



ANNUAL REPORT 2019-20

REPORT OF THE

CHIEF FINANCIAL

OFFICER



OVERALL OPERATING RESULTS

The Canadian Red Cross Society operates four core programs – Emergency Management, Prevention and Safety, Community Health and Wellness, and International Operations – which are supported by fee-for-service contracts, and donations (restricted and unrestricted).

The total revenues for the year ending March 31, 2020 were \$354.8 million (2019: \$391.1 million) and the total operating expenses were \$344.6 million (2019: \$377.2 million). Fundraising unrestricted revenues increased by \$35 million from the prior year. Program revenues decreased by about \$61 million. Investment income from our Legacy fund and the sale of properties decreased by about \$10 million. Accordingly, the decreases in program and investment revenues offset by the increase in fundraising revenues resulted in a net decrease in the total revenues of about \$36 million.

The total deficiency of program revenues over expenses was about \$43 million (2019: \$17.9 million) or an increase of about \$25 million. The net increase in expenses was due to reductions in cost recoveries in all four programs.

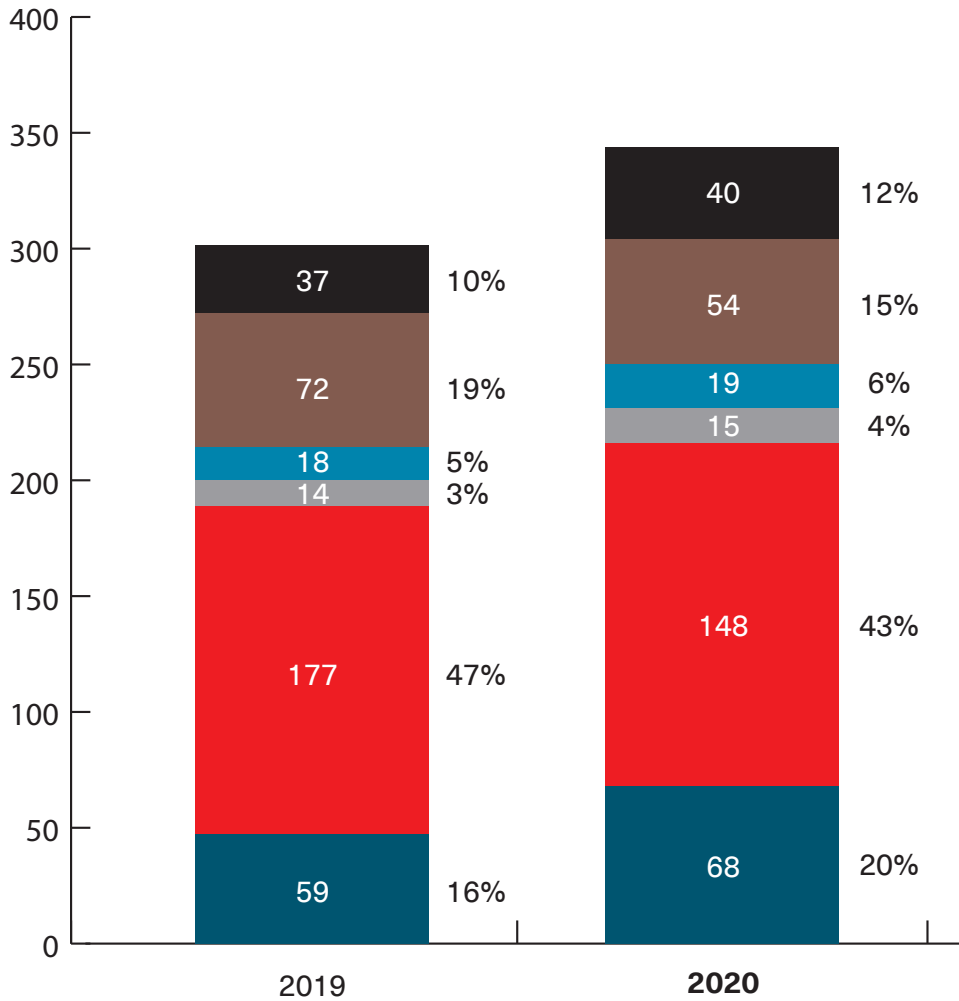
The deficiency in program revenues over expenses occurred mainly due to a reduced volume of emergency response and recovery programming. This occurred primarily in the Alberta Fires response and B.C. Fires, as we continue recovery programming as part of the long-term recovery phase. In addition, international programming reduced in the last quarter due to impacts of the COVID-19 pandemic. Our planned exit costs in some Community Health and Wellness programs also increased program costs.

The distribution of total expenses is shown in the chart on the following page.

In the year ending March 31, 2020, the Red Cross earned an excess of revenues over expenses of about \$10.1 million (2019: \$14.2 million), the decrease in the excess of revenues over expenses from 2019 of about \$4.3 million is due to the following factors:

- Increase in net revenues from fundraising of \$32 million;
- Deficiency of program revenues over expenses increased by \$25 million including one-time restructuring charge of \$7.7 million from exits in our home support programs. The reasons for the increase are explained further below;
- Investment income decreased by about \$10 million due to impact of COVID-19 pandemic on Legacy fund investments in March 2020.

TOTAL EXPENSES (\$ MILLIONS)



Total Program Expenses	84% (2019: 87%)
Total Fundraising Expenses	12% (2019: 10%)
Governance and General Management Expenses	4% (2019: 3%)

Total Expenses for the Year **\$345 million (2019: \$377 million)**

EMERGENCY MANAGEMENT

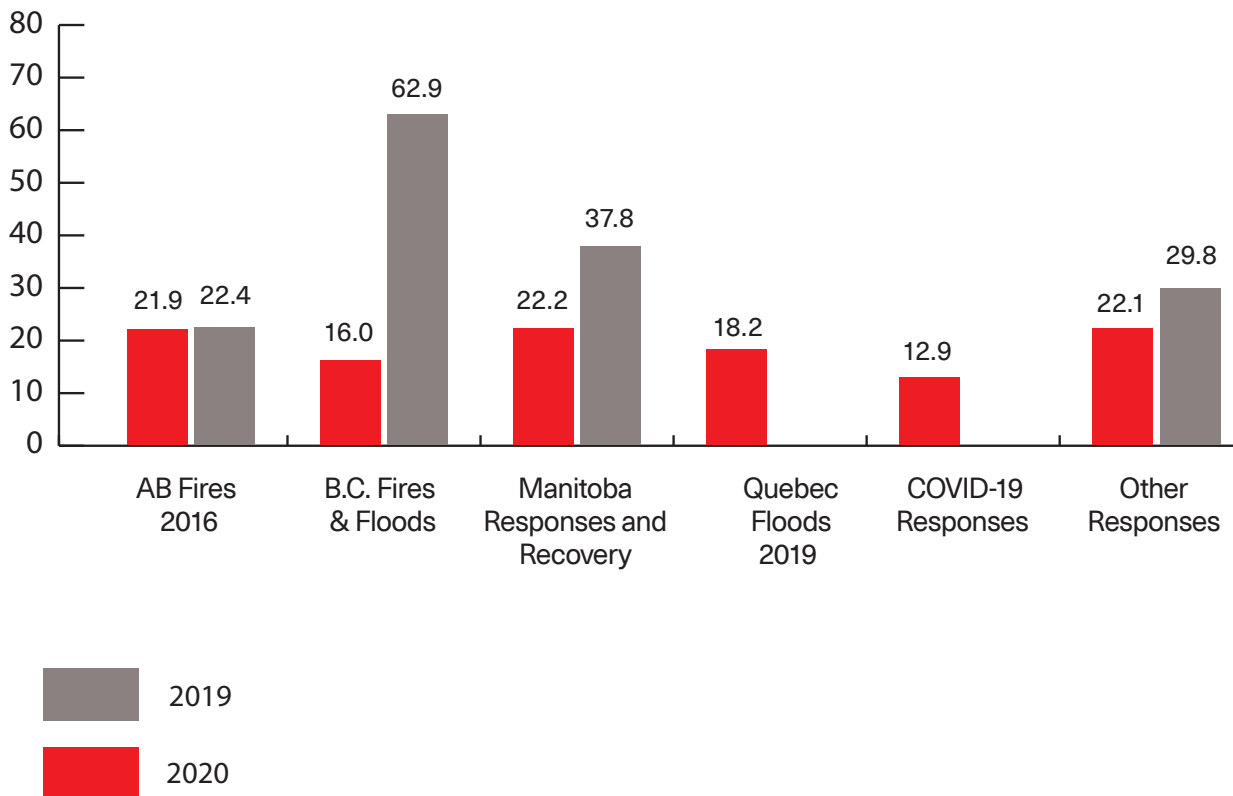
Emergency management revenues were \$119.5 million (2019: \$164.7 million), and primarily comprised of emergency response and recovery programming of \$113.3 million (2019: \$152.9 million). Major responses accounted for about \$91.2 million of the total revenue, and other responses, including personal disaster assistance, accounted for about \$22.1 million. The chart below highlights the most significant response revenues.

The volume of activities generated by new responses such as the response to the COVID-19 pandemic and flooding in Quebec were not significant enough to compensate for the decreased

activity from the fire operations in Alberta and British Columbia and other operations now in the longer-term recovery phase. The majority of COVID-19 pandemic response activities took place after March 2020 and were mostly comprised of direct financial support to beneficiaries.

The baseline emergency management program had total revenues of \$6 million (2019: \$7.3 million) to maintain the current capacity of emergency management, including maintaining the Emergency Management Information System (EMIS), as well as best practices around information management and recovery services.

EMERGENCY MANAGEMENT REVENUE MAJOR RESPONSES



INTERNATIONAL OPERATIONS

International Operations had revenues of \$48.7 million (2019: \$68.9 million), which primarily represents programming for emergency response, \$22.5 million; global programming, \$24.7 million; and other activities, \$1.5 million.

Total revenues decreased by about \$20.2 million due to decreased programming in the Americas, Africa and in Nepal.

The deficiency of revenues over expenses increased by about \$2.3 million due to lower cost-recovery rates compared to the prior year. This was a result of the prior year seeing the end to large projects in the Americas, South Sudan and Mali. The first half of FY20 was spent securing new partnerships with Global Affairs and various Red Cross National Societies.

PREVENTION AND SAFETY

Prevention and Safety programs had revenues of \$18.4 million (2019: \$18.8 million), which primarily represent First Aid training sales of \$15.0 million (2019: \$15.4 million) and Water Safety of \$3.4 million (2019: \$3.4 million). The decrease of about \$0.4 million in First Aid revenues was primarily due to lower major account sales (\$0.3 million) and lower manual sales (\$0.4 million) which was offset by higher training revenue (\$0.5 million). Approximately \$0.3 million in revenue was lost during the last two weeks of March due to the impact of COVID-19. Water Safety revenues remained consistent year over year.

The deficiency of revenues over expenses increased by \$1.5 million largely due to development costs relating to the First Aid portal.

HEALTH AND COMMUNITY WELLNESS

Health and Community Wellness programs, which mostly operate in the Atlantic region, Ontario, Alberta and British Columbia, had revenues of \$54.7 million (2019: \$55.7 million) primarily from home support of \$14.7 million (2019: \$16 million), health equipment loans of \$24 million (2019: \$22 million), transportation of \$7.7 million (2019: \$8.5 million), meal deliveries of \$3 million (2019: \$3.4 million), and community initiatives of \$5.1 million (2019: \$5.7 million).

The transition out of home support programs in New Brunswick and Nova Scotia has been communicated, resulting in lower service hours, which resulted in a revenue decrease of about \$1.2 million.

The deficiency of revenues over expenses increased as a result of a \$7.7 million restructuring provision arising from the planned exit from the home support and other programs.

FUNDRAISING

Philanthropy raised unrestricted and restricted donations of \$150.1 million (2019: \$111.7 million). The overall increase is largely attributable to an increase in bequest donations and an increase in fundraising appeal totals from \$14.6 million in 2019 to \$17.7 million in 2020 from several domestic appeals.

While the cost of fundraising increased from last year (2020: \$41.6 million; 2019: \$39.6 million), the ratio of fundraising costs to total revenues for the Red Cross decreased to 27.7% (2019: 35.5%). This reduction in cost of fundraising percentage was mainly due to an increase in higher margin revenue from bequests and an increase in appeal fundraising in the current year. The five-year rolling average cost of fundraising for the Red Cross is 24.8% (2019: 25.6%).

FINANCIAL POSITION

As of March 31, 2020, the Red Cross was in a strong financial position with net assets of \$152.5 million (2019: \$143.7 million) which increased by about \$8.8 million from last year, due mainly to the excess of revenues over expenses of about \$10 million. This excess was due largely to increased bequest donations.

Unrestricted cash or cash equivalents was about \$13.5 million (2019: \$32.9 million). The decrease in cash is mainly COVID related. Fundraising and program revenues dipped in the last quarter. This combined with outstanding receivables from provincial governments as at March 31 impacted cash flows during the last quarter.

Externally restricted cash or cash equivalents of \$163.8 million (2019: \$188.5 million) represent restricted donations from appeals during the year or carried forward from prior years. The decrease in externally restricted cash is due mainly for the spend on the B.C. Fires and Alberta Fires.

The Red Cross maintains about \$35 million (2019: \$33.5 million) as contingency funds to ensure the continuity of Red Cross operations if a disruptive event impacts fundraising or program revenues. These funds were combined during Fiscal 2020 with a significant bequest to create a Legacy Fund. The investment income of this fund is internally restricted to support the Society's operations. The March 2020 balance of this fund was \$60.4 million as at year end.

Working capital for Red Cross consists mainly of accounts receivable and accounts payable arising from credit provided to or from its partners in the above-noted programs. The Red Cross has limited credit risk as the majority of its debtors are provincial and federal governments.

Inventory consists of current materials and supplies necessary for our disaster management and international programs, so they can respond quickly across Canada or internationally.

ACCOUNTABILITY AND OVERSIGHT

The audited financial statements of the Red Cross have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations established by the Accounting Standards Board of Canada.

The Board of the Red Cross approves an annual operating plan and budget and receives quarterly reports from management. Additionally, the Audit and Finance Committee of the Board – composed of volunteers with expertise in finance, accounting, investment and risk management – meets quarterly with management to monitor the external audit, financial performance and internal control environment of the organization.

The Society has an independent internal audit function which has further enhanced the corporate governance structure of the Red Cross. A three-year

internal audit plan was approved by the Board and three audits were completed during the year.

Enterprise risks and related mitigation strategies of the Red Cross are reviewed quarterly, as needed, and are examined by the board and its committees. Management has been further investing in its incident management, compliance, quality oversight, and data governance capacities.

The audited financial statements of the Canadian Red Cross and audited special purpose financial statements of the Alberta Fires Fund are available on the Red Cross website at redcross.ca.



Larry Mills
Chief Financial Officer
Chief Corporate Services Officer