

Covenant Foundation

Financial Statements
March 31, 2018



June 28, 2018

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, 2018 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, 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 revenues over expenses for the years ended March 31, 2018 and March 31, 2017, current assets as at March 31, 2018 and March 31, 2017 and net assets as at the beginning and the end of the years ended March 31, 2018 and March 31, 2017. Our audit opinion on the financial statements for the year ended March 31, 2017 was also modified 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 financial statements present fairly, in all material respects, the financial position of Covenant Foundation as at March 31, 2018 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, 2018

	2018 \$	2017 \$
Assets		
Current assets		
Cash (note 3)	3,958,533	4,582,710
Accounts receivable	168,013	163,549
Inventories	32,997	75,469
Prepaid expenses	463,454	334,373
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	4,622,997	5,156,101
Insurance policies	148,545	131,481
Investments (note 4)	33,588,506	32,062,568
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	38,360,048	37,350,150
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	492,271	281,714
Deferred revenue	20,000	35,626
Due to Covenant Health (note 6)	1,258,889	1,220,594
Due to related parties (note 7)	15,035	-
Grants payable (note 8)	6,876,150	3,449,849
Loan payable (note 9)	64,257	56,411
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	8,726,602	5,044,194
Net Assets		
Donor Restricted Fund (note 10)	19,056,506	22,071,729
Unrestricted Fund	1,653,916	1,356,576
Donor Endowment Fund	8,923,024	8,877,651
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	29,633,446	32,305,956
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	38,360,048	37,350,150

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, 2018

				2018	2017
	Donor Restricted Fund \$	Unrestricted Fund \$	Donor Endowment Fund \$	Total \$	Total \$
Revenue					
Home lotteries	5,207,730	-	-	5,207,730	5,506,104
Charitable donations and fundraising projects	1,176,182	439,476	10,000	1,625,658	1,551,986
Grants	1,415,355	105,749	-	1,521,104	1,677,428
Other revenue	38,314	80	-	38,394	50,252
Investment income (note 11)	391,841	1,128,717	35,373	1,555,931	3,027,629
Administrative support (note 6)	-	231,000	-	231,000	275,400
	8,229,422	1,905,022	45,373	10,179,817	12,088,799
Expenses					
Home lotteries	4,951,161	31,281	-	4,982,442	5,135,362
Grants to Covenant Health (note 6)	6,247,080	-	-	6,247,080	4,700,838
Charitable donations and fundraising projects – direct costs	440,163	159,157	-	599,320	382,189
Grants	-	44,608	-	44,608	48,312
Administration	59,402	1,141,636	-	1,201,038	1,183,054
Administrative support (note 6)	-	231,000	-	231,000	275,400
	11,697,806	1,607,682	-	13,305,488	11,725,155
Excess (deficiency) of revenue over expenses for the year	(3,468,384)	297,340	45,373	(3,125,671)	363,644
Net assets – Beginning of year	22,071,729	1,356,576	8,877,651	32,305,956	31,942,312
Asset and liability transfer agreement – St. Michael’s Health Centre Foundation (note 13)	453,161	-	-	453,161	-
Net assets – End of year	19,056,506	1,653,916	8,923,024	29,633,446	32,305,956

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

Covenant Foundation

Statement of Cash Flows

For the year ended March 31, 2018

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
(Deficiency) excess of revenue over expenses for the year	(3,125,671)	363,644
Items not affecting cash		
Life insurance premium funded by loan	7,846	4,529
Increase in cash surrender value of insurance policies	(17,064)	(3,613)
Gift-in-kind donations not yet granted	(18,220)	(37,446)
Unrealized loss (gain) (note 11)	194,790	(1,923,519)
Non-cash investment income	(287,899)	-
Asset and liability transfer agreement (note 13)	442,192	-
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	(2,804,026)	(1,596,405)
Net change in non-cash working capital items		
Accounts receivable	(53)	128,906
Inventories	60,692	4,824
Prepaid expenses	(128,081)	(180,557)
Accounts payable and accrued liabilities	190,924	104,139
Deferred revenue	(15,626)	(7,374)
Due to Covenant Health	52,901	(1,808,280)
Due to related parties	14,715	-
Grants payable	3,426,301	(2,020,385)
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	797,747	(5,375,132)
Investing activities		
Purchase of investments	(3,056,088)	(2,439,814)
Sale of investments	1,634,164	7,435,981
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	(1,421,924)	4,996,167
Decrease in cash during the year	(624,177)	(378,965)
Cash – Beginning of year	4,582,710	4,961,675
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Cash – End of year	3,958,533	4,582,710
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The accompanying notes are an integral part of these financial statements.

Covenant Foundation

Notes to Financial Statements

March 31, 2018

1 Purpose of the organization

The Minister of Health approved the formation of Covenant Foundation (the Foundation) effective April 1, 2016. St. Michael's Health Centre Foundation entered into an Asset and Liability Transfer Agreement with Covenant Foundation to transfer its respective assets and liabilities to Covenant Foundation effective April 1, 2017 (note 13).

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 to Covenant Health 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 Foundation has prepared these financial statements in accordance with Canadian accounting standards for not-for-profit organization. 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 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, 2018

- 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.

- Unrestricted Fund

Unrestricted revenue consists of donations, grants 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.

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, accounts receivable, insurance policies, investments, accounts payable and accrued liabilities, due to Covenant Health, due to related parties, 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.

Covenant Foundation

Notes to Financial Statements

March 31, 2018

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.

3 Cash

	2018 \$	2017 \$
Cash	1,898,753	1,737,120
Cash – externally restricted	2,059,780	2,845,590
	<u>3,958,533</u>	<u>4,582,710</u>

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

	2018 \$	2017 \$
Money market (cost – \$1,339,024; 2017 – \$1,223,346)	1,336,825	1,221,420
Fixed income securities (cost – \$15,539,459; 2017 – \$13,762,989)	15,139,796	13,546,426
Equities (cost – \$12,483,861; 2017 – \$12,655,646)	17,111,885	17,294,722
	<u>33,588,506</u>	<u>32,062,568</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, 2018

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 \$12,252 (2017 – \$39,969) are included in accounts payable and accrued liabilities.

6 Due to 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 \$207,255 (2017 – \$691,220) were received by the Foundation from Covenant Health. Grants of \$6,247,080 (2017 – \$4,700,838) were committed to Covenant Health by the Foundation.

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 \$231,000 (2017 – \$275,400).

	2018 \$	2017 \$
Due to Covenant Health for net reimbursement of disbursements related to approved grants and operating expenses	1,258,889	1,220,594

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

7 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 are as follows (amounts in thousands of dollars):

Covenant Foundation
Notes to Financial Statements
March 31, 2018

(amounts in thousands of dollars)	2018			2017		
	Assets	Liabilities	Net assets	Assets	Liabilities	Net assets
	\$	\$	\$	\$	\$	\$
Mary Immaculate Hospital (Mundare) Foundation	341	5	336	359	8	351
Our Lady of the Rosary Hospital Foundation	753	3	750	790	18	772
St. Mary's Hospital, Camrose Foundation	5,089	377	4,712	5,192	79	5,113
St. Mary's Trochu Foundation	947	9	938	1,040	26	1,014
St. Michael's Health Centre Foundation (note 13)	-	-	-	473	20	453
Killam & District Health Care Foundation	978	3	975	953	3	950
Bonnyville Health Foundation	1,454	82	1,372	1,565	276	1,289
	9,562	479	9,083	10,372	430	9,942

(amounts in thousands of dollars)	2018			2017		
	Revenue	Expenses	Excess (deficiency)	Revenue	Expenses	Excess (deficiency)
	\$	\$	\$	\$	\$	\$
Mary Immaculate Hospital (Mundare) Foundation (note 14)	6	22	(16)	37	82	(45)
Our Lady of the Rosary Hospital Foundation	29	50	(21)	45	59	(14)
St. Mary's Hospital, Camrose Foundation	363	763	(400)	498	132	366
St. Mary's Trochu Foundation	29	105	(76)	209	158	51
St. Michael's Health Centre Foundation (note 13)	-	-	-	621	357	264
Killam & District Health Care Foundation	112	87	25	120	26	94
Bonnyville Health Foundation	518	434	84	566	535	3
	1,057	1,461	(404)	2,096	1,349	747

As at March 31, 2018, \$15,035 (2017 - \$nil) was payable to related foundations and other related parties.

Covenant Foundation

Notes to Financial Statements

March 31, 2018

8 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.

	2018 \$	2017 \$
Grants payable – Beginning of year	3,449,849	5,470,234
Expired commitments	(137,989)	(151,394)
Grants issued during the year	6,360,863	4,852,232
Grants paid during the year	<u>(2,796,573)</u>	<u>(6,721,223)</u>
Grants payable – End of year	<u>6,876,150</u>	<u>3,449,849</u>

9 Loan payable

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

10 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:

	2018 \$	2017 \$
Inpatient	473,653	177,686
Facility enhancements	2,660,274	2,911,543
Continuing care	15,313,878	18,356,933
Outpatient	78,939	260,450
Emergency services	147,470	55,450
Other	<u>382,292</u>	<u>309,667</u>
	<u>19,056,506</u>	<u>22,071,729</u>

11 Investment income

	2018 \$	2017 \$
Interest and dividends	737,294	724,217
Foreign income	141,150	138,840
Realized gain	872,277	241,053
Unrealized (loss) gain	<u>(194,790)</u>	<u>1,923,519</u>
	<u>1,555,931</u>	<u>3,027,629</u>

Covenant Foundation

Notes to Financial Statements

March 31, 2018

12 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, \$411,124 (2017 – \$390,782) was paid to employees whose principal duties involve fundraising. Fundraising fees of \$372,347 (2017 – \$214,982) were paid to a fundraising business.

13 Asset and liability transfer agreement

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. The book value of the assets and liabilities transferred as at April 1, 2017 are as follows:

	\$
Cash	442,192
Accounts receivable	4,411
Prepaid expenses	1,000
Due from related parties	14,606
Investments	10,905
Accounts payable	(19,633)
Due to related parties	(320)
Net assets	<u>453,161</u>