

Financial Statements of

HERITAGE EDUCATIONAL FOUNDATION

For the years ended December 31, 2019 and December 31, 2018



March 30, 2020

Independent Practitioner's Review Engagement Report

To the Directors of Heritage Educational Foundation

Report on the financial statements

We have reviewed the accompanying financial statements of Heritage Educational Foundation that comprise the statement of financial position as at December 31, 2019 and the statements of income and 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 financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects, the financial position of Heritage Educational Foundation as at December 31, 2019 and the results of its operations and its 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

Toronto, Ontario

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

HERITAGE EDUCATIONAL FOUNDATION

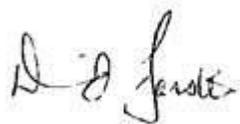
Statements of Financial Position

As at December 31, 2019 and December 31, 2018

All amounts in Canadian dollars

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	81,109,161	20,031,593
Funds held in trust for insurance (Note 3)	2,549,959	2,779,969
ESP funds held in escrow (Note 4)	1,178,866	1,159,116
EAP advances (Note 8)	542,237	338,373
Due from the Plans (Note 5)	568,394	383,861
Due from an affiliate (Note 5)	541,101	547,714
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	86,489,718	25,240,626
Liabilities		
Current liabilities		
Funds held in trust for insurance (Note 3)	532,221	550,249
Due to an affiliate (Note 5)	2,801,062	3,982,718
Due to the Plans (Note 5)	77,661,263	13,666,763
Due to subscribers and beneficiaries	2,298,468	3,651,960
ESP funds held in escrow (Note 4)	1,178,866	1,159,116
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	84,471,880	23,010,806
Long-term liabilities		
Funds held in trust for insurance (Note 3)	2,017,738	2,229,720
	<hr/>	<hr/>
	86,489,618	25,240,526
Net Assets represented by		
Unrestricted net assets	<hr/>	<hr/>
	100	100

On behalf of the Board of Directors of
Heritage Educational Foundation



_____, Director



_____, Director

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

HERITAGE EDUCATIONAL FOUNDATION

Statements of Income and Changes in Net Assets

For the years ended December 31, 2019 and December 31, 2018

All amounts in Canadian dollars

	2019	2018
Revenue:		
Account maintenance fees	\$1,859,703	\$1,956,764
Administration fees	14,612,127	13,758,680
Other fees and income	264,315	225,008
Interest on funds held in trust for insurance	53,765	44,265
	16,789,910	15,984,717
Operating expenses (Note 5):		
Account maintenance fees	1,859,703	1,956,764
Administration fees	14,612,127	13,758,680
Other fees and expenses	264,315	225,008
Interest on funds held in trust for insurance	53,765	44,265
	16,789,910	15,984,717
Net income	-	-
Net assets, beginning of year	100	100
Net assets, end of year	\$100	\$ 100

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

HERITAGE EDUCATIONAL FOUNDATION

Statements of Cash Flows

For the years ended December 31, 2019 and December 31, 2018

All amounts in Canadian dollars

	2019	2018
Cash provided by (used in)		
Operating activities		
Net income	-	-
Changes in non-cash working capital:		
EAP advances	(203,864)	(293,714)
Due to and from the Plans	63,809,967	17,447,532
Due to subscribers and beneficiaries	(1,353,492)	70,931
Due to and from an affiliate	(1,175,043)	1,545,177
Increase (decrease) in cash during the year	61,077,568	18,769,926
Cash and cash equivalents, beginning of year	20,031,593	1,261,667
Cash and cash equivalents, end of year	81,109,161	20,031,593

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

HERITAGE EDUCATIONAL FOUNDATION

Notes to Financial Statements

Years ended December 31, 2019 and December 31, 2018

1. General Information

Heritage Educational Foundation (the "Foundation") is a not-for-profit corporation incorporated on December 1, 1986 under the laws of Canada without share capital. The Foundation's objective is to provide financial and other assistance to students who attend programs of education at post-secondary institutions. The Foundation commenced operations on September 1, 1988 with the distribution of the Heritage Plans and established the Impression Plan on June 20, 2003. Prior to the amalgamation described below, Heritage Education Funds Inc. ("HEFI") was the distributor of the Heritage Plans and the Impression Plan (the "Plans") and assisted the Foundation in administering the Plans, which are registered educational savings plans under the Income Tax Act (Canada). During the year ended December 31, 2017, the Foundation and HEFI were under common management as the beneficial shareholders of HEFI constituted the board members of the Foundation.

Effective January 2, 2018, Knowledge First Financial Inc. ("Knowledge First Financial"), a wholly-owned subsidiary of Knowledge First Foundation, acquired control of all of the outstanding shares of Heritage Amalgamated Corporation ("HAC") (which owned 100% of the common shares of HEFI), 100% of the Class C preference shares of HEFI and 100% of the outstanding shares of CMR Inc. ("CMR"). Concurrent with the acquisition, certain directors of the Knowledge First Foundation, the parent of Knowledge First Financial became the directors of the Foundation.

On August 28, 2018, ("Amalgamation Date"), HEFI, Knowledge First Financial, HAC and 10896357 Canada Inc. (formerly CMR) amalgamated (the "Amalgamation"). The amalgamated company continued under the name Knowledge First Financial Inc. ("Knowledge First Financial"). As a result of the Amalgamation, Knowledge First Financial became the investment fund manager and distributor of the Heritage Plans and Impression Plan and assists the Foundation in administering the Plans.

The Board of Directors of the Foundation authorized the financial statements for issue on March 25, 2020.

2. Significant accounting policies:

(a) Basis of presentation:

The Foundation has prepared these financial statements in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO"), as stated in Part III of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook.

(b) Investments in Unconsolidated Structured Entities:

Structured entities are those entities where voting rights or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements. The Foundation has determined that the Plans and the investment in a pooled fund meet the definition of structured entities. See note 6 for unconsolidated structured entity disclosures.

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Notes to Financial Statements (continued)

Year ended December 31, 2019 and December 31, 2018

(c) Functional and presentation currency:

The Foundation's functional and presentation currency is the Canadian dollar. The Foundation does not conduct any significant activities in currencies other than the Canadian dollar.

(d) Cash and cash equivalents:

Cash and cash equivalents and cash held in trust for the Plans is comprised of cash on hand and demand deposits.

(e) Financial Instruments:

Financial assets and financial liabilities are recognized when the Foundation becomes a party to the contractual provisions of the instrument. Financial instruments are derecognized when the rights to receive or pay cash flows from the instrument have expired and the Foundation has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset, and the net amount is reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(f) Revenue recognition:

The Foundation's revenue is derived from account maintenance, administration and other fees charged to the Plans and retained by the Foundation from contributions paid to the Foundation by Subscribers. The revenue is recorded upon receipt of the contributions from subscribers. The Foundation pays an administration fee to the distributor for services provided to the Foundation in the administration of the Plans, such that the revenues of the Foundation are equal to its expenses. Up to the Amalgamation Date, the distributor was HEFI. Subsequent to that date, the distributor was Knowledge First Financial. Amounts receivable and payable and related revenues and expenses under these arrangements are measured at amortized cost.

(g) Income taxes:

The Foundation qualifies as a not-for-profit organization under Section 149(1)(l) of the Income Tax Act (Canada) and as such is exempt from income taxes.

HERITAGE EDUCATIONAL FOUNDATION

Notes to Financial Statements (continued)

Year ended December 31, 2019 and December 31, 2018

3. Funds held in trust for insurance:

	<u>2019</u>	<u>2018</u>
Cash held in trust	227,671	8,454
Scotia Money Market fund	<u>2,322,288</u>	<u>2,771,515</u>
	<u>2,549,959</u>	<u>2,779,969</u>

The funds held in trust represent insurance claim settlements received by the Foundation under the group completion insurance program provided to the Plans' subscribers. The amounts received are held in trust and remitted to the Plans in accordance with the original deposit schedule for a subscriber's plan that benefited from payout under the insurance coverage.

Investment income earned on the funds held in trust is included in the revenue of Knowledge First Financial, being the distributor pursuant to a franchisee agreement between the Foundation and Knowledge First Financial.

Within the total funds held in trust for insurance as at December 31, 2019, \$2,322,288 (December 31, 2018 - \$2,771,515) is invested in a money market pooled fund with Scotiabank. This pooled fund invested primarily in Canadian dollar denominated debt instruments, such as treasury bills of Canadian governments, bankers' acceptances of Canadian chartered banks and commercial paper of corporations and trusts. Units of the pooled fund were redeemable on a daily basis.

The funds held in trust liability is recognized at fair value upon inception and subsequently measured at amortized cost, representing the present value of the amounts to be remitted to the Plans.

4. ESP funds held in escrow:

As a result of certain amendments to the Income Tax Act (Canada), effective January 1, 2004, the social insurance number of the beneficiary under a plan must be provided before deposits may be made to a registered education savings plan. If the social insurance number of the beneficiary under a plan is not provided to the Foundation at the time of enrolment in a Plan, any deposits made and any income earned thereon will be temporarily held in an escrow account in the name of the Foundation pending receipt of the required social insurance number. The principal and income amounts held in the escrow account are not considered part of the Plans' assets. Any income earned on deposits made to the escrow account is taxable to the subscribers in the calendar year the income is earned. The balance for any individual can only remain in escrow for 18 months, after which time the funds are returned to the individual if the social insurance number of the beneficiary has not been provided. The escrow funds are held in a savings account with Scotia Bank.

HERITAGE EDUCATIONAL FOUNDATION

Notes to Financial Statements (continued)

Year ended December 31, 2019 and December 31, 2018

5. Related party balances and transactions:

Related party balances:

The amounts due from an affiliate as well as the Plans are non-interest bearing and have no specific terms of repayment. The amount due from Knowledge First Financial represents amounts paid to subscribers by the Foundation since December 31, 2017 for previously forfeited subscriber principal balances by Heritage Plans on terminated plans with a maturity date prior to July 31, 2015. Pursuant to an undertaking with the Ontario Securities Commission dated December 22, 2017, repayments since December 31, 2017 of such previously forfeited principal is an obligation of Knowledge First Financial but are paid initially by the Foundation to the applicable subscribers consistent with the subscribers' original contractual arrangements with the Foundation. The amount due from the Plans as at December 31, 2019 was \$ 568,394 (2018 - \$383,361) and the amount due from Knowledge First Financial at year end was \$ 541,101 (2018 - \$547,714).

The amounts due to an affiliate and Plans are non-interest bearing and have no specific terms of repayment. Amount due to the Heritage Plans reflect contributions and grants received from subscribers that are not remitted to the Heritage Plans.

	<u>2019</u>	<u>2018</u>
Due to the Plans and KFF		
Due to the Subscribers	2,298,468	3,651,960
Due to the Plans	77,661,263	13,666,763
	<u>79,959,731</u>	<u>17,318,723</u>

Related party transactions during the year:

Related party transactions conducted in the normal course of operations are measured at the transaction amount, which is the amount established and agreed to by the related parties.

	<u>2019</u>	<u>2018</u>
Fees paid to Knowledge First Financial	16,789,910	15,984,717

The amount due to Knowledge First Financial as at December 31, 2019 was \$2,801,062 (2018 - \$3,982,718). This represents the fees earned in the month of December 2019.

HERITAGE EDUCATIONAL FOUNDATION

Notes to Financial Statements (continued)

Year ended December 31, 2019 and December 31, 2018

6. Investment in Unconsolidated Structured Entities:

The Foundation is principally involved with structured entities through the contractual arrangement of providing plan management and administrative services to the Plans in support of education savings plans. The Plans are structured entities that are not consolidated by the Foundation. The Foundation does not have any ownership interest nor rights in the Plans; rights within the Plans reside with other parties, specifically the independent subscribers, and the Foundation has limited scope of decision-making authority as the sponsor. The activities of the Plans that significantly affect their returns are mandated by law, regulations and the investment policies. Based on the level of restrictions on the scope of the Foundation's activities and lack of exposure to the variable returns, the Foundation has concluded that it does not control the Plans. The total net assets of the Plans are \$2.68 billion as at December 31, 2019 (\$2.54 billion as at December 31, 2018). The Plans' primary activities are to aggregate contributions to the education savings plans (from subscribers as well as grants from the Federal and Provincial governments) and to provide education assistance payments to beneficiaries. The Plans are financed from subscriber contributions as well as Federal and Provincial grants.

Amounts due from and to the Plans are recorded in the financial statements as due from related parties or due to related parties as described in Note 5. Management believes that the maximum exposure to loss is the carrying value of the receivable due from the Plans.

7. Financial risk management:

The Foundation's activities may expose it to financial risks such as credit risk, interest rate risk, liquidity risk and currency risk. The Foundation's overall risk management approach includes cash flow management and objectives. Oversight responsibility and authority rests with the Foundation's Board of Directors.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Foundation's receivables arise primarily from Knowledge First Financial and the Plans.

Cash on hand and funds held in trust is kept on deposit by the Foundation with Canadian Schedule I banks.

The carrying amount of cash and cash equivalents, funds held in trust for insurance, due from an affiliate, and due from the Plans represents the maximum credit risk exposure as at December 31, 2019 and December 31, 2018.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Foundation has indirect exposure to interest rate risk through its holdings in the Scotia Money Market funds.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Foundation is not exposed to significant liquidity risk since the activities of the Foundation

HERITAGE EDUCATIONAL FOUNDATION

Notes to Financial Statements (continued)

Year ended December 31, 2019 and December 31, 2018

are flow through transactions. The Foundation's assets can be easily liquidated. In addition, the Foundation endeavours to retain adequate cash and cash equivalents positions to maintain adequate liquidity.

All of the Foundation's receivables are due within one year.

The table below shows forecast cash outflows over the coming years for the fund held in trust for insurance as at December 31, 2019:

	Within 1 to 5 years	Within 5 to 10 years	After 10 years	Total
Funds held in trust for insurance	1,921,579	574,641	53,739	2,549,959

The table below shows forecast cash outflows over the coming years for the funds held in trust for insurance as at December 31, 2018:

	Within 1 to 5 years	Within 5 to 10 years	After 10 years	Total
Funds held in trust for insurance	2,054,404	666,421	59,144	2,779,969

Currency risk

The Foundation does not conduct any significant activities in currencies other than the Canadian dollar. Therefore, the Foundation is not subject to direct foreign currency risk.

8. EAP advances

These are EAP advance payments made prior to September to beneficiaries to pay for their school fees (based on 50% of prior year's payout rate multiplied by units purchased).

9. Comparative figures

Prior year comparative figures were reclassified to conform to the current year's presentation.

10. Subsequent Event

Since the latter part of February 2020, the financial markets have been very volatile in response to the developing COVID-19 pandemic and the equity markets in particular have experienced significant declines. The investment portfolio of the Plan has been subject to these market fluctuations and are expected to continue to experience significant volatility as the situation evolves.