Financial statements of
Toronto East Health Network

March 31, 2023

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, 2023, 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, 2023, 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 23, 2023

Toronto East Health Network
Statement of financial position
As at March 31, 2023
(In thousands of dollars)

	Notes	2023 $	2022 $ (Note 3 and Note 20)
Assets			
Current			
Cash	4	**26,104**	28,697
Short-term investments	5	**126,936**	80,879
Accounts receivable			
Patient and other (net of allowance of $1,255 in 2023 ($523 in 2022))		**8,125**	8,179
Due from government agencies		**13,102**	30,106
Toronto East Health Network Foundation	15	**316**	182
Inventory		**2,159**	1,905
Prepaid expenses and deposits		**4,909**	4,169
		181,651	154,117
Restricted cash	16(a)	**5,662**	5,272
Capital assets	6	**630,474**	212,280
Long-term receivable	7 and 15	**153,511**	—
		971,298	371,669
Liabilities			
Current			
Accounts payable and accrued liabilities		**74,690**	53,134
Current portion of long-term debt	8	**459**	448
Deferred revenue		**49,212**	46,986
Research funds	4	**2,301**	2,003
		126,662	102,571
Long-term debt	8	**4,300**	4,759
Long-term liability	9	**168,158**	—
Asset retirement obligation	10	**1,269**	1,217
Derivative liability	11	**1,056**	720
Deferred capital grants and donations	12	**545,199**	137,798
Employee future benefits liabilities	13	**14,746**	13,997
Legal defence fund	16(a)	**3,626**	3,989
		865,016	265,051
Net assets			
Invested in capital assets	17	**120,557**	99,955
Internally restricted		**20,000**	20,000
Unrestricted		**(33,219)**	(12,617)
		107,338	107,338
Accumulated remeasurement losses	11	**(1,056)**	(720)
		106,282	106,618
		971,298	371,669

Commitments and contingencies — 6 and 16

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

Approved by the Board

Carol Chiu (June 19, 2023), Director

Lovisa McCallum (June 23, 2023), Director

Toronto East Health Network
Statement of revenue and expenses
Year ended March 31, 2023
(In thousands of dollars)

	Notes	2023 $	2022 $ (Note 3 and Note 20)
Revenue			
Government agencies		**318,422**	305,994
Patient income		**22,193**	18,564
Other income		**13,475**	12,138
Other votes programs	14	**13,196**	20,721
Amortization of deferred capital grants and donations	12	**11,010**	5,263
Interest income		**1,399**	386
Research		**223**	153
		379,918	363,219
Expenses			
Salaries, wages and employee benefits	13	**257,067**	241,114
Other supplies and expenses		**58,989**	53,399
Equipment and building amortization		**19,956**	14,361
Medical and surgical supplies		**16,684**	15,105
Drugs		**13,803**	12,198
Other votes programs	14	**13,196**	20,721
Research		**223**	153
		379,918	357,051
Excess of revenue over expenses for the year		**—**	6,168

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

Toronto East Health Network

Statement of remeasurement gains and losses

Year ended March 31, 2023

(In thousands of dollars)

	Notes	2023 $	2022 $
Accumulated remeasurement losses, beginning of year		**(720)**	(256)
Change in unrealized losses for the year attributable to derivatives	11	**(336)**	(464)
Accumulated remeasurement losses, end of year		**(1,056)**	(720)

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

Toronto East Health Network

Statement of changes in net assets

Year ended March 31, 2023
(In thousands of dollars)

	Notes	Invested in capital assets $	Unrestricted $	Internally restricted $	2023 Total $	2022 Total $
		(Note 17)				(Note 3)
Balance, beginning of year (Note 3)		**99,955**	**(12,617)**	**20,000**	**107,338**	101,170
Excess (deficiency) of revenue over expenses for the year		**(8,998)**	**8,998**	**—**	**—**	6,168
Repayment of long-term debt	8	**448**	**(448)**	**—**	**—**	—
Repayment of capital leases		**13**	**(13)**	**—**	**—**	—
Additions to capital assets		**438,150**	**(438,150)**	**—**	**—**	—
Capital grants and donations received	12	**(418,411)**	**418,411**	**—**	**—**	—
Foundation grants received for Ken & Marilyn Thomson Patient Care Centre		**9,400**	**(9,400)**	**—**	**—**	—
Balance, end of year		**120,557**	**(33,219)**	**20,000**	**107,338**	107,338

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

Toronto East Health Network
Statement of cash flows
Year ended March 31, 2023
(In thousands of dollars)

	Notes	2023 $	2022 $ (Note 3 and Note 20)
Operating activities			
Excess of revenue over expenses for the year		—	6,168
Items not affecting cash			
Amortization of capital assets		19,956	14,361
Amortization of deferred capital grants and donations	12	(11,010)	(5,263)
Amortization of asset retirement obligation	10	52	47
Legal defence fund liability (net)	16(a)	(363)	272
Employee future benefits expense	13	1,353	1,430
		9,988	17,015
Change in non-cash operating items			
Accounts receivable		16,924	(17,165)
Inventory		(254)	308
Prepaid expenses and deposits		(740)	(973)
Accounts payable and other accrued liabilities		23,774	3,300
Research funds		298	244
Deferred revenue		2,226	22,385
Employee future benefits paid	13	(604)	(431)
		51,612	24,683
Investing activities			
Purchase of short-term investments	5	(46,057)	(33,578)
Contributions to legal defence fund (net)	16(a)	(390)	(373)
		(46,447)	(33,951)
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 $2,205 ($3,927 in 2022))		(440,355)	(26,721)
Financing activities			
Capital grants	12	418,411	22,159
Addition of long-term liabilities	9	168,158	—
Increase in long-term receivables	7	(153,511)	—
Repayment of long-term debt		(448)	(436)
Repayment of capital lease obligations		(13)	(207)
		432,597	21,516
Decrease in cash		(2,593)	(14,473)
Cash, beginning of year		28,697	43,170
Cash, end of year	4	26,104	28,697

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

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 15).

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 and asset retirement obligations.

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

Cash consists of cash on hand.

Short-term investments

Short-term investments consists of 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.

2. Significant accounting policies (continued)

Inventory

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

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

Costs relating to construction-in-progress including the Ken & Marilyn Thomson Patient Care Centre ("K&MTPCC") are reclassified to the appropriate capital asset category and amortization is commenced once the asset is operational.

Asset Retirement Obligations

Asset retirement obligations (ARO's) are provisions for legal obligations for the retirement of the Hospital's capital assets that are either in productive use or no longer in productive use.

An ARO liability is recognized when, as at the financial reporting date:

- there is a statutory, contractual, or legal obligation to incur retirement costs in relation to a capital asset;
- the past transaction or event giving rise to the liability has occurred;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

ARO's are recognized by the Hospital in the period in which an obligation arises for statutory, contractual, or legal obligations associated with the retirement of capital assets when those obligations result from the acquisition, construction, development, or normal operation of the capital assets. The obligations are measured initially at management's best estimate of the present value of the estimated future cash flows required to settle the retirement obligation. For capital assets that are still in productive use, there is a corresponding increase to the carrying value of the related tangible capital asset. For assets that are not recorded or are no longer in productive use, the liability is expensed in the period. In subsequent periods, the liability is accreted over time and adjusted for changes in the liability estimate, as applicable or timing of the future cash flows. The capitalized asset retirement costs are amortized on the same basis as the related capital asset, and accretion expense is included in the Statement of revenues and expenses.

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.

2. Significant accounting policies (continued)

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, 2023. 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.

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, estimated useful life of capital assets and the estimated costs and applicability of asset retirement obligations.

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. Change in Accounting Policy

Effective April 1, 2021, the Hospital adopted PS 3280, Asset Retirement Obligations using the modified retroactive application method. Under this method, the Hospital recognized:

- A liability for any existing asset retirement obligations, adjusted for accumulated accretion;
- An asset retirement cost capitalized as an increase to the carrying amount of the related capital assets;
- Accumulated amortization on that capitalized cost; and
- An adjustment to the opening balance of net assets.

(In thousands of dollars)

3. Change in Accounting Policy (continued)

The change in accounting policy follows the effective implementation date for Asset Retirement Obligations in accordance with PS 3280 for fiscal years beginning on or after April 1, 2022. Comparative figures as at and for the year ended March 31, 2022 have been restated. The impact of restatement to comparative figures is as follows:

Statement of financial position

	March 31, 2022 As previously reported $	Retroactive adjustments $	March 31, 2022 $ Restated
Capital assets	212,230	50	212,280
Asset retirement obligation	—	1,217	1,217
Invested in capital assets	101,122	(1,167)	99,955

Statement of revenues and expenses

	March 31, 2022 As previously reported $	Retroactive adjustments $	March 31, 2022 $ Restated
Other supplies and expenses	53,352	47	53,399
Equipment and building amortization	14,355	6	14,361
Excess of revenue over expenses for the year	6,221	53	6,168

4. Cash

	2023 **$**	2022 $
Unrestricted	**18,160**	26,694
Restricted funds - K&MTPCC	**5,643**	—
Restricted funds - research	**2,301**	2,003
	26,104	28,697

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 ($12,000 in 2022) at prime less 0.25%. As at March 31, 2023, the Hospital had drawn a total of nil (nil in 2022) against this Facility.

(In thousands of dollars)

5. Short-term investments

	2023	2022
	$	$
Restricted - K&MTPCC	**88,114**	50,254
Unrestricted	**37,822**	30,625
	125,936	80,879

Short-term investments of $88,114 ($50,254 in 2022) 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 3.40% and 4.9% per annum (0.61% and 0.87% in 2022) and mature between April 13, 2023 and October 27, 2023 (May 17, 2022 and September 14, 2022 in 2022).

6. Capital assets

	Cost	**Accumulated amortization**	**2023 Net book value**	2022 Net book value
	$	**$**	**$**	$
				(Note 3)
Land and land improvements	**202**	**—**	**202**	202
Buildings and building renovations	**622,190**	**(130,245)**	**491,945**	113,224
Leasehold improvements	**4,354**	**(4,328)**	**26**	56
Equipment	**212,130**	**(169,520)**	**42,610**	23,322
Equipment under capital lease	**9,277**	**(8,436)**	**841**	1,100
Electronic patient records	**27,524**	**(22,212)**	**5,312**	6,314
Ken & Marilyn Thomson Patient Care Centre construction-in-progress	**77,325**	**—**	**77,325**	57,790
Other construction-in-progress	**12,213**	**—**	**12,213**	10,272
	965,215	**(334,741)**	**630,474**	212,280

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.

Stage 2 of the redevelopment project was completed in October 2022, which includes the construction of K&MTPCC. Total costs amounted to $402,491, with costs in the amount of $386,229 capitalized as Buildings and building renovations and $16,262 capitalized as equipment. Remaining stages of the project are currently in progress with substantial completion estimated to be December 2024.

MOH Funding contributions of $339,563 and Hospital Foundation contribution of $62,928 are included in Deferred capital grants and donations on the Statement of Financial Position, and will be recognized at the same rate as which amortization is incurred.

(In thousands of dollars)

6. Capital assets (continued)

Amortization expense and deferred capital grant recognition for fiscal year ended March 31, 2023 relating to the K&MTPCC is $5,589.

Interest capitalized on funds held for K&MTPCC for this fiscal year is $2,823 ($398 in 2022).

7. Long-term receivable

In connection with the completion of the K&MTPCC, the Hospital has recorded the long-term receivable from the Foundation and MOH to fund the completed portion of the project as at March 31, 2023. This long-term receivable is non-interest bearing and expected to be collected subsequent to March 31, 2024.

	2023	2022
	$	$
Due from government agencies	**131,721**	—
Toronto East Health Network Foundation	**21,790**	—
	153,511	—

8. Long-term debt

	2023	2022
	$	$
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	**4,759**	5,207
Less: current portion	**(459)**	(448)
Long-term portion	**4,300**	4,759

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

	$
2024	459
2025	473
2026	485
2027	498
2028	511
2029 and thereafter	2,333
	4,759

Interest expense recorded in the statement of revenue and expenses related to long-term debt is $127 ($138 in 2022).

(In thousands of dollars)

8. Long-term debt (continued)

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

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

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

(iii) The third facility for $15,500,000 is to finance general costs associated with the NPCC Project. The facility bears interest at a rate of CDOR + 0.34% per annum or Royal Bank Prime rate plus 0%. Repayment will conclude on October 12, 2029.

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

As at March 31, 2023, the hospital has drawn nil against the four credit facilities described above.

9. Long-term liability

	2023	2022
	$	$
Due to Project Co.	**168,158**	—

In connection with the completion of the K&MTPCC, the Hospital has recognize a liability for payment to Project Co. for the completed portion of the project as at March 31, 2023 that will from part of substantial completion payment, which is expected to be made in December 2024.

10. Asset retirement obligation

The Hospital has buildings containing asbestos requiring remediation upon decommissioning. The *Canadian Environmental Protection Act* (CEPA) governs the protection of the environment and human health with respect the hazardous waste such as asbestos. There are regulations specifically regarding the handling of asbestos, such as the “Prohibition of Asbestos and Products Containing Asbestos Regulations” which are published under the authority of CEPA. In addition, the Canada Occupational Health and Safety Regulations (10.26.1 Schedule, Division II – Hazardous Substances Other than Hazardous Products) outlines requirements for asbestos exposure control plans, as well as requirements on disposal of asbestos and decontamination.

The estimated liability is the present value of the estimated future cash flows required to settle the asset retirement obligations is estimated to be $1,269 as at March 31, 2023. ($1,217 as at March 31, 2022 (Note 3)).

The present value of the obligation was calculated using a discount rate of 4.05%.

(In thousands of dollars)

10. Asset retirement obligation (continued)

A reconciliation of the beginning and ending aggregate carrying amount of the liability is as follows:

	2023 $	2022 $ (Restated - Note 3)
Balance, beginning of year	**1,217**	1,170
Accretion expense	**52**	47
Balance, end of year	**1,269**	1,217

11. 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% [Note 8(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% [Note 8(iii) and 8(iv)] to a fixed rate of 2.24%.

The notional value of the derivative financial instruments is $45,906 ($46,355 in 2022). The fair value of the interest rate swap calculated using the discounted cash flow method at March 31, 2023 is a derivative liability of $1,056 ($720 in 2022) and is reflected on the statement of financial position.

12. Deferred capital grants and donations

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

	2023 $	2022 $
Deferred capital grants and donations, beginning of year	**137,798**	120,902
Capital grants and donations received during the year	**418,411**	22,159
Amortization for the year	**(11,010)**	(5,263)
Deferred capital grants and donations, end of year	**545,199**	137,798

Included in deferred capital grants and donations is an amount of $86,888 ($77,941 in 2022) related to either capital assets under construction/not yet operational or unspent capital funding.

(In thousands of dollars)

13. 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 $12,967 ($12,567 in 2022). 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:

	2023	2022
	$	$
Change in benefit obligation		
Accrued benefit obligation, beginning of year	**13,646**	13,949
Current service cost	**704**	758
Interest cost	**547**	465
Benefits paid	**(604)**	(431)
Actuarial experience gains	**(227)**	(1,095)
Accrued benefit obligation, end of year	**14,066**	13,646
Unamortized actuarial experience gains	**680**	351
Accrued benefit liability, end of year	**14,746**	13,997
Plan expense		
Current service cost	**704**	758
Interest cost	**547**	465
Amortization of actuarial experience losses (net)	**102**	207
Net benefit expense during the year	**1,353**	1,430
Significant assumption on obligations		
Discount rate (%)	**4.04**	3.89
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	**5.14% per annum**	4.93% per annum
Extended health care	**4.69% per annum in fiscal 2023, changing annually based on the Canadian Institute of Actuaries Trend Rate Model 4.05% per annum in 2040**	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

14. 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.

15. Related entities

Toronto East Health Network Foundation

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 $11,369 ($11,844 in 2022). In addition, the Foundation provided contributions of $2,788 ($2,437 in 2022) during the year to fund operating expenses paid by the Hospital on behalf of the Foundation. As at March 31, 2023, the Foundation owed the Hospital $316 ($182 in 2022) 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 $1,623 ($859 in 2022). A current receivable of $25 (nil in 2022) relates to operating grants of $25 (nil in 2022) and a long-term receivable of $21,790 (nil in 2022) relates to capital grants for K&MTPCC completed project costs as denoted in Note 7.

Plexxus

The Hospital is a member of Plexxus, a not for profit shared services organization whose mandate is to provide supply chain services to the Hospital and its other members through a cost-saving model. It also provides certain information technology and is paid a service fee by its members to pay for supply chain services and to support and maintain the financial reporting systems. 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 $2,670 ($2,294 in 2022) to Plexxus.

Effective April 1, 2023, Plexxus and Mohawk Medbuy Corporation amalgamated into one entity which included the acquisition of Shared Support Southeastern Ontario ("3SO"). The amalgamated entity will continue under the Mohawk Medbuy Corporation ("MMC") name and were endorsed by respective members of all three shared service organizations. The MMC will operate as a national, not-for-profit, shared services organization that support healthcare providers, child welfare agencies and other public sector organizations across Canada. MMC provides contracting and procurement solutions for medical/surgical supplies, pharmaceutical products, location sourcing, capital equipment (FF&E) and food/nutrition solutions. MMC also provides data analytics, in-hospital services, warehousing/logistics, technology services, procure-to-pay services, accounts payable and linen services.

(In thousands of dollars)

15. Related entities (continued)

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. During the fiscal year, the Hospital paid nil ($842 in 2022) to the organization in connection with laboratory services as the membership fees were exempt in 2023. Effective September 15, 2020, Shared Hospital Laboratory leased space from the Hospital for the temporary storage of materials.
The remaining receivable of $5 ($869 in 2022) remains outstanding as at March 31, 2023.

16. 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, 2023.

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, 2023 (nil in March 31, 2022).

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, 2023, the Hospital has cash restricted for these purposes of $5,662 ($5,272 in 2022) and has estimated the liability of defence costs associated with claims arising subsequent to the start of the agreement as $3,626 ($3,989 in 2022).

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

	$
2024	2,350
2025	2,202
2026	2,048
2027	1,572
2028	1,345
2029 and thereafter	2,869
	12,386

(In thousands of dollars)

16. Contingencies, commitments and guarantees (continued)

(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, 2023, 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.

17. Invested in capital assets

Invested in capital assets is determined as follows:

	2023	2022
	$	$
		(Note 3)
Capital assets	**630,474**	212,280
Less		
Current portion of long-term debt	**(459)**	(448)
Current portion of capital lease obligations	**—**	(13)
Long-term debt	**(4,300)**	(4,759)
Deferred capital grants and donations	**(545,199)**	(137,798)
Asset retirement obligation	**(1,269)**	(1,217)
Add		
Unspent Foundation grants for K&MTPCC	**41,310**	31,910
Invested in capital assets	**120,557**	99,955

18. 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,
- 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 11). 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, short-term investments, restricted cash, accounts receivable and long-term 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.

18. Financial instruments and risk management (continued)

Risk management (continued)

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 11).

19. 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 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 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.

While the severity of the COVID-19 pandemic has improved, the long-term impact continues to be unknown at this time and it is not possible to reliably estimate the impact pandemic will have on the financial results and condition of the Hospital in future periods.

20. Comparative figures

Certain comparative figures have been reclassified from the financial statements previously presented to conform to the presentation of the 2023 financial statements.

Prior year tangible capital assets, long-term liability and net assets have been restated for the change in accounting policy related to asset retirement obligations as described in Note 3.

Cash and short-term investments have been separated into two amounts to conform with current year presentation.