

Financial Statements

Compassion House Foundation

February 29, 2016

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Independent Auditor's Report

To the Directors of
Compassion House Foundation

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We have audited the accompanying financial statements of Compassion House Foundation (the "Foundation"), which comprise the statement of financial position as at February 29, 2016, and the statements of operations, changes in net assets and cash flows for the year then ended, and 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 Foundation'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 Foundation'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 audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Foundation derives revenue from donations and fundraising, 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 and donation revenues, excess of revenues over expenses, and cash flows from, current assets, and net assets. Our audit opinion on the financial statements for the year ended February 29, 2016 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 financial statements present fairly, in all material respects, the financial position of Compassion House Foundation as at February 29, 2016, and its financial performance, cash flows and changes in net assets for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Edmonton, Canada

June 3, 2016



Chartered Professional Accountants, Chartered Accountants

Compassion House Foundation

Statement of Operations

February 29, February 28,

Year ended

2016

2015

	<u>General</u>	Sorrentino's Compassion <u>House</u>	<u>Total</u>	<u>Total</u>
Revenues				
Fashion show (Note 9)	\$ 606,212	\$ -	\$ 606,212	\$ 752,941
Sustainability fund contributions	-	146,642	146,642	618,354
Amortization of deferred capital contributions (Note 7)	93,556	-	93,556	93,554
Donations	100,105	-	100,105	152,298
Grants	-	-	-	9,325
Special events	49,271	-	49,271	75,180
Casino and raffle	-	34,202	34,202	42,448
Net investment (loss) income (Note 8)	(194,851)	-	(194,851)	400,902
In-kind donations	13,461	-	13,461	13,004
Accommodation fees	-	96,710	96,710	100,230
	<u>667,754</u>	<u>277,554</u>	<u>945,308</u>	<u>2,258,236</u>
Direct expenses				
Fashion show	372,528	-	372,528	401,619
Special events	19,459	-	19,459	4,316
In-kind donations	13,461	-	13,461	13,004
Capital fundraising (Note 7)	-	-	-	83,340
	<u>405,448</u>	<u>-</u>	<u>405,448</u>	<u>502,279</u>
Operating expenses				
Accounting	27,622	-	27,622	35,712
Advertising	10,427	-	10,427	23,033
Amortization	-	166,339	166,339	163,106
Bad debts	-	-	-	25
Bank charges	2,833	2,833	5,666	14,946
Business license	280	-	280	468
Computer maintenance	12,740	12,740	25,480	23,571
Education and training	7,547	-	7,547	8,747
Insurance	2,921	10,792	13,713	12,842
Meetings	4,555	-	4,555	1,703
Office and sundry	16,703	-	16,703	10,317
Postage and courier	3,662	-	3,662	8,109
Professional fees	50,546	-	50,546	19,439
Programs and community relations	16,484	-	16,484	33,379
Repairs and maintenance	-	45,761	45,761	42,293
Salaries and benefits	236,312	104,131	340,443	368,166
Supplies	-	16,298	16,298	14,378
Telephone and utilities	1,104	30,791	31,895	33,424
Travel	1,446	-	1,446	1,086
Volunteer recognition	2,828	-	2,828	4,903
	<u>398,010</u>	<u>389,685</u>	<u>787,695</u>	<u>819,647</u>
(Deficiency) excess of revenues over expenses	\$ (135,704)	\$ (112,131)	\$ (247,835)	\$ 936,310

See accompanying notes to the financial statements.

Compassion House Foundation
Statement of Changes in Net Assets

February 29, February 28,
2016 2015

Year Ended	<u>General</u>	Investment in tangible capital assets (Note 9)	Internally restricted	<u>Total</u>	<u>Total</u>
Balance, beginning of year	\$ 3,178,573	\$ 1,308,561	\$ 1,904,132	\$ 6,391,266	\$ 5,454,956
(Deficiency) excess of revenues over expenses	(175,052)	(72,783)	-	(247,835)	936,310
Transfer to internally restricted fund (Note 11)	(146,642)	-	146,642	-	-
Transfer to investment in tangible capital asset fund (Note 10)	<u>(10,194)</u>	<u>10,194</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 2,846,685</u>	<u>\$ 1,245,972</u>	<u>\$ 2,050,774</u>	<u>\$ 6,143,431</u>	<u>\$ 6,391,266</u>

See accompanying notes to the financial statements.

Compassion House Foundation
Statement of Financial Position

As at February 29,
2016 February 28,
2015

Assets

Current

Cash (Note 3)	\$ 294,488	\$ 161,276
Marketable securities (Note 4)	4,781,310	4,976,975
Accounts receivable	6,447	21,350
Goods and services tax recoverable	15,502	16,275
Prepays	<u>5,678</u>	<u>5,643</u>
	5,103,425	5,181,519

Tangible capital assets (Note 5) 4,552,170 4,708,316

\$ 9,655,595 **\$ 9,889,835**

Liabilities

Current

Accounts payable and accruals	\$ 39,780	\$ 30,381
Deferred contributions (Note 6)	166,184	68,432
Deferred capital contributions (Note 7)	<u>3,306,200</u>	<u>3,399,756</u>
	<u>3,512,164</u>	<u>3,498,569</u>

Net assets

General fund - unrestricted	2,846,684	3,178,573
Investment in tangible capital assets (Note 10)	1,245,973	1,308,561
Internally restricted (Note 11)	<u>2,050,774</u>	<u>1,904,132</u>
	<u>6,143,431</u>	<u>6,391,266</u>

\$ 9,655,595 **\$ 9,889,835**

On behalf of the Board

_____ Director

_____ Director

Compassion House Foundation

Statement of Cash Flows

Year Ended

February 29,
2016

February 28,
2015

Increase (decrease) in cash and cash equivalents

Operating

(Deficiency) excess of revenues over expenses	\$ (247,835)	\$ 936,310
Amortization of tangible capital assets	166,339	163,106
Amortization of capital contributions	(93,556)	(93,554)
Realized loss on sale of marketable securities	1,553	210,421
Unrealized (gain) loss on changes in fair value of marketable securities	<u>303,408</u>	<u>(309,939)</u>
	129,909	906,344
Change in non-cash operating working capital:		
Accounts receivable	14,903	19,599
Goods and services tax recoverable	773	61,780
Prepays	(35)	23,416
Accounts payable and accruals	9,399	(5,939)
Deferred contributions	<u>51,153</u>	<u>65,434</u>
	<u>206,102</u>	<u>1,070,634</u>

Investing

Purchase of marketable securities	(770,333)	(2,937,730)
Proceeds from sale of marketable securities	661,038	1,285,830
Purchase of tangible capital assets	<u>(10,194)</u>	<u>(11,443)</u>
	<u>(119,489)</u>	<u>(1,663,343)</u>

Net increase (decrease) in cash and cash equivalents	86,613	(592,709)
Cash and cash equivalents, beginning of year	<u>158,278</u>	<u>750,987</u>
Cash and cash equivalents, end of year	<u>\$ 244,891</u>	<u>\$ 158,278</u>

Compassion House Foundation

Notes to the Financial Statements

February 29, 2016

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 bases:

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 29, 2016

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 and unrestricted investment income 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 three months used to support the long term operation of the Foundation are included in 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 29, 2016

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 29, 2016

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 29, 2016.

3. Cash

Included in cash is externally restricted cash of \$49,597 (2015 - \$2,998) which was limited to qualified expenditures approved by Alberta Gaming and Liquor Commission.

4. Marketable securities	February 29, <u>2016</u>	February 28, <u>2015</u>
Templeton Eafe Dev Markets Fund Series O	\$ 593,028	\$ 622,899
Bissett Cdn short term bond fund	236,735	235,282
Bisset core plus bond fund	2,083,157	2,262,589
Core equity fund	870,145	873,890
US rising dividends fund	345,935	575,070
Money market fund	282,282	141,293
FT money market fund	268,717	265,952
FT US rising dividends FD series	56,490	-
FT US core equity fund	<u>44,821</u>	<u>-</u>
	\$ 4,781,310	\$ 4,976,975

Notes to the Financial Statements

February 29, 2016

4. Marketable securities (cont'd)

The cost of marketable securities is \$4,674,188 (2015 - \$4,448,668).

The fair values of marketable securities are based on quoted market prices and are subject to significant fluctuations in the equity market. Marketable securities denominated in foreign currencies of \$447,246 USD (2015 - \$575,070 USD) are 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

			February 29, 2016	February 28, 2015
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 616,161	\$ -	\$ 616,161	\$ 616,161
Building	4,232,215	460,319	3,771,896	3,877,703
Furnishings	367,563	258,995	108,568	145,324
Landscaping	30,959	10,323	20,636	21,410
Office equipment	48,173	45,825	2,348	4,891
Vehicles	28,279	16,968	11,311	16,967
Appliances	39,861	24,932	14,929	18,915
Computer equipment	25,015	25,015	-	-
Resource material	8,234	8,234	-	624
Computer software	26,760	20,439	6,321	6,321
	<u>\$ 5,423,220</u>	<u>\$ 871,050</u>	<u>\$ 4,552,170</u>	<u>\$ 4,708,316</u>

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:	February 29, 2016	February 28, 2015
Balance, beginning of year	\$ 68,432	\$ 110,880
Add: contributions received during the year	131,954	-
Less: contribution recognized as revenue	<u>(34,202)</u>	<u>(42,448)</u>
Balance, end of year	<u>\$ 166,184</u>	<u>\$ 68,432</u>

Compassion House Foundation

Notes to the Financial Statements

February 29, 2016

6. Deferred contributions (cont'd)

The deferred contributions include the following:

Alberta Liquor and Gaming	\$	49,596	\$	1,844
Community van program funding		66,588		66,588
Compassion fund		20,000		-
Workshop/retreat funding		30,000		-
		<u>166,184</u>		<u>68,432</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 totalling \$110,275 as at February 29, 2016 (2015 - \$349,592) are expected to be received within the next five years.

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. During the year, the Foundation incurred \$nil (2015 - \$83,340) of capital fundraising expenses.

		February 29, 2016		February 28, 2015
Balance, beginning of year	\$	3,399,756	\$	3,493,309
Less: contributions recognized as revenue		<u>(93,556)</u>		<u>(93,554)</u>
Balance, end of year	\$	<u>3,306,200</u>	\$	<u>3,399,755</u>

There were \$nil (2015 - \$50,252) of expenses incurred for the purpose of soliciting contributions. There was \$nil (2015 - \$12,259) of remuneration fees paid for fundraising.

Compassion House Foundation

Notes to the Financial Statements

February 29, 2016

8. Net investment (loss) income	February 29, 2016	February 28, 2015
Investment income	\$ 136,055	\$ 322,061
Realized (loss) gain on sale of marketable securities	(1,553)	(210,421)
Unrealized (loss) gain from changes in fair value	(303,409)	309,939
Investment management fees	<u>(25,944)</u>	<u>(20,677)</u>
	<u>\$ (194,851)</u>	<u>\$ 400,902</u>

9. Fashion Show

Included in Fashion Show revenues are donations of \$152,540 (2015 - \$193,906).

10. Investment in tangible capital assets	February 29, 2016	February 28, 2015
Balance, beginning of year	<u>\$ 1,308,561</u>	<u>\$ 1,366,670</u>
Amortization of tangible capital assets	(166,339)	(163,106)
Amortization of deferred capital contributions	<u>93,556</u>	<u>93,554</u>
Deficiency of revenue over expenses	<u>(72,783)</u>	<u>(69,552)</u>
Other items:		
Acquisition of tangible capital assets	<u>10,194</u>	11,443
Increase in net assets invested in tangible capital assets	<u>10,194</u>	11,443
Balance, end of year	<u>\$ 1,245,972</u>	<u>\$ 1,308,561</u>

11. Internally restricted funds

During the year, management and the board of directors designated the funds raised in the capital campaign in excess of the cost of construction to the sustainability fund. These funds will be used to support the operations of the Sorrentino's Compassion House. Total proceeds designated during the year amounted to \$146,641 (2015 - \$618,354).

	February 29, 2016	February 28, 2015
Sustainability fund	<u>\$ 2,050,774</u>	<u>\$ 1,904,132</u>

Compassion House Foundation

Notes to the Financial Statements

February 29, 2016

12. 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. 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.

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

13. Comparative figures

Certain of the comparative figures for 2015 have been reclassified to conform to the financial statement presentation adopted for 2016.