

Covenant Foundation

Financial Statements

March 31, 2023



Independent auditor's report

To the Board of Directors of Covenant Foundation

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Covenant Foundation (the Foundation) as at March 31, 2023 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.

What we have audited

The Foundation's financial statements comprise:

- the statement of financial position as at March 31, 2023;
- the statement of operations and changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for qualified opinion

In common with many not-for-profit organizations, the Foundation derives revenue from cash donations the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of the Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to charitable donations and fundraising projects revenue, (deficiency) excess of revenue over expenses and cash provided by (used in) operating activities for the years ended March 31, 2023 and 2022, current assets as at March 31, 2023 and 2022 and net assets as at the beginning and the end of the years ended March 31, 2023 and 2022. Our audit opinion on the financial statements for the year ended March 31, 2022 was modified 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 *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Independence

We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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 Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's 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 auditor's 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. 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 these 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 Foundation'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 Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Foundation 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.

We 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
June 29, 2023

Covenant Foundation
Statement of Financial Position
As at March 31, 2023

	2023 \$	2022 \$
Assets		
Current assets		
Cash	62,910	506,693
Restricted cash (note 3)	1,087,435	2,076,167
Accounts receivable	281,146	264,043
Inventories	34,661	36,052
Prepaid expenses	1,052,729	966,050
	<u>2,518,881</u>	<u>3,849,005</u>
Insurance policies	93,932	93,552
Investments (note 4)	<u>39,181,006</u>	<u>40,940,511</u>
	<u>41,793,819</u>	<u>44,883,068</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	354,657	229,774
Deferred revenue	758	508
Due to related parties (note 6)	943,840	1,427,541
Grants payable (note 7)	5,428,548	5,340,287
	<u>6,727,803</u>	<u>6,998,110</u>
Net Assets		
Donor restricted fund (note 8)	20,392,094	21,958,040
Unrestricted fund	4,714,503	6,324,409
Donor endowment fund	<u>9,959,419</u>	<u>9,602,509</u>
	<u>35,066,016</u>	<u>37,884,958</u>
	<u>41,793,819</u>	<u>44,883,068</u>
Commitments and pledges (note 11)		

Approved by the Board of Directors

_____ Director

_____ Director

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

Covenant Foundation

Statement of Operations and Changes in Net Assets

For the year ended March 31, 2023

				2023	2022
	Donor restricted fund \$	Unrestricted fund \$	Donor endowment fund \$	Total \$	Total \$
Revenue					
Home lotteries	4,970,601	-	-	4,970,601	5,055,180
Investment income (note 9)	208,195	1,837,020	348,260	2,393,475	2,705,103
Charitable donations and fundraising projects	962,354	370,858	5,600	1,338,812	2,070,203
Grants	587,424	161,780	3,050	752,254	858,976
Administrative support (note 6)	-	282,570	-	282,570	275,070
Other revenue	8,190	-	-	8,190	10,147
	<u>6,736,764</u>	<u>2,652,228</u>	<u>356,910</u>	<u>9,745,902</u>	<u>10,974,679</u>
Expenses					
Home lotteries	5,294,970	1,496	-	5,296,466	5,359,903
Grants to related parties (note 6)	2,182,099	74,620	-	2,256,719	2,565,118
Administration	42,148	1,138,284	-	1,180,432	989,736
Charitable donations and fundraising projects – direct costs	140,436	657,957	-	798,393	547,749
Administrative support (note 6)	-	282,570	-	282,570	275,070
Grants – direct costs	-	45,781	-	45,781	34,606
Grants to other	11,400	-	-	11,400	10,313
	<u>7,671,053</u>	<u>2,200,708</u>	<u>-</u>	<u>9,871,761</u>	<u>9,782,495</u>
(Deficiency) excess of revenue over expenses for the year before fair value adjustments	(934,289)	451,520	356,910	(125,859)	1,192,184
Unrealized (loss) gain	(631,657)	(2,061,426)	-	(2,693,083)	366,474
(Deficiency) excess of revenue over expenses for the year	(1,565,946)	(1,609,906)	356,910	(2,818,942)	1,558,658
Net assets – Beginning of year	<u>21,958,040</u>	<u>6,324,409</u>	<u>9,602,509</u>	<u>37,884,958</u>	<u>36,326,300</u>
Net assets – End of year	<u>20,392,094</u>	<u>4,714,503</u>	<u>9,959,419</u>	<u>35,066,016</u>	<u>37,884,958</u>

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

Covenant Foundation

Statement of Cash Flows

For the year ended March 31, 2023

	2023 \$	2022 \$
Cash provided by (used in)		
Operating activities		
(Deficiency) excess of revenue over expenses for the year	(2,818,942)	1,558,658
Items not affecting cash		
Increase in cash surrender value of insurance policies	(380)	(1,137)
Realized gain	(871,067)	(1,421,591)
Unrealized loss (gain)	2,693,083	(366,474)
	<hr/>	<hr/>
	(997,306)	(230,544)
Net change in non-cash working capital items		
Accounts receivable	(17,103)	(26,831)
Inventories	1,391	(914)
Prepaid expenses	(86,679)	(72,590)
Accounts payable and accrued liabilities	124,883	(172,284)
Deferred revenue	250	(5,550)
Due to related parties	(483,701)	1,072,612
Grants payable	88,261	252,401
	<hr/>	<hr/>
	(1,370,004)	816,300
Investing activities		
Change in restricted cash	988,732	(966,871)
Purchase of investments	(6,103,501)	(4,252,290)
Proceeds from sale of investments	6,040,990	3,482,579
	<hr/>	<hr/>
	926,221	(1,736,582)
Decrease in cash during the year	(443,783)	(920,282)
Cash – Beginning of year	506,693	1,426,975
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Cash – End of year	62,910	506,693
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The accompanying notes are an integral part of these financial statements.

Covenant Foundation

Notes to Financial Statements

March 31, 2023

1 Purpose of the organization

The Minister of Health approved the formation of Covenant Foundation (the Foundation) effective April 1, 2016.

The Foundation is a registered charitable organization that functions as the official fundraising arm for 21 acute and long-term care sites in Alberta. These facilities are included in the operations of Covenant Health, Covenant Living and Covenant Care. Covenant Health, Covenant Living and Covenant Care are operators of health facilities and programs in the Province of Alberta.

The Foundation is governed by an appointed Board of Directors. Its principal purpose is to receive gifts and raise funds to provide grants to the supported facilities. The Foundation supports capital equipment, programs, projects and services related to acute and continuing care, which go beyond publicly funded health-care programs and services. Grants to Covenant Health, Covenant Care and Covenant Living must support the mission and values of Covenant Health, Covenant Living and Covenant Care.

The Foundation is exempt from payment of income taxes. Under the terms of the Income Tax Act (Canada), the Foundation is required to annually disburse amounts of at least 3.5% of the value of its assets that are not used directly in its charitable programs or their administration. Failure to meet the minimum level of required disbursements during a year may result in the revoking of the Foundation's charitable status. The Foundation has complied with all disbursement level requirements.

2 Summary of significant accounting policies

The Foundation has prepared these financial statements in accordance with Canadian accounting standards for not-for-profit organizations. The following are the significant accounting policies.

Fund accounting

These financial statements have been prepared using the restricted fund method of accounting for contributions. The following funds have been established for financial reporting purposes:

- Donor restricted fund

Donor restricted revenue consists of donations and special events, the proceeds of which must be used in accordance with the wishes of the donor or the terms of the fundraising licence. Donor restricted expenses consist of costs directly related to earning donor restricted revenue. A portion of the net investment income earned on the donor endowment fund is included in the donor restricted fund to be used for purposes specified by the donors.

- Donor endowment fund

Donor endowment revenue consists of donations where the amount donated must be maintained in perpetuity. A portion of the net investment income earned on the donor endowment fund is included in the donor restricted fund to be used for purposes specified by the donors. Any remaining net investment income is included in the donor endowment fund for distribution in future years. Net investment income includes realized investment earnings, as well as changes in unrealized investment gains and losses.

Covenant Foundation

Notes to Financial Statements

March 31, 2023

- Unrestricted fund

Unrestricted revenue consists of donations, grants and special events that have not been designated as endowments or donor restricted revenue. Unrestricted expenses include costs directly related to earning unrestricted revenue and administration costs. Net investment income earned on non-endowment funds is reflected in the unrestricted fund. Net investment income includes realized investment earnings, as well as changes in unrealized investment gains and losses.

Revenue recognition

Unrestricted contributions are recognized as revenue of the unrestricted fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue of the donor restricted and donor endowment funds when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Cash

Cash consists of cash on hand and deposits with financial institutions.

Contributed goods and services

Other assets, supplies and service contributions that would otherwise have been purchased are recorded as revenue and expenses, at fair value at the date of contribution, when a fair value can be reasonably determined.

Volunteers contribute a significant amount of time each year to assist the Foundation in carrying out its programs and services. However, the contributed services of the volunteers are not recognized as revenue and expenses in these financial statements because their fair value cannot be reasonably determined.

Financial instruments

Financial instruments consist of cash, restricted cash, accounts receivable, insurance policies, investments, accounts payable and accrued liabilities, due to related parties and grants payable. Cash, restricted cash, accounts receivable, insurance policies, investments, accounts payable and accrued liabilities and grants payable are initially recorded at fair value, and due to related parties recorded at cost. Investments are subsequently measured at fair value, with changes in fair value recorded in the statement of operations and changes in net assets. All other financial instruments are subsequently recorded at amortized cost.

The initial fair value of financial instruments, other than those subsequently measured at fair value, is adjusted for financing fees or transaction costs directly attributable to the origination of the instrument. The Foundation accounts for the purchase and sale of investments using settlement date accounting.

Covenant Foundation

Notes to Financial Statements

March 31, 2023

Inventories

Inventories are valued at the lower of cost and replacement cost.

Insurance policies

Insurance policies are recorded at the cash surrender value.

Grants payable

The Foundation records grant expense at the time the related grant application is approved.

Measurement uncertainty

Because the precise determination of certain assets, liabilities, revenue and expenses is dependent on future events, the preparation of these financial statements necessarily includes the use of estimates and approximations, which have been made using careful judgment. Actual results could differ from those estimates.

3 Restricted cash

External restrictions are placed on cash usage by the Alberta Gaming and Liquor Commission and will be disbursed within 24 months. The Foundation intends to disburse the funds within the next fiscal year.

4 Investments

	2023 \$	2022 \$
Money market (cost – \$794,602; 2022 – \$835,910)	794,867	832,904
Fixed income securities (cost – \$17,483,681; 2022 – \$15,554,767)	15,618,955	14,162,443
Equities (cost – \$12,464,658; 2022 – \$13,368,522)	20,430,407	23,649,012
Alternative investments (cost – \$1,612,972; 2022 – \$1,663,136)	2,336,777	2,296,152
	<u>39,181,006</u>	<u>40,940,511</u>

Alternative investments consist of redeemable trust units in a private client infrastructure portfolio that holds a number of infrastructure investments. As the underlying investments are generally not marketable securities, fair value is based primarily on a discounted cash flow analysis for the underlying projects. This introduces price risk to the valuation of these investments, since the valuation methods require estimates and inputs that are specific to the underlying project.

Income and financial returns are exposed to credit and price risks. Credit risk relates to the possibility a loss may occur from failure by another party to perform according to the terms of the contract. The Foundation is exposed to credit risk on investments and has established an investment policy with required minimum credit quality standards to manage this risk. Price risk comprises interest rate risk and market risk. Interest rate risk relates to the possibility investments will change in value with future fluctuations in market interest rates.

Covenant Foundation

Notes to Financial Statements

March 31, 2023

The Foundation is subject to market risk with its investments recorded at fair value. Accordingly, the values of these financial instruments will fluctuate as a result of changes in market prices, market conditions or factors affecting the fair value of the investments. Should the value of the financial instruments decrease significantly, the Foundation could incur material losses on disposal of the investments.

5 Government remittances

Government remittances consist of amounts such as sales taxes and payroll withholding taxes required to be paid to government authorities and are recognized when the amounts come due. Government remittances of \$14,060 (2022 – \$8,331) are included in accounts payable and accrued liabilities.

6 Related parties

Covenant Health

Covenant Health is a related party as it is responsible for appointing the Board of Directors of Covenant Foundation and, as such, controls the Foundation.

During the year, grants of \$2,051 (2022 – \$1,952) were received by the Foundation from Covenant Health. Grants of \$2,145,176 (2022 – \$2,378,215), net of expired commitments, were committed to Covenant Health by the Foundation.

As at March 31, 2023, \$916,856 (2022 – \$1,406,197) is due to Covenant Health for net reimbursement of disbursements related to approved grants and operating expenses.

Included as administrative support revenue and expenses in the financial statements is an estimate of the value of administrative support and office space received by the Foundation from Covenant Health of \$282,570 (2022 – \$275,070).

The amount due to Covenant Health is non-interest bearing and will be settled on a current basis.

Covenant Care and Covenant Living

Covenant Care and Covenant Living are controlled by Covenant Health and, as a result, are considered related parties to the Foundation.

During the year, grants of \$nil (2022 – \$66) were received by the Foundation from Covenant Care. Grants of \$83,118 (2022 – \$174,262) net of expired commitments were committed to Covenant Care and grants of \$28,425 (2022 – \$12,641), net of expired commitments, were committed to Covenant Living by the Foundation.

As at March 31, 2023, \$14,082 (2022 – \$629) is due to Covenant Living for grants payable to the facility, and \$13,040 (2022 – \$20,715) is due to Covenant Care.

Covenant Foundation

Notes to Financial Statements

March 31, 2023

Affiliate Foundations

The Foundation has responsibility for appointing the Board of Directors of various foundations and, as such, controls these foundations. These foundations raise funds to benefit Covenant Health and are registered charities under the Income Tax Act (Canada). The foundations are not consolidated in these financial statements.

The financial summary of the foundations as at March 31 and for the years then ended are as follows (amounts in thousands of dollars):

	2023			2022		
	Assets \$	Liabilities \$	Net assets \$	Assets \$	Liabilities \$	Net assets \$
Mary Immaculate Hospital (Mundare) Foundation	92	6	86	100	8	92
Our Lady of the Rosary Hospital Foundation	765	17	748	773	5	768
St. Mary's Hospital, Camrose Foundation	6,217	19	6,198	6,332	10	6,322
St. Mary's Trochu Foundation	1,492	7	1,485	1,522	3	1,519
Killam & District Health Care Foundation	551	12	539	595	17	578
Bonnyville Health Foundation	1,311	237	1,074	1,256	56	1,200
	<u>10,428</u>	<u>298</u>	<u>10,130</u>	<u>10,578</u>	<u>99</u>	<u>10,479</u>

	2023			2022		
	Revenue \$	Expenses \$	Deficiency \$	Revenue \$	Expenses \$	Excess (deficiency) \$
Mary Immaculate Hospital (Mundare) Foundation	18	24	(6)	23	145	(122)
Our Lady of the Rosary Hospital Foundation	24	44	(20)	30	54	(24)
St. Mary's Hospital, Camrose Foundation	80	205	(125)	402	152	250
St. Mary's Trochu Foundation	39	74	(35)	115	61	54
Killam & District Health Care Foundation	52	91	(39)	42	34	8
Bonnyville Health Foundation	266	392	(126)	251	283	(32)
	<u>479</u>	<u>830</u>	<u>(351)</u>	<u>863</u>	<u>729</u>	<u>134</u>

As at March 31, 2023, \$138 (2022 – \$nil) is due from related foundations.

Covenant Foundation

Notes to Financial Statements

March 31, 2023

7 Grants payable

The Foundation has committed grants to Covenant Health that become payable and are classified as due to Covenant Health, on verification of the related disbursement made by Covenant Health.

	2023 \$	2022 \$
Grants payable – Beginning of year	5,340,287	5,087,886
Expired commitments	(345,956)	(859,992)
Grants issued during the year	2,614,075	3,391,438
Grants paid during the year	(2,179,858)	(2,279,045)
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Grants payable – End of year	5,428,548	5,340,287

8 Donor restricted fund

Donor restricted fund is restricted for the support of operational and capital needs of Covenant Health, Covenant Care and Covenant Living programs as follows:

	2023 \$	2022 \$
Continuing care	14,283,768	14,503,634
Inpatient	3,648,766	4,775,107
Facility enhancements	2,730,893	2,734,062
Other	781,757	1,026,229
Outpatient	740,734	712,027
Emergency services	(1,793,824)	(1,793,019)
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	20,392,094	21,958,040

9 Investment income

	2023 \$	2022 \$
Realized gain	871,067	1,421,591
Interest and dividends	1,258,191	1,067,868
Income distribution	145,224	113,928
Foreign income	118,993	101,716
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	2,393,475	2,705,103

Covenant Foundation

Notes to Financial Statements

March 31, 2023

10 Fundraising

The Foundation is required to provide additional information to comply with the disclosure requirements of the Charitable Fundraising Act and Regulation. In the current year, \$406,949 (2022 – \$442,263) was paid to employees whose principal duties involve fundraising. Fundraising fees of \$248,776 (2022 – \$211,214) were paid to a fundraising business.

11 Commitments and pledges

The Foundation has a \$1,600,000 commitment to purchase a home for the home lotteries. As at March 31, 2023, \$830,750 of the purchase price is included in prepaid expenses and the remaining commitment outstanding is \$769,250.

The Foundation has received pledges of \$410,000 (2022 – \$474,000) from donors, which have not been recognized as revenue at year-end. Payment of the amounts pledged is expected to be received by the Foundation as follows:

	\$
2024	130,000
2025	130,000
2026	125,000
Thereafter	25,000