

Financial Statements

Compassion House Foundation

February 28, 2019

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Independent auditor's report

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To the Board of Directors of Compassion House Foundation

Qualified Opinion

We have audited the financial statements of Compassion House Foundation (the "Foundation"), which comprise the statement of financial position as at February 28, 2019, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 Compassion House Foundation as at February 28, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Foundation derives revenue from fundraising activities, 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 Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended February 28, 2019 and 2018, current assets as at February 28, 2019 and 2018, and net assets as at March 1 and February 28 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended February 28, 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 are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statement

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.

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.

Edmonton, Canada
June 21, 2019


Chartered Professional Accountants

Compassion House Foundation

Statement of Operations

Year ended February 28

2019 2018

	<u>General</u>	Sorrentino's Compassion <u>House</u>	<u>Total</u>	<u>Total</u>
Revenues				
Fashion show (Note 9)	\$ 588,046	\$ -	\$ 588,046	\$ 571,789
Sustainability fund contributions	-	9,700	9,700	19,000
Amortization of deferred capital contributions (Note 7)	93,600	-	93,600	93,600
Donations	132,338	-	132,338	108,196
Special events	173,111	-	173,111	208,920
Casino and raffle	-	115,126	115,126	26,282
Net investment income (Note 8)	128,613	-	128,613	137,087
In-kind donations	25,396	-	25,396	18,567
Accommodation fees	-	129,340	129,340	118,575
	<u>1,141,104</u>	<u>254,166</u>	<u>1,395,270</u>	<u>1,302,016</u>
Direct expenses				
Fashion show	351,845	-	351,845	383,164
Special events	17,215	-	17,215	22,778
In-kind donations	25,396	-	25,396	18,591
	<u>394,456</u>	<u>-</u>	<u>394,456</u>	<u>424,533</u>
Operating expenses				
Accounting	51,960	-	51,960	20,931
Advertising	22,495	-	22,495	21,472
Amortization	-	159,364	159,364	170,089
Bank charges	3,449	3,449	6,898	7,402
Business license	2,045	-	2,045	230
Computer maintenance	17,340	17,340	34,680	27,198
Education and training	-	6,364	6,364	21,396
Insurance	-	17,570	17,570	14,025
Meetings	7,236	-	7,236	4,031
Office and sundry	4,465	4,465	8,930	9,308
Postage and courier	2,605	2,605	5,210	2,034
Professional fees	38,001	38,001	76,002	46,162
Programs and community relations	3,419	14,535	17,954	15,227
Repairs and maintenance	-	142,563	142,563	119,869
Salaries and benefits	310,619	207,079	517,698	434,831
Supplies	-	13,589	13,589	18,415
Telephone and utilities	-	40,643	40,643	33,133
Travel	759	-	759	1,399
Volunteer recognition	820	-	820	3,823
	<u>465,213</u>	<u>667,567</u>	<u>1,132,780</u>	<u>970,975</u>
(Deficiency) excess of revenues over expenses	<u>\$ 281,435</u>	<u>\$ (413,401)</u>	<u>\$ (131,966)</u>	<u>\$ (93,492)</u>

See accompanying notes to the financial statements.

Compassion House Foundation

Statement of Changes in Net Assets

Year ended February 28

2019

2018

	<u>General</u>	Investment in tangible capital assets (Note 10)	Internally restricted sustainability fund (Note 11)	<u>Total</u>	<u>Total</u>
Balance, beginning of year	\$ 3,220,855	\$ 1,128,592	\$ 2,127,674	\$ 6,477,121	\$ 6,570,613
(Deficiency) excess of revenues over expenses	(66,202)	(65,764)	-	(131,966)	(93,492)
Transfer to internally restricted fund (Note 11)	(9,700)	-	9,700	-	-
Transfer to investment in tangible capital asset fund (Note 10)	<u>(434,914)</u>	<u>434,914</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 2,710,039</u>	<u>\$ 1,497,742</u>	<u>\$ 2,137,374</u>	<u>\$ 6,345,155</u>	<u>\$ 6,477,121</u>

See accompanying notes to the financial statements.

Compassion House Foundation

Statement of Financial Position

As at February 28

2019

2018

Assets

Current

Cash	\$ 177,530	\$ 176,812
Short-term marketable securities (Note 4)	4,745,419	5,440,452
Accounts receivable	-	3,400
Goods and services tax recoverable	11,747	11,110
Prepays and term deposits	<u>7,118</u>	<u>5,510</u>
	4,941,814	5,637,284

Long-term marketable securities (Note 4)

250,000

-

Tangible capital assets (Note 5)

4,523,183

4,247,633

\$ 9,714,997

\$ 9,884,917

Liabilities

Current

Accounts payable and accruals	\$ 50,527	\$ 46,220
Deferred contributions (Note 6)	293,871	242,532
Deferred capital contributions (Note 7)	<u>3,025,444</u>	<u>3,119,044</u>
	<u>3,369,842</u>	<u>3,407,796</u>

Net assets

General fund - unrestricted

2,710,039

3,220,855

Investment in tangible capital assets (Note 10)

1,497,742

1,128,592

Internally restricted (Note 11)

2,137,374

2,127,674

6,345,155

6,477,121

\$ 9,714,997

\$ 9,884,917

On behalf of the Board

_____ Director

_____ Director

Compassion House Foundation

Statement of Cash Flows

Year ended February 28

Increase (decrease) in cash and cash equivalents	2019	2018
Operating		
(Deficiency) excess of revenues over expenses	\$ (131,966)	\$ (93,492)
Amortization of tangible capital assets	159,364	170,089
Amortization of capital contributions	(93,600)	(93,600)
Realized gain on sale of marketable securities	(5,306)	(6,381)
Unrealized gain on changes in fair value of marketable securities	<u>(1,892)</u>	<u>(10,411)</u>
	(73,400)	(33,795)
Change in non-cash operating working capital:		
Accounts receivable	3,400	4,650
Goods and services tax recoverable	(637)	(43)
Prepays	(1,607)	(50)
Accounts payable and accruals	4,305	4,494
Deferred contributions	<u>51,339</u>	<u>1,842</u>
	(16,600)	(22,902)
Investing		
Purchase of marketable securities	(920,217)	(3,495,902)
Proceeds from sale of marketable securities	1,372,449	3,373,615
Purchase of tangible capital assets	(434,914)	(14,656)
(Increase) decrease in restricted cash	<u>(5,307)</u>	<u>10,263</u>
	12,011	(126,681)
Net decrease in cash and cash equivalents	(4,589)	(149,582)
Cash and cash equivalents, beginning of year	<u>89,925</u>	<u>239,507</u>
Cash and cash equivalents, end of year	\$ 85,336	\$ 89,925

Cash consists of the following:

	2019	2018
Cash and cash equivalents	\$ 85,336	\$ 89,925
Restricted casino funds	<u>92,194</u>	<u>86,887</u>
	\$ 177,530	\$ 176,812

Compassion House Foundation

Notes to the Financial Statements

February 28, 2019

1. Purpose of the Foundation

The Compassion House Foundation (the "Foundation") is dedicated to providing accommodation facilities and a sanctuary of care and compassion for cancer patients and their families during treatment and recovery. The Foundation was incorporated under the Societies Act of Alberta as a not-for-profit organization, is a registered charity under the Income Tax Act and is exempt from income taxes.

2. Summary of significant accounting policies

These financial statements are prepared by management in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") and reflect the following significant accounting policies:

Use of estimates and measurement uncertainty

In preparing the Foundation's financial statements in conformity with ASNPO, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant estimates included in these financial statements are the useful lives of tangible capital assets, impairment tests for long-lived assets and fair value of marketable securities.

Allocation of expenses

The Foundation engages in providing accommodation facilities and fundraising. The costs of each program include the costs of personnel, premises and other expenses that are directly related to providing the program. The Foundation also incurs a number of general support expenses that are common to the administration of the Foundation and each of its programs.

The costs incurred for fundraising are included in the general category in the statement of operations. The costs incurred for accommodation facilities are included in the Sorrentino's Compassion House category in the statement of operations.

The Foundation allocates certain of its expenses by identifying the appropriate basis of allocating each component expense, and applies that basis consistently each year. General support expenses are allocated on the following basis:

Amortization – proportionately on the basis of the cost of tangible capital assets within the programs;

Salaries and benefits – on the basis of the number of people employed within the program; and

Remaining operating expenses – on the estimated consumption attributable to the running of the Sorrentino's Compassion House accommodation facility and the fundraising activity of the Foundation.

Compassion House Foundation

Notes to the Financial Statements

February 28, 2019

2. Summary of significant accounting policies (cont'd)

Revenue recognition

The Foundation follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions received for the purchase of capital assets that will be amortized are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Other revenues are recognized as revenue when the related service is performed and when reasonable assurance exists regarding the measurement and collection of the consideration received.

Investment income on marketable securities is recorded as revenue when earned.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash.

Short-term investments which are highly liquid or convertible to cash in less than one year and used to support the operations of the Foundation are included in short-term marketable securities. Investments with an original maturity of greater than one year are included in long-term marketable securities.

The Foundation's definition of investing activities for the statement of cash flows includes short term investments in marketable securities and restricted cash.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rate of exchange at the balance sheet date. Revenues and expenses are translated at the exchange rates prevailing on the transaction dates. The Foundation does not use derivative instruments to mitigate foreign exchange risk.

Financial instruments

Initial measurement:

The Foundation's financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in operations in the year in which they are incurred.

Compassion House Foundation

Notes to the Financial Statements

February 28, 2019

2. Summary of significant accounting policies (cont'd)

Financial instruments (cont'd)

Subsequent measurement:

At each reporting date, the Foundation measures its financial assets and liabilities at cost or amortized cost (less impairment in the case of financial assets), except for equities quoted in an active market, which must be measured at fair value. The Foundation has also irrevocably elected to measure its investments in bonds at fair value. All changes in fair value of the Foundation's investments in equities quoted in an active market and in bonds are recorded in the statement of operations. The Foundation uses the effective interest method to amortize any premiums, discounts, transaction fees and financing fees to the statement of operations. The financial instruments measured at amortized cost are cash, accounts receivable and accounts payable and accruals. The carrying value of financial instruments approximates their fair value due to the short-term nature, unless otherwise noted.

For financial assets measured at cost or amortized cost, the Foundation regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the Foundation determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

Tangible capital assets

Purchased tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded at fair value at the date of contribution, when fair value can be reasonably determined.

The Foundation provides for amortization on all tangible capital assets on a straight-line basis over their estimated useful lives as follows:

Buildings	20 – 40 years
Furnishings	10 years
Landscaping	40 years
Office equipment	5 years
Appliances	10 years
Computer equipment	3 years
Resource material	5 years
Computer software	3 years

Costs are capitalized on buildings which are under development, including all expenditures incurred in connection with the acquisition, development, and construction. Amortization of the asset commences when the building is complete and available for use.

Compassion House Foundation

Notes to the Financial Statements

February 28, 2019

2. Summary of significant accounting policies (cont'd)

Donated materials and contributed services

Donated materials and services are recorded at fair value as determined on the date contributed when the fair value can be reasonably estimated and when the materials and services are normally purchased by the Foundation.

The Foundation is dependent upon the services provided by its volunteers and Board of Directors. Volunteers contributed numerous hours in carrying out the activities of the Foundation. Due to the difficulty in determining their fair value, contributed services are not recognized in the financial statements.

Impairment of long-lived assets

Long lived assets, including tangible capital assets, are reviewed for impairment when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposal. An impairment loss is measured as the amount by which the long lived assets' carrying value exceeds the fair value. This policy did not have any impact for the fiscal year ended February 28, 2019.

3. Financial instrument risks

The Foundation's main financial instrument risk exposure is detailed as follows:

The Foundation holds marketable security investments, which are subject to various risks such as interest rate and market fluctuations as foreign exchange risk. These risks are mitigated by restricting both the type and term of securities eligible for investment. The Foundation is subject to interest rate risk for fair value of future cash flows due to the variable rate applicable to the marketable securities. The Foundation is subject to market price risk on its investment in equities in an active market since changes in market prices could result in changes in the fair value of these investments. The Foundation is subject to currency risk primarily on its marketable securities which are invested in foreign currency investments. Changes in foreign currency rates expose the Foundation to cash flow and fair value risk on those investments.

It is management's opinion that the Foundation is not exposed to significant liquidity risk.

Compassion House Foundation

Notes to the Financial Statements

February 28, 2019

4. Marketable securities

	<u>2019</u>	<u>2018</u>
<u>Short-term</u>		
Templeton Eafe Dev Markets Fund Series O	\$ 536,502	\$ 640,440
Core equity fund	834,353	1,027,823
Canadian bond fund	2,537,093	2,710,344
US rising dividends fund	291,978	272,100
Money market fund	352,456	597,310
FT US core equity fund	<u>193,037</u>	<u>192,435</u>
	<u>\$ 4,745,419</u>	<u>\$ 5,440,452</u>
<u>Long-term</u>		
Guaranteed investment certificates, bearing interest at 2.4% to 2.6%, maturing between April 2, 2020 and April 2, 2021	<u>\$ 250,000</u>	<u>\$ -</u>

The cost of marketable securities is \$4,548,356 (2018 - \$5,176,191).

The fair values of marketable securities are based on quoted market prices and are subject to significant fluctuations in the equity market. Marketable securities in foreign equities of \$485,015 CDN (2018 - \$464,535 CDN) maybe subject to currency risk. Management has responded with a policy of monitoring market values of the investment portfolio as well as portfolio diversification to mitigate the Foundation's exposure to market and foreign currency risk.

The securities are held for purposes of funding future operations of Sorrentino's Compassion House.

5. Tangible capital assets

		<u>Accumulated</u>	<u>2019</u>	<u>2018</u>
	<u>Cost</u>	<u>Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 965,160	\$ -	\$ 965,160	\$ 616,161
Building	4,303,215	779,066	3,524,149	3,560,285
Furnishings	367,563	367,563	-	35,055
Landscaping	30,959	12,645	18,314	19,088
Office equipment	55,845	53,676	2,169	2,329
Vehicles	28,279	28,279	-	-
Appliances	39,861	36,890	2,971	6,957
Computer equipment	25,015	25,015	-	-
Resource material	8,234	8,234	-	-
Computer software	<u>63,518</u>	<u>53,098</u>	<u>10,420</u>	<u>7,758</u>
	<u>\$ 5,887,649</u>	<u>\$ 1,364,466</u>	<u>\$ 4,523,183</u>	<u>\$ 4,247,633</u>

Compassion House Foundation

Notes to the Financial Statements

February 28, 2019

6. Deferred contributions

Deferred contributions represent unspent resources related to funds raised for specific expenditures other than the purchase of tangible capital assets. These funds are recognized as revenue when the related expenditures are incurred.

Changes in deferred contributions are as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 242,532	\$ 240,690
Add: contributions received during the year	130,179	50,000
Less: contribution recognized as revenue	<u>(78,840)</u>	<u>(48,158)</u>
Balance, end of year	<u>\$ 293,871</u>	<u>\$ 242,532</u>

The deferred contributions include the following:

Alberta Liquor and Gaming	\$ 92,194	\$ 70,868
Community van program funding	66,588	66,588
Compassion fund	58,143	42,183
Workshop/retreat funding	<u>76,946</u>	<u>62,893</u>
	<u>\$ 293,871</u>	<u>\$ 242,532</u>

7. Deferred capital contributions

Deferred capital contributions represent amounts received specifically for the purchase of tangible capital assets, including the capital campaign. Contributors to the campaign contribute cash and in-kind donations as well as pledge amounts that are to be received by the Foundation in the future.

Contributions are recorded when received. Pledged amounts represent promised contributions from individuals and corporations. Given that pledged amounts are not legally enforceable claims, they have not been reflected in the financial statements. Outstanding pledges for the sustainability campaign for the year ending February 28, 2019 were \$10,100 (2018 - \$21,000), the total amount of pledges expected to be received within the next five years is \$10,100 (2018 - \$21,000).

Funds are recognized as revenue on the same basis as the amortization expense related to the acquired tangible capital assets. Expenses related to fundraising for the capital campaign are expensed as incurred.

Compassion House Foundation

Notes to the Financial Statements

February 28, 2019

7. Deferred capital contributions (cont'd)

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 3,119,044	\$ 3,212,644
Less: contributions recognized as revenue	<u>(93,600)</u>	<u>(93,600)</u>
Balance, end of year	<u>\$ 3,025,444</u>	<u>\$ 3,119,044</u>

8. Net investment income

	<u>2019</u>	<u>2018</u>
Investment income	\$ 149,917	\$ 151,739
Realized gain on sale of marketable securities	5,306	6,381
Unrealized gain from changes in fair value	1,892	10,411
Investment management fees	<u>(28,502)</u>	<u>(31,444)</u>
	<u>\$ 128,613</u>	<u>\$ 137,087</u>

9. Fashion show

Included in Fashion show revenues are donations of \$128,097 (2018 - \$118,668).

10. Investment in tangible capital assets

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	<u>\$ 1,128,592</u>	<u>\$ 1,190,425</u>
Amortization of tangible capital assets	(159,364)	(170,089)
Amortization of deferred capital contributions	<u>93,600</u>	<u>93,600</u>
Deficiency of revenue over expenses	<u>(65,764)</u>	<u>(76,489)</u>
Other items:		
Acquisition of tangible capital assets	<u>434,914</u>	<u>14,656</u>
Balance, end of year	<u>\$ 1,497,742</u>	<u>\$ 1,128,592</u>

Compassion House Foundation

Notes to the Financial Statements

February 28, 2019

11. Internally restricted sustainability funds

During the year, management and the board of directors internally restricted funds raised in the sustainability fund in the amount of \$9,700 (2018 - \$19,000). These funds will be used to support the operations of the Sorrentino's Compassion House.

	<u>2019</u>	<u>2018</u>
Sustainability fund	<u>\$ 2,137,374</u>	<u>\$ 2,127,674</u>