

Covenant Foundation

Financial Statements

March 31, 2022



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, 2022 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, 2022;
- 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, excess of revenue over expenses and cash provided by operating activities for the years ended March 31, 2022 and 2021, current assets as at March 31, 2022 and 2021 and net assets as at the beginning and the end of the years ended March 31, 2022 and 2021. Our audit opinion on the financial statements for the year ended March 31, 2021 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.

PricewaterhouseCoopers LLP
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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 23, 2022

Covenant Foundation
Statement of Financial Position
As at March 31, 2022

	2022 \$	2021 \$
Assets		
Current assets		
Cash	506,693	1,426,975
Restricted cash (note 3)	2,076,167	1,109,296
Accounts receivable	264,043	237,212
Inventories	36,052	35,138
Prepaid expenses	966,050	893,460
	<u>3,849,005</u>	<u>3,702,081</u>
Insurance policies	93,552	92,415
Investments (note 4)	<u>40,940,511</u>	<u>38,382,735</u>
	<u>44,883,068</u>	<u>42,177,231</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	229,774	402,058
Deferred revenue	508	6,058
Due to related parties (note 6)	1,427,541	354,929
Grants payable (note 7)	5,340,287	5,087,886
	<u>6,998,110</u>	<u>5,850,931</u>
Net Assets		
Donor restricted fund (note 8)	21,958,040	21,673,597
Unrestricted fund	6,324,409	5,291,654
Donor endowment fund	<u>9,602,509</u>	<u>9,361,049</u>
	<u>37,884,958</u>	<u>36,326,300</u>
	<u>44,883,068</u>	<u>42,177,231</u>

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, 2022

				2022	2021
	Donor restricted fund \$	Unrestricted fund \$	Donor endowment fund \$	Total \$	Total \$
Revenue					
Home lotteries	5,047,885	7,295	-	5,055,180	5,541,725
Investment income (note 9)	513,820	2,047,201	144,082	2,705,103	1,408,989
Charitable donations and fundraising projects	1,715,265	346,938	8,000	2,070,203	1,907,487
Grants	839,929	19,047	-	858,976	1,046,842
Administrative support (note 6)	-	275,070	-	275,070	261,570
Other revenue	10,147	-	-	10,147	6,103
	<u>8,127,046</u>	<u>2,695,551</u>	<u>152,082</u>	<u>10,974,679</u>	<u>10,172,716</u>
Expenses					
Home lotteries	5,359,903	-	-	5,359,903	5,180,039
Grants to related parties (note 6)	2,362,892	202,226	-	2,565,118	1,717,059
Administration	46,024	943,712	-	989,736	885,799
Charitable donations and fundraising projects – direct costs	63,471	484,278	-	547,749	582,848
Administrative support (note 6)	-	275,070	-	275,070	261,570
Grants – direct costs	-	34,606	-	34,606	106,045
Grants to other	10,313	-	-	10,313	7,143
	<u>7,842,603</u>	<u>1,939,892</u>	<u>-</u>	<u>9,782,495</u>	<u>8,740,503</u>
Excess of revenue over expenses for the year before fair value adjustments	284,443	755,659	152,082	1,192,184	1,432,213
Unrealized gain	-	277,096	89,378	366,474	5,793,330
Excess of revenue over expenses for the year	284,443	1,032,755	241,460	1,558,658	7,225,543
Net assets – Beginning of year	<u>21,673,597</u>	<u>5,291,654</u>	<u>9,361,049</u>	<u>36,326,300</u>	<u>29,100,757</u>
Net assets – End 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>

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

Covenant Foundation

Statement of Cash Flows

For the year ended March 31, 2022

	2022 \$	2021 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	1,558,658	7,225,543
Items not affecting cash		
Increase in cash surrender value of insurance policies	(1,137)	(2,445)
Realized gain	(1,421,591)	(217,241)
Unrealized gain	(366,474)	(5,793,330)
	<hr/>	<hr/>
	(230,544)	1,212,527
Net change in non-cash working capital items		
Accounts receivable	(26,831)	58,870
Inventories	(914)	(8,413)
Prepaid expenses	(72,590)	274,625
Accounts payable and accrued liabilities	(172,284)	1,144
Deferred revenue	(5,550)	390
Due to related parties	1,072,612	(959,273)
Grants payable	252,401	(124,401)
	<hr/>	<hr/>
	816,300	455,469
Investing activities		
Change in restricted cash	(966,871)	895,427
Purchase of investments	(4,252,290)	(2,874,243)
Proceeds from sale of investments	3,482,579	2,211,178
	<hr/>	<hr/>
	(1,736,582)	232,362
(Decrease) increase in cash during the year	(920,282)	687,831
Cash – Beginning of year	1,426,975	739,144
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Cash – End of year	506,693	1,426,975
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Covenant Foundation

Notes to Financial Statements

March 31, 2022

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.

Covenant Foundation

Notes to Financial Statements

March 31, 2022

- 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.

- 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 and are initially recorded at fair value, other than due to related parties, which is initially 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.

Covenant Foundation

Notes to Financial Statements

March 31, 2022

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.

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.

Summary of changes in accounting policies

Effective April 1, 2021, the Foundation adopted amendments to Section 3856 from the standards of the Chartered Professional Accountants Handbook, Part III – Accounting for Not-for-Profit Organizations, Financial Instruments (Section 3856). The amendment related to the initial recognition and subsequent measurement of financial instruments originated and acquired, issued, and assumed, in a related party transaction.

The Foundation's related party financial instruments are measured at cost, as defined by Section 3856, less reduction for impairment where applicable. This amendment was applied retrospectively, with simplified transition provisions, in accordance with Section 3856. The revision of accounting policy did not have an impact on the carrying values of the Foundation's related party financial instruments.

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.

Covenant Foundation

Notes to Financial Statements

March 31, 2022

4 Investments

	2022 \$	2021 \$
Money market (cost – \$835,910; 2021 – \$871,859)	832,904	871,449
Fixed income securities (cost – \$15,554,767; 2021 – \$13,962,736)	14,162,443	13,498,103
Equities (cost – \$13,368,522; 2021 – \$13,258,642)	23,649,012	22,325,993
Alternative investments (cost – \$1,663,136; 2021 – \$1,137,786)	2,296,152	1,687,190
	<u>40,940,511</u>	<u>38,382,735</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.

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 \$8,331 (2021 – \$24,246) 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 \$1,952 (2021 – \$5,784) were received by the Foundation from Covenant Health. Grants of \$2,378,215 (2021 – \$1,687,005), net of expired commitments, were committed to Covenant Health by the Foundation. During the year, grants of \$nil (2021 – \$55,731) were reimbursed by Covenant Health to the Foundation.

Covenant Foundation

Notes to Financial Statements

March 31, 2022

As at March 31, 2022, \$1,406,197 (2021 – \$352,166) 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 \$275,070 (2021 – \$261,570).

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 \$66 (2021 – \$nil) were received by the Foundation from Covenant Care. Grants of \$174,262 (2021 – \$20,164) net of expired commitments were committed to Covenant Care and grants of \$12,641 (2021 – \$9,890), net of expired commitments, were committed to Covenant Living by the Foundation.

As at March 31, 2022, \$629 (2021 – \$3,490) is due to Covenant Living for grants payable to the facility, and \$20,715 (2021 – \$nil) is due to Covenant Care.

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):

	2022			2021		
	Assets \$	Liabilities \$	Net assets \$	Assets \$	Liabilities \$	Net assets \$
Mary Immaculate Hospital (Mundare) Foundation	100	8	92	389	175	214
Our Lady of the Rosary Hospital Foundation	773	5	768	795	3	792
St. Mary's Hospital, Camrose Foundation	6,332	10	6,322	6,086	14	6,072
St. Mary's Trochu Foundation	1,522	3	1,519	1,467	2	1,465
Killam & District Health Care Foundation	595	17	578	574	4	570
Bonnyville Health Foundation	1,256	56	1,200	1,348	116	1,232
	10,578	99	10,479	10,659	314	10,345

Covenant Foundation
Notes to Financial Statements
March 31, 2022

	2022			2021		
	Revenue \$	Expenses \$	Excess (deficiency) \$	Revenue \$	Expenses \$	Excess (deficiency) \$
Mary Immaculate Hospital (Mundare) Foundation	23	145	(122)	77	180	(103)
Our Lady of the Rosary Hospital Foundation	30	54	(24)	102	49	53
St. Mary's Hospital, Camrose Foundation	402	152	250	1,541	161	1,380
St. Mary's Trochu Foundation	115	61	54	291	16	275
Killam & District Health Care Foundation	42	34	8	207	201	6
Bonnyville Health Foundation	251	283	(32)	291	233	58
	<u>863</u>	<u>729</u>	<u>134</u>	<u>2,509</u>	<u>840</u>	<u>1,669</u>

As at March 31, 2022, \$nil (2021 – \$727) is due from related foundations.

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.

	2022 \$	2021 \$
Grants payable – Beginning of year	5,087,886	5,212,287
Expired commitments	(859,992)	(414,124)
Grants issued during the year	3,391,438	2,138,326
Grants paid during the year	<u>(2,279,045)</u>	<u>(1,848,603)</u>
Grants payable – End of year	<u>5,340,287</u>	<u>5,087,886</u>

Covenant Foundation

Notes to Financial Statements

March 31, 2022

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:

	2022 \$	2021 \$
Continuing care	14,503,634	14,897,038
Inpatient	4,775,107	5,078,699
Facility enhancements	2,734,062	2,359,116
Other	1,026,229	759,870
Outpatient	712,027	612,684
Emergency services	(1,793,019)	(2,033,810)
	<u>21,958,040</u>	<u>21,673,597</u>

9 Investment income

	2022 \$	2021 \$
Realized gain	1,421,591	217,241
Interest and dividends	1,067,868	1,088,917
Income distribution	113,928	-
Foreign income	101,716	102,831
	<u>2,705,103</u>	<u>1,408,989</u>

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, \$442,263 (2021 – \$461,277) was paid to employees whose principal duties involve fundraising. Fundraising fees of \$211,214 (2021 – \$199,648) 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, 2022, \$835,600 of the purchase price is included in prepaid expenses and the remaining commitment outstanding is \$764,400.

Covenant Foundation

Notes to Financial Statements

March 31, 2022

The Foundation has received pledges of \$474,000 (2021 – \$1,245,000) 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:

	\$
2023	244,000
2024	110,000
2025	110,000
Thereafter	10,000