

Financial Statements of

**THE CANADIAN RED CROSS
SOCIETY**

Year ended March 31, 2017

Financial Statements of

THE CANADIAN RED CROSS SOCIETY

Year ended March 31, 2017

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KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

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, 2017, 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, 2017, 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

June 6, 2017

Ottawa, Canada

THE CANADIAN RED CROSS SOCIETY

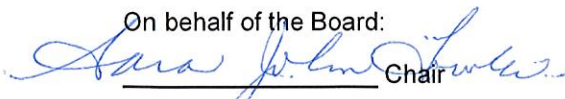
Statement of Financial Position

March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 265,554	\$ 165,513
Accounts receivable	26,753	19,139
Inventory and prepaid expenses	25,891	29,408
	<u>318,198</u>	<u>214,060</u>
Long-term investments (note 4)	27,204	21,003
Capital assets (note 5)	48,819	54,645
Defined benefit pension plan asset (note 9)	7,707	7,966
	<u>\$ 401,928</u>	<u>\$ 297,674</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 25,449	\$ 22,033
Deferred contributions - short-term (note 7)	190,653	142,812
	<u>216,102</u>	<u>164,845</u>
Deferred contributions - long-term (note 7)	47,165	4,759
Deferred contributions related to capital assets (note 8)	10,318	11,037
Other defined benefit plans liability (note 9)	14,195	12,471
	<u>287,780</u>	<u>193,112</u>
Net assets (note 10):		
Invested in capital assets	38,501	43,608
Restricted for endowment purposes (note 11)	1,374	1,343
Internally restricted - General (note 12)	50,604	44,250
Internally restricted - Tsunami interest (note 12)	1,346	2,510
Unrestricted	22,323	12,851
	<u>114,148</u>	<u>104,562</u>
Commitments, contingent liabilities and guarantees (notes 13 and 14)		
	<u>\$ 401,928</u>	<u>\$ 297,674</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Chair

 Chair, National Audit and Finance Committee

THE CANADIAN RED CROSS SOCIETY

Statement of Operations

Year ended March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	Actual 2017	Actual 2016
	(Schedule)	
Revenue:		
Organizational capacity:		
Fundraising (note 15)	\$ 73,150	\$ 60,649
Investment income (loss) (note 4)	4,001	(48)
Gain on sale of buildings and other	9,311	1,029
	86,462	61,630
Core programs	435,374	240,517
Total revenue	521,836	302,147
Expenses:		
Organizational capacity:		
Fundraising (note 15)	32,776	27,950
Investment expense	207	236
Governance and general management	11,998	10,486
	44,981	38,672
Core programs:		
International operations	65,050	83,562
Disaster management	273,853	67,292
Prevention and safety	25,538	25,612
Health and community wellness	100,512	89,788
	464,953	266,254
Total expenses	509,934	304,926
Net Tsunami expenses (note 12)	(1,039)	(2,380)
Excess (deficiency) of revenue over expenses	\$ 10,863	\$ (5,159)

See accompanying notes to financial statements.

THE CANADIAN RED CROSS SOCIETY

Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	Invested in capital assets	Restricted for endowment purposes	Internally restricted	Unrestricted	2017
Net assets, beginning of year	\$ 43,608	\$ 1,343	\$ 46,760	\$ 12,851	\$ 104,562
Excess of revenue over expenses	-	31	-	10,832	10,863
Remeasurement losses on defined benefit pension plan asset and other defined benefit plans liability	-	-	-	(1,277)	(1,277)
Investment in capital assets (note 17)	(5,107)	-	-	5,107	-
Internally restricted (note 12)	-	-	5,190	(5,190)	-
Net assets, end of year	\$ 38,501	\$ 1,374	\$ 51,950	\$ 22,323	\$ 114,148

	Invested in capital assets	Restricted for endowment purposes	Internally restricted	Unrestricted	2016
Net assets, beginning of year	\$ 40,236	\$ 1,310	\$ 58,022	\$ 9,965	\$ 109,533
Excess (deficiency) of revenue over expenses	-	33	-	(5,192)	(5,159)
Remeasurement gains on defined benefit pension plan asset and other defined benefit plans liability	-	-	-	188	188
Investment in capital assets (note 17)	3,372	-	-	(3,372)	-
Internally restricted (note 12)	-	-	(11,262)	11,262	-
Net assets, end of year	\$ 43,608	\$ 1,343	\$ 46,760	\$ 12,851	\$ 104,562

See accompanying notes to financial statements.

THE CANADIAN RED CROSS SOCIETY

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	2017	2016
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 10,863	\$ (5,159)
Items not involving cash:		
Increase in net employee future benefits	1,983	554
Remeasurement gains (losses) on defined benefit pension plan asset and other defined benefit plans liability	(1,277)	188
Amortization of deferred capital contributions	(1,817)	(2,179)
Amortization of capital assets	5,298	5,456
Increase in unrealized gains on investments	1,623	1,673
Gain on disposal of capital assets	(9,311)	(1,029)
	7,362	(496)
Change in non-cash operating working capital from continuing operations:		
Accounts receivable	(7,614)	650
Inventory and prepaid expenses	3,517	(7,813)
Accounts payable and accrued liabilities	3,416	(288)
Deferred contributions	90,247	6,653
	89,566	(798)
Investing activities:		
Net purchase of long-term investments	(7,824)	(1,243)
Proceeds on disposal of capital assets	15,340	1,181
Acquisitions of capital assets	(5,501)	(9,928)
	2,015	(9,990)
Financing activities:		
Deferred contributions related to capital assets	1,098	3,127
Increase (decrease) in cash and cash equivalents	100,041	(8,157)
Cash and cash equivalents, beginning of year	165,513	173,670
Cash and cash equivalents, end of year	\$ 265,554	\$ 165,513
Represented by:		
Unrestricted	\$ 34,787	\$ 9,624
Externally restricted	205,304	128,810
Internally restricted	25,463	27,079
Cash and cash equivalents	\$ 265,554	\$ 165,513

See accompanying notes to financial statements.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements

Year ended March 31, 2017
(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 the International Program.

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 various foreign countries.

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, 2017

(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 (expense) 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, 2017
(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 and mature within three months and those that can be readily converted to cash.

Externally restricted cash and cash equivalents are restricted for specified purposes and are not available for the Society's general operations.

Internally restricted cash represents money set aside to fund specific activities identified by management and approved by the Board of Directors. The funds are not available for the Society's general operations.

Unrestricted cash represents funds available for the Society's general operations.

(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.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017

(In thousands of dollars)

2. Significant accounting policies (continued):

(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 as follows:

Asset	Useful life
Buildings	20 to 40 years
Furniture, office and healthcare equipment	3 to 5 years
Vehicles	2 to 5 years
Computer hardware and software	2 to 3 years

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 general support 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 general support 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.

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Notes to Financial Statements (continued)

Year ended March 31, 2017

(In thousands of dollars)

2. Significant accounting policies (continued):

(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.

3. Cash and cash equivalents:

	2017 Cost and fair value	2016 Cost and fair value
Cash:		
Unrestricted	\$ 29,894	\$ 7,929
Externally restricted - General	25,800	44,221
Externally restricted - Haiti	520	260
Externally restricted - Alberta Fires	29,684	—
Internally restricted - General	9,041	3,024
Internally restricted - Tsunami	11	6
	94,950	55,440
Cash equivalents:		
Unrestricted	4,893	1,695
Externally restricted - General	69,709	69,409
Externally restricted - Haiti	9,591	14,920
Externally restricted - Alberta Fires	70,000	—
Internally restricted - General	15,077	22,147
Internally restricted - Tsunami	1,334	1,902
	170,604	110,073
Total cash and cash equivalents	\$ 265,554	\$ 165,513

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017

(In thousands of dollars)

4. Long-term investments:

	2017		2016	
	Fair value and carrying value	Cost	Fair value and carrying value	Cost
Investments:				
Fixed income	\$ 12,021	\$ 11,675	\$ 9,518	\$ 8,911
Equities	15,183	14,331	11,485	12,517
	\$ 27,204	\$ 26,006	\$ 21,003	\$ 21,428

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

Fixed income investments are comprised of Government of Canada and corporate bonds with maturity dates ranging from 2017 to 2064, earning interest up to 4.2% (2016 - ranging from 2016 to 2064, earning interest up to 4.7%).

Gross investment income earned is reported as follows:

	2017	2016
Investment income (loss) - General	\$ 4,001	\$ (48)
Investment income - Tsunami (note 12)	6	18
	\$ 4,007	\$ (30)

Investment income earned from the Haiti fund of \$55 (2016 - \$1,843) is externally restricted and allocated to Haiti deferred contributions.

Investment income earned from the General fund of \$244 (2016 - \$218) is externally restricted and allocated to General deferred contributions.

Investment income earned from the Alberta Fires fund of \$174 (2016 - \$Nil) is externally restricted and allocated to Alberta Fires deferred contributions.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017
(In thousands of dollars)

5. Capital assets:

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Land	\$ 7,816	\$ —	\$ 7,816	\$ 9,120
Buildings	58,335	30,840	27,495	33,350
Furniture, office and healthcare equipment	23,768	21,559	2,209	2,824
Vehicles	10,655	7,785	2,870	3,358
Computer hardware and software	13,250	4,821	8,429	5,993
	\$ 113,824	\$ 65,005	\$ 48,819	\$ 54,645

Cost and accumulated amortization at March 31, 2016 amounted to \$117,071 and \$62,426, respectively.

During the year the Society disposed of capital assets with a net book value of \$6,029 (2016 - \$152) for proceeds on disposal of \$15,340 (2016 - \$1,181), resulting in a gain on disposal of \$9,311 (2016 - \$1,029). Cost and accumulated amortization relating to these assets amounted to \$8,748 and \$2,719, respectively.

6. Accounts payable and accrued liabilities:

As at year end, the Society had \$655 (2016 - \$386) 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, 2017

(In thousands of dollars)

7. 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:

	2017				2016			
	General	Haiti	Alberta fires	Total	General	Haiti	Alberta fires	Total
Opening balance	\$ 133,718	\$ 13,853	\$ -	\$ 147,571	\$ 122,831	\$ 18,087	\$ -	\$ 140,918
Donations and grants received	149,819	1,414	323,369	474,602	144,654	9,522	-	154,176
Interest earned and deferred	244	55	174	473	218	1,843	-	2,061
Recognized as revenue	(151,789)	(10,843)	(222,196)	(384,828)	(133,985)	(15,599)	-	(149,584)
Closing balance	131,992	4,479	101,347	237,818	133,718	13,853	-	147,571
Deferred contributions - short-term	131,992	3,661	55,000	190,653	133,718	9,094	-	142,812
Deferred contributions long-term	\$ -	\$ 818	\$ 46,347	\$ 47,165	\$ -	\$ 4,759	\$ -	\$ 4,759

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

8. 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:

	2017	2016
Balance, beginning of year	\$ 11,037	\$ 10,089
Donations and grants received and used for the purchase of capital assets during the year	1,098	3,127
Amortization of deferred capital contributions	(1,817)	(2,179)
Balance, end of year	\$ 10,318	\$ 11,037

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017

(In thousands of dollars)

9. Employee future benefits:

The Society has a defined contribution and a defined benefit pension plan. The Society's contribution to its employees' defined contribution pension plan was \$2,804 (2016 - \$2,810).

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 valuations for the Society's defined benefit pension plan was performed in September 2016 and extrapolated to March 31, 2017. 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, 2017. 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	
	2017	2016	2017	2016
Accrued benefit obligations, beginning	\$ 3,908	\$ 5,148	\$ 12,471	\$ 13,266
Current service cost	—	—	649	723
Finance cost	172	227	549	584
Benefits paid	(382)	(1,434)	(545)	(546)
Actuarial loss (gain)	(180)	(33)	1,071	(1,556)
Accrued benefit obligation, ending	3,518	3,908	14,195	12,471
Fair value of plan assets	11,225	11,874	—	—
Defined benefit asset (liability)	\$ 7,707	\$ 7,966	\$ (14,195)	\$ (12,471)

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017
(In thousands of dollars)

9. Employee future benefits (continued):

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

	Defined benefit pension plan		Other defined benefit plans	
	2017	2016	2017	2016
Discount rate for obligations	4.15%	4.40%	4.15%	4.40%
Discount rate for expenses	4.40%	4.40%	4.40%	4.40%
Rate of compensation increase	– %	3.00%	– %	3.00%
Post-retirement indexation	1.75%	1.93%	– %	– %
Pre-retirement indexation			– %	– %
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			8.50%	8.75%
Hospital benefit cost escalation			4.50%	4.50%

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

	Defined benefit pension plan		Other defined benefit plans	
	2017	2016	2017	2016
Employees and employer contributions	\$ –	\$ –	\$ 545	\$ 546
Benefits paid	382	1,434	545	546

10. 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 \$25 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

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017

(In thousands of dollars)

10. Net assets (continued):

(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.

11. 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.

	2017	2016
Donations and bequests	\$ —	\$ —
Investment income	31	33
Net change in year	31	33
Fund balance, beginning of year	1,343	1,310
Fund balance, end of year	\$ 1,374	\$ 1,343

The endowment balance consists of:

	2017	2016
Cumulative endowment principal	\$ 937	\$ 937
Cumulative undistributed investment income	437	406
Endowment balance on endowment investments	\$ 1,374	\$ 1,343

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017

(In thousands of dollars)

12. 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:

- A cumulative amount of \$26,486 (2016 - \$25,000) which was reserved in previous years to ensure the ability to continue operations in the face of unexpected events.
- A cumulative amount of \$20,218 (2016 - \$11,650) which was reserved into a Strategic Investment Reserve Fund (SIRF) for future strategic initiatives.
- A cumulative amount of \$3,900 (2016 - \$3,600) which was reserved for future retiree benefit obligations.
- A cumulative gain on disposals of capital assets of \$NIL (2016 - \$4,000) which was reserved in previous years for future capital asset acquisitions.

(b) Tsunami:

Interest and investment income in the amount of \$3 (2016 - \$9) was appropriated to the internally restricted funds and an amount of \$1,167 (2016 - \$2,650) was expended on the objectives of the Tsunami Fund leaving a remaining amount of \$1,345 (2016 - \$2,510) as internally restricted.

The Tsunami revenue and expenses are as follows:

	2017			2016		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Organizational capacity:						
Other income and expenses:						
Investment income - Tsunami (note 4)	\$ 6	\$ 3	\$ 3	\$ 18	\$ 9	\$ 9
Core programs:						
International programs	–	1,042	(1,042)	–	2,389	(2,389)
	\$ 6	\$ 1,045	\$ (1,039)	\$ 18	\$ 2,398	\$ (2,380)

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017
(In thousands of dollars)

13. 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:

2018	\$	4,218
2019		2,723
2020		1,982
2021		1,402
2022		1,085

The Society has also committed a total amount of \$22,831 (2016 - \$16,063) under signed contracts where the services have yet to be delivered. In addition, a further \$14,260 of uncontracted commitments have been agreed to. Out of this amount, all are expected to be extinguished within five years.

14. 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, 2017

(In thousands of dollars)

15. Fundraising:

Fundraising revenue and expenses are as follows:

	2017	2016
Revenue:		
Bequests	\$ 7,751	\$ 7,525
Direct marketing	47,298	36,941
Lotteries and gaming	1,207	1,207
Special events and other fundraising	16,894	14,976
	<u>73,150</u>	<u>60,649</u>
Direct expenses:		
Bequests	1,105	1,029
Direct marketing	19,353	15,368
Lotteries and gaming	892	922
Special events and other fundraising	11,426	10,631
	<u>32,776</u>	<u>27,950</u>
	<u>\$ 40,374</u>	<u>\$ 32,699</u>

Lotteries and gaming expenses are as follows:

	2017	2016
Expenses:		
Prizes	\$ 435	\$ 478
Marketing and other	457	444
	<u>\$ 892</u>	<u>\$ 922</u>

In addition to the net fundraising revenues of \$40,374 (2016 - \$32,699), the Society received restricted donations accounted for as deferred contributions of \$211,999 (2016 - \$47,878) for total fundraising of \$252,373 (2016 - \$80,577) raised during the year.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017
(In thousands of dollars)

16. Allocation of expenses:

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

	2017	2016
Organizational capacity	\$ 11,998	\$ 10,486
International operations	4,291	4,192
Disaster management	10,175	7,430
Prevention and safety	6,030	5,197
Health and community wellness	20,960	18,391
	\$ 53,454	\$ 45,696

17. Statement of changes in net assets:

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

	2017	2016
Amortization of capital assets	\$ (5,298)	\$ (5,456)
Amortization of deferred contributions related to capital assets	1,817	2,179
Acquisitions of capital assets	5,501	9,928
Increase of deferred contributions related to capital assets	(1,098)	(3,127)
Proceeds on disposition of capital assets	(15,340)	(1,181)
Gain on disposal of capital assets	9,311	1,029
	\$ (5,107)	\$ 3,372

18. Financial instruments:

(a) Investment risk:

The Society's Board of Directors has approved Statements of Investment Policies and Procedures (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 \$185.

THE CANADIAN RED CROSS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017
(In thousands of dollars)

18. 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 58% (2016 - 68%) 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.

19. Restructuring charge:

During the year, the Board approved the discontinuance of the majority of the Ontario Home Support (OHS) program which is a program under the Society's Health and community wellness program. The exit of the OHS programs was made public in or about December 2016. The planned exit will result in obligations being incurred at the balance sheet date in relation to the termination of various OHS contracts.

The obligations to be incurred are as follows:

Employment-related obligations-OHS	\$	3,723
Support services obligations		1,642
Total	\$	5,365

20. 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, 2017, with comparative information for 2016
(In thousands of dollars)

	2017			2016		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Organizational capacity:						
Fundraising (note 15)	\$ 73,150	\$ 32,776	\$ 40,374	\$ 60,649	\$ 27,950	\$ 32,699
Other income and expenses:						
Gain on disposals of capital assets	9,311	—	9,311	1,029	—	1,029
Investment income (loss) -						
General (note 4)	4,001	207	3,794	(48)	236	(284)
Governance and general management	—	11,998	(11,998)	—	10,486	(10,486)
	13,312	12,205	1,107	981	10,722	(9,741)
	86,462	44,981	41,481	61,630	38,672	22,958
Core programs:						
International operations	64,392	65,050	(658)	84,722	83,562	1,160
Disaster management	270,131	273,853	(3,722)	54,739	67,292	(12,553)
Prevention and safety	24,059	25,538	(1,479)	25,337	25,612	(275)
Health and community wellness	76,792	100,512	(23,720)	75,719	89,788	(14,069)
	435,374	464,953	(29,579)	240,517	266,254	(25,737)
Excess (deficiency) of revenue over expenses from continuing operations before net Tsunami expenses	521,836	509,934	11,902	302,147	304,926	(2,779)
Net Tsunami expenses (note 12)	6	1,045	(1,039)	18	2,398	(2,380)
Excess (deficiency) of revenue over expenses	\$ 521,842	\$ 510,979	\$ 10,863	\$ 302,165	\$ 307,324	\$ (5,159)

