

Covenant Foundation

Financial Statements

**From April 1, 2016, the date of
commencement of operations, to March 31,
2017**



June 29, 2017

Independent Auditor's Report

To the Board of Directors of Covenant Foundation

We have audited the accompanying financial statements of Covenant Foundation, which comprise the statement of financial position as at March 31, 2017 and the statements of operations 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.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

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Basis for qualified opinion

In common with many not-for-profit organizations, Covenant Foundation derives revenues from donations and other fundraising projects, 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 Covenant Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to charitable donations and other fundraising projects revenues, excess (deficiency) of revenue over expenses and cash flows from operations for the year ended March 31, 2017, current assets as at March 31, 2017 and net assets as at March 31, 2017.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Covenant Foundation as at March 31, 2017 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

Covenant Foundation
Statement of Financial Position
As at March 31, 2017

	March 31, 2017 \$	April 1, 2016 \$
Assets		
Current assets		
Cash (note 3)	4,582,710	4,961,675
Accounts receivable	163,549	292,455
Inventories	75,469	42,847
Prepaid expenses	334,373	153,816
	<u>5,516,101</u>	<u>5,450,793</u>
Insurance policies	131,481	127,868
Investments (note 4)	32,062,568	35,135,216
	<u>37,350,150</u>	<u>40,713,877</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	281,714	177,575
Deferred revenue	35,626	43,000
Due to Covenant Health (note 6)	1,220,594	3,028,874
Grants payable (note 7)	3,449,849	5,470,234
Loan payable (note 8)	56,411	51,882
	<u>5,044,194</u>	<u>8,771,565</u>
Net Assets		
Donor Restricted Fund (note 9)	22,071,729	23,809,768
Unrestricted Fund	1,356,576	-
Donor Endowment Fund	8,877,651	8,132,544
	<u>32,305,956</u>	<u>31,942,312</u>
	<u>37,350,150</u>	<u>40,713,877</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, 2017

	Donor Restricted Fund \$	Unrestricted Fund \$	Donor Endowment Fund \$	Total \$
Revenue				
Home lotteries	5,506,104	-	-	5,506,104
Charitable donations and fundraising projects	1,063,333	479,953	8,700	1,551,986
Grants	1,495,281	48,147	134,000	1,677,428
Other revenue	47,908	2,344	-	50,252
Investment income (note 4)	93,222	2,323,068	611,339	3,027,629
Administrative support (note 6)	-	275,400	-	275,400
	<u>8,205,848</u>	<u>3,128,912</u>	<u>754,039</u>	<u>12,088,799</u>
Expenses				
Home lotteries	5,018,777	116,585	-	5,135,362
Grants to Covenant Health	4,699,114	1,724	-	4,700,838
Charitable donations and fundraising projects – direct costs	166,074	216,115	-	382,189
Grants	-	48,312	-	48,312
Administration	59,922	1,114,200	8,932	1,183,054
Administrative support (note 6)	-	275,400	-	275,400
	<u>9,943,887</u>	<u>1,772,336</u>	<u>8,932</u>	<u>11,725,155</u>
Excess (deficiency) of revenue over expenses for the year	(1,738,039)	1,356,576	745,107	363,644
Net assets – transferred on April 1, 2016	<u>23,809,768</u>	<u>-</u>	<u>8,132,544</u>	<u>31,942,312</u>
Net assets – End of year	<u>22,071,729</u>	<u>1,356,576</u>	<u>8,877,651</u>	<u>32,305,956</u>

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

Covenant Foundation
Statement of Cash Flows
For the year ended March 31, 2017

	\$
Cash provided by (used in)	
Operating activities	
Excess of revenue over expenses for the year	363,644
Items not affecting cash	
Life insurance premium funded by loan	4,529
Increase in cash surrender value of insurance policies	(3,613)
Gift-in-kind donations not yet granted	(37,446)
Change in fair value of investments (note 4)	<u>(1,923,519)</u>
	(1,596,405)
Net change in non-cash working capital items	
Accounts receivable	128,906
Inventories	4,824
Prepaid expenses	(180,557)
Accounts payable and accrued liabilities	104,139
Deferred revenue	(7,374)
Due to Covenant Health	(1,808,280)
Grants payable	<u>(2,020,385)</u>
	<u>(5,375,132)</u>
Investing activities	
Purchase of investments	(2,439,814)
Sale of investments	<u>7,435,981</u>
	<u>4,996,167</u>
Decrease in cash during the year	(378,965)
Cash – Beginning of year	<u>4,961,675</u>
Cash – End of year	<u><u>4,582,710</u></u>

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

Covenant Foundation

Notes to Financial Statements

March 31, 2017

1 Purpose of the organization

The Minister of Health approved the formation of Covenant Foundation (the Foundation) effective April 1, 2016. The following foundations entered into an Asset and Liability Transfer Agreement with Covenant Foundation to transfer their respective assets and liabilities to Covenant Foundation:

- St. Joseph's Auxiliary Hospital Foundation
- Misericordia Hospital Foundation and The General Hospital (Grey Nuns) of Edmonton Hospital Foundation, together, the Caritas Hospitals Foundation
- Banff Mineral Springs Hospital Foundation
- St. Joseph's General Hospital Foundation

The Foundation is a registered charitable organization, which functions as the official fundraising arm for seventeen 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 is an operator 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 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, 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 financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The following are the significant accounting policies.

Fund accounting and revenue recognition

The Foundation follows the restricted fund method of accounting for contributions. The funds used are as follows:

- 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 revenues. 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, 2017

- **Unrestricted Fund**

Unrestricted revenue consists of donations and special events, which 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.

- **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 Donor Endowment Funds 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.

Financial instruments

Financial instruments consist of cash, accounts receivable, insurance policies, investments, accounts payable and accrued liabilities, due to Covenant Health, grants payable and loan payable and are initially recorded at fair value. 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.

Cash

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

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.

Covenant Foundation
Notes to Financial Statements
March 31, 2017

Contributed 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.

3 Cash

	March 31, 2017	April 1, 2016
	\$	\$
Cash	1,737,120	3,823,952
Cash – externally restricted	2,845,590	1,137,723
	<u>4,582,710</u>	<u>4,961,675</u>

External restrictions are placed on cash usage by the Alberta Gaming and Liquor Commission (AGLC) and will be disbursed within 24 months.

4 Investments

	March 31, 2017	April 1, 2016
	\$	\$
Money market	1,221,420	1,206,135
Fixed income	13,546,426	18,509,087
Equities	17,294,722	15,419,994
	<u>32,062,568</u>	<u>35,135,216</u>

Income and financial returns are exposed to credit and price risks. Credit risk relates to the possibility that a loss may occur from failure by another party to perform according to the terms of the contract. Price risk comprises interest rate risk and market risk. Interest rate risk relates to the possibility that investments will change in value with future fluctuations in market interest rates. Market risk relates to the possibility that investments will change in value due to future fluctuations in market prices.

Covenant Foundation
Notes to Financial Statements
March 31, 2017

Investment income consists of:

	\$
Realized investment income	1,104,110
Change in fair value of investments	<u>1,923,519</u>
	<u>3,027,629</u>

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 are due. Government remittances of \$39,969 (April 1, 2016 – \$34,359) are included within accounts payable and accrued liabilities.

6 Due to Covenant Health

The Board of Directors of Covenant Health has responsibility for appointing the Board of Directors of the Foundation, and as such, exerts control over the Foundation.

During the year, grants of \$691,220 were received by the Foundation from Covenant Health.

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 \$275,400.

	March 31, 2017	April 1, 2016
	\$	\$
Due to Covenant Health for net reimbursement of disbursements related to approved grants and operating expenses	<u>1,220,594</u>	<u>3,028,874</u>

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

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.

	\$
Grants payable – Beginning of year	5,470,234
Expired commitments	(151,394)
Grants issued during the year	4,852,232
Grants paid during the year	<u>(6,721,223)</u>
Grants payable – End of year	<u>3,449,849</u>

Covenant Foundation

Notes to Financial Statements

March 31, 2017

8 Loan payable

The loan payable is due on demand and is secured by the cash surrender value of one insurance policy.

9 Donor restricted net assets

Donor restricted net assets are restricted for the support of operational and capital needs of Covenant Health, Covenant Care and Covenant Living programs as follows:

	March 31, 2017 \$	April 1, 2016 \$
Covenant Health programs		
Inpatient	177,686	167
Facility enhancements	2,911,543	3,443,103
Continuing care	18,356,933	19,227,306
Outpatient	260,450	863,776
Emergency services	55,450	65,579
Other	309,667	209,837
	<u>22,071,729</u>	<u>23,809,768</u>

10 Grants from Associates of Caritas

The Associates of Caritas (the AOC), formerly the Caritas Volunteer Association, was created on April 1, 1995 by combining the volunteer networks of the Grey Nuns, Edmonton General and Misericordia Hospital Volunteer Associations.

The AOC is an arm's length organization that is governed by its own Board of Directors. The AOC generates revenue to complement and support the activities of Covenant Health for the enhancement of patient care and comfort. The AOC donates funds to the Foundation with direction as to how the funds are to be disbursed to the Covenant Health hospital sites.

11 Additional information to comply with the disclosure requirements of the Charitable Fundraising Act and Regulation

In the current year, \$390,782 was paid to employees whose principal duties involve fundraising. Fundraising fees of \$214,982 were paid to a fundraising business.

Covenant Foundation
Notes to Financial Statements
March 31, 2017

12 Related parties

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. 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 is as follows (amounts in thousands of dollars):

(amounts in thousands of dollars)	2017			2016		
	Assets \$	Liabilities \$	Net assets \$	Assets \$	Liabilities \$	Net assets \$
Mary Immaculate Hospital (Mundare) Foundation	359	8	351	406	10	396
Our Lady of the Rosary Hospital Foundation	790	18	772	820	34	786
St. Mary's Hospital, Camrose Foundation	5,192	79	5,113	4,829	81	4,748
St. Mary's Trochu Foundation	1,040	26	1,014	966	3	963
St. Michael's Health Centre Foundation	473	20	453	237	38	199
Killam & District Health Care Foundation	953	3	950	858	2	856
The Bonnyville Health Foundation*	1,553	264	1,289	1,633	376	1,257
	<u>10,360</u>	<u>418</u>	<u>9,942</u>	<u>9,749</u>	<u>544</u>	<u>9,205</u>

*In the prior year, the Bonnyville Health Foundation changed its year-end from June 30 to March 31. Amounts as at March 31, 2016 represent financial information for the nine-month period then ended.

Covenant Foundation
Notes to Financial Statements
March 31, 2017

(amounts in thousands of dollars)	2017			2016		
	Revenue \$	Expenses \$	Excess (deficiency) \$	Revenue \$	Expenses \$	Excess (deficiency) \$
Mary Immaculate Hospital (Mundare) Foundation	37	82	(45)	14	27	(13)
Our Lady of the Rosary Hospital Foundation	45	59	(14)	55	77	(22)
St. Mary's Hospital, Camrose Foundation	498	132	366	160	226	(66)
St. Mary's Trochu Foundation	209	158	51	133	88	45
St. Michael's Health Centre Foundation	621	357	264	350	302	48
Killam & District Health Care Foundation	120	26	94	107	25	82
The Bonnyville Health Foundation*	546	514	32	561	694	(133)
	<u>2,076</u>	<u>1,328</u>	<u>748</u>	<u>1,380</u>	<u>1,439</u>	<u>(59)</u>

*During the year, the Bonnyville Health Foundation changed its year-end from June 30 to March 31. Amounts as at March 31, 2016 represent financial information for the nine-month period then ended.

13 Subsequent event

The Minister of Health has approved Covenant Health as the successor of St. Michael's Health Centre Foundation. St. Michael's Health Centre Foundation has entered into an Asset and Liability Transfer Agreement with Covenant Health to transfer its assets and liabilities to Covenant Foundation effective April 1, 2017.