

Financial Statements

Compassion House Foundation

February 28, 2017

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Independent Auditor's Report

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To the Directors of
Compassion House Foundation

We have audited the accompanying financial statements of Compassion House Foundation (the "Foundation"), which comprise the statement of financial position as at February 28, 2017, 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 28, 2017 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 28, 2017, 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 28, 2017

Grant Thornton LLP

Chartered Professional Accountants

Compassion House Foundation

Statement of Operations

February 28, February 29,

Year ended

2017 2016

	<u>General</u>	Sorrentino's Compassion <u>House</u>	<u>Total</u>	<u>Total</u>
Revenues				
Fashion show (Note 9)	\$ 659,409	\$ -	\$ 659,409	\$ 606,212
Sustainability fund contributions	-	57,900	57,900	146,642
Amortization of deferred capital contributions (Note 7)	93,556	-	93,556	93,556
Donations	121,460	-	121,460	100,105
Special events	50,430	-	50,430	49,271
Casino and raffle	-	25,395	25,395	34,202
Net investment (loss) income (Note 8)	518,085	-	518,085	(194,851)
In-kind donations	13,166	-	13,166	13,461
Accommodation fees	-	115,580	115,580	96,710
	<u>1,456,106</u>	<u>198,875</u>	<u>1,654,981</u>	<u>945,308</u>
Direct expenses				
Fashion show	428,305	-	428,305	372,528
Special events	8,811	-	8,811	19,459
In-kind donations	13,166	-	13,166	13,461
	<u>450,282</u>	<u>-</u>	<u>450,282</u>	<u>405,448</u>
Operating expenses				
Accounting	22,407	-	22,407	27,662
Advertising	15,739	-	15,739	10,427
Amortization	-	163,963	163,963	166,339
Bank charges	2,917	2,916	5,833	5,666
Business license	285	-	285	280
Computer maintenance	11,697	11,697	23,394	25,480
Education and training	2,096	2,096	4,192	7,547
Insurance	1,600	12,252	13,852	13,713
Meetings	5,196	-	5,196	4,555
Office and sundry	3,914	3,914	7,828	16,703
Postage and courier	1,172	1,171	2,343	3,662
Professional fees	16,774	16,773	33,547	50,546
Programs and community relations	18,487	158	18,645	16,484
Repairs and maintenance	-	42,705	42,705	45,761
Salaries and benefits	261,885	112,236	374,121	340,443
Supplies	-	12,198	12,198	16,298
Telephone and utilities	1,191	27,037	28,228	31,895
Travel	1,467	-	1,467	1,446
Volunteer recognition	1,574	-	1,574	2,828
	<u>368,401</u>	<u>409,116</u>	<u>777,517</u>	<u>787,695</u>
Excess (Deficiency) of revenues over expenses	\$ 637,423	\$ (210,241)	\$ 427,182	\$ (247,835)

See accompanying notes to the financial statements.

Compassion House Foundation
Statement of Changes in Net Assets

February 28, February 29,
2017 2016

Year Ended

	<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	\$ 2,846,685	\$ 1,245,972	\$ 2,050,774	\$ 6,143,431	\$ 6,391,266
Excess (Deficiency) of revenues over expenses	497,589	(70,407)	-	427,182	(247,835)
Transfer to internally restricted fund (Note 11)	(57,900)	-	57,900	-	-
Transfer to investment in tangible capital asset fund (Note 10)	<u>(14,860)</u>	<u>14,860</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 3,271,514</u>	<u>\$ 1,190,425</u>	<u>\$ 2,108,674</u>	<u>\$ 6,570,613</u>	<u>\$ 6,143,431</u>

See accompanying notes to the financial statements.

Compassion House Foundation

Statement of Financial Position

As at	February 28, 2017	February 29, 2016
Assets		
Current		
Cash (Page 6)	\$ 336,657	\$ 294,488
Marketable securities (Note 4)	5,301,372	4,781,310
Accounts receivable	8,050	6,447
Goods and services tax recoverable	11,067	15,502
Prepays	<u>5,460</u>	<u>5,678</u>
	5,662,606	5,103,425
Tangible capital assets (Note 5)	<u>4,403,067</u>	<u>4,552,170</u>
	<u>\$ 10,065,673</u>	<u>\$ 9,655,595</u>

Liabilities

Current		
Accounts payable and accruals	\$ 41,726	\$ 39,780
Deferred contributions (Note 6)	240,690	166,184
Deferred capital contributions (Note 7)	<u>3,212,644</u>	<u>3,306,200</u>
	<u>3,495,060</u>	<u>3,512,164</u>

Net assets

General fund - unrestricted	3,271,514	2,846,684
Investment in tangible capital assets (Note 10)	1,190,425	1,245,973
Internally restricted (Note 11)	<u>2,108,674</u>	<u>2,050,774</u>
	<u>6,570,613</u>	<u>6,143,431</u>
	<u>\$ 10,065,673</u>	<u>\$ 9,655,595</u>

On behalf of the Board

_____ Director

_____ Director

Compassion House Foundation

Statement of Cash Flows

Year Ended February 28, 2017 February 29, 2016

Increase (decrease) in cash and cash equivalents

Operating

Excess (deficiency) of revenues over expenses	\$ 427,182	\$ (247,835)
Amortization of tangible capital assets	163,963	166,339
Amortization of capital contributions	(93,556)	(93,556)
Realized (gain) loss on sale of marketable securities	(8,078)	1,553
Unrealized (gain) loss on changes in fair value of marketable securities	<u>(410,192)</u>	<u>303,408</u>
	79,319	129,909
Change in non-cash operating working capital:		
Accounts receivable	(1,603)	14,903
Goods and services tax recoverable	4,435	773
Prepays	219	(35)
Accounts payable and accruals	1,946	9,399
Deferred contributions	<u>74,506</u>	<u>97,752</u>
	<u>158,822</u>	<u>252,701</u>

Investing

Purchase of marketable securities	(827,564)	(770,333)
Proceeds from sale of marketable securities	725,770	661,038
Purchase of tangible capital assets	(14,860)	(10,194)
Increase in restricted cash	<u>(47,552)</u>	<u>(46,599)</u>
	<u>(164,206)</u>	<u>(166,088)</u>

Net decrease (increase) in cash and cash equivalents	(5,384)	86,613
Cash and cash equivalents, beginning of year	<u>244,891</u>	<u>158,278</u>
Cash and cash equivalents, end of year	<u>\$ 239,507</u>	<u>\$ 244,891</u>

Cash consists of the following:

	February 28, 2017	February 29, 2016
Cash and cash equivalents	\$ 239,507	\$ 244,891
Restricted casino funds	<u>97,150</u>	<u>49,957</u>
	<u>\$ 336,657</u>	<u>\$ 294,848</u>

Compassion House Foundation

Notes to the Financial Statements

February 28, 2017

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 28, 2017

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 28, 2017

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, 2017

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, 2017.

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.

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, 2017

4. Marketable securities	February 28, <u>2017</u>	February 29, <u>2016</u>
Templeton Eafe Dev Markets Fund Series O	\$ 561,337	\$ 593,028
Bissett Cdn short term bond fund	263,839	236,735
Bisset core plus bond fund	2,196,233	2,083,157
Core equity fund	985,251	870,145
US rising dividends fund	389,368	345,935
Money market fund	540,054	282,282
FT money market fund	271,489	268,717
FT US rising dividends FD series	-	56,490
FT US core equity fund	<u>93,801</u>	<u>44,821</u>
	<u>\$ 5,301,372</u>	<u>\$ 4,781,310</u>

The cost of marketable securities is \$4,855,097 (2016 - \$4,674,188).

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 \$483,169 CDN (2016 - \$447,246 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			February 28, <u>2017</u>	February 29, <u>2016</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 616,161	\$ -	\$ 616,161	\$ 616,161
Building	4,232,215	566,125	3,666,090	3,771,896
Furnishings	367,563	295,752	71,811	108,568
Landscaping	30,959	11,097	19,862	20,636
Office equipment	50,580	48,414	2,166	2,348
Vehicles	28,279	22,623	5,656	11,311
Appliances	39,861	28,918	10,943	14,929
Computer equipment	25,015	25,015	-	-
Resource material	8,234	8,234	-	-
Computer software	<u>39,214</u>	<u>28,866</u>	<u>10,378</u>	<u>6,321</u>
	<u>\$ 5,438,081</u>	<u>\$ 1,035,044</u>	<u>\$ 4,403,067</u>	<u>\$ 4,552,170</u>

Compassion House Foundation

Notes to the Financial Statements

February 28, 2017

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 28, 2017	February 29, 2016
Balance, beginning of year	\$ 166,184	\$ 68,432
Add: contributions received during the year	99,901	131,954
Less: contribution recognized as revenue	<u>(25,395)</u>	<u>(34,202)</u>
Balance, end of year	<u>\$ 240,690</u>	<u>\$ 166,184</u>

The deferred contributions include the following:

Alberta Liquor and Gaming	\$ 97,149	\$ 49,596
Community van program funding	66,588	66,588
Compassion fund	33,299	20,000
Workshop/retreat funding	<u>43,654</u>	<u>30,000</u>
	<u>\$ 240,690</u>	<u>\$ 166,184</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, 2017 were \$9,000 (2016 - \$110,275), the total amount of pledges expected to be received within the next five years is \$22,500 (2016 - \$80,400).

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, 2017

7. Deferred capital contributions (cont'd)

	February 28, 2017	February 29, 2016
Balance, beginning of year	\$ 3,306,200	\$ 3,399,756
Less: contributions recognized as revenue	<u>(93,556)</u>	<u>(93,556)</u>
Balance, end of year	<u>\$ 3,212,644</u>	<u>\$ 3,306,200</u>

8. Net investment (loss) income

	February 28, 2017	February 29, 2016
Investment income	\$ 129,268	\$ 136,055
Realized (loss) gain on sale of marketable securities	8,078	(1,553)
Unrealized (loss) gain from changes in fair value	410,192	(303,409)
Investment management fees	<u>(29,453)</u>	<u>(25,944)</u>
	<u>\$ 518,085</u>	<u>\$ (194,851)</u>

9. Fashion Show

Included in Fashion Show revenues are donations of \$184,916 (2016 - \$152,540).

10. Investment in tangible capital assets

	February 28, 2017	February 29, 2016
Balance, beginning of year	<u>\$ 1,245,972</u>	<u>\$ 1,308,561</u>
Amortization of tangible capital assets	(163,963)	(166,339)
Amortization of deferred capital contributions	<u>93,556</u>	<u>93,556</u>
Deficiency of revenue over expenses	<u>(70,407)</u>	<u>(72,783)</u>
Other items:		
Acquisition of tangible capital assets	<u>14,860</u>	<u>10,194</u>
Balance, end of year	<u>\$ 1,190,425</u>	<u>\$ 1,245,972</u>

Compassion House Foundation

Notes to the Financial Statements

February 28, 2017

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 \$57,900 (2016 - \$146,641). These funds will be used to support the operations of the Sorrentino's Compassion House.

	February 28, <u>2017</u>	February 29, <u>2016</u>
Sustainability fund	<u>\$ 2,108,674</u>	<u>\$ 2,050,774</u>
