

Covenant Foundation

Financial Statements

March 31, 2019



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 Entity) as at March 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Entity's financial statements comprise:

- the statement of financial position as at March 31, 2019;
- 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 a summary of significant accounting policies.

Basis for qualified opinion

In common with many not-for-profit organizations, the Entity 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 Entity. Therefore, we were not able to determine whether any adjustments might be necessary to charitable donations and fundraising projects revenue and excess (deficiency) of revenue over expenses and cash flows from operating activities for the years ended March 31, 2019 and 2018, current assets as at March 31, 2019 and 2018 and net assets as at the beginning and the end of the years ended March 31, 2019 and 2018. Our audit opinion on the financial statements for the year ended March 31, 2018 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 Entity 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity 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 27, 2019

Covenant Foundation
Statement of Financial Position
As at March 31, 2019

	2019 \$	2018 \$
Assets		
Current assets		
Cash (note 3)	3,852,408	3,958,533
Accounts receivable	103,861	168,013
Inventories	28,139	32,997
Prepaid expenses	851,482	463,454
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	4,835,890	4,622,997
Insurance policies	159,807	148,545
Investments (note 4)	33,576,996	33,588,506
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	38,572,693	38,360,048
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	406,910	443,863
Deferred revenue	31,030	20,000
Due to related parties (note 6)	824,119	1,273,924
Grants payable (note 7)	6,887,746	6,924,558
Loan payable (note 8)	72,159	64,257
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	8,221,964	8,726,602
Net Assets		
Donor Restricted Fund (note 9)	18,897,636	19,056,506
Unrestricted Fund	2,380,377	1,653,916
Donor Endowment Fund	9,072,716	8,923,024
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	30,350,729	29,633,446
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	38,572,693	38,360,048

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, 2019

				2019	2018
	Donor Restricted Fund \$	Unrestricted Fund \$	Donor Endowment Fund \$	Total \$	Total \$
Revenue					
Home lotteries	5,360,770	-	-	5,360,770	5,202,177
Investment income (note 10)	400,008	1,493,846	144,692	2,038,546	1,563,006
Charitable donations and fundraising projects	1,101,396	495,326	5,000	1,601,722	1,631,211
Grants	493,836	89,812	-	583,648	1,521,104
Administrative support (note 6)	-	260,500	-	260,500	231,000
Other revenue	25,213	-	-	25,213	31,319
	7,381,223	2,339,484	149,692	9,870,399	10,179,817
Expenses					
Home lotteries	5,151,834	83,997	-	5,235,831	4,979,291
Grants to related parties (note 6)	1,872,406	-	-	1,872,406	6,034,799
Charitable donations and fundraising projects – direct costs	464,393	432,847	-	897,240	907,823
Administration	34,859	786,733	-	821,592	895,686
Administrative support (note 6)	-	260,500	-	260,500	231,000
Grants – direct costs	-	48,946	-	48,946	44,608
Grants to other	16,601	-	-	16,601	212,281
	7,540,093	1,613,023	-	9,153,116	13,305,488
Excess (deficiency) of revenue over expenses for the year	(158,870)	726,461	149,692	717,283	(3,125,671)
Net assets – Beginning of year	19,056,506	1,653,916	8,923,024	29,633,446	32,305,956
Consolidation – St. Michael’s Health Centre Foundation (note 12)	-	-	-	-	453,161
Net assets – End of year	18,897,636	2,380,377	9,072,716	30,350,729	29,633,446

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

Covenant Foundation

Statement of Cash Flows

For the year ended March 31, 2019

	2019 \$	2018 \$
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	717,283	(3,125,671)
Items not affecting cash		
Life insurance premium funded by loan	7,902	7,846
Increase in cash surrender value of insurance policies	(11,262)	(17,064)
Gift-in-kind donations not yet granted	(3,737)	(18,220)
Unrealized (gain) loss (note 10)	(345,670)	194,790
Asset and liability transfer agreement (note 12)	-	442,192
	364,516	(2,516,127)
Net change in non-cash working capital items		
Accounts receivable	64,152	(53)
Inventories	8,595	60,692
Prepaid expenses	(388,028)	(128,081)
Accounts payable and accrued liabilities	(36,953)	142,516
Deferred revenue	11,030	(15,626)
Due to related parties	(449,805)	67,616
Grants payable	(36,812)	3,474,709
	(463,305)	1,085,646
Investing activities		
Purchase of investments	(3,259,011)	(3,370,532)
Sale of investments	3,616,191	1,660,709
	357,180	(1,709,823)
Decrease in cash during the year	(106,125)	(624,177)
Cash – Beginning of year	3,958,533	4,582,710
Cash – End of year	3,852,408	3,958,533

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

Covenant Foundation

Notes to Financial Statements

March 31, 2019

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 12).

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, 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 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 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, 2019

- 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, 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 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, 2019

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

	2019 \$	2018 \$
Cash	1,562,608	1,898,503
Cash – externally restricted	2,289,800	2,060,030
	<u>3,852,408</u>	<u>3,958,533</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

	2019 \$	2018 \$
Money market (cost – \$1,056,979; 2018 – \$1,339,024)	1,055,208	1,336,825
Fixed income securities (cost – \$14,715,438; 2018 – \$15,215,791)	14,367,672	14,513,654
Equities (cost – \$12,750,901; 2018 – \$12,483,861)	17,331,166	17,111,885
Alternative investments (cost – \$481,674; 2018 – \$323,668)	822,950	626,142
	<u>33,576,996</u>	<u>33,588,506</u>

Alternative investments consist of redeemable trust units in a private client infrastructure portfolio, which 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.

Covenant Foundation

Notes to Financial Statements

March 31, 2019

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. 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. Market risk relates to the possibility investments will change in value due to future fluctuations in market prices.

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 \$18,523 (2018 – \$12,252) are included in accounts payable and accrued liabilities.

6 Due to related parties

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 \$10,998 (2018 – \$207,255) were received by the Foundation from Covenant Health. Grants of \$1,524,952 (2018 – \$5,933,652) net of expired commitments were committed to Covenant Health by the Foundation.

As at March 31, 2019, \$768,618 (2018 – \$1,258,889) 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 \$260,500 (2018 – \$231,000).

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

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 \$362,099 (2018 – \$17,333) net of expired commitments were committed to Covenant Care and grants of \$710 (2018 – \$83,814) were committed to Covenant Living by the Foundation. Grants of \$15,355 (2018 – \$nil) to Covenant Living expired during the year.

As at March 31, 2019, \$58,683 (2018 – \$15,700) is due to Covenant Care for grants payable to the facility and \$820 (2018 – \$320) is due to Covenant Living for grants payable to the facility.

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.

Covenant Foundation
Notes to Financial Statements
March 31, 2019

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

	2019			2018		
	Assets \$	Liabilities \$	Net assets \$	Assets \$	Liabilities \$	Net assets \$
(amounts in thousands of dollars)						
Mary Immaculate Hospital (Mundare) Foundation	397	92	305	341	5	336
Our Lady of the Rosary Hospital Foundation	757	20	737	753	3	750
St. Mary's Hospital, Camrose Foundation	4,639	45	4,594	5,089	377	4,712
St. Mary's Trochu Foundation	1,338	49	1,289	947	9	938
Killam & District Health Care Foundation	1,011	3	1,008	978	3	975
Bonnyville Health Foundation	1,538	161	1,377	1,454	82	1,372
	<u>9,680</u>	<u>370</u>	<u>9,310</u>	<u>9,562</u>	<u>479</u>	<u>9,083</u>

	2019			2018		
	Revenue \$	Expenses \$	Excess (deficiency) \$	Revenue \$	Expenses \$	Excess (deficiency) \$
(amounts in thousands of dollars)						
Mary Immaculate Hospital (Mundare) Foundation	75	106	(31)	6	22	(16)
Our Lady of the Rosary Hospital Foundation	58	71	(13)	29	50	(21)
St. Mary's Hospital, Camrose Foundation	342	461	(119)	363	763	(400)
St. Mary's Trochu Foundation	460	109	351	29	105	(76)
Killam & District Health Care Foundation	86	53	33	112	87	25
Bonnyville Health Foundation	434	428	6	518	434	84
	<u>1,455</u>	<u>1,228</u>	<u>227</u>	<u>1,057</u>	<u>1,461</u>	<u>(404)</u>

As at March 31, 2019, \$4,002 (2018 – \$985) is due from related foundations.

Covenant Foundation

Notes to Financial Statements

March 31, 2019

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.

	2019 \$	2018 \$
Grants payable – Beginning of year	6,924,558	3,449,849
Expired commitments	(850,996)	(113,782)
Grants issued during the year	2,740,003	6,360,863
Grants paid during the year	(1,925,819)	(2,772,372)
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Grants payable – End of year	6,887,746	6,924,558

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:

	2019 \$	2018 \$
Continuing care	15,616,483	15,313,878
Facility enhancements	1,852,099	2,660,274
Inpatient	874,199	473,653
Outpatient	294,403	78,939
Other	174,870	382,292
Emergency services	85,582	147,470
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	18,897,636	19,056,506

10 Investment income

	2019 \$	2018 \$
Realized gain	858,372	872,277
Interest and dividends	698,185	744,369
Unrealized gain (loss)	345,670	(194,790)
Foreign income	136,319	141,150
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	2,038,546	1,563,006

Covenant Foundation

Notes to Financial Statements

March 31, 2019

11 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, \$298,488 (2018 – \$411,124) was paid to employees whose principal duties involve fundraising. Fundraising fees of \$219,839 (2018 – \$372,347) were paid to a fundraising business.

12 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 Foundation 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	<u>(320)</u>
Net assets	<u>453,161</u>

13 Comparative amounts

Certain figures presented for comparative purposes have been reclassified to conform to the current year's financial statement presentation.