

Consolidated Financial Statements of

**HEART AND STROKE
FOUNDATION OF CANADA**

And Independent Auditors' Report thereon

Year ended August 31, 2020



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Heart and Stroke Foundation of Canada

Qualified Opinion

We have audited the consolidated financial statements of Heart and Stroke Foundation of Canada (the Entity), which comprise:

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

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

In our opinion, except for the possible effects of the matter described in the "***Basis for Qualified Opinion***" section of our auditors' report, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2020, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many charitable organizations, the Entity derives revenue from fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of revenues from non-online community-based programs was limited to the amounts recorded in the records of the Entity.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- the current assets reported in the statements of financial position as at August 31, 2020 and August 31, 2019
- non-online community-based programs fundraising receipts and excess of revenue over expenses reported in the consolidated statements of operations for the years ended August 31, 2020 and August 31, 2019



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- the unrestricted net assets, at the beginning and end of the year, reported in the consolidated statements of changes in net assets for the years ended August 31, 2020 and August 31, 2019
- the excess of revenue over expenses reported in the consolidated statements of cash flows for the years ended August 31, 2020 and August 31, 2019.

Our opinion on the financial statements for the year ended August 31, 2019 was qualified accordingly because of the possible effects of this limitation in scope.

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 qualified 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.



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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.



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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

November 20, 2020

HEART AND STROKE FOUNDATION OF CANADA

Consolidated Statement of Financial Position
(In thousands of dollars)

August 31, 2020, with comparative information for 2019

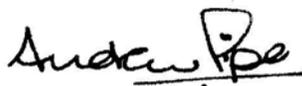
	2020	2019
Assets		
Current assets:		
Cash	\$ 18,056	\$ 9,599
Accounts receivable (note 2)	9,032	3,619
Inventory	263	1,546
Prepaid expenses	183	960
	<u>27,534</u>	<u>15,724</u>
Investments (note 3)	58,792	67,770
Investments - Impact fund (note 3)	36,299	36,837
Capital assets (note 4)	4,108	6,299
	<u>\$ 126,733</u>	<u>\$ 126,630</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 11,329	\$ 6,639
Research awards payable	25,946	35,049
Deferred revenue (note 5)	6,691	6,321
	<u>43,966</u>	<u>48,009</u>
Deferred contribution	506	—
Lease inducements	1,059	1,577
Employee future benefits (note 6)	10,973	5,323
	<u>56,504</u>	<u>54,909</u>
Net assets:		
Unrestricted	12,302	5,237
Internally restricted - Impact fund (note 7(a))	37,787	37,193
Internally restricted - others (note 7(b))	13,227	22,378
Endowments	6,913	6,913
	<u>70,229</u>	<u>71,721</u>
Commitments (note 11)		
Subsequent events (note 14)		
	<u>\$ 126,733</u>	<u>\$ 126,630</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Dr. Andrew Pipe
Chair



Glenn Sauntry
Chair, Finance and Audit Committee

HEART AND STROKE FOUNDATION OF CANADA

Consolidated Statement of Operations
(In thousands of dollars)

Year ended August 31, 2020, with comparative information for 2019

	2020	2019
Revenue:		
Fundraising receipts:		
Online community-based programs	\$ 4,020	\$ 15,140
Non-online community-based programs	6,206	16,734
Direct marketing	31,961	28,373
Corporate sponsorship	4,785	5,589
Mission	5,679	6,488
Major gifts	30,737	32,407
	83,388	104,731
Less: net change in deferrals (note 5)	(1,244)	(1,251)
	82,144	103,480
Lottery	17,629	17,379
	99,773	120,859
Government sponsored projects and grants (note 5)	3,707	4,244
Government wage subsidy (note 2)	8,488	–
Interest, dividends and other financial income	4,524	8,885
	16,719	13,129
Total revenue	116,492	133,988
Direct costs:		
Fundraising (note 8)	13,049	17,738
Lottery (note 8)	10,594	11,611
	23,643	29,349
Net revenue before operating and mission expenses:		
Fundraising	69,095	85,742
Lottery	7,035	5,768
Government, investment, and other	16,719	13,129
	92,849	104,639
Operating expenses:		
General fundraising (note 8)	28,273	26,088
Administration (note 8)	4,312	4,229
	32,585	30,317
Funds available for mission	60,264	74,322
Mission programs:		
Research (note 8)	21,776	32,093
Health promotion and community programs (note 8)	34,636	36,129
	56,412	68,222
Excess of revenue over expenses before the undernoted	3,852	6,100
Changes in fair value of investments	1,301	(1,731)
Excess of revenue over expenses	\$ 5,153	\$ 4,369

See accompanying notes to consolidated financial statements.

HEART AND STROKE FOUNDATION OF CANADA

Consolidated Statement of Changes in Net Assets
(In thousands of dollars)

Year ended August 31, 2020, with comparative information for 2019

					2020	2019
	Unrestricted	Internally restricted - Impact fund (note 7(a))	Internally restricted - others (note 7(b))	Endowments	Total	Total
Net assets, beginning of year	\$ 5,237	\$ 37,193	\$ 22,378	\$ 6,913	\$ 71,721	\$ 67,169
Excess of revenue over expenses	5,153	–	–	–	5,153	4,369
Remeasurement and other items relating to employee future benefits	(6,645)	–	–	–	(6,645)	44
Endowment contributions	–	–	–	–	–	139
Interfund transfers	8,557	594	(9,151)	–	–	–
Net assets, end of year	\$ 12,302	\$ 37,787	\$ 13,227	\$ 6,913	\$ 70,229	\$ 71,721

See accompanying notes to consolidated financial statements.

HEART AND STROKE FOUNDATION OF CANADA

Consolidated Statement of Cash Flows
(In thousands of dollars)

Year ended August 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 5,153	\$ 4,369
Items not affecting cash:		
Amortization of capital assets	1,994	1,947
Changes in fair value of investments	(1,301)	1,731
Reinvested realized investment income and gain on disposal of investments	(2,980)	(7,226)
Pension plan expense	269	307
Amortization of lease inducements	(518)	(422)
Write off of capital assets	334	–
Contributions to pension plan	(1,264)	(444)
Change in non-cash operating working capital:		
Accounts receivable	(5,413)	(734)
Inventory	1,283	(34)
Prepaid expenses	777	(141)
Accounts payable and accrued liabilities	4,690	(4,952)
Research awards payable	(9,103)	(3,350)
Deferred revenue	361	1,019
	(5,718)	(7,930)
Financing activities:		
Endowment contributions	–	139
Receipt of deferred contribution	506	–
	506	139
Investing activities:		
Additions to lease inducements	–	539
Purchases of investments	(85)	(39,922)
Proceeds on disposal of investments	13,381	10,861
Return of capital on annuity	510	–
Purchases of capital assets	(137)	(2,344)
	13,669	(30,866)
Increase (decrease) in cash	8,457	(38,657)
Cash, beginning of year	9,599	48,256
Cash, end of year	\$ 18,056	\$ 9,599
Consisting of:		
Cash	\$ 17,033	\$ 9,599
Cash - Impact fund	1,023	–
	\$ 18,056	\$ 9,599

See accompanying notes to consolidated financial statements.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended August 31, 2020

The Heart and Stroke Foundation of Canada (the "Foundation") is a registered charity exempt from income taxes, incorporated under the provisions of the Canada Not-for-profit Corporations Act. The Foundation's mission is to "Promote health. Save lives. Enhance recovery." The Foundation's vision is "Life. Uninterrupted by heart disease and stroke."

1. Significant accounting policies:

(a) Basis of presentation and consolidation:

These consolidated financial statements include the assets, liabilities, revenue and expenses of the Foundation and all of its subsidiaries in which the Foundation has effective control, including the Heart and Stroke Foundation of British Columbia and Yukon, Heart and Stroke Foundation of Nova Scotia, Heart and Stroke Foundation of Ontario, Heart and Stroke Foundation of Prince Edward Island Inc., and Heart and Stroke Foundation of Quebec.

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations applied in Part III of the Chartered Professional Accountants of Canada Handbook.

(b) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions and restricted investment income are recognized as revenue in the year in which the related expenses are incurred. Endowment contributions, where donors have restricted the original contribution to be maintained in perpetuity, are recognized as direct increases in endowments net assets.

Sales of educational materials are recorded when shipment has occurred, title has passed and when collection is reasonably assured.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

1. Significant accounting policies (continued):

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. 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 Foundation has elected to carry all investments at fair value except for the annuity and social impact bond, which are recorded at cost.

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.

Financial assets 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 Foundation 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 Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(d) Inventory:

Inventory is carried at the lower of average cost and net realizable value. Cost is determined on a weighted average basis and includes direct and indirect expenses incurred in bringing an item to its existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to sell an item.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

1. Significant accounting policies (continued):

(e) Capital assets:

Capital assets, which are initially recorded at cost, are amortized on a straight-line basis over their estimated useful service lives as follows:

Furniture and fixtures	8 years
Equipment	5 years
Computer hardware and software	3 - 5 years
Leasehold improvements	Term of lease

Long-lived assets, including capital assets, are written down to fair value or replacement cost to reflect partial impairments when conditions indicate that the assets no longer contribute to the Foundation's ability to provide goods and services, or that the value of future economic benefits or service potential associated with the long lived assets are less than their net carrying amounts.

(f) Research awards payable:

Research awards are recorded annually as payable when signed letters of acceptance are received from the awardees.

Certain research projects funded by the Foundation extend over a number of years. Such projects are reviewed annually and further funding is provided conditional upon accomplishment of specified performance criteria and availability of research funds. Accordingly, research awards payable, as shown on the consolidated statement of financial position, do not include a provision for funding on multi-year research projects that extend beyond the subsequent year.

Unexpended balances of terminated grants are offset against the current year's expenses.

(g) Lease inducements:

The Foundation enters into long-term leases and receives certain lease inducements and rent allowances, which are amortized on a straight-line basis over the expected lease term.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

1. Significant accounting policies (continued):

(h) Employee future benefits:

The Foundation's pension plans consist of a defined benefit plan and a defined contribution plan. The defined benefit plan provides benefits for employees who joined prior to November 1, 2014. Employees who joined after November 1, 2014 were enrolled in the defined contribution plan. Active members in the defined benefit plan stopped accruing credited service in the plan as of October 31, 2015 and transitioned to the defined contribution plan as of November 1, 2015. The pension contribution is based on length of service and rate of pay.

(i) Defined benefit plan:

The Foundation records its obligations as being its total liabilities and related costs less the plan assets.

The Foundation has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance for funded plans, salary escalation, retirement ages of employees and expected health-care costs.
- Plan assets are measured at fair value.
- Actuarial gains (losses) on plan assets arising from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period are immediately recognized in the consolidated statement of changes in net assets. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation, arising from differences between actual and expected experience and from the changes in the actuarial assumptions used to determine the accrued benefit obligation, are immediately recognized in the consolidated statement of changes in net assets.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

1. Significant accounting policies (continued):

(ii) Defined contribution plan:

The Foundation recognizes the current service cost of employee future benefits for the year equal to the Foundation's contributions required to be made in the year, in exchange for employee services rendered during the year; and estimated present value of any contributions required to be made by the Foundation in future years related to employee services rendered during the year.

(i) Expenses:

Direct costs are those directly attributable to various fundraising, lottery or other programs.

General fundraising expenses include operating and salary costs related to fundraising, but not specifically attributable to a fundraising program.

Research expenses include grants for research projects, fellowships, new and career investigator awards, graduate student awards and other research-related activities, including administration of research programs and awards, strategic planning of research funds and public messaging of knowledge from research findings.

Health promotion and community programs expenses include all spending related to the promotion of healthy living and advocacy. This spending focuses on activities related to healthy communities, prevention and awareness and heart healthy children and youth.

The expenses of the Foundation are recorded on an accrual basis in the year they are incurred.

(j) Allocation of expenses:

The Foundation allocates certain costs by identifying the appropriate basis of allocating and applying that basis consistently each year. The cost of fundraising activities and general support include both costs which can be directly attributed and costs which are allocated to each function.

The basis of allocation varies depending on the nature of the expense and includes estimates of time spent, material costs, delivery costs and head count.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

1. Significant accounting policies (continued):

(k) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the consolidated statement of financial position date, whereas other assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenue and expenses denominated in foreign currency are translated at the rate in effect on the transaction date. Gains and losses are included in the consolidated statement of operations.

(l) Contributed material and services:

Contributed materials and services are recognized only if the fair value can be reasonably estimated at the date of contribution and when the materials and services are used in the normal course of the Foundation's operations and would otherwise have been purchased. There were no significant amounts of contributed material and services in 2020 or 2019.

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, these contributed services are not recognized or disclosed in the consolidated financial statements.

(m) Government assistance:

The Foundation has applied for financial assistance under available government incentive programs. Government assistance related to current expenses is recognized as revenue during the year.

(n) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include certain receivables, allocation of expenses and assets and obligations related to employee future benefits. Actual results could differ from those estimates.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

2. Government wage subsidy:

The Foundation applied for and received government assistance in the form of the Canada Emergency Wage Subsidy ("CEWS"). Total CEWS recorded as government wage subsidy in the consolidated statement of operations amounts to \$8,488, of which \$6,281 is included in accounts receivable as at year-end. Management believes that it is in compliance with all eligibility criteria under the CEWS program.

3. Investments:

	2020	2019
Measured at fair value:		
Pooled funds:		
Canadian equity	\$ 20,182	\$ 22,020
Foreign equity	20,796	21,296
Canadian fixed income	17,264	18,593
Alternative strategies	–	5,405
	<u>58,242</u>	<u>67,314</u>
Measured at cost		
Social impact bond (note 12)	550	456
Investments	<u>58,792</u>	<u>67,770</u>
Measured at fair value:		
Pooled funds:		
Canadian equity	5,276	4,529
Foreign equity	9,420	10,340
Canadian fixed income	4,613	4,468
	<u>19,309</u>	<u>19,337</u>
Measured at cost		
Annuity	16,990	17,500
Investments - Impact fund	<u>36,299</u>	<u>36,837</u>
Total investments	<u>\$ 95,091</u>	<u>\$ 104,607</u>

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

4. Capital assets:

			2020	2019
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and fixtures	\$ 562	\$ 209	\$ 353	\$ 515
Equipment	84	34	50	295
Computer hardware and software	6,063	3,759	2,304	3,525
Leasehold improvements	3,886	2,485	1,401	1,964
	\$ 10,595	\$ 6,487	\$ 4,108	\$ 6,299

5. Deferred revenue:

Deferred revenue related to expenses of future periods represent unspent externally restricted grants and donations for specific programs. Net change in deferrals on the consolidated statement of operations represent the net of total funds received during the year and total funds recognized as revenue in respect of fundraising receipts. During the year, \$1,244 (2019 - \$1,251) of designated fundraising receipts were deferred.

				2020	2019
	Government sponsored projects and grants	Fundraising	Other	Total	Total
Balance, beginning of year	\$ 1,713	\$ 1,867	\$ 2,741	\$ 6,321	\$ 4,834
Funds received	3,493	3,066	637	7,196	7,328
Funds recognized as revenue	(3,707)	(1,822)	(1,183)	(6,712)	(5,841)
Excess funds owing to government funders	(114)	–	–	(114)	–
Balance, end of year	\$ 1,385	\$ 3,111	\$ 2,195	\$ 6,691	\$ 6,321
Change in deferred revenue	\$ (214)	\$ 1,244	\$ (546)	\$ 484	\$ 1,487

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

5. Deferred revenue (continued):

Government sponsored projects and grants deferred revenue includes amounts that have been advanced by the federal and provincial governments for various projects. These projects are managed and executed by the Foundation in partnership with other health organizations and stakeholders in Canada, including the respective governments. Any part of these funds that have not been used belongs to the respective governments and are reclassified to accounts payable and accrued liabilities as excess funds owing to government funders in the table above.

6. Employee future benefits:

The Foundation maintains a defined benefit pension plan and a defined contribution plan.

(a) Defined benefit pension plan:

The defined benefit plan is registered under the Pension Benefits Act (Ontario). Information about the Foundation's plan is as follows:

	2020	2019
Fair value of plan assets	\$ 43,361	\$ 47,052
Accrued benefit obligation	(54,334)	(52,375)
Employee future benefits liability	\$ (10,973)	\$ (5,323)

The Foundation measures its defined benefit obligations and the fair value of the defined benefit plan assets for accounting purposes as at August 31 of each year. The most recent actuarial valuation of the plan for funding purposes was prepared as at January 1, 2020 and the next required actuarial valuation will be as at January 1, 2021.

(b) Defined contribution pension plan:

Under the terms of the defined contribution pension plan, eligible employees contribute a range of 2% - 4% of their earnings, which the Foundation is required to match. In addition, existing employees who migrated from the defined benefit pension plan are eligible to receive an additional contribution from the employer, the transition top up, ranging from 0.5% - 5.5%. Employer contributions for the year were \$1,533 (2019 - \$1,829).

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

7. Internally restricted net assets:

Internally restricted net assets represent amounts that have been designated by the Board of Directors to fund grants awarded in the current year and other approved Board of Director initiatives.

The Foundation sets the amount of internally restricted net asset balances in proportion to risk and economic conditions, and manages fund restrictions to ensure the Foundation's mission and strategic plans are accomplished.

Internally restricted net assets are not available for use by the Foundation for any purpose other than those outlined below, without prior approval by the Board of Directors. Internally restricted net assets consist of the following:

(a) Impact fund:

The Board of Directors approved the establishment of an internally restricted fund to restrict the net gains of both the Vancouver and Winnipeg fiscal 2018 building sales including all resulting investment income. These funds are Board designated to fund transformational strategic initiatives over approximately a 10-year period.

(b) Others:

	2020	2019
Future grant awards (i)	\$ 5,118	\$ 13,815
Reserve (ii)	8,109	8,563
	<u>\$ 13,227</u>	<u>\$ 22,378</u>

(i) Future grant awards:

The Board of Directors has determined that an amount equal to at least 50% of the future grant awards and commitments should be internally restricted.

(ii) Reserve:

The Board of Directors determines at the end of each year an amount that should be held in reserve against unforeseen events. The reserve is based on a formula approved by the Board of Directors.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

8. Allocation of expenses:

Fundraising, administration and mission activities include both costs, which can be directly attributed, and general support expenses, which have been allocated. This is summarized as follows:

				2020	2019
	Fundraising direct costs	Indirect fundraising and administration costs	Mission activities	Total	Total
Fundraising direct costs	\$ 13,049	\$ –	\$ –	\$ 13,049	\$ 17,738
Lottery direct costs	10,594	–	–	10,594	11,611
General fundraising	–	28,239	34	28,273	26,088
Administration	–	4,289	23	4,312	4,229
Research	–	2,641	19,135	21,776	32,093
Health promotion and community programs	5,666	15,357	13,613	34,636	36,129
	\$ 29,309	\$ 50,526	\$ 32,805	\$ 112,640	\$ 127,888

9. Severance:

Pursuant to its strategic plan, the Foundation took restructuring measures in the year to improve its ability to deal with continued economic uncertainty and enhance sustainability due to the continued impacts of the COVID-19 pandemic, which is described in note 14. Total severance expense related to the restructuring included in various expenses on the consolidated statement of operations amounted to \$4,077. Included in accounts payable and accrued liabilities are \$3,572 in severance accruals relating to individuals who will be paid out agreed amounts that will end on dates ranging from October 2020 to August 2022.

10. Banking facilities:

On June 29, 2015, the Foundation entered into a credit facility agreement for a total line of credit comprising a \$6,000 revolving line of credit for general business purposes and a \$37,000 revolving line of credit for letters of guarantee in support of lottery licenses, available to a maximum of \$37,000. The first facility bears interest at the prime rate and is due on demand. There is no amount drawn on this facility as at August 31, 2020 and 2019. The second facility has specific fees payable of 0.3% on the issue of the respective letters of guarantee. As at year end, there were letters of guarantee outstanding of \$6,653 (2019 - \$6,565).

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

10. Banking facilities (continued):

The Foundation has pledged a specific portion of its investments in the amount of \$40,978 (2019 - \$43,316) as security for the second facility and must maintain an aggregate market value for cash and investments of at least \$47,000.

11. Commitments:

	Research awards (a)	Heart and Stroke Foundation Canadian Partnership for Stroke Recovery (b)	Operating leases (c)	Total
2021	\$ –	\$ 1,180	\$ 2,886	\$ 4,066
2022	7,691	1,400	2,864	11,955
2023	1,483	1,380	2,489	5,352
2024	581	–	2,210	2,791
2025	381	–	2,234	2,615
Thereafter	100	–	10,175	10,275
	<u>\$ 10,236</u>	<u>\$ 3,960</u>	<u>\$ 22,858</u>	<u>\$ 37,054</u>

(a) Research awards:

Applications for research grants are generally multi-year in nature. However, the Foundation only commits to and expenses one year at a time, with the subsequent years of research awards subject to annual review and approval. If specified performance criteria are met, and funds are available, further funding of existing multi-year research awards would be forthcoming.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

11. Commitments (continued):

(b) Heart and Stroke Foundation Canadian Partnership for Stroke Recovery:

The Heart and Stroke Foundation Canadian Partnership for Stroke Recovery ("HSFCPSR") is an independently incorporated registered charity created to facilitate its long-term scientific success in promoting research on recovery after stroke. HSFCPSR was established by the Foundation in conjunction with the Ottawa Hospital Research Institute, the University of Ottawa, the Sunnybrook Health Sciences Centre, the Baycrest Centre for Geriatric Care, University Health Network, Memorial University of Newfoundland, the University of British Columbia and the University of Calgary. The Foundation has the right to select four of the 13 members of HSFCPSR's board and is, therefore, able to contribute to HSFCPSR's activities, operations and strategic direction.

In the current year, the Foundation transferred \$1,500 (2019 - \$2,030) in funding to HSFCPSR. Future funding commitments to HSFCPSR by the Foundation are noted in the table above.

The funding commitment is subject to total matching funding commitments by other HSFCPSR stakeholders.

(c) Operating leases:

The Foundation has lease commitments for premises used in its operations. These leases expire on or before May 31, 2031.

12. Social impact bond:

In 2017, the Foundation launched a Community Hypertension Prevention Initiative, a program aimed at preventing the onset of hypertension among Canadians. The Foundation has raised funds from a group of investors. Connected to this arrangement is a parallel agreement between the Foundation and the Public Health Agency of Canada ("PHAC") that describes performance-based outcome payments from PHAC to the Foundation and back to the investors. This arrangement is a form of financing known as Social Impact Bond.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

12. Social impact bond (continued):

The \$3,400 cost of the program is funded from money raised from investors, consisting of three capital calls. The first investor capital call of \$1,200, second capital call of \$1,700 and final capital call of \$500 were received in 2017, 2019 and 2020, respectively, and were recorded as deferred revenue. Revenue is recognized as expenses of the program occur. During the year, the Foundation recognized a total of \$1,137 (2019 - \$1,113) in revenue and related program expenditures. Additional funds of \$85 (2019 - \$59) were invested in the program during the year. In addition, the Foundation received a donation of units in the social impact bond valued at \$9 (2019 - \$468).

PHAC has agreed to provide an aggregate outcome payment of up to a maximum of \$4,000 as an aggregate return to investors if the program is successful and has guaranteed a minimum aggregate outcome payment of \$1,000. Outcome payments from PHAC are triggered by two outcomes, first, the number of participants enrolled in the program and the second is based on changes in blood pressure that occur in the target population over the course of the initiative. Aggregate PHAC outcome payments received to date total \$729 with a final payment scheduled for December 2020. In addition to the final outcome payment, investors will also receive back an amount representing unspent capital due to modifications to the initiative as a result of COVID-19.

13. Financial risk management:

The main risks to which the Foundation's financial instruments are exposed are liquidity risk, market price risk, interest rate risk, and credit risk. It is management's opinion that the Foundation is not exposed to significant foreign currency risk.

(a) Liquidity risk:

Liquidity risk is the risk that the Foundation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Foundation manages its liquidity risk by monitoring its operating requirements. The Foundation prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

13. Financial risk management (continued):

(b) Market price risk:

Market risk arises as a result of investing in equity securities and fixed income securities. Fluctuations in market prices expose the Foundation to a risk of loss. The Foundation manages market risk by substantially investing in equities and fixed income pooled mutual funds that meet specific investment criteria established and approved by the Board of Directors and are designed to adequately diversify the Foundation's investments to reduce exposure to market risk. Professional investment managers invest and manage the investment portfolio in accordance with the Foundation's investment policy statement. These equity and fixed income investments are recorded at fair value. Fair value estimates are made at a specific point in time and may not be reflective of future value. The Foundation does not hold or issue financial instruments for trading purposes and does not hold or invest in derivative financial instruments.

(c) Interest rate risk:

The Foundation is exposed to interest rate risk as the value of its investments fluctuates in accordance with fluctuations in interest rates. The Foundation manages its interest rate risk by monitoring the performance of the individual investments and by ensuring compliance by the investment managers with the Foundation's investment policy statement.

(d) Credit risk:

Financial instruments that potentially subject the Foundation to concentrations of credit risk are cash, investments and accounts receivable. The Foundation places its cash in interest-bearing accounts or instruments insured by Canadian Deposit Insurance Corporation. As at August 31, 2020, the Foundation has a provision for doubtful accounts of \$27 (2019 - \$25). The Foundation believes that an adequate provision has been made for accounts receivable to the extent that collection is doubtful.

HEART AND STROKE FOUNDATION OF CANADA

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended August 31, 2020

14. Subsequent events:

During the year, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact. This has resulted in governments worldwide, including the Canadian and provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption in Canada to our fundraising efforts. In addition, the Foundation has also experienced temporary declines in the fair value of investments and investment income, termination of employees and temporary reduction of granting activities. During the year, the Foundation was eligible and applied for CEWS government funding, as described in note 2. In addition, the Foundation undertook restructuring activities and incurred related expenses, as described in note 9.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on operations is not known at this time. These emergency measures and economic impacts could include potential future decreases in donations and income.

15. Comparative information:

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