

Consolidated Financial Statements of

**HEART AND STROKE
FOUNDATION OF CANADA**

Year ended August 31, 2018



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Heart and Stroke Foundation of Canada, which comprise the consolidated statement of financial position as at August 31, 2018, the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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



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Basis for Qualified Opinion

In common with many charitable organizations, Heart and Stroke Foundation of Canada derives revenue from fundraising, the completeness of which is not susceptible to satisfactory audit verification. We were unable to obtain satisfactory audit verification over the completeness of revenues from non-online community-based programs. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Heart and Stroke Foundation of Canada. Therefore we were not able to determine whether, as at and for the years ended August 31, 2018 and August 31, 2017, any adjustments might be necessary to revenue and excess of revenue over expenses reported in the consolidated statements of operations, excess of revenue over expenses reported in the consolidated statements of changes in net assets, excess of revenue over expenses reported in the consolidated statements of cash flows and current assets and net assets reported in the consolidated statements of financial position. This caused us to qualify our opinion on the consolidated financial statements as at and for the year ended August 31, 2017.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Heart and Stroke Foundation of Canada as at August 31, 2018 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.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slightly slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants, Licensed Public Accountants

November 29, 2018
Vaughan, Canada

HEART AND STROKE FOUNDATION OF CANADA

Consolidated Statement of Financial Position
(In thousands of dollars)

Year ended August 31, 2018, with comparative information for 2017

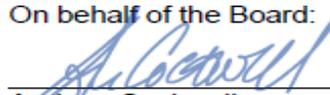
	2018	2017
Assets		
Current assets:		
Cash	\$ 13,205	\$ 9,320
Cash - Impact fund (note 6(a))	35,051	–
Cash held in trust	–	5,000
Accounts receivable	2,885	3,736
Inventory	1,512	1,632
Prepaid expenses	819	1,153
	<u>53,472</u>	<u>20,841</u>
Investments (note 2)	69,583	69,337
Capital assets (note 3)	5,902	7,558
Intangible assets	–	299
	<u>\$ 128,957</u>	<u>\$ 98,035</u>

Liabilities and Net Assets

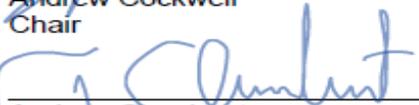
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 11,591	\$ 6,470
Research awards payable	38,399	31,717
Deferred revenue (note 4)	4,834	10,560
	<u>54,824</u>	<u>48,747</u>
Lease inducements	1,460	1,871
Employee future benefits (note 5)	–	1,573
	<u>56,284</u>	<u>52,191</u>
Net assets:		
Unrestricted	7,125	13,947
Internally restricted - Impact fund (note 6(a))	35,051	–
Internally restricted - others (note 6(b))	23,723	26,284
Endowments	6,774	5,613
	<u>72,673</u>	<u>45,844</u>
Commitments (note 11)		
	<u>\$ 128,957</u>	<u>\$ 98,035</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Andrew Cockwell
Chair



Andrew Claerhout
Chair, Finance and Audit Committee

HEART AND STROKE FOUNDATION OF CANADA

Consolidated Statement of Operations
(In thousands of dollars)

Year ended August 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Fundraising:		
Online community-based programs	\$ 16,484	\$ 16,911
Non-online community-based programs	27,946	29,732
Direct marketing	25,189	22,587
Corporate sponsorship (note 8)	5,021	5,964
Health promotions	6,519	6,806
Major gifts	25,571	33,764
	<u>106,730</u>	<u>115,764</u>
Lottery	16,932	14,153
	<u>123,662</u>	<u>129,917</u>
Government sponsored projects and grants	4,203	2,700
Interest, dividends and other financial income	4,217	4,514
Other	295	604
	<u>8,715</u>	<u>7,818</u>
Total revenue	132,377	137,735
Direct costs:		
Fundraising (note 7)	19,917	20,870
Lottery (note 7)	10,919	10,604
	<u>30,836</u>	<u>31,474</u>
Net revenue before operating and mission expenses:		
Fundraising	86,813	94,894
Lottery	6,013	3,549
Government, investment, and other	8,715	7,818
	<u>101,541</u>	<u>106,261</u>
Operating expenses (note 9):		
General fundraising (note 7)	34,090	29,990
Administration (note 7)	4,376	4,160
	<u>38,466</u>	<u>34,150</u>
Funds available for mission	63,075	72,111
Mission programs (note 9):		
Research (note 7)	33,175	32,587
Health promotion and community programs (notes 7 and 8)	42,774	38,035
	<u>75,949</u>	<u>70,622</u>
Excess (deficiency) of revenue over expenses from operations	(12,874)	1,489
Gain on sale of real estate (note 6(a))	34,741	–
Changes in fair value of investments	2,432	541
Excess of revenue over expenses	<u>\$ 24,299</u>	<u>\$ 2,030</u>

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, 2018, with comparative information for 2017

					2018	2017
	Unrestricted	Internally restricted - Impact fund (note 6(a))	Internally restricted - others (note 6(b))	Endowments	Total	Total
Net assets, beginning of year	\$ 13,947	\$ -	\$ 26,284	\$ 5,613	\$ 45,844	\$ 45,914
Excess of revenue over expenses	24,299	-	-	-	24,299	2,030
Remeasurement and other items relating to employee future benefits	1,369	-	-	-	1,369	(2,159)
Endowment contributions	-	-	-	1,161	1,161	59
Interfund transfers	(32,490)	35,051	(2,561)	-	-	-
Net assets, end of year	\$ 7,125	\$ 35,051	\$ 23,723	\$ 6,774	\$ 72,673	\$ 45,844

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, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 24,299	\$ 2,030
Items not affecting cash:		
Amortization of capital assets	1,523	927
Changes in fair value of investments	(2,432)	(541)
Reinvested realized investment income and gain on disposal of investments	(2,814)	(3,767)
Gain on sale of real estate	(34,741)	–
Pension plan expense	77	(24)
Amortization of lease inducements	(411)	(330)
Write off of capital and intangible assets	372	–
Contributions to pension plan	(281)	(228)
Change in non-cash operating working capital:		
Cash held in trust	5,000	(5,000)
Accounts receivable	851	1,336
Inventory	120	(643)
Prepaid expenses	334	–
Accounts payable and accrued liabilities	5,121	(1,555)
Research awards payable	6,682	862
Deferred revenue	(5,726)	6,050
	(2,026)	(883)
Financing activities:		
Endowment contributions	1,161	59
Investing activities:		
Additions to lease inducements	–	487
Purchases of investments	–	(10,000)
Proceeds on disposal of investments	5,000	10,000
Purchases of capital assets	(2,023)	(2,705)
Proceeds on disposal of capital assets	36,824	–
Purchases of intangible assets	–	(299)
	39,801	(2,517)
Increase (decrease) in cash	38,936	(3,341)
Cash, beginning of year	9,320	12,661
Cash, end of year	\$ 48,256	\$ 9,320
Consisting of:		
Cash	\$ 13,205	\$ 9,320
Cash - Impact fund	35,051	–
	\$ 48,256	\$ 9,320

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, 2018

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 prevent disease, save lives and promote recovery. The Foundation's vision is "Healthy lives free of heart disease and stroke. Together we will make it happen."

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.

The Heart and Stroke Foundation of Manitoba Inc., Heart and Stroke Foundation of Saskatchewan Inc., and Heart and Stroke Foundation of Newfoundland and Labrador Inc. were amalgamated with the Foundation in September 2013. The Heart and Stroke Foundation of Alberta, NWT & Nunavut amalgamated with the Foundation in September 2016.

Effective September 1, 2011, the Foundation entered into an affiliation agreement with the Heart and Stroke Foundation of New Brunswick. This agreement governs the working relationship between the two independent organizations as they continue to work together.

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.

HEART AND STROKE FOUNDATION OF CANADA

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

Year ended August 31, 2018

1. Significant accounting policies (continued):

(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.

(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 social impact bond which is 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.

HEART AND STROKE FOUNDATION OF CANADA

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

Year ended August 31, 2018

1. Significant accounting policies (continued):

(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.

(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:

Buildings	20 - 40 years
Furniture and fixtures	8 years
Equipment	5 years
Computer hardware and software	3 - 5 years
Leasehold improvements	Term of lease

The Foundation reviews the carrying amount, amortization and useful lives of its long-lived assets regularly. If the long-lived asset no longer has any long-term service potential to the Foundation, the excess of the net carrying amount over any residual value is recognized as an expense in the consolidated statement of operations.

(f) Intangible assets:

The carrying amount of an intangible asset whose life is determined to be indefinite is tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may exceed its fair value. An impairment loss is recognized when the asset's carrying amount exceeds its fair value. Impairment losses are not subsequently reversed.

HEART AND STROKE FOUNDATION OF CANADA

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

Year ended August 31, 2018

1. Significant accounting policies (continued):

(g) 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.

(h) 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.

(i) 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.

HEART AND STROKE FOUNDATION OF CANADA

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

Year ended August 31, 2018

1. Significant accounting policies (continued):

(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.

(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 entity in future years related to employee services rendered during the year.

HEART AND STROKE FOUNDATION OF CANADA

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

Year ended August 31, 2018

1. Significant accounting policies (continued):

(j) 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.

(k) 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.

(l) 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.

HEART AND STROKE FOUNDATION OF CANADA

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

Year ended August 31, 2018

1. Significant accounting policies (continued):

(m) 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.

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.

(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 the carrying amount of capital assets, allocation of expenses and assets and obligations related to employee future benefits. Actual results could differ from those estimates.

2. Investments:

	2018	2017
Pooled funds:		
Canadian equity	\$ 21,392	\$ 20,613
Foreign equity	20,541	22,210
Canadian fixed income	17,434	16,270
Alternative strategies	10,182	10,203
Social impact bonds (note 12)	34	41
	<u>\$ 69,583</u>	<u>\$ 69,337</u>

HEART AND STROKE FOUNDATION OF CANADA

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

Year ended August 31, 2018

3. Capital assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ –	\$ –	\$ –	\$ 739
Buildings	–	–	–	1,083
Furniture and fixtures	483	115	368	213
Equipment	583	239	344	445
Computer hardware and software	4,554	1,173	3,381	3,660
Leasehold improvements	3,732	1,923	1,809	1,418
	\$ 9,352	\$ 3,450	\$ 5,902	\$ 7,558

Included in computer hardware and software are assets under development totaling nil (2017 - \$3,658). Amortization commenced after the development of these assets was complete.

4. Deferred revenue:

Deferred revenue related to expenses of future periods represent unspent externally restricted grants and donations for specific programs.

	2018	2017
Balance, beginning of year	\$ 10,560	\$ 4,510
Funds received	4,825	12,274
Recognized as revenue	(10,551)	(6,224)
Balance, end of year	\$ 4,834	\$ 10,560

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.

Deferred revenue also includes amounts raised for the defibrillator initiative in excess of amounts disbursed during the fiscal year. Funds raised are to be used to place defibrillators and provide training to communities across Canada.

HEART AND STROKE FOUNDATION OF CANADA

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

Year ended August 31, 2018

5. 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:

	2018	2017
Fair value of plan assets	\$ 47,881	\$ 48,121
Accrued benefit obligation	(45,863)	(49,694)
Valuation allowance	(2,018)	–
Employee future benefits asset (liability)	\$ –	\$ (1,573)

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, 2018 and the next required actuarial valuation will be as at January 1, 2019.

(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 \$2,038 (2017 - \$2,170) and employee contributions were \$1,303 (2017 - \$1,323).

6. 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.

HEART AND STROKE FOUNDATION OF CANADA

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

Year ended August 31, 2018

6. Internally restricted net assets (continued):

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 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:

	2018	2017
Approved initiatives (i)	\$ 1,196	\$ 2,688
Future grant awards (ii)	14,680	14,709
Reserve (iii)	7,847	8,887
	<u>\$ 23,723</u>	<u>\$ 26,284</u>

(i) Approved initiatives:

The Board of Directors has internally restricted amounts for use toward specific approved initiatives.

(ii) 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.

(iii) 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, 2018

7. 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:

				2018	2017
	Fundraising direct costs	Indirect fundraising and administration costs	Mission activities	Total	Total
Fundraising direct costs	\$ 19,917	\$ –	\$ –	\$ 19,917	\$ 20,870
Lottery direct costs	10,919	–	–	10,919	10,604
General fundraising	–	34,048	42	34,090	29,990
Administration	–	4,376	–	4,376	4,160
Research	–	2,552	30,623	33,175	32,587
Health promotion and community programs	7,478	17,862	17,434	42,774	38,035
	\$ 38,314	\$ 58,838	\$ 48,099	\$ 145,251	\$ 136,246

8. Contributed materials and services:

During the year, the Foundation received contributions of in-kind materials and services in the amount of \$737 (2017 - \$90) in the form of media, products and services to support the Foundation's initiatives. These contributed materials and services are recognized on the consolidated statement of operations as revenue and expenses.

9. Severance:

Pursuant to its strategic plan, the Foundation took restructuring measures in the year to improve the future profitability of its fundraising programs. Total severance expense related to the restructuring included in various expenses on the consolidated statement of operations amounted to \$3,528. Included in accounts payable and accrued liabilities are \$2,680 in severance accruals relating to individuals who will be paid out agreed amounts that will end on dates ranging from September 18, 2018 to June 18, 2020.

HEART AND STROKE FOUNDATION OF CANADA

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

Year ended August 31, 2018

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, 2018 and 2017. 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 \$6,457 (2017 - \$6,235).

The Foundation has pledged a specific portion of its investments in the amount of \$41,933 (2017 - \$42,823) as security for the second facility and must maintain an aggregate market value for cash and securities held of at least \$47,000.

11. Commitments:

	Research awards (a)	Heart and Stroke Foundation Canadian Partnership for Stroke Recovery (b)	Operating leases (c)	Total
2019	\$ –	\$ 2,000	\$ 4,385	\$ 6,385
2020	18,537	2,000	3,850	24,387
2021	9,267	1,167	2,891	13,325
2022	1,205	–	1,701	2,906
2023	150	–	1,130	1,280
Thereafter	200	–	4,085	4,285
	\$ 29,359	\$ 5,167	\$ 18,042	\$ 52,568

(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, 2018

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 \$2,499 (2017 - \$2,203) 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 January 31, 2029.

12. Social impact bond:

In 2017, the Foundation launched a new 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, 2018

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 was received in 2017 and was recorded as deferred revenue. Revenue is recognized to match expenses of the program as they occur. During the year, the Foundation recognized a total of \$706 (2017 - \$168) in revenue and related total program expenditures. The Foundation made no additional investment in the program during the year (2017 - \$41). The remaining two capital calls are scheduled for November 2018 and November 2019.

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. PHAC payments will occur throughout the course of the term of the agreement with a final payment scheduled for December 2020.

13. Financial risk management:

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, 2018, the Foundation has a provision for doubtful accounts of \$5 (2017 - \$16). The Foundation believes that an adequate provision has been made for accounts receivable to the extent that collection is doubtful. There has been no change to the risk exposures from 2017.

(a) Currency risk:

The Foundation is subject to currency risk as the value of its U.S. dollar bank account with a balance of \$288 (2017 - \$239) will fluctuate due to changes in foreign exchange rates. The Foundation believes it has low exposure to currency risk given the low magnitude and volume of foreign currency transactions.

HEART AND STROKE FOUNDATION OF CANADA

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

Year ended August 31, 2018

13. Financial risk management (continued):

(b) 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 manager with the set investment policies of the Foundation.

(c) 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 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. 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.

14. Comparative information:

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