

Heart and Stroke Foundation of Canada

Consolidated Financial Statements
August 31, 2014



December 17, 2014

Independent Auditor's Report

To the Directors of Heart and Stroke Foundation of Canada

We have audited the accompanying consolidated financial statements of Heart and Stroke Foundation of Canada ("the Foundation") and its subsidiaries, which comprise the consolidated statement of financial position as at August 31, 2014 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes, which comprise 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.

Auditor's 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 the auditor's 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, the auditor considers 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.

*PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5
T: +1 905 815 6300, F: +1 905 815 6499*

**Basis for qualified opinion**

In common with many not-for-profit organizations, the Foundation and its subsidiaries derive revenues from fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Foundation and its subsidiaries. Therefore, we were not able to determine whether any adjustments might be necessary to revenues, deficiency of revenues over expenses and cash flows from operations for the years ended August 31, 2014 and 2013, current assets as at August 31, 2014 and 2013 and net assets as at September 1 and August 31 for both the 2014 and 2013 years. Our audit opinion on the consolidated financial statements for the year ended August 31, 2013 was modified accordingly because of the possible effects of this limitation in scope.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Foundation and its subsidiaries as at August 31, 2014 and the results of their operations and their cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Heart and Stroke Foundation of Canada

Consolidated Statement of Financial Position

As at August 31, 2014

(in thousands of dollars)

	2014 \$	2013 \$
Assets		
Current assets		
Cash	22,085	37,771
Accounts receivable	5,667	4,414
Inventory	2,167	1,935
Prepaid expenses	592	1,363
	<u>30,511</u>	<u>45,483</u>
Investments (note 3)	80,071	71,399
Capital assets (note 4)	4,600	4,980
Employee future benefits (note 11)	<u>2,945</u>	<u>719</u>
	<u>118,127</u>	<u>122,581</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	19,664	13,727
Research awards payable	35,340	44,104
Deferred revenue (note 6)	<u>11,703</u>	<u>7,953</u>
	66,707	65,784
Deferred revenue (note 6)	4,208	7,728
Lease inducements	<u>1,998</u>	<u>2,291</u>
	<u>72,913</u>	<u>75,803</u>
Net assets		
Unrestricted	13,820	7,605
Internally restricted (note 7)	26,699	35,588
Endowments	<u>4,695</u>	<u>3,585</u>
	<u>45,214</u>	<u>46,778</u>
	<u>118,127</u>	<u>122,581</u>
Commitments (note 12)		

Approved by the Board of Directors

Douglas S. Clement

Chair, Douglas Clement

Andrew Cockwell

Chair, Finance and Audit Committee, Andrew Cockwell

The accompanying notes are an integral part of these consolidated financial statements.

Heart and Stroke Foundation of Canada

Consolidated Statement of Operations

For the year ended August 31, 2014

(in thousands of dollars)

	2014 \$	2013 \$
Revenues		
Fundraising		
Community-based programs	53,278	53,424
Direct marketing	20,382	20,548
Corporate sponsorship	8,806	9,078
Health promotions	6,511	5,815
Major gifts	25,538	27,176
	114,515	116,041
Lottery	60,527	70,785
	175,042	186,826
Government sponsored projects and grants	6,759	7,290
Interest, dividends and other financial income	3,020	3,881
Other	532	24
	10,311	11,195
Total revenues	185,353	198,021
Direct costs		
Fundraising	21,931	21,099
Lottery	50,335	54,653
	72,266	75,752
Revenue before operating and mission expenses for the following		
Fundraising	92,584	94,942
Lottery	10,192	16,132
Government, investment, and other	10,311	11,195
	113,087	122,269
Operating expenses		
General fundraising	32,295	33,030
Administration	5,741	10,604
	38,036	43,634
Funds available for mission	75,051	78,635
Mission expenses		
Research	33,807	38,180
Health promotion and community programs	55,048	53,269
	88,855	91,449
Revenues over expenses from operations	(13,804)	(12,814)
Changes in fair value of investments	9,606	(18)
Deficiency of revenues over expenses	(4,198)	(12,832)

The accompanying notes are an integral part of these consolidated financial statements.

Heart and Stroke Foundation of Canada

Consolidated Statement of Changes in Net Assets

For the year ended August 31, 2014

(in thousands of dollars)

	Net assets - Beginning of year \$	Deficiency of revenues over expenses \$	Remeasurement and other items relating to employee future benefits \$	Endowment contributions \$	Transfers from (to) \$	Net assets - End of year \$
Unrestricted	7,605	(4,198)	1,524	-	8,889	13,820
Internally restricted (note 7)	35,588	-	-	-	(8,889)	26,699
Endowments	3,585	-	-	1,110	-	4,695
	46,778	(4,198)	1,524	1,110	-	45,214

The accompanying notes are an integral part of these consolidated financial statements.

Heart and Stroke Foundation of Canada

Consolidated Statement of Cash Flows

For the year ended August 31, 2014

(in thousands of dollars)

	2014 \$	2013 \$
Cash flows provided by (used in)		
Operating activities		
Deficiency of revenues over expenses	(4,198)	(12,832)
Items not affecting cash -		
Amortization of capital assets	923	915
Amortization of lease inducements	(293)	(183)
Changes in fair value of investments	(9,606)	18
Provision for pension plan	2,889	2,657
Contributions to pension plan	(3,591)	(3,108)
Change in non-cash working capital items -		
Accounts receivable	(1,253)	272
Inventory	(232)	(7)
Prepaid expenses	771	(393)
Accounts payable and accrued liabilities	5,937	(975)
Research awards payable	(8,764)	(17,073)
Deferred revenue	230	201
	<u>(17,187)</u>	<u>(30,508)</u>
Investing activities		
Purchases of investments	(16,031)	(16,936)
Proceeds on sale of investments	16,965	18,983
Purchases of capital assets	<u>(543)</u>	<u>(367)</u>
	<u>391</u>	<u>1,680</u>
Financing activities		
Endowment contributions	<u>1,110</u>	<u>271</u>
Net change in cash for the year	<u>(15,686)</u>	<u>(28,557)</u>
Cash - Beginning of year	<u>37,771</u>	<u>66,328</u>
Cash - End of year	<u>22,085</u>	<u>37,771</u>

The accompanying notes are an integral part of these consolidated financial statements.

Heart and Stroke Foundation of Canada

Notes to Consolidated Financial Statements

August 31, 2014

(in thousands of dollars)

1 Mission

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 mission of the Foundation, a volunteer-based health charity, is to lead in eliminating heart disease and stroke and reduce their impact through the advancement of research and its application, the promotion of healthy living and advocacy. The Foundation’s vision is “Healthy lives free of heart disease and stroke. Together we will make it happen.”

2 Significant accounting policies

Basis of presentation and consolidation

These consolidated financial statements include the assets, liabilities, revenues and expenses of the Foundation and all of its subsidiaries in which the Foundation has effective control, including the Heart and Stroke Foundation of Alberta, NWT & Nunavut, 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.

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 (ASNPO) applied within the framework of the accounting policies summarized below.

Investments

Investments are accounted for at their fair values, which are determined as follows:

- i) Fixed income investments are valued based on quoted market values and equities are determined based on closing prices.
- ii) Investments in pooled funds are valued at their net asset values.

Changes in fair value of investments are reflected in the consolidated statement of operations.

Heart and Stroke Foundation of Canada

Notes to Consolidated Financial Statements

August 31, 2014

(in thousands of dollars)

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 expenditures incurred in bringing an item to its existing location and condition.

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	4 - 8 years
Equipment	3 - 5 years
Computer hardware and software	2 - 5 years
Leasehold improvements	over the term of the lease agreement

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.

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.

Employee future benefits

The pension plan is a defined benefit plan that provides pensions for substantially all employees based on length of service and rate of pay.

The accrued benefit obligation is actuarially determined each reporting period based on a roll forward of the most recent valuation prepared for funding purposes. Under the immediate recognition approach, the pension expense is recorded in the consolidated statement of operations. Remeasurement and other items (actuarial gains and losses) are recognized directly in net assets in the consolidated statement of financial position.

Heart and Stroke Foundation of Canada

Notes to Consolidated Financial Statements

August 31, 2014

(in thousands of dollars)

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 net assets.

Licence fees received under the HealthCheck™ program are deferred and recognized on a straight-line basis over the life of the licence. Application fees are recognized when the food product has been evaluated against the HealthCheck™ program criteria.

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

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 period they are incurred.

Allocation of expenses

The Foundation engages in fundraising activities to support investment in its mission. The cost of the fundraising activities includes both costs, which can be directly attributed, and general support expenses, which have been allocated to the activity.

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 (note 8).

Heart and Stroke Foundation of Canada

Notes to Consolidated Financial Statements

August 31, 2014

(in thousands of dollars)

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the 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.

Contributed services

The work of the Foundation is dependent on the donated service of many volunteers. Due to the difficulty of determining the fair value, these contributed services are not recognized or disclosed in the consolidated financial statements.

Use of estimates

The preparation of financial statements in conformity with ASNPO 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3 Investments

	2014 \$	2013 \$
Canadian equity	56,455	29,371
Foreign equity	-	656
Canadian fixed income	23,616	39,986
Accrued investment income	-	1,386
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	80,071	71,399

Heart and Stroke Foundation of Canada

Notes to Consolidated Financial Statements

August 31, 2014

(in thousands of dollars)

4 Capital assets

	2014		2013	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	879	-	879	879
Buildings	6,090	4,472	1,618	1,800
Furniture and fixtures	1,190	1,151	39	80
Equipment	984	947	37	72
Computer hardware and software	5,400	4,922	478	677
Leasehold improvements	3,323	1,774	1,549	1,401
Deferred leasing costs	-	-	-	71
	17,866	13,266	4,600	4,980

5 Government remittances

Federal and provincial sales taxes, payroll taxes, health taxes and workers' safety insurance premiums of \$47 (2013 – \$46) are included in accounts payable and accrued liabilities.

6 Deferred revenue

	Balance - Beginning of year \$	Funds received \$	Recognized as revenue \$	Balance - End of year \$
Health promotion	4,793	10,173	(9,477)	5,489
Research	10,061	270	(333)	9,998
Other	827	436	(839)	424
	15,681	10,879	(10,649)	15,911
Less: Current portion	7,953			11,703
	7,728			4,208

Deferred contributions include 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 Ministries. The contributions are recorded as deferred until the designated costs have been incurred. Any part of the contributions that has not been used belongs to the Ministries.

Deferred contributions also include 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.

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(in thousands of dollars)

Deferred contributions also include amounts raised from the leasing of the HealthCheck™ logo related to future periods. Funds raised are to be used to offset the operations cost of the HealthCheck™ program.

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 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:

	2014 \$	2013 \$
Approved strategic plan initiatives	2,000	7,000
Future grant awards	14,509	15,408
Reserve	10,190	13,180
	<hr/>	<hr/>
	26,699	35,588

Approved strategic plan initiatives

The Board of Directors has internally restricted amounts for use toward specific initiatives within its approved strategic plan.

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.

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

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(in thousands of dollars)

8 Allocation of general support expenses

Program and general support costs have been allocated among business activities as follows:

	2014			2013	
	Fundraising direct costs \$	Indirect fundraising and administrative costs \$	Mission activities \$	Total \$	Total \$
Fundraising direct costs	21,931	-	-	21,931	21,099
Lottery direct costs	50,335	-	-	50,335	54,653
General fundraising	-	32,295	-	32,295	33,030
Administration	-	5,741	-	5,741	10,604
Research	-	1,643	32,164	33,807	38,180
Health promotion and community programs	7,319	19,967	27,762	55,048	53,269
	79,585	59,646	59,926	199,157	210,835

9 Banking facilities

The Foundation has a total line of credit available to a maximum of \$39,400, comprised of a \$2,400 revolving line of credit for general business purposes and a \$37,000 revolving line of credit for letters of guarantee in support of lottery licences. The first facility bears interest at prime rate and is due on demand. The second facility has specific fees payable (0.3%) on the issue of the respective letters of guarantee. As of year-end, there were letters of guarantee outstanding of \$15,516 (2013 – \$29,532).

The Foundation has pledged a specific portion of its investments in the amount of \$56,455 (2013 – \$57,659) as security for the second facility and must maintain an aggregate market value for cash and securities held of at least \$37,000.

As of year-end, the first facility had not been drawn on for general business purposes.

10 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 a Canadian chartered bank. The Foundation believes that an adequate provision has been made for accounts receivable to the extent that collection is doubtful.

The Foundation is subject to currency risk as the value of its US dollar bank account with a balance of \$288 (2013 – \$153) will fluctuate due to changes in foreign exchange rates.

The Foundation is exposed to interest rate risk as the value of its investments fluctuates in accordance with fluctuations in interest rates.

Heart and Stroke Foundation of Canada

Notes to Consolidated Financial Statements

August 31, 2014

(in thousands of dollars)

Investments are subject to market risk. The Foundation manages market risk by substantially investing in Canadian 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.

11 Employee future benefits

The Foundation maintains a defined benefit pension plan (the Plan) offered to all employees. The Plan is registered under the Pension Benefits Act of Ontario. Information about the Foundation's Plan is as follows:

	2014 \$	2013 \$
Fair value of plan assets	52,428	42,347
Accrued benefit obligation	(49,483)	(41,628)
Employee future benefit asset	2,945	719

The Foundation measures its defined benefit obligations and the fair value of 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, 2014.

12 Commitments

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 Centre for Stroke Recovery

The Heart and Stroke Foundation Centre for Stroke Recovery (HSFCSR) is an independently incorporated registered charity created to facilitate its long-term scientific success in promoting research on recovery after stroke. HSFCSR 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, and Memorial University of Newfoundland. The Foundation has the right to select three of the 13 members of HSFCSR's board and is therefore able to contribute to HSFCSR's activities, operations and strategic direction.

Heart and Stroke Foundation of Canada

Notes to Consolidated Financial Statements

August 31, 2014

(in thousands of dollars)

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

	Research awards \$	HSFCRS \$	Operating leases \$	Total \$
Year ending August 31				
2015	-	2,000	4,408	6,408
2016	18,443	2,000	3,681	24,124
2017	8,985	1,667	2,943	13,595
2018	1,283	-	2,502	3,785
2019 and thereafter	307	-	6,832	7,139
	29,018	5,667	20,366	55,051

13 Alberta Charitable Fundraising Act

As required under Alberta's *Charitable Fundraising Act and Regulation*, the following amounts are disclosed for Alberta.

	2014 \$	2013 \$
Revenue		
Gross contributions received	20,205	20,156
Expenses		
Total fundraising costs	10,181	11,733
Total administrative costs	491	572
Total mission expenditures	5,865	6,325
Remuneration paid to employees whose duties involve fundraising	2,429	2,724

14 Comparative figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.