Financial statements of
Toronto East Health Network

March 31, 2021

Deloitte.

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Independent Auditor's Report

To the Board of Directors of
Toronto East Health Network

Opinion

We have audited the financial statements of Toronto East Health Network (the "Hospital"), which comprise the statement of financial position as at March 31, 2021, and the statements of revenue and expenses, remeasurement gains and losses, changes in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2021, and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Hospital in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Hospital'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 Hospital or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Hospital'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 GAAS 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 GAAS, 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 Hospital'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 Hospital'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 Hospital 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.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 22, 2021

Toronto East Health Network
Statement of financial position
As at March 31, 2021
(In thousands of dollars)

	Notes	2021 $	2020 $
Assets			
Current			
Cash and short-term investments	3	**90,471**	66,183
Accounts receivable			
Patient and other (net of allowance of $566 (2020 - $555))		**4,921**	4,372
Due from government agencies		**16,159**	2,972
Toronto East Health Network Foundation	11	**222**	177
Inventory		**2,213**	1,428
Prepaid expenses and deposits		**3,196**	3,360
		117,182	78,492
Restricted cash	12(a)	**4,899**	4,418
Long-term investment	11	**—**	123
Capital assets	4	**196,373**	190,294
		318,454	273,327
Liabilities			
Current			
Accounts payable and accrued liabilities		**48,830**	38,569
Current portion of long-term debt	5	**436**	424
Current portion of capital lease obligations	6	**207**	615
Deferred revenue		**22,101**	12,382
Research funds	3	**1,759**	1,449
		73,333	53,439
Long-term debt	5	**5,207**	5,643
Long-term capital lease obligations	6	**13**	220
Derivative liability	7	**256**	566
Deferred capital grants and donations	8	**120,902**	103,329
Employee future benefits liabilities	9	**12,998**	12,021
Legal defence fund	12(a)	**3,717**	3,164
		216,426	178,382
Net assets			
Invested in capital assets	13	**90,818**	96,051
Internally restricted		**20,000**	20,000
Unrestricted		**(8,534)**	(20,540)
		102,284	95,511
Accumulated remeasurement losses	7	**(256)**	(566)
		102,028	94,945
		318,454	273,327

Commitment and contingencies 4 and 12

The accompanying notes to the financial statements are an integral part of this financial statement.

Approved by the Board

DocuSigned by:
Catriona Read
13758F127FD74AA..., Director

John J. Tobin, Director

Toronto East Health Network

Statement of revenue and expenses

Year ended March 31, 2021

(In thousands of dollars)

	Notes	2021 $	2020 $ (Note 16)
Revenue			
Government agencies		**290,806**	236,289
Patient income		**16,055**	19,907
Other income		**11,039**	12,208
Other votes programs	10	**9,534**	9,729
Amortization of deferred capital grants and donations	8	**4,743**	4,187
Interest income		**342**	583
Research		**95**	159
		332,614	283,062
Expenses			
Salaries, wages and employee benefits		**224,175**	190,271
Other supplies and expenses		**54,445**	43,419
Equipment and building amortization		**13,845**	13,901
Medical and surgical supplies		**12,371**	13,397
Drugs		**11,376**	11,202
Other votes programs	10	**9,534**	9,789
Research		**95**	159
		325,841	282,138
Excess of revenue over expenses for the year		**6,773**	924

The accompanying notes to the financial statements are an integral part of this financial statement.

	Notes	2021 $	2020 $
Accumulated remeasurement losses, beginning of year		**(566)**	(221)
Change in unrealized gain(losses) for the year attributable to derivatives	7	**310**	(345)
Accumulated remeasurement losses, end of year		**(256)**	(566)

The accompanying notes to the financial statements are an integral part of this financial statement.

Toronto East Health Network

Statement of changes in net assets

Year ended March 31, 2021
(In thousands of dollars)

	Notes	Invested in capital assets $ (Note 13)	Unrestricted $	Internally restricted $	2021 Total $	2020 Total $
Balance, beginning of year		**96,051**	**(20,540)**	**20,000**	**95,511**	94,587
Excess (deficiency) of revenue over expenses for the year		**(9,102)**	**15,875**	**—**	**6,773**	924
Repayment of long-term debt		**424**	**(424)**	**—**	**—**	—
Repayment of capital leases		**615**	**(615)**	**—**	**—**	—
Additions to capital assets		**19,924**	**(19,924)**	**—**	**—**	—
Capital grants and donations received	8	**(22,316)**	**22,316**	**—**	**—**	—
Foundation grants received for PCC		**5,222**	**(5,222)**	**—**	**—**	—
Balance, end of year		**90,818**	**(8,534)**	**20,000**	**102,284**	**95,511**

The accompanying notes to the financial statements are an integral part of this financial statement.

Toronto East Health Network
Statement of cash flows
Year ended March 31, 2021
(In thousands of dollars)

	Notes	2021 $	2020 $
Operating activities			
Excess of revenue over expenses for the year		**6,773**	924
Items not affecting cash and short-term investments			
Amortization of capital assets		**13,845**	13,901
Amortization of deferred capital grants and donations	8	**(4,743)**	(4,187)
Change in long-term assets		**123**	17
Legal defence fund obligation	12(a)	**553**	293
Employee future benefits expense	9	**1,625**	1,686
		18,176	12,634
Change in non-cash operating items			
Accounts receivable		**(13,781)**	(2,517)
Inventory		**(785)**	(494)
Prepaid expenses and deposits		**164**	(681)
Accounts payable and other accrued liabilities		**10,370**	3,814
Research funds		**310**	(193)
Deferred revenue		**9,719**	3,376
Employee future benefits paid	9	**(648)**	(543)
		23,525	15,396
Investing activity			
Contributions to legal defence fund	12(a)	**(481)**	(601)
Capital activity			
Additions to capital assets (net of change in accounts payable and other accrued liabilities relating to capital asset additions and assets through capital leases of $436 (2020 - $545)		**(20,033)**	(13,861)
Financing activities			
Capital grants	8	**22,316**	5,301
Repayment of long-term debt		**(424)**	(415)
Repayment of capital lease obligations		**(615)**	(916)
		21,277	3,970
Increase in cash and short-term investments		**24,288**	4,904
Cash and short-term investments, beginning of year		**66,183**	61,279
Cash and short-term investments, end of year	3	**90,471**	66,183

The accompanying notes to the financial statements are an integral part of this financial statement.

1. Purpose

Toronto East Health Network (the "Hospital") is a community teaching hospital located in southeast Toronto. The Hospital is a registered charity under the Income Tax Act (Canada) and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

Ontario Health ("OH"), a Crown agency of the Government of Ontario, was established on June 6, 2019. OH assumed the oversight responsibilities of the Toronto Central Local Health Integration Network ("TCLHIN"). The Board of Directors for OH constitutes the board that oversees a number of provincial agencies including all fourteen Local Health Integration Networks (LHINs) in Ontario, and Cancer Care Ontario. Effective April 1, 2021, OH assumed all responsibilities of the Toronto Central Local Health Integration Network ("TC LHIN") as it relates to the Hospital. In addition, all agreements between the Hospital and the TC LHIN were transferred to OH.

2. Significant accounting policies

Financial statement presentation

Management has prepared these financial statements in accordance with Canadian Public Sector Accounting Standards ("PSAS") for government not-for-profit organizations, using the deferral method of reporting restricted contributions. The financial statements do not include the assets, liabilities or operations of Toronto East Health Network Foundation (the "Foundation"), which is a related non-controlled organization (Note 11).

Description of net assets

Invested in capital assets net assets represents the net book value of the Hospital's capital assets, less any related long-term debt, capital leases and unamortized capital grants and donations.

Unrestricted net assets represent the deficiency of revenues over expenses accumulated from the ongoing operations of the Hospital since its inception less amounts invested in capital assets and amounts internally restricted.

Internally restricted net assets represent net assets for the Hospital's portion of the redevelopment project, which pertains to the multi-year project approved by MOH.

Revenue recognition

Under the Health Insurance Act (Ontario) and Regulations thereto, the Hospital is primarily funded by the Province of Ontario in accordance with budget arrangements established by the MOH through the TCLHIN and presently OH. Operating funding with no restrictions is recorded as revenue in the fiscal year to which it relates. Restricted contributions are recognized as revenue in the year in which the related eligible expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated, and collection is reasonably assured.

The extent to which the MOH/TCLHIN funding has been received, with the stipulated requirement that the Hospital provide specific services, and these services have not yet been provided, the funding is deferred until such time as the services are performed. In the event that the services are not performed in accordance with the funding requirements, the funds received in excess of monies spent could be recovered by the MOH, TCLHIN of OH.

Contributions externally restricted for the purchase of capital assets are deferred and amortized on a straight-line basis, at a rate corresponding with the amortization rate of the related capital assets.

2. Significant accounting policies (continued)

Revenue recognition (continued)

Some MOH/TCLHIN revenue is tied to patient volume and activity. Revenue is, therefore, based on estimated patient volumes pending MOH/TCLHIN confirmation. In addition, revenue linked to programs not yet underway has been deferred. The unrecognized revenue is included as deferred revenue.

Grants and funding authorized by the MOH, TCLHIN and/or OH as of the end of the fiscal year, and for which a specific purpose or use has been identified, are recognized as revenue when there is reasonable assurance that the Hospital has complied with, and will continue to comply with, the conditions necessary to earn the grants and/or funding. The recognition of revenue associated with such grants and funding requires management to make estimates and assumptions based on the best information available at the time of preparation of these financial statements. Final grants and funding approved is subject to the funders' reconciliation process and could differ from these estimates.

Grants and funding for which revenue has been earned but not received as at the end of the fiscal year are recognized as accounts receivable. Where a portion of a grant or funding relates to a future fiscal period, it is deferred and included as deferred revenue.

Financial instruments

Financial assets and liabilities are recognized when the Hospital becomes a party to the contractual provisions of the financial instrument.

The carrying value of financial instruments reported on the statement of financial position of the Hospital are measured as follows:

Cash and short-term investments	Fair value
Restricted cash	Fair value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Derivative liability	Fair value

The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. Transaction costs on financial assets measured at fair value are expensed as incurred.

Interest expense

Interest on long-term debt is recorded using the effective interest rate method.

Cash and short-term investments

Cash and short-term investments consists of cash on hand and short-term highly liquid investments that are readily convertible to known amounts of cash with a short-term maturity of 4 months or less from the date of acquisition.

Inventory

Inventory, which represent Hospital medical, surgical and other supplies are valued at the lower of average cost or replacement value.

2. Significant accounting policies (continued)

Capital assets

Capital assets are recorded at cost and amortization is provided on a straight-line basis over their estimated useful life at the following rates:

Buildings	40 to 50 years
Building renovations	20 to 40 years
Leasehold improvements	Over the term of the lease
Electronic patient records	10 to 20 years
Equipment	3 to 20 years
Equipment under capital lease	Shorter of the lease term and estimated useful life

Upon completion, costs in construction-in-progress including the New Patient Care Centre are reclassified to the appropriate capital asset category and amortization is commenced when the asset is operational.

Impairment of long-lived assets

When conditions indicate a capital asset no longer contributes to the Hospital's ability to provide services, or that the value of future economic benefits associated with the capital asset is less than its net book value, the cost of the capital asset will be reduced to reflect the decline in the asset's value.

Use of estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect revenue and expenses during the reporting period, in addition to the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Significant estimates included in the financial statements relate to revenue recognition, obligations for employee future benefits, certain accruals, deferred revenue and estimated useful life of capital assets.

The Hospital has entered into accountability agreements that set out the rights and obligations of the parties in respect of funding provided to the Hospital by OH for the year ended March 31, 2008 and for subsequent years. The accountability agreements set out certain performance standards and obligations that establish acceptable results for the Hospital's performance in a number of areas. If the Hospital does not meet its performance standards or obligations, OH has the right to adjust funding received by the Hospital. The OH is not required to communicate funding adjustments until after submission of year end data. Since this data is not submitted until after the completion of financial statements, the amount of the OH funding recognized during a year may be increased or decreased subsequent to year end. The amount of revenue recognized in these financial statements represents management's best estimate of amounts that have been earned during the year.

Employee future benefits liabilities

Employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan ("HOOPP"), which is a multi-employer best five consecutive year average pay defined benefit pension plan, and are entitled to certain post-employment benefits. Contributions made to HOOPP are expensed as funded, as the plan is accounted for as a defined contribution plan.

(In thousands of dollars)

2. Significant accounting policies (continued)

Employee future benefits liabilities (continued)

The Hospital provides certain post-employment benefits, which includes health, dental, and life insurance. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost method pro-rated on service, retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation was determined based on the provincial cost of borrowing rate recommended for hospital use as at March 31, 2021. The actuarial gains and losses are amortized over the average remaining service period of active employees. Past service costs are expensed when incurred.

Contributed services

A substantial number of volunteers contribute a significant amount of time each year to the Hospital. Due to the difficulty in determining the fair value, these contributed services are not recognized or disclosed in the financial statements and related notes in the financial statements. Contributed materials are recorded at fair value when received.

3. Cash and short-term investments

	2021	2020
	$	$
Cash and cash equivalents	**41,411**	17,595
Short-term investments	**47,301**	47,139
Restricted funds - research	**1,759**	1,449
	90,471	66,183

Short-term investments of $45,455 (2020 – 47,139) are restricted for the Ken and Marilyn Thomson Patient Care Centre (“PCC”) and comprised of term deposits and guaranteed investment certificates.

The effective yields on the term deposits and guaranteed investment certificates are between 0.64% and 1.59% per annum (2020 – 1.64% and 2.22%) and mature between April 27, 2021 and August 5, 2021 (2020 – April 20, 2020 and September 20, 2020).

The Hospital has available an operating credit facility (the “Facility”) with a single Canadian financial institution to finance working capital. The amount available under the Facility is $12,000 (2020 - $12,000) at prime less 0.25%. As at March 31, 2021, the Hospital had drawn a total of $nil (2020 - $nil) against this Facility.

(In thousands of dollars)

4. Capital assets

	Cost	Accumulated amortization	2021 Net book value	2020 Net book value
	$	$	$	$
Land and land improvements	**202**	**—**	**202**	202
Buildings and building renovations	**225,558**	**(111,968)**	**113,590**	112,941
Leasehold improvements	**4,354**	**(4,269)**	**85**	114
Equipment	**181,849**	**(155,889)**	**25,960**	25,359
Equipment under capital lease	**9,277**	**(7,841)**	**1,436**	1,894
Electronic patient records	**27,524**	**(20,207)**	**7,317**	8,320
Ken and Marilyn Thomson Patient Care Centre construction-in-progress	**41,489**	**—**	**41,489**	35,862
Other construction-in-progress	**6,294**	**—**	**6,294**	5,602
	496,547	**(300,174)**	**196,373**	190,294

The Hospital, in conjunction with MOH, has undertaken a major capital redevelopment project to design, build, and finance a new patient care centre. The new patient care centre will enable the Hospital to meet the healthcare needs of the community.

A Project Agreement was entered into on February 6, 2018 between the Hospital and Ellisdon Infrastructure MGH Inc. (“Project Co”). Project Co will design, engineer, construct, and commission the new patient care centre to provide the Hospital with a complete and operational facility. The construction’s guaranteed price is $411,018 of which the Hospital’s local share is $62,000.

5. Long-term debt

	2021	2020
	$	$
Bank loan, bears interest at a rate of Royal Bank Prime rate less 0.65% or Bankers' Acceptances rate plus 0.40% with monthly payments of principal and interest until May 2032	**5,643**	6,067
Less: current portion	**(436)**	(424)
Long-term portion	**5,207**	5,643

(In thousands of dollars)

5. Long-term debt (continued)

Principal payments required in the next five years and thereafter are as follows:

	$
2022	436
2023	448
2024	459
2025	473
2026	485
2027 and thereafter	3,342
	5,643

Interest expense recorded in the statement of revenue and expenses related to long-term debt is $149 (2020 - $161).

6. Capital lease obligations

	2021	2020
	$	$
Equipment loans secured by certain equipment with interest rates of -1.87% to 2.35% due at various times up to May 2022 with blended monthly payments of $48	**220**	835
Less: current portion	**(207)**	(615)
Long-term portion	**13**	220

Principal payments required in the next two years are as follows:

	$
2023	207
2024	13
	220

Interest on capital lease recorded in the statement of revenue and expenses related to the capital leases is $26 (2020 - $34).

7. Derivative liability

In connection with the financing obtained for the purpose of the facility at 840 Coxwell Ave, the Hospital entered into an interest rate swap agreement to modify the floating rate of interest on the loan from Royal Bank Prime rate less 0.65% or Bankers' Acceptances rate plus 0.40%, to a fixed rate of 2.54%. The start date of this interest rate swap was June 15, 2012 and has a maturity date of June 15, 2032. The notional value of the derivative financial instrument is $5,643 (2020 - $6,067). The fair value of the interest rate swap calculated using the discounted cash flow method at March 31, 2021 is a derivative liability of $256 (2020 - $566) and is reflected on the statement of financial position.

(In thousands of dollars)

8. Deferred capital grants and donations

Deferred capital grants and donations recorded for the year were as follows:

	2021	2020
	$	$
Deferred capital grants and donations, beginning of year	**103,329**	102,215
Capital grants and donations received during the year	**22,316**	5,301
Amortization for the year	**(4,743)**	(4,187)
Deferred capital grants and donations, end of year	**120,902**	103,329

Included in deferred capital grants and donations is an amount of $60,277 (2020 - $47,187) related to either capital assets under construction/not yet operational or unspent capital funding.

9. Employee future benefits liabilities

Pension plan

Employees of the Hospital are eligible to be members of the HOOPP, which is a multi-employer best five consecutive year average pay defined benefit pension plan. Contributions made to the plan during the year by the Hospital amounted to $11,956 (2020 - $11,549). These amounts are included in the employee benefits expense in the statement of revenue and expenses. Should there be a contribution deficiency in the plan; the Hospital may be required to make additional contributions to cover these deficiencies.

Other post-employment benefits

Employees of the Hospital are entitled to certain post-employment benefits. The Hospital uses the accrued benefit cost method for post-employment benefits. This method uses current market rates to estimate the present value of the post-employment liabilities, based on actuarial valuations. The most recent actuarial valuation of the Hospital was as of March 31, 2021.

(In thousands of dollars)

9. Employee future benefits liabilities (continued)

Information about the Hospital's post-employment future benefits liability is as follows:

	2021	2020
	$	$
Change in benefit obligation		
Accrued benefit obligation, beginning of year	**14,685**	14,698
Current service cost	**787**	788
Interest cost	**499**	484
Benefits paid	**(648)**	(543)
Actuarial experience losses	**(1,374)**	(742)
Accrued benefit obligation, end of year	**13,949**	14,685
Unamortized actuarial experience losses	**(950)**	(2,664)
Accrued benefit liability, end of year	**12,999**	12,021
Plan expense		
Current service cost	**787**	788
Interest cost	**499**	484
Amortization of actuarial experience losses	**339**	414
Net benefit expense during the year	**1,625**	1,686
Significant assumption on obligations		
Discount rate (%)	**3.21**	3.29
Average remaining service period of active employees to retirement who are expected to receive benefits under the benefits plan (years)	**10**	10
Dental cost increase	**4.71% per annum**	4% per annum
Extended health care	**4.26% per annum in fiscal 2021, changing annually based on the Canadian Institute of Actuaries Trend Rate Model 4.05% per annum in 2040**	4.14% per annum in fiscal 2020, changing annually based on the Canadian Institute of Actuaries Trend Rate Model 4.05% per annum in 2040

10. Other votes programs

Other votes programs represent Community Mental Health programs, Children's Mental Health Program, Ontario Health Team Program, Psychiatric Outpatient Medical Services Program, Primary Care programs and Substance Abuse Program administered by the Hospital with funding from the MOH.

Generally, funding is provided to cover all operating expenses. In some years there may be an operating deficit, which is to be covered by the Hospital.

11. Related entities

The Hospital is related to the Toronto East Health Network Foundation (the "Foundation").

The Foundation raises funds to support projects of the Hospital. The Hospital has an economic interest in the net assets of the Foundation. Excess of revenue over expenses generated by the Foundation are donated to the Hospital upon approval of the Foundation's Board of Directors.

The Hospital does not exercise control or significant influence over the Foundation; consequently, these financial statements do not include assets, liabilities and activities of the Foundation.

Deferred capital grants and donations received from the Foundation in the year are $5,249 (2020 – $1,132). In addition, the Foundation provided contributions of $2,231 (2020 - $2,282) during the year to fund operating expenses paid by the Hospital on behalf of the Foundation. As at March 31, 2021, the Foundation owed the Hospital $155 (2020 - $173) for operating costs paid on its behalf. This amount will be reimbursed by the Foundation subsequent to fiscal year end. Operating, research and education grants received from the Foundation in the year are $591 (2020 - $899). The remaining receivable of $67 (2020 - $4) relates to operating grants of $35 (2020 - $4) and capital grants of $32 (2020 - $nil).

The Hospital is a member of Plexxus, a not for profit shared services organization whose mandate is to provide supply chain services, financial, human resources and payroll services to member organizations. The objectives of Plexxus are to improve and maximize non-clinical efficiencies, resulting in savings that will be reinvested in direct patient care. During the year, the Hospital has paid $2,495 (2020 - $2,059) to Plexxus.

The Hospital is a member of Shared Hospital Laboratory, a not for profit organization whose mandate is to provide laboratory services to its member organizations. Effective April 1, 2019, Shared Hospital Laboratory transitioned from a for-profit organization to a not-for-profit organization, registered under the *Canada Not-for-profit Corporations Act.* Prior to April 1, 2019, The Hospital held an equity investment in Shared Hospital Laboratory Inc. As at April 1, 2019, the member Hospitals of the Shared Hospital Laboratory executed a transition agreement to convert the existing preferred shares to deferred capital contributions for Shared Hospital Laboratory and will be applied against previously acquired capital assets. Due to this change, the Hospital has written off the remaining long-term investments associated with Shared Hospital Laboratory (2020 - $123). During the fiscal year, the Hospital paid $1,518 (2020 - $891) to the organization in connection with laboratory services. Effective September 15, 2020, Shared Hospital Laboratory leased space from the Hospital for the temporary storage of materials. The remaining receivable of $32 (2020 - $nil) remains outstanding at year-end.

12. Contingencies, commitments and guarantees

(a) The Hospital is a member of the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of liability insurance risks of its members. All members of the pool pay annual premiums, which are actuarially determined. All members are subject to reassessment for losses, if any, experienced by the pool for the years in which they are members. No negative reassessments have been made to March 31, 2021.

Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income, less the obligation for claims reserves and expenses and operating expenses. Each subscriber who has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors at HIROC. There are no distributions receivable from HIROC as at March 31, 2021.

(In thousands of dollars)

12. Contingencies, commitments and guarantees (continued)

In 2014, the Hospital entered into an agreement with HIROC whereby HIROC continues to provide indemnity insurance to the Hospital; however, the cost of investigating and defending any claims, previously included in the insurance premium, will be borne by the

Hospital. Under the agreement, the Hospital transfers funds to HIROC Management Limited ("HML"), which acts as an agent to pay legal expenses on behalf of the Hospital. For the year ended March 31, 2021, the Hospital has cash restricted for these purposes of $4,899 (2020 - $4,418) and has estimated the liability of defence costs associated with claims arising subsequent to the start of the agreement as $3,717 (2020 - $3,164).

(b) Minimum annual operating lease payments for leases which expire at various dates up to April 30, 2031 are as follows:

	$
2022	1,985
2023	1,718
2024	1,669
2025	1,516
2026	1,413
2027 and thereafter	5,509
	13,810

(c) In the normal course of business, the Hospital enters into agreements that meet the definition of a guarantee. The Hospital's primary guarantees are as follows:

(i) Indemnity has been provided to all directors and officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Hospital.

(ii) In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction.

The nature of these indemnification agreements prevents the Hospital from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability that stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Hospital has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the statement of financial position with respect to these agreements. As well, the current inventory of contracts and agreements does not indicate any exposure to liability.

(d) The nature of the Hospital's activities is such that there is usually litigation pending or in progress at any one time. With respect to claims as at March 31, 2021, it is management's position that the Hospital has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have a material effect on the Hospital's financial position.

(In thousands of dollars)

13. Invested in capital assets

Invested in capital assets is determined as follows:

	2021 $	2020 $
Capital assets	**196,373**	190,294
Less:		
Current portion of long-term debt	**(436)**	(424)
Current portion of capital lease obligations	**(207)**	(615)
Long-term debt	**(5,207)**	(5,643)
Long-term capital lease obligations	**(13)**	(220)
Deferred capital grants and donations	**(120,902)**	(103,329)
Add:		
Unspent Foundation grants for PCC	**21,210**	15,988
Invested in capital assets	**90,818**	96,051

14. Financial instruments and risk management

Establishing fair value

The fair value of the interest rate swap is determined using the discounted cash flow method.

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The only financial instrument that is remeasured to fair value on a regular basis is the derivative liability arising from the interest rate swap (Note 7). The valuation of the derivative liability is considered a Level 2 fair value measurement.

The Hospital, through its financial assets and liabilities has exposure to the following risks from its use of financial instruments:

Credit risk

The Hospital's principal financial assets are cash and short-term investments, restricted cash and accounts receivable, which are subject to credit risk. The carrying amounts of financial assets on the statement of financial position represents the Hospital's maximum credit exposure at the statement of financial position date.

14. Financial instruments and risk management (continued)

Credit risk (continued)

The Hospital's credit risk is primarily attributable to its accounts receivable. The amounts recognized on the statement of financial position are net of allowance of doubtful accounts, estimated by the management of the Hospital based on previous experience and its assessment of the current economic environment. The credit risk on cash is limited because the counterparty is a chartered bank with a high credit rating assigned by national credit-rating agencies.

Liquidity risk

Liquidity risk is the risk the Hospital will not be able to meet its financial obligations when they come due. The Hospital manages its liquidity risk by forecasting cash flows from operations and anticipating investing and financing activities and maintaining credit facilities to ensure it has sufficient funds to meet current and foreseeable financial requirements.

Accounts payable mature within six months. The maturities of other financial liabilities are provided in the notes to the financial statements related to these liabilities.

Interest rate risk

The Hospital has long-term debt with floating and fixed rates. The interest rate risk on long-term debt with floating rates is mitigated through an interest rate swap contract (Note 7).

15. Pandemic response

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel corona virus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put into place to combat the spread of the virus.

As a result of the Hospital's COVID-19 response, the Hospital has experienced a change in demand for its services and incurred unbudgeted pandemic response expenditures. The MOH/LHIN/OH have issued funding announcements to support the COVID-19 response across the hospital sector. The various funding envelopes are intended to support the continued provision of patient care during the pandemic, to reduce operating pressures resulting from surgical backlogs, delayed or cancelled procedures, and lost non-MOH revenue, and to offset the incremental operating and capital expenditures incurred to provide direct COVID-19 care, including assessments, vaccine administration and critical care.

The Hospital has tracked expenditures related to its COVID-19 response and has received reimbursement for incremental expenses. The Hospital also received funding from the government for other financial pressures experienced as a result of the pandemic, which includes loss on government and non-government revenues. This financial support from the government has allowed the Hospital to maintain its core operations while carrying out activities in response to the impacts of COVID-19.

The duration and long-term impact of the COVID-19 pandemic is unknown at this time and it is not possible to reliably estimate the impact that the severity and length of the pandemic will have on the financial results and condition of the Hospital in future periods.

16. Comparative figures

The comparative figures have been reclassified from the financial statements previously presented to conform to the presentation of the 2020 financial statements.

Salaries and wages, Employee benefits and Medical remuneration and reimbursement have been combined into one amount to conform with the current year's presentation.