a defined benefit pension plan. During the year ended March 31, 2018, the Society's contribution to its employees' defined contribution pension plan was \$2,728 (2017 - \$2,804).

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. On March 23, 2018, the Society decided to discontinue these life and health care benefits for employees retiring after May 1, 2020. This change resulted in a re-measurement gain of \$7,217 during the year ended March 31, 2018. This change is reflected in the Statement of Changes in Net Assets.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

10. Employee future benefits (continued):

The most recent actuarial valuations for the Society's defined benefit pension plan was performed in September 2016 and extrapolated to March 31, 2018. The next valuation for this plan will be performed by September 2019. The most recent actuarial valuations for the Society's other defined benefit plans was performed in March 2016 and extrapolated to March 31, 2018. The next valuation for these plans will be performed by March 2019.

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

	Defined benefit pension plan		Other defined benefit plans	
	2018	2017	2018	2017
Accrued benefit obligations, beginning of year	\$ 3,518	\$ 3,908	\$ 14,195	\$ 12,471
Current service cost	–	–	741	649
Finance cost	146	172	589	549
Benefits paid	(321)	(382)	(648)	(545)
Actuarial (gain) loss	(7)	(180)	(350)	1,071
Re-measurement gain	–	–	(7,217)	–
Accrued benefit obligations, end of year	3,336	3,518	7,310	14,195
Fair value of plan assets	10,566	11,225	–	–
Defined benefit asset (liability)	\$ 7,230	\$ 7,707	\$ (7,310)	\$ (14,195)

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

	Defined benefit pension plan		Other defined benefit plans	
	2018	2017	2018	2017
Discount rate for obligations	4.15%	4.15%	4.15%	4.15%
Discount rate for expenses	4.15%	4.40%	4.15%	4.40%
Rate of compensation increase	– %	– %	– %	– %
Post-retirement indexation	1.75%	1.75%	– %	– %
Dental cost increases			4.50%	4.50%
Extended healthcare cost escalations, 9.00% in 2015 decreasing by 0.25% per annum to an ultimate rate of 4.50% in 2034			8.25%	8.50%
Hospital benefit cost escalation			4.50%	4.50%

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

10. Employee future benefits (continued):

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

	Defined benefit pension plan		Other defined benefit plans	
	2018	2017	2018	2017
Employees and employer contributions	\$ –	\$ –	\$ 648	\$ 545
Benefits paid	321	382	648	545

11. Net assets:

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

- to ensure that sufficient financial resources are in place to deliver on the priorities set by the Board of Directors during its annual strategic plan review;
- to maintain a minimum reserve in its net assets under Internally Restricted - General of \$30 million to ensure the ability to continue operations in the face of unexpected events;
- to invest funds in financial instruments permitted under the Board of Directors' approved Statements of Investment Policies and Procedures ("SIP&P"); and
- 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.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

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.

	2018	2017
Donations and bequests	\$ -	\$ -
Investment income	26	31
Net change in year	26	31
Fund balance, beginning of year	1,374	1,343
Fund balance, end of year	\$ 1,400	\$ 1,374

The endowment balance consists of:

	2018	2017
Cumulative endowment principal	\$ 937	\$ 937
Cumulative undistributed investment income	463	437
Endowment balance on endowment investments	\$ 1,400	\$ 1,374

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

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:

(a) General:

- Contingency Reserve: A cumulative amount of \$31,842 (2017 - \$26,486) which was reserved in previous years to ensure the ability to continue operations in the face of unexpected events.
- Strategic Investment Reserve Fund (SIRF): A cumulative amount of \$21,138 (2017 - \$20,218) which was reserved to finance strategic initiatives.
- Retirees Defined Benefit Health Benefits Reserve: The plan amendments to the defined benefit plan for health benefits resulted in a significant reduction in the obligation. Accordingly, the Board decided to re-allocate the full amount of this reserve \$3,900 to the above noted Contingency Reserve.

(b) Tsunami:

Interest and investment income in the amount of \$2 was appropriated from (2017 - \$3 appropriated to) the internally restricted funds and an amount of \$720 (2017 - \$1,167) was expended on the objectives of the Tsunami Fund leaving a remaining amount of \$624 (2017 - \$1,346) as internally restricted.

The Tsunami revenue and expenses are as follows:

	2018			2017		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Organizational capacity:						
Other income and expenses:						
Investment income - Tsunami (note 4)	\$ 4	\$ 6	\$ (2)	\$ 6	\$ 3	\$ 3
Core programs:						
International programs	-	720	(720)	-	1,042	(1,042)
	\$ 4	\$ 726	\$ (722)	\$ 6	\$ 1,045	\$ (1,039)

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(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:

2019	\$	4,854
2020		3,900
2021		2,819
2022		2,302
2023		1,568

The Society has also committed a total amount of \$67,414 (2017 - \$22,831) under signed contracts where the services have yet to be delivered. In addition, \$23,379 (2017 - \$14,260) of uncontracted commitments have been agreed to. Of this amount, all are expected to be extinguished 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, 2018
(In thousands of dollars)

16. Fundraising:

Fundraising revenue and expenses are as follows:

	2018	2017
Revenue:		
Bequests	\$ 11,148	\$ 7,751
Direct marketing	50,028	47,298
Lotteries and gaming	952	1,207
Special events and other fundraising	18,230	16,894
	<u>80,358</u>	<u>73,150</u>
Direct expenses:		
Bequests	1,085	1,105
Direct marketing	21,671	19,353
Lotteries and gaming	825	892
Special events and other fundraising	11,436	11,426
	<u>35,017</u>	<u>32,776</u>
	<u>\$ 45,341</u>	<u>\$ 40,374</u>

Lotteries and gaming expenses are as follows:

	2018	2017
Expenses:		
Prizes	\$ 418	\$ 435
Marketing and other	407	457
	<u>\$ 825</u>	<u>\$ 892</u>

During the year, the Society received \$80,358 (2017 - \$73,150) in unrestricted donations. In addition, the Society received restricted donations accounted for as program revenue of \$13,190 (2017 - \$13,589) and restricted donations accounted for as deferred contributions of \$68,828 (2017 - \$209,499), for total fundraising of \$162,376 (2017 - \$296,238) raised during the year.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

17. Allocation of expenses:

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

	2018	2017
Organizational capacity	\$ 12,839	\$ 11,998
International operations	6,269	4,291
Disaster management	16,027	10,175
Prevention and safety	6,435	6,030
Health and community wellness	12,603	20,960
	\$ 54,173	\$ 53,454

18. Statement of changes in net assets:

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

	2018	2017
Amortization of capital assets	\$ (5,555)	\$ (5,298)
Amortization of deferred contributions related to capital assets	1,455	1,817
Acquisitions of capital assets	9,659	5,501
Increase of deferred contributions related to capital assets	(1,153)	(1,098)
Proceeds on disposition of capital assets	(1,960)	(15,340)
Gain on disposal of capital assets	1,273	9,311
	\$ 3,719	\$ (5,107)

19. Financial instruments:

(a) Investment risk:

The Society's Board of Directors has approved SIP&P which provide the guidelines for managing investments of the Society. Through this approach, investments are strategically invested among several classes of assets to reduce the risk of investment volatility. Concentration of risk exists when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. Management believes that the concentration of risk is not unusual.

(b) Foreign exchange 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 cash holdings totaling \$711.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

19. Financial instruments (continued):

(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 Community health and Disaster management programs represent 60% (2017 - 58%) 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.

(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 fixed income investments are exposed to interest rate changes. The impact of adverse changes in rates is not considered significant.

20. Restructuring charge:

During the year, restructuring initiatives for the Prevention and Safety programs as well as selected support services were approved by the Board. In addition, further transitions from various transportation contracts of the Society's Health and Community Wellness program were approved.

The obligations to be incurred are as follows:

	Health and Community Wellness	Prevention and Safety	Support Services	Total
Employment-related obligations	\$ 2,398	\$ 1,017	\$ 250	\$ 3,665
Support service obligations	159	592	—	751
Decreases or reversals	(234)	—	—	(234)
	\$ 2,323	\$ 1,609	\$ 250	\$ 4,182

21. Comparative information:

Certain comparative information has been reclassified to conform to the current year's presentation.

THE CANADIAN RED CROSS SOCIETY

Detailed Statement of Operations - Schedule

Year ended March 31, 2018, with comparative information for 2017
(In thousands of dollars)

	2018			2017		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Organizational capacity:						
Fundraising (note 16)	\$ 80,358	\$ 35,017	\$ 45,341	\$ 73,150	\$ 32,776	\$ 40,374
Other income and expenses:						
Gain on disposals of capital assets (note 5)	1,273	–	1,273	9,311	–	9,311
Investment income - General (note 4)	2,240	93	2,147	4,001	207	3,794
Governance and general management	–	12,839	(12,839)	–	11,998	(11,998)
	3,513	12,932	(9,419)	13,312	12,205	1,107
	83,871	47,949	35,922	86,462	44,981	41,481
Core programs:						
International operations	75,169	80,140	(4,971)	64,392	65,050	(658)
Disaster management	212,393	221,067	(8,674)	270,131	273,853	(3,722)
Prevention and safety	22,026	26,672	(4,646)	24,059	25,538	(1,479)
Health and community wellness	72,144	81,402	(9,258)	76,792	100,512	(23,720)
	381,732	409,281	(27,549)	435,374	464,953	(29,579)
Excess of revenue over expenses before net Tsunami expenses	465,603	457,230	8,373	521,836	509,934	11,902
Net Tsunami expenses (note 13)	4	726	(722)	6	1,045	(1,039)
Excess of revenue over expenses	\$ 465,607	\$ 457,956	\$ 7,651	\$ 521,842	\$ 510,979	\$ 10,863