

Caritas Hospitals Foundation

Combined Financial Statements
March 31, 2016



July 11, 2016

Independent Auditor's Report

**To the Trustees of
Misericordia Hospital Foundation and
The General Hospital (Grey Nuns) of
Edmonton Hospital Foundation (collectively, the Caritas Hospitals Foundation)**

We have audited the accompanying combined financial statements of the Caritas Hospitals Foundation, which comprise the combined statement of financial position as at March 31, 2016 and the combined 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 combined financial statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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, the Caritas Hospitals Foundation derives revenue 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 the Caritas Hospitals Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to donations and other fundraising projects revenue, deficiency of revenue over expenses for the years ended March 31, 2016 and March 31, 2015, current assets as at March 31, 2016 and March 31, 2015 and net assets as at the beginning and the end of the years ended March 31, 2016 and March 31, 2015. Our audit opinion on the combined financial statements for the year ended March 31, 2015 was modified accordingly 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 combined financial statements present fairly, in all material respects, the financial position of the Caritas Hospitals Foundation as at March 31, 2016 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

Caritas Hospitals Foundation
 Combined Statement of Financial Position
 As at March 31, 2016

| | 2016 \$ | 2015 \$ |
|--|-------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash (note 3) | 2,909,386 | 3,267,028 |
| Accounts receivable | 291,978 | 260,630 |
| Inventories | 42,847 | 35,118 |
| Prepaid expenses | 153,817 | 165,491 |
| | <u>3,398,028</u> | <u>3,728,267</u> |
| Insurance policies | 127,868 | 120,851 |
| Investments (note 4) | <u>35,135,216</u> | <u>35,232,068</u> |
| | <u>38,661,112</u> | <u>39,081,186</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 169,580 | 131,191 |
| Deferred revenue | 43,000 | 46,290 |
| Due to Covenant Health (note 6) | 2,805,643 | 2,471,640 |
| Grants payable (note 7) | 5,470,235 | 4,679,950 |
| Loan payable (note 8) | 51,882 | 45,418 |
| Due to The Edmonton Chamber of Commerce (note 9) | - | 43,902 |
| | <u>8,540,340</u> | <u>7,418,391</u> |
| Net Assets | | |
| Donor Restricted Fund (note 10) | 7,915,679 | 8,410,980 |
| Unrestricted Fund | 3,428,595 | 3,784,506 |
| Donor Endowment Fund | 8,132,544 | 8,235,467 |
| Internally Restricted Fund | <u>10,643,954</u> | <u>11,231,842</u> |
| | <u>30,120,772</u> | <u>31,662,795</u> |
| | <u>38,661,112</u> | <u>39,081,186</u> |

Approved by the Board of Trustees

_____ Trustee

_____ Trustee

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

Caritas Hospitals Foundation

Combined Statement of Operations and Changes in Net Assets

For the year ended March 31, 2016

| | | | | | 2016 | 2015 |
|---|-----------------------------------|----------------------------|----------------------------------|--|-------------|-------------|
| | Donor Restricted Fund \$ | Unrestricted Fund \$ | Donor Endowment Fund \$ | Internally Restricted Fund \$ | Total \$ | Total \$ |
| Revenue | | | | | | |
| Home lotteries | 4,784,696 | - | - | - | 4,784,696 | 5,159,159 |
| Charitable donations | 540,123 | 384,901 | 5,600 | - | 930,624 | 1,721,018 |
| Grants from Associates of Caritas (note 11) | 360,000 | - | - | - | 360,000 | 200,000 |
| Other fundraising projects (schedule) | 129,515 | 222,648 | - | - | 352,163 | 498,490 |
| Grants | 705,385 | 274,935 | 1,219 | - | 981,539 | 59,258 |
| Other revenue | - | 40,500 | - | - | 40,500 | 4,410 |
| Investment income (note 4) | 190,741 | 486,990 | (179,926) | (587,888) | (90,083) | 3,401,222 |
| Administrative support (note 6) | - | 244,500 | - | - | 244,500 | 231,500 |
| | 6,710,460 | 1,654,474 | (173,107) | (587,888) | 7,603,939 | 11,275,057 |
| Expenses | | | | | | |
| Home lotteries | 4,992,476 | 127,599 | - | - | 5,120,075 | 4,781,708 |
| Grants to Covenant Health | 2,445,681 | 18,381 | (76,492) | - | 2,387,570 | 5,122,615 |
| Charitable donations – direct costs | - | 179,389 | - | - | 179,389 | 204,481 |
| Other fundraising projects (schedule) | 66,108 | 151,121 | - | - | 217,229 | 164,316 |
| Grants | - | - | - | - | - | 43,782 |
| Administration | 36,380 | 954,511 | 6,308 | - | 997,199 | 839,554 |
| Administrative support (note 6) | - | 244,500 | - | - | 244,500 | 231,500 |
| | 7,540,645 | 1,675,501 | (70,184) | - | 9,145,962 | 11,387,956 |
| Deficiency of revenue over expenses for the year | (830,185) | (21,027) | (102,923) | (587,888) | (1,542,023) | (112,899) |
| Net assets – Beginning of year | 8,410,980 | 3,784,506 | 8,235,467 | 11,231,842 | 31,662,795 | 31,775,694 |
| Interfund transfer (note 12) | 334,884 | (334,884) | - | - | - | - |
| Net assets – End of year | 7,915,679 | 3,428,595 | 8,132,544 | 10,643,954 | 30,120,772 | 31,662,795 |

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

Caritas Hospitals Foundation

Combined Statement of Cash Flows

For the year ended March 31, 2016

| | 2016 \$ | 2015 \$ |
|--|-------------|-------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Deficiency of revenue over expenses for the year | (1,542,023) | (112,899) |
| Item not affecting cash | | |
| Change in fair value of investments (note 4) | 1,730,247 | (891,561) |
| | <hr/> | <hr/> |
| | 188,224 | (1,004,460) |
| Net change in non-cash working capital items | | |
| Accounts receivable | (31,348) | (228) |
| Inventories | (7,729) | 2,494 |
| Prepaid expenses | (7,017) | (12,574) |
| Insurance policies | 11,674 | (3,387) |
| Accounts payable and accrued liabilities | 38,389 | 29,867 |
| Deferred revenue | (3,290) | (20,410) |
| Due to Covenant Health | 334,003 | 384,027 |
| Grants payable | 790,285 | 4,679,950 |
| Loan payable | 6,464 | 3,503 |
| | <hr/> | <hr/> |
| | 1,319,655 | 4,058,782 |
| Investing activities | | |
| Purchase of investments – net | (1,633,395) | (5,000,435) |
| Repayment of debt | (43,902) | - |
| | <hr/> | <hr/> |
| | (1,677,297) | (5,000,435) |
| Decrease in cash during the year | (357,642) | (941,653) |
| Cash – Beginning of year | 3,267,028 | 4,208,681 |
| | <hr/> | <hr/> |
| Cash – End of year | 2,909,386 | 3,267,028 |
| | <hr/> | <hr/> |

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

1 Purpose of the organization

Caritas Hospitals Foundation (the Foundation), is comprised of The General Hospital (Grey Nuns) of Edmonton Hospital Foundation, incorporated under The General Hospital (Grey Nuns) of Edmonton Hospital Act Chapter 99, on April 7, 1954, and the Misericordia Hospital Foundation, incorporated under the Misericordia Hospital Act Chapter 95, on April 11, 1967.

The Foundation is a registered charitable organization, which functions as the official fundraising arm of the Grey Nuns Community Hospital, Misericordia Community Hospital, and the Edmonton General Continuing Care Centre. These three facilities are included in the operations of Covenant Health. Covenant Health is an operator of voluntary health facilities and programs in the Province of Alberta.

The Foundation is governed by an appointed Board of Trustees. Its principal purpose is to receive gifts and raise funds to provide donations to the Grey Nuns Community Hospital, Misericordia Community Hospital, and the Edmonton General Continuing Care Centre. 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. Donations to Covenant Health must support the values of Covenant Health, centres of excellence and innovation.

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 combined financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. 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.

Caritas Hospitals Foundation

Notes to Combined Financial Statements

March 31, 2016

- 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.

- Internally Restricted Fund

Internally restricted revenue consists of funds restricted by the Board. Use of the funds requires approval by the Board. Net investment income earned on assets of the Internally Restricted Fund is included in the Internally Restricted Fund and/or the Unrestricted Fund, as determined by the needs of the Foundation. 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 combined 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.

Inventories

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

Caritas Hospitals Foundation
Notes to Combined Financial Statements
March 31, 2016

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.

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 combined financial statements because fair value cannot be reasonably determined.

3 Cash

| | 2016 | 2015 |
|-----------------------------|------------------|------------------|
| | \$ | \$ |
| Cash | 1,771,663 | 2,574,040 |
| Cash, externally restricted | 1,137,723 | 692,988 |
| | <u>2,909,386</u> | <u>3,267,028</u> |

External restrictions are placed on cash usage by the Alberta Gaming and Liquor Commission (AGLC).

4 Investments

| | 2016 | 2015 |
|--------------|-------------------|-------------------|
| | \$ | \$ |
| Money market | 1,206,135 | 1,017,810 |
| Fixed income | 18,509,087 | 18,031,729 |
| Equities | 15,419,994 | 16,182,529 |
| | <u>35,135,216</u> | <u>35,232,068</u> |

Caritas Hospitals Foundation
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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.

In order to earn optimal financial returns at an acceptable level of risk, the Board has established a policy asset mix for endowment funds of 30% to 70% for fixed income instruments and 30% to 70% for equities, and for non-endowment investment funds of 50% to 90% of fixed income instruments and 10% to 50% for equities.

Equities are comprised of approximately 53% domestic and 47% foreign stocks. Investments are administered on behalf of the Foundation by an investment management firm.

Investment income consists of:

| | 2016 | 2015 |
|-------------------------------------|-----------------|------------------|
| | \$ | \$ |
| Realized investment income | 1,640,164 | 2,509,661 |
| Change in fair value of investments | (1,730,247) | 891,561 |
| | <u>(90,083)</u> | <u>3,401,222</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 \$34,359 (2015 – \$31,949) 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 Trustees of the Foundation and as such, exerts control over the Foundation.

Included as administrative support revenue and expenses in the combined financial statements is an estimate of the value of administrative support and office space received by the Foundation from Covenant Health of \$244,500 (2015 – \$231,500).

| | 2016 | 2015 |
|--|------------------|------------------|
| | \$ | \$ |
| Due to Covenant Health for reimbursement of disbursements related to approved grants | <u>2,805,643</u> | <u>2,471,640</u> |

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

Caritas Hospitals Foundation
Notes to Combined Financial Statements
March 31, 2016

7 Grants payable

The Foundation has committed grants to Covenant Health that become payable on verification of the related disbursement made by Covenant Health.

| | 2016 \$ | 2015 \$ |
|------------------------------------|------------------|------------------|
| Grants payable – Beginning of year | 4,679,950 | - |
| Expired commitments | (695,714) | - |
| Grants issued during the year | 3,053,416 | 5,078,587 |
| Grants paid during the year | (1,567,417) | (398,637) |
| | <hr/> | <hr/> |
| Grants payable – End of year | <u>5,470,235</u> | <u>4,679,950</u> |

8 Loan payable

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

9 Due to The Edmonton Chamber of Commerce

| | 2016 \$ | 2015 \$ |
|--|------------|------------|
| Amount due to The Edmonton Chamber of Commerce | - | 43,902 |
| Less: Current portion | - | 43,902 |
| | <hr/> | <hr/> |
| | - | - |

The amount due to The Edmonton Chamber of Commerce for the purchase of an ornamental light display is non-interest bearing and unsecured. The amount was paid in full in the current year.

10 Donor restricted net assets

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

| | 2016 \$ | 2015 \$ |
|----------------------------------|------------------|------------------|
| Covenant Health programs | | |
| Inpatient | 609,382 | 1,692,756 |
| Caritas Continuing Care building | 3,000,280 | 3,017,691 |
| Continuing care | 2,223,030 | 1,899,608 |
| Outpatient | 1,956,647 | 1,679,559 |
| Emergency services | 16,273 | 15,874 |
| Other | 110,067 | 105,492 |
| | <hr/> | <hr/> |
| | <u>7,915,679</u> | <u>8,410,980</u> |

Caritas Hospitals Foundation

Notes to Combined Financial Statements

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11 Grants from Associates of Caritas

The Associates of Caritas (the AOC), formerly the Caritas Volunteer Association, was created 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. If unspent, the amount will be repaid to the AOC in the calendar year 2016.

12 Interfund transfer

In the year, \$334,884 was transferred from the Unrestricted Fund to the Donor Restricted Fund to offset the loss incurred in the home lottery.

13 Additional information to comply with the disclosure requirement of the Charitable Fundraising Act and Regulation

In the current year, \$341,974 (2015 – \$363,137) was paid to employees whose principal duties involve fundraising. Fundraising fees of \$232,805 (2014 – \$110,170) were paid to a fundraising business.

14 Subsequent events

The Minister of Health has approved the formation of Covenant Foundation effective April 1, 2016. The following foundations will each enter 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

Caritas Hospitals Foundation

Combined Schedule of Special Events Revenue and Expenses

For the year ended March 31, 2016

| | | | 2016 | 2015 | | |
|-----------------------|----------------|----------------|----------------|----------------|---------------|---------------|
| | Revenue | Expenses | Net | Net | Donor | Un- |
| | \$ | \$ | \$ | \$ | restricted | restricted |
| | | | | | \$ | \$ |
| Special events | | | | | | |
| EAW Golf Tournament | 225,148 | 142,939 | 82,209 | 100,785 | 1,174 | 81,035 |
| Casino | 4,228 | 74 | 4,154 | 160,004 | 4,154 | - |
| Caritas Staff Lottery | 122,787 | 74,216 | 48,571 | 73,385 | 58,079 | (9,508) |
| | <u>352,163</u> | <u>217,229</u> | <u>134,934</u> | <u>334,174</u> | <u>63,407</u> | <u>71,527</u> |