Financial statements of
Toronto East Health Network

March 31, 2022

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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, 2022, 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, 2022, 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
May 24, 2022

Toronto East Health Network

Statement of financial position

As at March 31, 2022

(In thousands of dollars)

	Notes	2022	2021
		$	$
Assets			
Current			
Cash and short-term investments	3	**109,576**	90,471
Accounts receivable			
Patient and other (net of allowance of $523 (2021 - $566))		**8,179**	4,921
Due from government agencies		**30,106**	16,159
Toronto East Health Network Foundation	11	**182**	222
Inventory		**1,905**	2,213
Prepaid expenses and deposits		**4,169**	3,196
		154,117	117,182
Restricted cash	12(a)	**5,272**	4,899
Capital assets	4	**212,230**	196,373
		371,619	318,454
Liabilities			
Current			
Accounts payable and accrued liabilities		**53,121**	46,330
Current portion of long-term debt	5	**448**	436
Current portion of capital lease obligations	6	**13**	207
Deferred revenue		**46,986**	24,601
Research funds	3	**2,003**	1,759
		102,571	73,333
Long-term debt	5	**4,759**	5,207
Long-term capital lease obligations	6	**—**	13
Derivative liability	7	**720**	256
Deferred capital grants and donations	8	**137,798**	120,902
Employee future benefits liabilities	9	**13,997**	12,998
Legal defence fund	12(a)	**3,989**	3,717
		263,834	216,426
Net assets			
Invested in capital assets	13	**101,122**	90,818
Internally restricted		**20,000**	20,000
Unrestricted		**(12,617)**	(8,534)
		108,505	102,284
Accumulated remeasurement losses	7	**(720)**	(256)
		107,785	102,028
		371,619	318,454

Commitments and contingencies 4 and 12

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

Approved by the Board

John J. Tobin, Director

Catriona Read, Director

Toronto East Health Network

Statement of revenue and expenses

Year ended March 31, 2022
(In thousands of dollars)

	Notes	2022 $	2021 $
Revenue			
Government agencies		**305,994**	288,306
Patient income		**18,564**	16,055
Other income		**12,138**	11,039
Other votes programs	10	**20,721**	9,534
Amortization of deferred capital grants and donations	8	**5,263**	4,743
Interest income		**386**	342
Research		**153**	95
		363,219	330,114
Expenses			
Salaries, wages and employee benefits		**241,114**	224,175
Other supplies and expenses		**53,352**	51,945
Equipment and building amortization		**14,355**	13,845
Medical and surgical supplies		**15,105**	12,371
Drugs		**12,198**	11,376
Other votes programs	10	**20,721**	9,534
Research		**153**	95
		356,998	323,341
Excess of revenue over expenses for the year		**6,221**	6,773

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

Toronto East Health Network

Statement of remeasurement gains and losses

Year ended March 31, 2022

(In thousands of dollars)

	Notes	2022 $	2021 $
Accumulated remeasurement losses, beginning of year		**(256)**	(566)
Change in unrealized (losses) gains for the year attributable to derivatives	7	**(464)**	310
Accumulated remeasurement losses, end of year		**(720)**	(256)

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, 2022
(In thousands of dollars)

	Notes	Invested in capital assets $ (Note 13)	Unrestricted $	Internally restricted $	2022 Total $	2021 Total $
Balance, beginning of year		**90,818**	**(8,534)**	**20,000**	**102,284**	95,511
Excess (deficiency) of revenue over expenses for the year		**(9,092)**	**15,313**	**—**	**6,221**	6,773
Repayment of long-term debt		**436**	**(436)**	**—**	**—**	—
Repayment of capital leases		**207**	**(207)**	**—**	**—**	—
Additions to capital assets		**30,212**	**(30,212)**	**—**	**—**	—
Capital grants and donations received	8	**(22,159)**	**22,159**	**—**	**—**	—
Foundation grants received for Ken & Marilyn Thomson Patient Care Centre		**10,700**	**(10,700)**	**—**	**—**	—
Balance, end of year		**101,122**	**(12,617)**	**20,000**	**108,505**	**102,284**

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, 2022

(In thousands of dollars)

	Notes	2022 $	2021 $
Operating activities			
Excess of revenue over expenses for the year		**6,221**	6,773
Items not affecting cash and short-term investments			
Amortization of capital assets		**14,355**	13,845
Amortization of deferred capital grants and donations	8	**(5,263)**	(4,743)
Change in long-term assets		**—**	123
Legal defence fund liability (net)	12(a)	**272**	553
Employee future benefits expense	9	**1,430**	1,625
		17,015	18,176
Change in non-cash operating items			
Accounts receivable		**(17,165)**	(13,781)
Inventory		**308**	(785)
Prepaid expenses and deposits		**(973)**	164
Accounts payable and other accrued liabilities		**3,300**	7,870
Research funds		**244**	310
Deferred revenue		**22,385**	12,219
Employee future benefits paid	9	**(431)**	(648)
		24,683	23,525
Investing activity			
Contributions to legal defence fund (net)	12(a)	**(373)**	(481)
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 $3,927 (2021 - $436))		**(26,721)**	(20,033)
Financing activities			
Capital grants	8	**22,159**	22,316
Repayment of long-term debt		**(436)**	(424)
Repayment of capital lease obligations		**(207)**	(615)
		21,516	21,277
Increase in cash and short-term investments		**19,105**	24,288
Cash and short-term investments, beginning of year		**90,471**	66,183
Cash and short-term investments, end of year	3	**109,576**	90,471

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.

The Hospital’s operations are funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ministry of Health (“MOH”) and Ontario Health (“OH”), a Crown agency of the Government of Ontario. Effective April 1, 2021, OH assumed all responsibilities of the previous Toronto Central Local Health Integration Network (“TC LHIN”) and Cancer Care Ontario as it relates to the Hospital. In addition, all agreements between the Hospital and the TC LHIN and Cancer Care Ontario 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 (deficiency) 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 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/OH 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/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/OH revenue is tied to patient volume and activity. Revenue is, therefore, based on estimated patient volumes pending MOH/OH 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 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 6 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.

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.

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, 2022. 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.

(In thousands of dollars)

2. Significant accounting policies (continued)

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, allowance for doubtful accounts, accrued liabilities ,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, Ministry/OH has the right to adjust funding received by the Hospital. Ministry/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 Ministry/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.

3. Cash and short-term investments

	2022	2021
	$	$
Cash and cash equivalents	**26,694**	41,411
Short-term investments (restricted)	**50,254**	45,455
Short-term investments (unrestricted)	**30,625**	1,846
Restricted funds - research	**2,003**	1,759
	109,576	90,471

Short-term investments of $50,254 (2021 – 45,455) are restricted for the Ken & Marilyn Thomson Patient Care Centre ("K&MTPCC") and comprised of term deposits and guaranteed investment certificates.

The effective yields on the term deposits and guaranteed investment certificates are between 0.61% and 0.87% per annum (2021 – 0.64% and 1.59%) and mature between May 17, 2022 and September 14, 2022 (2021 – April 27, 2021 and August 5, 2021).

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 (2021 - $12,000) at prime less 0.25%. As at March 31, 2022, the Hospital had drawn a total of $nil (2021 - $nil) against this Facility.

(In thousands of dollars)

4. Capital assets

	Cost $	Accumulated amortization $	2022 Net book value $	2021 Net book value $
Land and land improvements	**202**	**–**	**202**	202
Buildings and building renovations	**231,645**	**(118,471)**	**113,174**	113,590
Leasehold improvements	**4,354**	**(4,298)**	**56**	85
Equipment	**185,695**	**(162,373)**	**23,322**	25,960
Equipment under capital lease	**9,277**	**(8,177)**	**1,100**	1,436
Electronic patient records	**27,524**	**(21,210)**	**6,314**	7,317
Ken & Marilyn Thomson Patient Care Centre construction-in-progress	**57,790**	**–**	**57,790**	41,489
Other construction-in-progress	**10,272**	**–**	**10,272**	6,294
	526,759	**(314,529)**	**212,230**	196,373

The Hospital, in conjunction with MOH, has undertaken a major capital redevelopment project to design, build, and maintain the K&MTPCC. The K&MTPCC 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 K&MTPCC 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

	2022 $	2021 $
Bank loan, bears interest at a rate of Canadian Dollar Offered Rate (CDOR) plus 0.40% or Royal Bank Prime rate plus 0% with monthly payments of principal and interest until May 2032	**5,207**	5,643
Less: current portion	**(448)**	(436)
Long-term portion	**4,759**	5,207

(In thousands of dollars)

5. Long-term debt (continued)

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

	$
2023	448
2024	459
2025	473
2026	485
2027	498
2028 and thereafter	2,844
	5,207

Interest expense recorded in the statement of revenue and expenses related to long-term debt is $138 (2021 - $149).

During the year on October 14, 2021, the Hospital amended an existing credit facility agreement to finance the construction of the K&MTPCC. The four new facilities include:

(i) The first facility for $25,000 is to finance the refundable portion of the Harmonized Sales Tax (HST) associated with the K&MTPCC project. The facility bears interest at a rate of CDOR plus 0.24% per annum or Royal Bank Prime rate plus 0%. Repayment will conclude on October 11, 2024.

(ii) The second facility for $37,000 is to finance holdback payments associated with the K&MTPCC Project. The facility bears interest at a rate of CDOR plus 0.29% per annum or Royal Bank Prime rate plus 0%. Repayment will conclude on October 13, 2027.

(iii) The third facility for $15,500 is to finance general costs associated with the K&MTPCC Project. The facility bears interest at a rate of CDOR plus 0.34% per annum or Royal Bank Prime rate plus 0%. Repayment will conclude on October 12, 2029.

(iv) The fourth facility for $10,000 is for general corporate purposes. The facility bears interest at a rate of CDOR plus 0.34% per annum or Royal Bank Prime rate plus 0%. Repayment will conclude on October 12, 2029.

As at March 31, 2022, the hospital has drawn $nil against the four facilities described above.

6. Capital lease obligations

	2022	2021
	$	$
Equipment loans secured by certain equipment with interest rates of 2.35% due on May 2022	**13**	220
Less: current portion	**(13)**	(207)
Long-term portion	**—**	13

(In thousands of dollars)

6. Capital lease obligations (continued)

Principal payments required in the next year are as follows:

	$
2023	13
	13

Interest on capital lease recorded in the statement of revenue and expenses related to the capital leases is $10 (2021 - $26).

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% or CDOR 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.

On October 14, 2021, in connection with the financing obtained for the construction of the K&MTPCC, the hospital entered into two additional interest rate swap agreements to modify the floating rate of interest on the loan from Royal Bank Prime rate less 0% or CDOR rate plus 0.29% [5(ii)], to a fixed rate of 2.22% and to modify the floating rate of interest on the loan from Royal Bank Prime rate less 0% or CDOR rate plus 0.34% [5(iii) and 5(iv)] to a fixed rate of 2.24%.

The notional value of the derivative financial instruments is $46,355 (2021 - $5,643). The fair value of the interest rate swap calculated using the discounted cash flow method at March 31, 2022 is a derivative liability of $720 (2021 - $256) and is reflected on the statement of financial position.

8. Deferred capital grants and donations

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

	2022	2021
	$	$
Deferred capital grants and donations, beginning of year	**120,902**	103,329
Capital grants and donations received during the year	**22,159**	22,316
Amortization for the year	**(5,263)**	(4,743)
Deferred capital grants and donations, end of year	**137,798**	120,902

Included in deferred capital grants and donations is an amount of $77,941 (2021 - $60,277) related to either capital assets under construction/not yet operational or unspent capital funding.

(In thousands of dollars)

9. Employee future benefits liabilities

Pension plan

Employees of the Hospital are eligible to be members of the HOOPP, 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 $12,567 (2021 - $11,956). 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.

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

	2022	2021
	$	$
Change in benefit obligation		
Accrued benefit obligation, beginning of year	**13,949**	14,685
Current service cost	**758**	787
Interest cost	**465**	499
Benefits paid	**(431)**	(648)
Actuarial experience losses	**(1,095)**	(1,374)
Accrued benefit obligation, end of year	**13,646**	13,949
Unamortized actuarial experience gains (losses)	**351**	(950)
Accrued benefit liability, end of year	**13,997**	12,999
Plan expense		
Current service cost	**758**	787
Interest cost	**465**	499
Amortization of actuarial experience losses	**207**	339
Net benefit expense during the year	**1,430**	1,625
Significant assumptions		
Discount rate (%)	**3.89**	3.21
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	**4.93% per annum**	4.71% per annum
Extended health care	**4.48% per annum in fiscal 2022, changing annually based on the Canadian Institute of Actuaries Trend Rate Model 4.05% per annum in 2040**	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

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, Community Alternate Level of 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

Toronto East Health Network

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 $11,844 (2021 – $5,249). In addition, the Foundation provided contributions of $2,437 (2021 - $2,231) during the year to fund operating expenses paid by the Hospital on behalf of the Foundation. As at March 31, 2022, the Foundation owed the Hospital $182 (2021 - $155) 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 $859 (2021 - $591). The remaining receivable of $nil (2021 - $67) relates to operating grants of $nil (2021 - $35) and capital grants of $ nil (2021 - $32).

Plexxus

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 $2,294 (2021 - $2,495) to Plexxus.

Shared Hospital Laboratory

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 $842 (2021 - $1,518) 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 $869 (2021 - $32) remains outstanding at year-end.

(In thousands of dollars)

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, 2022.

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, 2022 (Nil in March 31, 2021).

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, 2022, the Hospital has cash restricted for these purposes of $5,272 (2021 - $4,899) and has estimated the liability of defence costs associated with claims arising subsequent to the start of the agreement as $3,989 (2021 - $3,717).

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

	$
2023	2,220
2024	2,113
2025	1,965
2026	1,811
2027	1,476
2028 and thereafter	4,214
	13,799

(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.

(In thousands of dollars)

12. Contingencies, commitments and guarantees

(c) (continued)

(ii) (continued)

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, 2022, 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.

13. Invested in capital assets

Invested in capital assets is determined as follows:

	2022	2021
	$	$
Capital assets	**212,230**	196,373
Less:		
Current portion of long-term debt	**(448)**	(436)
Current portion of capital lease obligations	**(13)**	(207)
Long-term debt	**(4,759)**	(5,207)
Long-term capital lease obligations	**—**	(13)
Deferred capital grants and donations	**(137,798)**	(120,902)
Add:		
Unspent Foundation grants for K&MTPCC	**31,910**	21,210
Invested in capital assets	**101,122**	90,818

14. Financial instruments and risk management

Establishing fair value

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

Fair value hierarchy

Financial instruments that are remeasured subsequent to initial recognition at fair value are 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,

14. Financial instruments and risk management (continued)

- 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.

Risk management

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 that are subject to credit risk include cash and short-term investments, restricted cash and accounts receivable. 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.

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 and short-term investments 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.

15. Pandemic response (continued)

As a result of the Hospital's COVID-19 response, the Hospital has continued to experience a change in demand for its services and incurred incremental pandemic response expenditures. The MOH/OH are supporting the Ontario Hospitals through this time with a series of different funding envelopes, including incremental expense reimbursements to offset 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 expenditures. 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 continues to be 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

Certain comparative figures have been reclassified from the financial statements previously presented to conform to the presentation of the 2022 financial statements.

An amount of $2,500, which was included in accounts payable and accrued liabilities and expenses, has been reclassified to deferred revenue and revenues from government agencies, respectively.