

Covenant Health

Financial Statements
March 31, 2022



Independent auditor's report

To the Members and Board of Directors of Covenant Health

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Covenant Health (the Organization) as at March 31, 2022 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Organization's financial statements comprise:

- the statement of financial position as at March 31, 2022;
- the statement of changes in net assets for the year then ended;
- the statement of operations for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal

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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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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 Organization'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 Organization'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 Organization to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
June 28, 2022

Covenant Health

Management's Responsibility for Financial Reporting

Financial Statements

March 31, 2022

The accompanying financial statements for the year ended March 31, 2022 are the responsibility of management and have been reviewed and approved by Senior Management. The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and of necessity include some amounts based on estimates and judgement.

To discharge its responsibility for the integrity and objectivity of financial reporting, management maintains a system of financial management and internal controls which give consideration to costs, benefits and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money;
- safeguard the assets and properties under Covenant Health's administration.

Covenant Health carries out its responsibility for the financial statements through the Audit and Finance Committee. This Committee meets with management and PricewaterhouseCoopers LLP, Covenant Health's external auditors, to review financial matters, and recommends the financial statements to the Covenant Health Board of Directors for approval upon finalization of the audit. PricewaterhouseCoopers LLP has free access to the Audit and Finance Committee.

PricewaterhouseCoopers LLP provides an independent audit of the financial statements. Their examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and procedures which allow them to report on the fairness of the financial statements prepared by management.



Patrick Dumelie
Chief Executive Officer
Covenant Health

July 20, 2022
Date



Sheila Smith
Chief Financial Officer
Covenant Health

Date


Covenant Health
Statement of Financial Position
As at March 31, 2022

(in thousands of dollars)

	2022 \$	2021 \$
Assets		
Current assets		
Cash and cash equivalents (note 3)	29,242	66,471
Accounts receivable (note 23)	50,891	33,972
Inventories	3,004	2,973
Prepaid expenses and deposits (note 4)	1,566	4,148
Current portion of capital lease receivable (note 5)	1,496	1,453
	<u>86,199</u>	<u>109,017</u>
Investments (note 3)	104,627	99,041
Capital lease receivable (note 5)	38,835	40,331
Capital assets (note 6)	<u>382,575</u>	<u>378,189</u>
	<u>612,236</u>	<u>626,578</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 4, 23 and 27)	94,697	92,613
Accrued vacation pay	58,233	58,422
Deferred contributions (note 8)	28,853	27,963
Current portion of long-term debt (note 9)	11,807	12,106
	<u>193,590</u>	<u>191,104</u>
Long-term debt (note 9)	98,417	103,324
Unamortized external capital contributions (note 11)	<u>246,175</u>	<u>247,356</u>
	<u>538,182</u>	<u>541,784</u>
Net Assets		
Accumulated surplus	116	17,221
Invested in capital assets	63,471	54,153
Internally restricted (note 26)	<u>10,467</u>	<u>13,420</u>
	<u>74,054</u>	<u>84,794</u>
	<u>612,236</u>	<u>626,578</u>
Contingencies (note 14)		

Approved by the Board of Directors


 _____ Director


 _____ Director

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

Covenant Health

Statement of Changes in Net Assets

For the year ended March 31, 2022

(in thousands of dollars)

				2022	2021
	Accumulated surplus \$	Invested in capital assets \$	Internally restricted \$ (note 26)	Total \$	Total \$
Balance – beginning of year	17,221	54,153	13,420	84,794	71,446
(Deficiency) excess of revenue over expenses	(11,148)	-	-	(11,148)	12,931
Capital assets purchased with internal funds	(18,187)	19,196	(1,009)	-	-
Amortization of internally funded capital assets	4,440	(4,440)	-	-	-
Repayment of long-term debt used to fund capital assets	(3,751)	3,751	-	-	-
Transfer to (from) internally restricted net assets	1,944	-	(1,944)	-	-
Impairment loss on internally funded capital assets	9,094	(9,094)	-	-	-
Loss on disposal of internally funded capital assets	95	(95)	-	-	-
Remeasurement of supplementary pension plan (note 13(a))	408	-	-	408	417
Balance – end of year	116	63,471	10,467	74,054	84,794

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

Covenant Health
Statement of Operations
For the year ended March 31, 2022

(in thousands of dollars)

	Budget 2022	Actual 2022	Actual 2021
	\$	\$	\$
	(Unaudited – note 17)		
Revenue and other income			
Alberta Health Services global contributions (note 18)	755,514	774,488	742,153
Other government contributions	20,800	21,516	20,675
Fees and charges (note 19)	50,127	48,677	44,644
Ancillary operations	20,313	18,642	15,970
Donations	1,500	1,569	1,052
Investment	5,400	8,226	5,326
Other income (note 20)	13,611	12,963	11,611
Amortization of external capital contributions (note 11)	15,185	15,270	15,168
	<u>882,450</u>	<u>901,351</u>	<u>856,599</u>
Expenses (schedule 1)			
Inpatient acute nursing services	312,534	322,766	305,398
Emergency and outpatient services	94,526	93,298	89,820
Facility-based continuing care services	83,008	84,345	85,299
Ambulance services	2,418	2,335	2,236
Community based care	19,017	19,077	17,180
Diagnostic and therapeutic services	116,811	114,238	110,594
Promotion, prevention and protection services	4,574	6,996	5,335
Research and education	1,552	2,864	1,954
Administration (note 21)	39,458	38,295	38,726
Information technology	1,816	1,540	1,477
Support services (note 22)	207,192	215,413	200,621
	<u>882,906</u>	<u>901,167</u>	<u>858,640</u>
Excess (deficiency) of revenue over expenses before other items	(456)	184	(2,041)
Other items			
Fair value change in investments	-	(2,238)	14,972
Impairment of capital assets (note 6)	-	(9,094)	-
(Deficiency) excess of revenue over expenses	<u>(456)</u>	<u>(11,148)</u>	<u>12,931</u>

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

Covenant Health

Statement of Cash Flows

For the year ended March 31, 2022

(in thousands of dollars)

	2022 \$	2021 \$
Cash provided by (used in)		
Operating activities		
(Deficiency) excess of revenue over expenses	(11,148)	12,931
Items not affecting cash		
Amortization of capital assets:		
Internally funded	4,440	4,470
Externally funded	15,270	15,168
Amortization of externally funded capital contributions	(15,270)	(15,168)
Unrealized loss (gain) from investments measured at fair value	2,238	(14,972)
Impairment loss on internally funded capital assets	9,094	-
Loss on disposal of internally funded capital assets	95	13
Remeasurement of supplementary pension plan	408	417
	<u>5,127</u>	<u>2,859</u>
Net change in non-cash working capital items (note 24)	(12,654)	12,388
	<u>(7,527)</u>	<u>15,247</u>
Investing activities		
Proceeds on sale of investments	4,602	52,260
Purchase of investments	(12,426)	(57,237)
Proceeds on capital leases (note 5)	1,453	1,410
Purchases of capital assets:		
Internally funded – equipment	(752)	(216)
Internally funded – facility and improvements	(16,305)	(5,465)
Externally funded – equipment	(7,260)	(4,421)
Externally funded – facility and improvements	(5,017)	(7,090)
	<u>(35,705)</u>	<u>(20,759)</u>
Financing activities		
Principal payments on long-term debt	(5,206)	(4,998)
Capital contributions received and investment earnings on capital contributions (note 10)	11,209	10,701
	<u>6,003</u>	<u>5,703</u>
Change in cash and cash equivalents	(37,229)	191
Cash and cash equivalents – beginning of year	<u>66,471</u>	<u>66,280</u>
Cash and cash equivalents – end of year	<u>29,242</u>	<u>66,471</u>

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

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

1 Authority, purpose and operations

Covenant Health, established under the Caritas Health Group Statutes Amendment Act 2009, hereafter referred to as the Covenant Health Act, is an operator of health facilities and programs in the Province of Alberta. Covenant Health is a registered charity under the Income Tax Act (Canada) and is, therefore, exempt from payment of income tax.

Covenant Health receives the majority of its funding from Alberta Health Services, which is responsible for the delivery of appropriate, accessible and affordable health services in Alberta. Alberta Health Services was established on April 1, 2009.

Covenant Health's operations are conducted from the following sites:

- Banff Mineral Springs Hospital, Banff
- Bonnyville Health Centre, Bonnyville
- Edmonton General Continuing Care Centre
- Grey Nuns Community Hospital, Edmonton
- Killam Health Centre, Killam
- Mary Immaculate Hospital, Mundare
- Misericordia Community Hospital, Edmonton
- Our Lady of the Rosary Hospital, Castor
- St. Joseph's Auxiliary Hospital, Edmonton
- St. Joseph's General Hospital, Vegreville
- St. Joseph's Home for the Aged, Medicine Hat
- St. Mary's Health Care Centre, Trochu
- St. Mary's Hospital, Camrose
- St. Michael's Health Centre, Lethbridge
- St. Therese Villa, Lethbridge
- Youville Home, St. Albert
- Villa Caritas, Edmonton

These financial statements do not include the assets and operations of related charitable Foundations. These Foundations are described further in note 23(e).

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

2 Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian Accounting Standards for Not-For-Profit Organizations (Not-For-Profit Standards) as set out in Part III of the Chartered Professional Accountants (CPA) of Canada Handbook. The following are the significant accounting policies:

a) Revenue recognition

These financial statements have been prepared using the deferral method of accounting for contributions, the key elements of which are:

- i) Unrestricted contributions are recognized as revenue in the year received or receivable.
- ii) Externally restricted non-capital contributions are deferred and recognized as revenue in the year the related expenses are incurred.
- iii) Externally restricted capital contributions are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing externally funded capital assets are then transferred to unamortized external capital contributions. Unamortized external capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded.
- iv) Externally restricted contributions to purchase capital assets that will not be amortized and endowments are recorded as direct increases to net assets.
- v) Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.
- vi) Donations and contributions in-kind are recorded at fair value when such value can reasonably be determined. While volunteers contribute a significant amount of time each year to assist Covenant Health, the value of their services is not recognized as revenue and expenses in the financial statements because fair value cannot be reasonably determined.
- vii) Fees and charges, ancillary operations, and other income are recognized in the period that the goods are delivered or the services are provided.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short-term deposits, which are highly liquid with original maturities of less than three months.

c) Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost.

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

d) Financial instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, investments, capital lease receivable, accounts payable and accrued liabilities, accrued vacation pay and long-term debt and are initially recorded at fair value. Investments are subsequently measured at fair value with changes in fair value recorded in the statement of operations. All other financial instruments are subsequently recorded at amortized cost.

Transaction costs related to financial assets carried at fair value are expensed as incurred. 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. Covenant Health accounts for the purchase and sale of investments using settlement date accounting.

e) Capital lease receivable

Covenant Health leases certain land and buildings to Covenant Care, an entity under common control. Leases where the lessee has assumed substantially all the risks and rewards of ownership are classified as capital lease receivable. The capital leases are capitalized at the lease's commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments receivable.

Each lease payment is allocated between capital lease receivable and finance income. The corresponding lease receivable, net of any direct financing fees, is included in non-current assets. The interest element of the finance income is recognized in the statement of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period.

f) Capital assets

Capital assets and construction projects-in-progress are recorded at cost less accumulated amortization and any provision for impairment. The cost for contributed capital assets is considered to be fair value at the date of contributions. The cost of capital assets made up of significant separable component parts is allocated to the component parts when practicable and when estimates can be made of the estimated useful lives of the separate components. Capital assets are tested for impairment when conditions indicate that a capital asset no longer contributes to Covenant Health's ability to provide goods and services, or that the value of future economic benefits or service potential associated with the capital asset is less than its net carrying amount. When conditions indicate that a capital asset is impaired, the net carrying amount of the capital asset is written down to the asset's fair value or replacement cost. The write-downs of capital assets are recognized as an expense. Write-downs are not subsequently reversed.

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

Capital assets are amortized over their estimated useful lives on a straight-line basis as follows:

Land improvements	2 – 25 years
Buildings	10 – 40 years
Leasehold improvements	Lesser of the term of the related lease and any specific component useful life
Parking lot and lot improvements	20 years
Major equipment	3 – 30 years
Computer software	1 – 5 years

Construction projects-in-progress are not amortized until the project is available for use.

g) Employee future benefits

Covenant Health sponsored a defined benefit Supplemental Pension Plan (SPP), which is fully funded. The SPP covers certain executives and supplements the benefits under the Local Authorities Pension Plan that are limited by the Income Tax Act (Canada). The obligations and costs of the benefits are determined annually through an actuarial valuation as at March 31 using the projected benefit method pro-rated on services and management’s best estimate assumptions, including a market-related discount rate. The obligation is measured using the actuarial valuation for accounting purposes.

The net benefit cost of the SPP reported in these financial statements includes the current service cost, interest cost on the current service cost and obligations, as well as initial obligations and net actuarial gains and losses. Actuarial gains and losses are recognized immediately in the statement of changes in net assets.

Employees of Covenant Health participate in the Local Authorities Pension Plan (LAPP) which is a registered defined benefit multi-employer pension plan. As sufficient information to follow accounting standards for defined benefit plans is not available, the LAPP is accounted for following the standards of defined contribution plans.

h) Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, and assets and obligations related to employee future benefits. Actual results could differ from those estimates.

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The economic uncertainty surrounding COVID-19 could potentially impact certain areas of the financial statements as noted throughout.

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

i) Summary of changes in accounting policies

Effective April 1, 2021, Covenant Health adopted amendments to Section 3856 from the standards of the Chartered Professional Accountants Handbook, Part III – Accounting for Not-for-Profit Organizations, Financial Instruments (Section 3856). The amendment related to the initial recognition and subsequent measurement of financial instruments originated and acquired, issued, and assumed, in a related party transaction.

Covenant Health's related party financial instruments are measured at cost, as defined by Section 3856, less reduction for impairment where applicable. This amendment was applied retrospectively, with simplified transition provisions, in accordance with Section 3856. The revision of accounting policy did not have an impact on the carrying values of Covenant Health's related party financial instruments.

3 Cash and cash equivalents and investments

	2022		2021	
	Fair value \$	Cost \$	Fair value \$	Cost \$
Cash and term deposits	29,242	29,242	66,471	66,471
Pooled fund investments	104,627	99,677	99,041	91,854
	<u>133,869</u>	<u>128,919</u>	<u>165,512</u>	<u>158,325</u>

The pooled fund investments are summarized as follows:

	Fair value \$	Cost \$
Bonds and debentures	41,391	44,133
Canadian equities	11,386	9,354
International equities	51,850	46,190
	<u>104,627</u>	<u>99,677</u>

Cash and cash equivalents and investments are reported as:

	2022 \$	2021 \$
Cash and cash equivalents	29,242	66,471
Investments	104,627	99,041
	<u>133,869</u>	<u>165,512</u>

In order to earn optimal financial returns at an acceptable level of risk, the Board has established a policy asset mix. Risk is reduced through asset class diversification, diversification within each asset class and quality constraints on fixed-income and equity instruments.

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

4 Prepaid expenses and deposits

	2022 \$	2021 \$
Basic life, short-term disability and long-term disability	-	367
Extended health, dental and vision	967	3,357
Other deposits and prepaid expenses	599	424
	<hr/> 1,566	<hr/> 4,148

Extended health, dental and vision benefits are fully funded with benefit carriers. Basic life, short-term disability, and long-term disability benefits in the amount of \$1,596,669 (2021 - \$ nil) are owed to the benefit carrier at March 31, 2022 and are recorded under Accounts payable and accrued liabilities.

Covenant Health is party to an Administrative Services Only Agreement (ASO Agreement) for the provision of extended health, dental and vision benefits to its employees. Under the terms of the ASO Agreement, Covenant Health assumes liability for the provision of benefits outlined in the related plan document. This liability is funded through monthly contributions to an account administered by a third party benefits provider. Covenant Health owns any accumulated surplus and is required to reimburse any accumulated deficit in the managed account. The surplus is net of an estimated provision for unpaid claims, which is based on actual experience.

5 Capital lease receivable

	2022 \$	2021 \$
Villa Marie Phase I, capital lease receivable from Covenant Care due December 2038, repayable in monthly instalments of \$18 including interest at 3.545%.	2,802	2,923
Villa Marie Phase II, capital lease receivable from Covenant Care due July 2043, repayable in monthly instalments of \$38 including interest at 2.915%.	7,381	7,628
St. Teresa Place, capital lease receivable from Covenant Care due April 2042, repayable in monthly instalments of \$165 including interest at 2.989%.	30,148	31,233
	<hr/> 40,331	<hr/> 41,784
Less: Current portion	1,496	1,453
	<hr/> 38,835	<hr/> 40,331

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March 31, 2022

(tabular amounts in thousands of dollars)

The minimum lease payments over the next five years and thereafter, based on the current repayment schedules, are approximately as follows:

	\$
2023	2,676
2024	2,676
2025	2,676
2026	2,676
2027	2,676
Thereafter	<u>40,204</u>
	53,584
Less: Amounts representing interest	<u>13,253</u>
	<u>40,331</u>

6 Capital assets

	<u>2022</u>		
	<u>Cost</u>	<u>Accumulated</u>	<u>Net book</u>
	\$	amortization	value
		\$	\$
Operating assets			
Land	49,220	-	49,220
Land improvements	5,680	3,494	2,186
Buildings	124,570	47,470	77,100
Leasehold improvements	220,742	60,443	160,299
Major equipment	129,034	71,106	57,928
Computer software	1,711	1,711	-
Construction projects-in-progress	33,349	-	33,349
	<u>564,306</u>	<u>184,224</u>	<u>380,082</u>
Ancillary assets			
Land	120	-	120
Buildings	343	113	230
Leasehold improvements	721	113	608
Parking lot and lot improvements	1,242	986	256
Major equipment	628	374	254
Construction projects-in-progress	1,025	-	1,025
	<u>4,079</u>	<u>1,586</u>	<u>2,493</u>
	<u>568,385</u>	<u>185,810</u>	<u>382,575</u>

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

	2021		
	Cost	Accumulated	Net book
	\$	amortization	value
		\$	\$
Operating assets			
Land	48,084	-	48,084
Land improvements	7,667	3,533	4,134
Buildings	133,129	44,408	88,721
Leasehold improvements	216,980	53,196	163,784
Major equipment	108,223	64,179	44,044
Computer software	1,681	1,681	-
Construction projects-in-progress	27,786	-	27,786
	<u>543,550</u>	<u>166,997</u>	<u>376,553</u>
Ancillary assets			
Land	120	-	120
Buildings	353	97	256
Leasehold improvements	721	92	629
Parking lot and lot improvements	1,242	935	307
Major equipment	619	300	319
Construction projects-in-progress	5	-	5
	<u>3,060</u>	<u>1,424</u>	<u>1,636</u>
	<u>546,610</u>	<u>168,421</u>	<u>378,189</u>

On December 16, 2021, the Board of Directors approved the demolition of the Southeast Campus Building. As at March 31, 2022, an impairment loss of \$7,523,090 (2021 - \$ nil) was incurred on Buildings and \$1,571,096 (2021 - \$ nil) was incurred on Land Improvements.

7 Bank indebtedness

Covenant Health has an unsecured operating line of credit to a maximum of \$50,000,000 (2021 – \$50,000,000), which was undrawn at March 31, 2022 and March 31, 2021. Interest is charged at prime minus 0.5% (2021 – prime minus 0.5%). Covenant Health has an unsecured facility for obligations to third parties by way of letters of credit and letters of guarantee to a maximum of \$20,000,000 (2021 – \$20,000,000), of which \$ nil (2021 – \$ nil) was outstanding at March 31, 2022. Issuance fee is charged at 0.5% per annum (2021 – 0.5%).

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(tabular amounts in thousands of dollars)

8 Deferred contributions

Deferred contributions represent externally restricted contributions for which the related expense has not been incurred.

	2022	2021
	\$	\$
Balance – beginning of year	27,963	23,261
Contributions received during the year	8,686	10,470
Contributions recognized as revenue	(6,828)	(5,768)
Contributions repayable	(968)	-
	<hr/>	<hr/>
Balance – end of year	28,853	27,963

The balance at the end of the year is restricted for the following purposes:

	2022	2021
	\$	\$
Research and education	1,387	1,130
Capital renewal and maintenance	23,123	21,569
Patient care	4,343	5,264
	<hr/>	<hr/>
	28,853	27,963

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

9 Long-term debt

	2022 \$	2021 \$
Youville Home mortgage, due May 2032, repayable in monthly instalments of \$73 including interest at 5.519%, secured by land and building with a net book value of \$14,606.	6,901	7,390
St. Therese Villa mortgage, due October 2028, repayable in monthly instalments of \$175 including interest at 7.35%, secured by land and building with a net book value of \$20,009.	14,289	15,298
St. Teresa Place mortgage, due September 2040, repayable in semi-annual instalments of \$1,060 including interest at 2.989%, secured by land and building with a net book value of \$51,496. Assets are under a capital lease arrangement (note 5) and are not recorded in these financial statements.	29,969	31,166
Evanston Summit mortgage, due March 2041, repayable in semi-annual instalments of \$398 including interest at 3.153%, secured by land and building with a net book value of \$27,385.	11,325	11,755
Killam Health Centre mortgage, due December 2042, repayable in semi-annual instalments of \$109 including interest at 3.0035% secured by a leasehold interest over Covenant Health's operating lease with Alberta Health Services and building improvements and equipment with a net book value of \$16,092.	3,365	3,479
Villa Marie Phase II mortgage, due June 2042, repayable in semi-annual instalments of \$237 including interest at 2.915%, secured by land and building with a net book value of \$11,130. Assets are under a capital lease arrangement (note 5) and are not recorded in these financial statements.	7,272	7,529
Covenant Health Southeast Campus mortgage, due December 2042 repayable in semi-annual instalments of \$557 including interest of 3.0035%, secured by land with a net book value of \$15,621.	17,269	17,852
Covenant Health Southeast Campus loan from Catholic Health of Alberta and Saskatchewan, a related party (note 23(a)), due December 2027. Accrues interest annually at 3.405% and is unsecured. Full payment, including accrued interest, is due prior to the expiry of the term.	4,125	4,764
Lethbridge Supportive Living Facility mortgage, due December 2044, repayable in semi-annual instalments of \$460 including interest of 2.691%, secured by land and building with a net book value of \$24,853.	15,709	16,197
	<u>110,224</u>	<u>115,430</u>
Less: Current portion	11,807	12,106
	<u>98,417</u>	<u>103,324</u>

Covenant Health is subject to certain covenants under long-term debt agreements that, if violated, give the lender the right to demand repayment. Covenant Health is in violation of certain of these covenants including the Youville Home Mortgage, which is therefore presented as a current liability. Repayment has not been demanded and management does not anticipate that the lender will require the loan to be repaid in full within the next twelve months.

Covenant Health

Notes to Financial Statements

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(tabular amounts in thousands of dollars)

Principal repayments over the next five years and thereafter based on the current repayment schedules are approximately as follows:

	\$
2023	5,423
2024	5,649
2025	5,892
2026	6,144
2027	6,409
Thereafter	<u>80,707</u>
	<u>110,224</u>

10 Deferred capital contributions

Deferred capital contributions represent externally restricted capital contributions that have not yet been invested in capital assets.

	2022 \$	2021 \$
Balance – beginning of year	-	465
Contributions received during the year	11,209	10,568
Transferred to unamortized external capital contributions (note 11)	(11,209)	(11,166)
Interest earned	-	133
	<u>-</u>	<u>-</u>
Balance – end of year	-	-

11 Unamortized external capital contributions

Unamortized external capital contributions represent externally restricted capital contributions that have been invested in capital assets less amounts that have been amortized to revenue. The contribution is taken into revenue and other income as the related externally funded asset is amortized.

	2022 \$	2021 \$
Balance – beginning of year	247,356	249,905
Transferred from deferred capital contributions (note 10)	11,209	11,166
Alberta Health Services contributed assets (note 16)	3,553	1,561
Disposal of external funded assets	(673)	(108)
Amortization of externally funded capital assets	<u>(15,270)</u>	<u>(15,168)</u>
Balance – end of year	<u>246,175</u>	<u>247,356</u>

Covenant Health

Notes to Financial Statements

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(tabular amounts in thousands of dollars)

12 Forgivable loan

In 2007, Alberta Health Services advanced a forgivable loan of \$7,158,844 to Youville Home. The loan incurs interest at a rate of prime plus 2% and is due on demand. The loan is secured by land and building with a net book value of \$14,606,100 (2021 – \$15,076,738). As Covenant Health has complied with, and expects to continue complying with, the terms of the agreement, the loan balance has been recorded as an unamortized external capital contribution and is being amortized to revenue on the same basis as the related assets are being amortized. As forgiveness of the balance occurs at the end of each five-year period, any amounts amortized to revenue that have not been forgiven are considered a contingent liability that is not recorded in the accounts.

As at March 31, 2022, the remaining liability of \$4,474,278 (2021 – \$4,653,249) is recorded in unamortized external capital contributions and \$894,856 (2021 – \$715,884) is the contingent liability balance. Interest expense of \$212,355 (2021 – \$219,474) was forgiven for the year ended March 31, 2022.

Covenant Health

Notes to Financial Statements

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(tabular amounts in thousands of dollars)

13 Long-term employee benefits

a) Supplementary pension plan

	2022 \$	2021 \$
Accrued benefit obligation		
Accrued obligation – beginning of year	3,701	4,317
Current service cost		
Benefits paid	(227)	(378)
Interest cost	128	179
Actuarial gain remeasurement	(408)	(417)
Accrued obligation – end of year	3,194	3,701
Fair value of plan assets	3,194	3,701
Funded status of plan	-	-

Significant actuarial assumptions are as follows:

Discount rate	4.3%	3.5%
Expected age of retirement	Age 60 0% until July 1, 2022; 3% thereafter	Age 60
Salary increase		Nil%

The supplementary pension plan was established in 2007 with service granted from January 1, 2007.

The above information is based on the actuarial valuation performed at March 31, 2022.

The accrued benefit obligation of \$3,194,000 (2021 – \$3,701,000) is included in accounts payable and accrued liabilities. Investments in term deposits and guaranteed investment certificates have been allocated to fully fund the supplementary pension plan.

Enrolment to this supplementary pension plan was closed on July 1, 2014. Plan members accrued service until December 31, 2016. On January 1, 2017, Covenant Health offered certain executives, including the plan members above, the opportunity to participate in a Defined Contribution Benefit Plan (DCRP). The DCRP is fully paid by Covenant Health. Contributions for current service are recorded as expenses in the year they become due. In the current year, Covenant Health contributed \$265,186 (2021 – \$297,173) to the DCRP.

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

b) Pension expense

Employees of Covenant Health participate in the Local Authorities Pension Plan (LAPP), which is covered by the Public Sector Pension Plans Act. The Plan serves about 276,000 people and about 433 employers. It is financed by employer and employee contributions and investment earnings of the LAPP fund.

Contributions for current service are recorded as expenditures in the year in which they become due. In the current year, Covenant Health contributed \$37,059,585 to LAPP (2021 – \$38,640,470).

Covenant Health is required to make current service contributions to the Plan of 8.45% (9.39% to December 31, 2021) of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 12.80% (13.84% to December 31, 2021) on pensionable earnings above this amount. Employees of Covenant Health are required to make current service contributions of 7.45% (8.39% to December 31, 2021) of pensionable salary up to the year's maximum pensionable salary, as defined by Canada Revenue Agency, and 11.80% (12.84% to December 31, 2021) on pensionable salary above this amount.

At December 31, 2020, LAPP reported a surplus of \$4,961,337,000 (December 31, 2019 – \$7,913,261,000).

14 Contingencies

Covenant Health has been named as defendant in various legal actions. The outcome of these actions cannot be estimated at this time. However, management believes the amount of damages, if any, resulting from these claims would not materially affect the financial position of Covenant Health. In accordance with standard provincial requirements, Covenant Health maintains liability insurance coverage. Any costs in excess of Covenant Health's liability insurance on settlement would be recorded as an expense in the period of settlement.

15 Significant agreements

- a) Covenant Health is party to various agreements to lease land and buildings for nominal amounts. The lease agreements for twelve sites are with Alberta Health Services and expire in March 2050. Banff Mineral Springs Hospital land is leased from Parks Canada with a 42-year term expiring January 2028 with an option to extend for a further seven years.
- b) Covenant Health is party to a Head Lease Agreement on a month-to-month basis with Alberta Health Services to sublease a portion of the Edmonton General site for the operation of an approved continuing care program. Covenant Health will pay as its share of annual operating costs \$14.30 (2021 – \$14.05) per resident day. During the year, Covenant Health paid Alberta Health Services \$2,557,380 (2021 – \$2,513,908) for the operating costs of the Edmonton General site. Concurrent with the Head Lease Agreement, Covenant Health entered into a Sublease Agreement on a month-to-month basis to sublease a portion of the Edmonton General site for administrative activities. Covenant Health will pay \$35.00 per square metre of occupied storage space and \$70.00 per square metre of occupied administrative space. During the year, Covenant Health paid Alberta Health Services \$159,180 (2021 – \$159,180) relating to

Covenant Health

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March 31, 2022

(tabular amounts in thousands of dollars)

storage and administration space. The annual lease commitments under the Head Lease and Sublease Agreements will fluctuate due to changes in the number of resident days and occupied square metres.

- c) Alberta Health has committed to fund Covenant Health \$6,333,229 for the construction of a new 102-unit supportive living facility in Lethbridge. During 2018, Alberta Health committed additional funding to a maximum of \$10,033,229 subject to the terms and requirements of an amended grant funding agreement. Covenant Health has received \$6,599,921 (2021 – \$6,599,921) of the total funding and at March 31, 2022 \$2,746,646 (2021 - \$ nil) is recorded as receivable. To date, Covenant Health has incurred \$23,602,171 (2021 – \$8,713,212) in planning, development and land costs.
- d) The Government of Alberta has committed \$3,983,000 over three years to Covenant Health for the purpose of funding Palliative and End of Life Care Advanced Care Planning project. Covenant Health has received \$1,330,000 (2021 - \$1,330,000) of the total funding and, to date, has incurred \$993,354 (2021 - \$148,084) in costs.
- e) Alberta Health has committed \$1,430,000 over three years to Covenant Health for the purpose of funding Palliative and End of Life Care Public Awareness project. Covenant Health has received \$670,000 (2021 – 545,000) of the total funding and, to date, has incurred \$483,410 (2021 - \$112,760) in costs.
- f) Alberta Health has committed \$2,120,315 over three years to Covenant Health for the purpose of funding a standardized competency based palliative care education program. Covenant Health has received \$1,000,000 (2021 - \$nil) of the total funding and, to date, has incurred \$133,217 (2021 - \$nil) in costs.
- g) During the year, Covenant Health entered into an operating lease agreement to lease corporate office space. The lease agreement has a 20-year term expiring on May 2042 with two options to extend the term, each for an additional 5 year period. Over the course of the 20-year term, expected rental payments amount to \$24,759,814 with annual amounts of \$1,029,616 over the next five years.
- h) During the year, Covenant Health entered into a development management agreement for planning, zoning, subdivision and development of a Community Wellness Centre which will require Covenant Health to pay the development manager based on a percentage of the Community Wellness Centre project costs over the course of the project. As at March 31, 2022, the project is in the planning phase.

16 Contributed assets and services

Certain healthcare facilities are provided to Covenant Health by Alberta Health Services at \$nil or nominal rents. The fair value for the use of these facilities amounts to \$6,401,610 (2021 – \$6,401,610) when estimated using their original costs and useful lives. The fair value has been recorded as an other government contribution and an operating expense. During the year, Alberta Health Services contributed \$3,552,887 (2021 – \$1,560,768) in kind towards Covenant Health construction projects-in-progress. Minor equipment has been included in revenue and expenses and construction projects-in-progress have been included in capital assets and unamortized external capital contributions. Computer equipment and other support services are also provided by Alberta Health Services at no charge. The fair value for the use of this computer equipment and support services cannot be reasonably determined and has not been included in the financial statements.

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

17 Budget (unaudited)

The budget was approved on June 30, 2021 by the Board of Directors of Covenant Health.

18 Alberta Health Services global contributions

	2022 \$	2021 \$
Alberta Health Services global contributions, net of repayments	776,052	743,714
Contribution allocated to deferred contributions – capital renewal and maintenance	(1,564)	(1,561)
	<u>774,488</u>	<u>742,153</u>

19 Fees and charges

Fees and charges include amounts charged for long-term care accommodation, semi-private and private room charges and services to non-Albertan and non-Canadian residents. These amounts have been reduced by bad debts expense of \$3,558,465 (2021 – \$2,811,727).

20 Other income

	2022 \$	2021 \$
Sales and recoveries	12,795	11,499
Other	168	112
	<u>12,963</u>	<u>11,611</u>

21 Administration

	2022 \$	2021 \$
General administration	17,695	17,427
Finance	5,693	5,821
Human resources	11,756	12,448
Communications	3,151	3,030
	<u>38,295</u>	<u>38,726</u>

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Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

22 Support services

	2022 \$	2021 \$
Facility operations	77,413	70,576
Emergency preparedness	387	390
Education	10,148	10,248
Housekeeping	27,150	27,166
Laundry and linen	10,178	9,565
Patient food services	29,880	29,186
Patient health records	8,881	9,070
Patient transportation	2,494	2,205
Patient registration	7,056	6,531
Materials management	16,136	15,720
Volunteer services	869	956
Ancillary operations	24,821	19,008
	<hr/>	<hr/>
	215,413	200,621

23 Related parties

Unless otherwise noted, the following transactions are in the normal course of operations and have been recorded in the financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a) Catholic Health of Alberta and Saskatchewan

Catholic Health of Alberta and Saskatchewan controls Covenant Health through its mandate to appoint the Covenant Health Board of Directors.

During the year, Catholic Health of Alberta's Articles of Association were amended to change its name to Catholic Health of Alberta and Saskatchewan. Also during the year, Catholic Health of Alberta and Saskatchewan took control of Emmanuel Health, A Catholic Health Organization operating in Saskatchewan, Canada.

During the year, Catholic Health of Alberta and Saskatchewan paid grants of \$480,000 (2021 – \$327,000) to Covenant Health which are recorded by Covenant Health as deferred contributions. Catholic Health of Alberta and Saskatchewan also paid \$100,600 (2021 – \$100,600) in administrative support to Covenant Health which is recorded as other income and as a salary and benefit recovery. As at March 31, 2022, \$29,277 is receivable from (2021 – \$110,412 payable to) Catholic Health of Alberta and Saskatchewan.

In fiscal 2018, Catholic Health of Alberta and Saskatchewan advanced a loan of \$6,500,000 to Covenant Health. The loan accrues interest at a rate of 3.405% annually and is unsecured. During the year, Covenant Health made principal repayments of \$638,696 (2021 – \$617,344) and incurred interest expense of \$152,312 (2021 – \$173,664).

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

b) Covenant Living

Covenant Health paid Covenant Living, an entity under common control, rental payments of \$40,160 (2021 – \$43,260).

Effective September 1, 2016, Covenant Health entered into an operating lease with Covenant Living to occupy Evanston Summit, a building with a cost of \$32,563,606 (2021 – \$32,563,606) and accumulated amortization of \$5,178,432 (2021 – \$4,063,339) as at March 31, 2022. Monthly payments under the lease are \$80,075, which were determined based upon the interest cost to Covenant Health related to its mortgage on the property. During the year, the lease was amended to extend the term to March 31, 2024.

During the year, Covenant Health received \$960,901 (2021 – \$960,901) in rental income.

As at March 31, 2022, \$79,698 (2021 – \$80,545) is receivable from Covenant Living.

c) Covenant Care

Covenant Care paid administrative support to Covenant Health in the amount of \$601,509 (2021 – \$502,830) which was recorded as other income in these financial statements and made payments under the capital lease arrangements (note 5). As at March 31, 2022, \$773,325 is receivable from (2021 – \$58,277 payable to) Covenant Care.

d) Alberta Health Services and subsidiaries

Alberta Health Services has an economic interest in Covenant Health as it holds resources in the form of facilities and funding necessary for Covenant Health to operate its health facilities and programs. Included in accounts receivable at March 31, 2022 is \$35,160,108 (2021 – \$24,324,489) owing from Alberta Health Services. Included in accounts payable and accrued liabilities at March 31, 2022 is \$17,738,131 (2021 – \$16,821,873) owing to Alberta Health Services.

Alberta Precision Laboratories Ltd. (APL) is a wholly owned subsidiary of Alberta Health Services. Included in accounts receivable at March 31, 2022 is \$36,148 (2021 – \$119,695) owing from APL. Included in accounts payable and accrued liabilities at March 31, 2022 is \$ 75,137 (2021 – \$47,163) owing to APL.

These transactions occur in the normal course of operations. Other transactions are described throughout the financial statements.

Covenant Health

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March 31, 2022

(tabular amounts in thousands of dollars)

e) Foundations

Covenant Health has responsibility for appointing the Board of Trustees of various Foundations and, as such, controls the Foundations. These Foundations raise funds to benefit Covenant Health and are registered charities under the Income Tax Act (Canada). The Foundations are not consolidated in these financial statements.

The financial summary of the Foundations as at March 31 and for the years then ended is as follows:

	2022			2021		
	Assets \$	Liabilities \$	Net assets \$	Assets \$	Liabilities \$	Net assets \$
Covenant Foundation	44,883	6,998	37,885	42,177	5,851	36,326
Mary Immaculate Hospital (Mundare) Foundation	100	8	92	389	175	214
Our Lady of the Rosary Hospital Foundation	773	5	768	795	3	792
St. Mary's Hospital, Camrose Foundation	6,332	10	6,322	6,086	14	6,072
St. Mary's Trochu Foundation	1,522	3	1,519	1,468	3	1,465
Killam & District Health Care Foundation	595	17	578	574	4	570
Bonnyville Health Foundation	1,256	56	1,200	1,348	116	1,232
	<u>55,461</u>	<u>7,097</u>	<u>48,364</u>	<u>52,837</u>	<u>6,166</u>	<u>46,671</u>

Covenant Health

Notes to Financial Statements

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(tabular amounts in thousands of dollars)

	2022			2021		
	Revenue \$	Expenses \$	Excess (deficiency) \$	Revenue \$	Expenses \$	Excess (deficiency) \$
Covenant Foundation	11,341	9,782	1,559	15,966	8,741	7,225
Mary Immaculate Hospital (Mundare) Foundation	23	145	(122)	77	180	(103)
Our Lady of the Rosary Hospital Foundation	30	54	(24)	102	49	53
St. Mary's Hospital, Camrose Foundation	402	152	250	1,541	161	1,380
St. Mary's Trochu Foundation	115	61	54	291	17	274
Killam & District Health Care Foundation	42	34	8	207	201	6
Bonnyville Health Foundation	251	283	(32)	291	233	58
	12,204	10,511	1,693	18,475	9,582	8,893

	2022			2021		
	Cash flows from Operating activities \$	Cash flows from Investing activities \$	Cash flows from Financing activities \$	Cash flows from Operating activities \$	Cash flows from Investing activities \$	Cash flows from Financing activities \$
Covenant Foundation	816	(1,737)	-	455	232	-
Mary Immaculate Hospital (Mundare) Foundation	(289)	-	-	9	294	-
Our Lady of the Rosary Hospital Foundation	(25)	(3)	(28)	(2)	(2)	-
St. Mary's Hospital, Camrose Foundation	(28)	47	-	100	(229)	-
St. Mary's Trochu Foundation	(3)	75	-	41	(8)	-
Killam & District Health Care Foundation	21	-	-	(86)	170	-
Bonnyville Health Foundation	(51)	-	-	(101)	600	-
	441	(1,618)	(28)	416	1,057	-

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

	Contributions received by Covenant Health for the year ended March 31,		Resources held by Foundation as at March 31, 2022	
			Endowments, Internally Restricted and donor restricted	Unrestricted
	2022 \$	2021 \$	\$	\$
Covenant Foundation	2,290	1,687	31,561	6,324
Mary Immaculate Hospital (Mundare) Foundation	139	172	26	66
Our Lady of the Rosary Hospital Foundation	16	7	156	612
St. Mary's Hospital Camrose Foundation	66	91	1,946	4,376
St. Mary's Trochu Foundation	33	2	359	1,160
Killam & District Health Care Foundation	27	195	140	438
Bonnyville Health Foundation	163	114	1,039	161
	<u>2,734</u>	<u>2,268</u>	<u>35,227</u>	<u>13,137</u>

Contributions include donor restricted amounts for equipment, programs, research and education:

	Administrative support and office space		Accounts receivable (Accounts payable)	
	2022 \$	2021 \$	2022 \$	2021 \$
Covenant Foundation	275	262	1,406	352
Mary Immaculate (Mundare) Hospital Foundation	-	-	5	172
Our Lady of the Rosary Hospital Foundation	16	20	(2)	-
St. Mary's Hospital, Camrose Foundation	18	18	-	4
St. Mary's Trochu Foundation	-	-	-	-
Killam & District Health Care Foundation	-	-	14	-
Bonnyville Health Foundation	21	34	48	16
	<u>330</u>	<u>334</u>	<u>1,471</u>	<u>544</u>

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

24 Supplementary cash flow information

- a) Net change in non-cash working capital items

	2022	2021
	\$	\$
Accounts receivable	(16,919)	(14,547)
Inventories	(31)	(94)
Prepaid expenses and deposits	2,582	192
Accounts payable and accrued liabilities	1,013	14,984
Accrued vacation pay	(189)	7,151
Deferred contributions	890	4,702
	<u>(12,654)</u>	<u>12,388</u>

- b) During the year, Covenant Health paid \$3,777,545 (2021 – \$3,972,145) in interest on long-term debt.

25 Trust funds

Covenant Health receives funds in trust for research and educational program purposes. These amounts are not reported in the financial statements. As at March 31, 2022, the balance of funds held by Covenant Health is \$3,651,010 (2021 – \$3,223,988).

26 Internally restricted net assets

	March 31, 2021	Transfers in	Transfers out	March 31, 2022
	\$	\$	\$	\$
Care and Services Fund	4,525	-	-	4,525
Occupational Health and Safety	457	-	(454)	3
Benefit Surplus Fund	5,000	-	(1,490)	3,510
Ancillary Capital Renewal	3,438	-	(1,009)	2,429
	<u>13,420</u>	<u>-</u>	<u>(2,953)</u>	<u>10,467</u>

27 Government remittances

Government remittances consist of amounts such as sales taxes and payroll withholding taxes required to be paid to government authorities and are recognized when the amounts come due. In respect of government remittances, \$14,521,622 (2021 – \$13,657,327) is included in accounts payable and accrued liabilities.

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

28 Financial risks

Credit Risk

Covenant Health is subject to credit risk on certain accounts receivable and our investment portfolio. The credit risk on accounts receivable is low as the majority of balances are due from government agencies. Management has established a provision for receivables and assesses it annually to address any new concerns that may arise. Given the nature of Covenant Health's accounts receivable balances, management has assessed that, based on current economic outlook and the potential impact of COVID-19, the change to our expected credit losses is not considered material.

Covenant Health is subject to credit risk on investments and has an established investment policy with required minimum credit quality standards to manage this risk. The economic uncertainty surrounding COVID-19 has caused some volatility in the equity markets, fluctuations in the fair value of investments may be experienced as the situation evolves.

Market Risk

Covenant Health is subject to market risk with its investments recorded at fair value. Accordingly, the values of these financial instruments will fluctuate as a result of changes in market prices, market conditions, or factors affecting the fair value of the investments. Should the value of the financial instruments decrease significantly, Covenant Health could incur material losses on disposal of the investments. Given the economic uncertainty surrounding COVID-19, there is increased risk that these fair values will fluctuate significantly.

Liquidity Risk

Liquidity risk is the risk Covenant Health will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivery of cash or another financial asset. Covenant Health is exposed to liquidity risk mainly with respect to its accounts payable and accrued liabilities and long-term debt. Refer to note 9 on long-term debt for further details on the aggregate minimum amount of payments. Cash flows from operations provides a substantial portion of Covenant Health's cash requirements. Short term borrowing to meet financial obligations would be available through established credit facilities as described in note 7.

29 Impact of COVID-19

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). Covenant Health is incurring costs associated with the pandemic, including additional staff hours, costs for additional personal protective equipment, and other related costs. The Alberta Government announced additional funding to cover incremental costs incurred as a result of the pandemic.

Further, COVID-19 has resulted in numerous health advisories and restrictions imposed by health officials which in turn has reduced or cancelled certain activities provided by Covenant Health sites and changed how other services are delivered. As such, fees and charges and ancillary operations revenues could potentially be impacted.

Covenant Health

Notes to Financial Statements

March 31, 2022

(tabular amounts in thousands of dollars)

In order to support COVID-19 initiatives, Covenant Health recorded contributions of \$48,519,664 (2021 - \$26,725,050) during the year as follows which, unless otherwise noted, have been recorded as Alberta Health Services global contributions:

- \$44,402,344 (2021 - \$21,234,718) for incremental operating expenditures arising from additional costs associated with the pandemic;
- \$3,274,234 (2021 - \$3,488,653) for additional Health Care Aides;
- \$843,086 (2021 - \$853,887) for lost accommodation revenue;
- \$nil (2021 - \$1,147,792) as a cash advance for Continuing Care recorded to Deferred Contributions (note 8). During the year, \$180,126 (2021 - \$nil) of the cash advance was repaid and \$967,665 (2021 - \$nil) is recorded as payable to Alberta Health Services (note 23 (d)) as at March 31, 2022.

As Alberta progresses through the response to COVID-19, Covenant Health continues to closely monitor the impacts of COVID-19 on its operations. Overall, as the response is ongoing and an end to the pandemic is indeterminable, the related financial and operational impacts of the pandemic cannot be reliably estimated at this time.

30 Comparative figures

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

Covenant Health

Schedule of Expenses by Object For the year ended March 31, 2022

Schedule 1

(in thousands of dollars)

	Budget 2022 \$	Actual 2022 \$	Actual 2021 \$
	(Unaudited – Note 17)		
Salaries, benefits and severance (schedule 2)	671,768	678,934	660,138
Drugs and gases	20,282	18,760	17,796
Medical supplies	46,455	48,909	38,270
Other contracted services	39,263	41,067	36,914
Interest on long-term debt	3,976	3,977	4,179
Other*	81,540	89,715	81,692
Amortization			
Equipment	5,633	5,785	6,284
Facilities and improvements	13,989	13,925	13,354
Loss on disposal of internally funded capital assets	-	95	13
	882,906	901,167	858,640
*Significant amounts included in Other			
Utilities		18,956	14,633
Food and dietary supplies		11,429	10,695
Building rent		10,492	10,378
Housekeeping, laundry and linen, plant maintenance and biomedical engineering supplies		16,359	16,535
Building and grounds expense		8,282	6,949
Equipment expense		5,752	5,425
Office supplies		4,024	3,908
Travel		2,850	2,364
Minor equipment purchases		2,485	2,084
Insurance		2,366	2,153
Licence, fees, memberships		2,057	1,960
Education		405	303
Telecommunications		970	949
Other expenses not included in the above		3,288	3,356
		89,715	81,692

Covenant Health

Schedule of Salaries, Honoraria, Benefits, Allowances and Severance For the year ended March 31, 2022

Schedule 2

(in thousands of dollars)

	2022							2021		
	Number of FTEs ⁽¹⁾	Base salary ⁽²⁾ \$	Other cash benefits ⁽³⁾ \$	Other non-cash benefits ⁽⁴⁾ \$	Subtotal \$	Severance ⁽⁵⁾		Number of FTEs ⁽¹⁾	Total \$	
						Number of Employees	Amount \$			
Board chair										
Stelmach, Ed	1.0	-	18	-	18	-	-	18	1.0	18
Board members										
Smith, Archbishop Richard	1.0	-	-	-	-	-	-	-	1.0	-
Fong, Angela (term started June 2020)	1.0	-	11	-	11	-	-	11	0.8	9
Gilbertson, Ronald	1.0	-	9	-	9	-	-	9	1.0	9
Heid, Sr. Mary Corita	1.0	-	9	-	9	-	-	9	1.0	9
Hertz, Joan (LOA January 2020 – July 2020)	1.0	-	10	-	10	-	-	10	0.8	6
Leskiw, Eugenia (term ended December 2021)	0.8	-	8	-	8	-	-	8	1.0	11
MacDonald, Elan (term started June 2021)	0.8	-	7	-	7	-	-	7	0.0	-
Martens, Paul	1.0	-	11	-	11	-	-	11	1.0	11
McClellan, Shirley (term ended December 2020)	0.0	-	-	-	-	-	-	-	0.8	8
Spelliscy, Timothy	1.0	-	11	-	11	-	-	11	1.0	11
Yuzwa, Greg	1.0	-	11	-	11	-	-	11	1.0	11
	10.6	-	105	-	105	-	-	105	10.4	103

Covenant Health

Schedule of Salaries, Honoraria, Benefits, Allowances and Severance For the year ended March 31, 2022

Schedule 2

(in thousands of dollars)

	2022								2021	
	Number of FTEs ⁽¹⁾	Base salary ⁽²⁾ \$	Other cash benefits ⁽³⁾ \$	Other non-cash benefits ⁽⁴⁾ \$	Subtotal \$	Severance ⁽⁵⁾		Total \$	Number of FTEs ⁽¹⁾	Total \$
						Number of Employees	Amount \$			
Staff										
Chief Executive Officer	1.0	499	27	174	700	-	-	700	1.0	764
Management persons reporting to CEO										
Chief Financial Officer	1.0	272	12	63	347	-	-	347	1.0	347
Chief Operating Officer	1.0	344	15	106	465	-	-	465	1.0	468
Chief Human Resources Officer	1.0	263	13	63	339	-	-	339	1.0	365
Chief Medical Officer	1.0	408	18	93	519	-	-	519	1.0	570
Chief Mission & Ethics Officer	1.0	213	10	64	287	-	-	287	1.0	307
	6.0	1,999	95	563	2,657	-	-	2,657	6.0	2,821
Management reporting to CEO direct reports	6.4	1,331	50	323	1,704	-	-	1,704	7.2	2,377
Other management	318.2	33,918	290	8,485	42,693	1.0	9	42,702	342.3	45,575
Regulated nurses not included above										
RNs	1,583.8	145,905	37,945	34,713	218,563	-	-	218,563	1,588.4	211,041
LPNs	738.8	47,316	10,104	11,232	68,652	-	-	68,652	721.0	64,885
Other health technical and professionals	756.1	70,343	4,605	17,116	92,064	-	-	92,064	752.7	90,454
Unregulated health service providers	1,238.8	59,964	14,048	15,519	89,531	-	-	89,531	1,261.2	87,798
Other staff	2,168.0	121,502	10,915	30,371	162,788	7.0	168	162,956	2,123.3	155,084
	6,810.1	480,279	77,957	117,759	675,995	8.0	177	676,172	6,796.1	657,214
Total salaries/benefits	6,826.7	482,278	78,157	118,322	678,757	8.0	177	678,934	6,812.5	660,138

Covenant Health

Schedule of Salaries, Honoraria, Benefits, Allowances and Severance ... *continued* Schedule 2 For the year ended March 31, 2022

(in thousands of dollars)

- (1) Full-time equivalent (FTE) is determined at the rate of 2,022.75 hours for each full-time employee. FTE for board members are pro-rated using the number of days in the fiscal year between either the date of appointment and the end of the year, or the beginning of the year and the termination date.
- (2) Base salary includes pensionable base pay.
- (3) Other cash benefits include overtime, lump sum payments, shift differentials and honoraria.
- (4) Other non-cash benefits include:
 - a) Employer's current service cost of the supplementary pension plan.
 - b) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, supplementary health and wellness, dental coverage, out of country medical benefits, group life insurance, accidental death and dismemberment, long-term disability plans, Canada Pension Plan, employment insurance, workers' compensation, car allowances and club memberships.
- (5) Severance expense includes amounts paid in lieu of notice and certain other severance related costs.

Covenant Health

Schedule of Salaries, Honoaria, Benefits, Allowances and Severance ... *continued*
 For the year ended March 31, 2022

Schedule 2

(in thousands of dollars)

	2022		2021			
	Other SPP costs ⁽¹⁾ \$	Total \$	Total \$	Account balances or accrued benefit obligation March 31, 2022 \$	Change during the year ⁽²⁾ \$	Account balances or accrued benefit obligation March 31, 2021 \$
Board direct reports						
Chief Executive Officer	52	52	68	1,405	(77)	1,482
Management persons reporting to CEO						
Chief Operating Officer	23	23	30	639	(25)	664
Ex-Chief Human Resources Officer	-	-	5	-	-	-
Chief Mission and Ethics Officer	8	8	11	215	(29)	244
Other members	45	45	65	935	(376)	1,311
	128	128	179	3,194	(507)	3,701

Under the terms of the supplementary pension plan (SPP), certain management may receive supplemental pension payments. Retirement arrangement costs as detailed above are not cash payments in the period but are the period expenses for rights to future compensation. Costs are based on actuarial assumptions described in note 13(a) and reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. SPP provides future pension benefits to participants based on years of service and earnings.

(1) Other costs include interest costs on the obligation, and initial obligations.

(2) Changes in the accrued benefit obligation include current service cost, interest accruing on the obligation, the full amount of any actuarial gains or losses in the period, and benefits paid.