Financial statements of
Scarborough Health Network

March 31, 2021

Deloitte.

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Independent Auditor's Report

To the Board of Directors of
Scarborough Health Network

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2021, and the results of its operations, changes in net assets, remeasurement gains and 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Hospital to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 3, 2021

Scarborough Health Network
Consolidated statement of operations
Year ended March 31, 2021
(In thousands of dollars)

	Notes	2021 $	2020 $
Revenue			
Ministry of Health and Cancer Care Ontario	22	**688,622**	589,542
Patient revenues		**38,452**	47,611
Recoveries and other income		**14,168**	27,467
Ancillary operations		**11,850**	12,900
Amortization of capital grants	13	**9,084**	8,853
Amortization of deferred revenue – long-term lease		**62**	62
		762,238	686,435
Expenses			
Compensation		**514,455**	455,888
Medical and surgical supplies		**52,543**	54,635
Drugs		**36,314**	37,432
Supplies and other expenses		**110,517**	96,597
Ancillary operations		**8,889**	9,758
Amortization of capital assets		**27,132**	25,292
Bad debt expense		**3,736**	5,131
Interest on long term debt		**4,064**	1,471
Integration expenses	1	**—**	772
		757,650	686,976
Excess (deficiency) of revenue over expenses before the undernoted		**4,588**	(541)
One-time working capital grant	23	**26,833**	—
Excess (deficiency) of revenue over expenses		**31,421**	(541)

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

Scarborough Health Network
Consolidated statement of financial position
As at March 31, 2021
(In thousands of dollars)

	Notes	2021 $	2020 $
Assets			
Current assets			
Cash		**41,971**	32,483
Accounts receivable	3	**92,753**	31,386
Inventories		**10,545**	4,616
Prepaid expenses		**8,694**	6,839
		153,963	75,324
Investment in joint ventures	4	**250**	840
Sinking fund	12	**4,496**	—
Restricted cash – debenture net proceeds	12	**82,992**	110,350
Restricted cash – legal defense fund	5	**11,944**	10,644
Capital assets	6	**325,981**	285,591
		579,626	482,749
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	**149,482**	113,918
Current portion of long-term debt	10	**1,245**	1,192
Capital lease obligation	11	**1,015**	—
Deferred revenue		**36,888**	13,879
		188,630	128,989
Legal defence fund	9	**7,160**	6,224
Long-term debt	10	**6,832**	8,087
Long-term debenture	12	**119,768**	119,762
Long-term capital lease obligation	11	**2,381**	—
Deferred capital grants	13	**138,286**	135,274
Deferred revenue – long-term lease	14	**1,074**	1,136
Employee future benefits	15	**22,683**	21,886
Derivatives-interest rate swap	20	**525**	725
		487,339	422,083
Contingent liabilities and guarantees	16		
Net assets			
Invested in capital assets	17	**139,446**	131,626
Internally restricted		**11,000**	11,000
Invested in joint ventures	4	**250**	840
Unrestricted		**(61,756)**	(85,947)
		88,940	57,519
Remeasurement gains		**3,347**	3,147
		579,626	482,749

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

Approved by the Board

EBuller
EBuller (Jun 11, 2021 16:18 EDT)________________, Director

________________________________, Director

Scarborough Health Network
Consolidated statement of remeasurement gains
Year ended March 31, 2021
(In thousands of dollars)

	Notes	2021 $	2020 $
Accumulated remeasurement gains, beginning of year		**3,147**	3,170
Unrealized gains (losses) attributable to derivatives – interest rate swap	20	**200**	(23)
Accumulated remeasurement gains, end of year		**3,347**	3,147

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

Scarborough Health Network
Consolidated statement of changes in net assets
Year ended March 31, 2021
(In thousands of dollars)

	Invested in capital assets $	Invested in joint venture assets $	Internally restricted $	Unrestricted $	2021 Total $	2020 Total $
Net assets, beginning of year	**131,626**	**840**	**11,000**	**(85,947)**	**57,519**	58,060
(Deficiency) excess of revenue over expenses	**(18,048)**	**(590)**	**—**	**50,059**	**31,421**	(541)
Net change in net assets invested in capital assets	**25,868**	**—**	**—**	**(25,868)**	**—**	—
Net assets, end of year	**139,446**	**250**	**11,000**	**(61,756)**	**88,940**	57,519

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

Scarborough Health Network
Consolidated statement of cash flows
Year ended March 31, 2021
(In thousands of dollars)

	Notes	2021 $	2020 $
Operating activities			
Excess (deficiency) of revenue over expenses		**31,421**	(541)
Payment of employee future benefits		**(1,428)**	(1,472)
Items not affecting cash			
Amortization of capital assets		**27,132**	25,292
Amortization of deferred capital grants	13	**(9,084)**	(8,853)
Amortization of deferred revenue – long-term lease	14	**(62)**	(62)
Amortization of transaction costs		**6**	2
Employee future benefit expense	15	**2,225**	2,214
Joint venture income		**12**	(227)
Shared hospital lab membership fee		**578**	—
Legal defence provision		**936**	931
		51,736	17,284
Changes in non-cash working items	21	**(10,578)**	(5,502)
		41,158	11,782
Financing activities			
Net proceeds of long-term debenture	12	**—**	119,760
Repayment of long-term debt		**(1,202)**	(1,294)
Acquisition of capital lease		**4,201**	—
Repayment of capital lease		**(805)**	(325)
Legal defence claims fund		**(1,300)**	(1,949)
Sinking fund		**(4,496)**	—
Restricted cash – net debenture proceeds	12	**—**	(119,760)
Restricted cash – utilized for capital projects	12	**27,358**	9,410
		23,756	5,842
Capital activities			
Acquisition of capital assets		**(67,522)**	(44,022)
Receipt of deferred capital grants	13	**12,096**	8,422
		(55,426)	(35,600)
Net change in cash		**9,488**	(17,976)
Cash, beginning of year		**32,483**	50,459
Cash, end of year		**41,971**	32,483

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

1. Description of business

On December 1, 2016 the Birchmount and General sites of The Scarborough Hospital and the Centenary site of Rouge Valley Health System amalgamated forming Scarborough and Rouge Hospital. In December 2018, the legal name was changed from Scarborough and Rouge Hospital to Scarborough Health Network (the "Hospital"). The Hospital is a multi-location acute care community hospital. It is classified as a registered charity under the Income Tax Act (Canada) and, as such, is not subject to income tax provided certain disbursement requirements are met.

The financial statements do not include the assets, liabilities and operations of The Scarborough Health Network Foundation (the "Foundation"). Revenues generated by the Foundation may be donated to the Hospital upon approval by its Board of Directors.

The Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health (the "Ministry") and the Central East Local Health Integration Network (the "LHIN"). The Hospital signed a 2019-2020 Hospital Service Accountability Agreement with the LHIN which included a balanced total margin target. Any excess of expenses over revenue is the responsibility of the Hospital and must be funded from other sources, including any excess of capital spending over funding.

In light of the ongoing Covid-19 pandemic (see Note 22), the LHIN, at is discretion, notified the Hospital that the 2019-2020 agreement would be extended to include the 2020-2021 fiscal year. Both parties signed the extension agreement.

Ontario Health ("OH"), a Crown agency of the Government of Ontario, was established on June 6, 2019. Effective April 1, 2021, OH assumed all responsibilities of LHIN as it relates to the Hospital. In addition, all agreements between the Hospital and the LHIN were transferred to OH.

2. Summary of significant accounting policies

Financial statement presentation

The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations, using the deferral method of reporting contributions.

Description of funds

Funds invested in capital assets represent the net book value of the Hospital's capital assets, less any related debt and unamortized capital grants.

Unrestricted funds represent the excess of revenue over expenses accumulated from the ongoing operations of the Hospital since its inception.

Internally restricted funds represent funds that have been earmarked for future purposes, such as to fund the local share of the Hospital's future capital projects. Restriction of such funds have been approved by the Board of Directors.

Revenue recognition

Under the Health Insurance Act and Regulations thereto, the Hospital is primarily funded by the Province of Ontario.

Operating grants are recognized as revenue when received or receivable if the amounts to be received can be reasonably estimated and collection is reasonably assured. Capital grants externally restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis at a rate corresponding with the amortization rate of the related capital assets.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue from other agencies, patients, special programs and other sources is recognized when the service is provided. To the extent which Ministry of Health (the "Ministry") and LHIN 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 and the monies spent. In the event that the services are not performed in accordance with the funding requirements, the funds received in excess of monies spent or revenues earned based on services performed could be recovered by the Ministry and LHIN.

Unrestricted investment income is recorded as revenue when earned. Restricted investment income is recognized as revenue in the year in which the related expenses are recognized.

Revenue recognition related to COVID-19 grants and funding

Grants and funding authorized by the MOH/LHIN/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, all conditions necessary to earn the grant. The recognition of revenue associated with such grants requires management to make estimates and assumptions based on the best information available at the time of preparation of these financial statements. Final funding approved is subject to the funders' reconciliation process, and could differ from these estimates. Refer to Note 22 for further discussion on funding relating to COVID-19 pandemic response, and Note 23 for working capital funding.

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

Contributed services

Due to the difficulty in determining their fair value, contributed services are not recognized in the consolidated financial statements.

Financial instruments

All financial instruments reported on the consolidated statement of financial position for the year ended March 31, 2021 are measured as follows:

Cash	Fair value
Accounts receivable	Amortized cost
Restricted cash – debenture proceeds	Fair value
Restricted cash – legal defense fund	Fair value
Restricted cash – debenture sinking fund	Fair value
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Long-term debenture	Amortized cost
Derivatives – interest rate swap	Fair value

Unrealized changes in fair value are recognized in the consolidated statement of remeasurement gains until realized and transferred to the consolidated statement of operations.

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the consolidated statement of operations and any unrealized gain is adjusted through the consolidated statement of remeasurement gains. When the asset is sold, the unrealized gains and losses previously recognized in the consolidated statement of remeasurement gains are reversed and recognized in the consolidated statement of operations.

Inventories

Inventories are stated at the lower of average cost and net realizable value.

Investment in joint ventures

The investment in joint ventures are accounted for using the modified equity method.

Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives using the following rates:

Buildings, building improvements and building service equipment	5-50 years
Furniture and equipment	5-20 years
Computer equipment	3-5 years
Equipment under capital lease obligations	Term of lease

Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value.

Leases that transfer substantially all the benefits and risks of ownership are capitalized and the equipment amortized on a straight-line basis over its economic life. Other leases are accounted for as operating leases.

Construction in progress

Construction in progress represents expenditures incurred for projects currently underway. Upon completion, the relating construction in progress will be transferred to the appropriate capital asset category and amortization will commence.

Employee benefit plans

The Hospital is an employer member of the Healthcare of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for this plan because insufficient information is available to apply defined benefit plan accounting principles.

2. Summary of significant accounting policies (continued)

Employee benefit plans (continued)

The Hospital accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of retirement ages of employees and expected heath care costs. Actuarial gains or losses are amortized over the average remaining service period of the active employees. The average remaining service period for active employees is 12 years. Future cost escalation affects the amount of employee future benefits. The accrued benefit obligation related to employee benefits is discounted using current interest rates based on the Hospital's cost of borrowing.

Adjustments arising from plan amendments are recognized in the year that the plan amendments occur. Actuarial gains or losses are amortized over the average remaining service period of the active employees.

Legal defense fund

The Hospital entered into an agreement with Health Care Insurance Reciprocal of Canada ("HIROC") whereby the cost of investigating and defending any litigation claims would be borne by the Hospital.

Costs associated with claims arising prior to January 1, 2015 for the Birchmount and General sites and January 1, 2017 for the Centenary site will be borne by HIROC. Costs of defending claims that arise subsequent to January 1, 2015 for the Birchmount and General sites and January 1, 2017 for the Centenary site are based on claims defense costs incurred by HIROC in the past. The Hospital pays the estimated claims defense costs semi-annually. The liability for future litigation costs is calculated by an independent actuary who reviews the claims experience and is discounted using current interest rates based on the Hospital's cost of borrowing. Actuarial gains or losses are recognized in the current period.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated statement of financial position date and the reported amounts of revenues and expenses for the period then ended. Actual results may differ from such estimates.

In particular, the amount of revenue recognized from the Ministry and the LHIN requires some estimation. 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 the Ministry and the LHIN. 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, the Ministry and the LHIN have the right to adjust funding received. Neither the Ministry nor the LHIN are required to communicate certain funding adjustments until after submission of year end data. Since this data is not submitted until after the completion of the consolidated financial statements, the amount of the Ministry and LHIN funding recognized as revenue during a period may be increased or decreased subsequent to period end. The amount of revenue recognized in these consolidated financial statements represents management's best estimates of amounts that have been earned during the period.

Other accounts that include significant estimates are accounts receivable, useful lives of capital assets, accounts payable and accrued liabilities, legal defense fund, employee future benefits and derivatives.

3. Accounts receivable

	2021 $	2020 $
Ministry of Health	**74,051**	6,377
Patients' accounts	**14,554**	13,600
Other	**11,994**	18,655
	100,599	38,632
Less: allowance for doubtful accounts	**7,846**	7,246
	92,753	31,386

4. Investment in joint ventures

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 the effective date of the transition, the member Hospitals of the Shared Hospital Laboratory executed a transition agreement to convert the existing preferred shares and other contributions into deferred capital contributions to be utilized by Shared Hospital Laboratory. The Hospital no longer has claim to recover any of the amounts previously recorded on its balance sheet.

The Hospital owns 50% of Scarborough ProResp Inc. The investment is accounted for using the modified equity method in the amount of $250 ($262 in 2020).There are no significant differences between the accounting policies of the Hospital and those of the joint venture.

The Hospital has a Management Services Agreement with Scarborough ProResp Inc. to provide supervisory and management services. During the period management fees of $213 ($237 in 2020) were included in other income.

The Hospital's share is as follows:

	Hospital laboratories **$**	**2021 ProResp** **$**	Hospital laboratories $	2020 ProResp $
Shareholder's equity	**—**	**395**	—	406
Revenues	**—**	**856**	1,971	844
Expenses	**—**	**748**	1,971	723
Dividends paid	**—**	**120**	—	154
Cash flow from operating	**—**	**242**	29	227
Cash flow from investing	**—**	**(50)**	(20)	(37)
Cash flow from financing	**—**	**(117)**	—	(191)

5. Restricted cash – legal defense fund

The Hospital entered into an agreement with Health Care Insurance Reciprocal of Canada ("HIROC") effective January 1, 2015 for the Birchmount and General sites and effective January 1, 2017 for the Centenary site, whereby the cost of investigating and defending any litigation claims would be borne by the Hospital. To fund the expected payments, the Hospital transfers funds to an operating account managed by HIROC Management Ltd. as the Hospital's appointed agent. The cash balance of $11,944 at March 31, 2021 ($10,644 in 2020) is restricted for these payments.

6. Capital assets

	Cost $	Accumulated amortization $	2021 Net value book $
Land	**1,652**	**—**	**1,652**
Buildings, building improvements and building service equipment	**448,382**	**236,255**	**212,127**
Furniture and equipment	**399,525**	**355,394**	**44,131**
Computer equipment	**48,281**	**41,995**	**6,286**
Construction in progress	**61,785**	**—**	**61,785**
	959,625	**633,644**	**325,981**

	Cost $	Accumulated amortization $	2020 Net value book $
Land	1,652	—	1,652
Buildings, building improvements and building service equipment	433,937	222,529	211,408
Furniture and equipment	378,136	344,488	33,648
Computer equipment	46,745	39,495	7,250
Construction in progress	31,633	—	31,633
	892,103	606,512	285,591

7. Lines of credit

The Hospital has operating lines of credit with financial institutions to assist in managing the day to day cash flows of the Hospital. As of March 31, 2021 the two available lines of credit total $60,000 ($60,000 in 2020) and the Hospital has drawn $nil ($nil in 2020). The $45,000 line of credit bears interest at a rate of prime less 0.80% and the $15,000 line of credit bears interest at a rate of prime less 0.20% and both are payable on demand.

8. Accounts payable and accrued liabilities

	2021 $	2020 $
Trade payables	**62,352**	43,631
Salaries and benefits	**82,980**	64,843
Accrued liabilities	**4,150**	5,444
	149,482	113,918

9. Legal defence fund

The provision at March 31, 2021 is $7,160 ($6,224 in 2020) and the related claims defense expense of $2,798 ($2,798 in 2020) is included in other expenses.

The liability for future litigation costs is calculated by an independent actuary who reviews the claims experience and is discounted using the current interest rate based on the Hospital’s cost of borrowing. Actuarial gains of $3,188 ($2,755 in 2020) have been recognized in the current period in other income.

10. Long-term debt

	2021 $	2020 $
CIBC – non-revolving demand fixed rate loan at 6.66% due April 2028 (Medical Mall office building)	**3,093**	3,440
BMO – fixed rate loan at prime due September 2022 – (surgical equipment)	**283**	471
RBC – fixed-term mortgage at 2.44% due May 2038 on 25 Neilson Road.	**2,097**	2,205
Manulife – fixed rate loan at 4.75% due May 2025 (Energy Savings Agreement)	**2,604**	3,163
	8,077	9,279
Less : current portion	**1,245**	1,192
	6,832	8,087

Principal payments required in each of the next five fiscal periods and beyond are as follows:

	$
2022	1,245
2023	1,207
2024	1,172
2025	1,235
2026	679
Thereafter	2,539
	8,077

The non-revolving demand loan facility, originally entered into in April 2013 for $7,000, relates to the purchase of the Medical Mall office building. This facility is repayable in 300 monthly payments through April 2028. It bears a floating interest rate based on variable banker's acceptance rates, which ranged from 0.4175% to 1.1975% during the period. Effective April 1, 2003, an interest swap modified the floating interest rate on the loan to a fixed rate of 6.66%.

In fiscal 2014, the Hospital entered into a capital energy agreement with Ameresco Canada Inc. and Manulife to commence work on capital and energy measures at the Hospital. The terms of the agreement require the Hospital to obtain a loan which bears a fixed interest rate of 4.75% and is repayable in monthly payments commencing June 2015 through May 2025.

11. Obligations under capital lease

	2021	2020
	$	$
Capital lease bearing interest at 5%, repayable in monthly installments of $87,998.42 including interest, maturing May 2024		
Gross amount	**4,171**	—
Less: repayments	**(802)**	—
Capital lease bearing interest at 5%, repayable in monthly installments of $731.57 including interest, maturing July 2024		
Gross amount	**31**	—
Less: repayments	**(4)**	—
	3,396	—
Less: current portion	**1,015**	—
	2,381	—

Repayment of capital of the obligation under capital lease over the remaining four fiscal periods are as follows:

	$
2022	1,015
2023	1,067
2024	1,121
2025	193
	3,396

In June, 2020, the Hospital (the "Lessee") entered into a capital lease agreement for Endoscope equipment and EUS devices with Olympus Canada Inc. (the "Lessor") for $4,171, payable monthly. The 48 month agreement expires in May 2024, and provides an option to purchase the equipment from Lessor at the expiration of the agreement by payment of $1 to the Lessor. The applicable rate used by Lessor in pricing the lease is 5%.

In October 2020, the Hospital entered into another capital lease agreement for HD Gastroscope equipment with Olympus Canada Inc. for $31, payable monthly. The 45 month agreement expires in July 2024, and provides an option to purchase the equipment from Lessor at the expiration of the agreement by payment of $1 to the Lessor. The applicable rate used by Lessor in pricing the lease is 5%.

12. Debt issuance

On December 17, 2019, the Hospital issued series A unsecured debentures totalling $120 million to finance current and future capital projects. The debentures carry an interest rate of 2.894%, payable semi-annually for a period of 40 years. The full principal amount of the debenture is due December 17, 2059.

In fiscal 2019-2020, transaction costs of $240 were incurred and have been recorded against the liability. These costs will be amortized over the term of the debenture. Amortization in the current year was $6 ($2 in 2020).

12. Debt issuance (continued)

As at March 31, 2021, unspent debenture proceeds of $82,992 ($110,350 in 2020) have been restricted for approved capital projects. A continuity of debenture proceeds is as follows:

	2021	2020
	$	$
Opening balance	**110,350**	—
Proceeds from debenture issuance	**—**	120,000
Issuance costs	**—**	(240)
Use of debenture proceeds for capital projects	**(27,358)**	(9,410)
	82,992	110,350

As mandated by the Board of Directors, the Hospital established a debenture sinking fund to ensure sufficient cash resources are set aside to discharge the debentures when they become due in 2059. Contributions are to be made annually. During the year contributions totaling $4,496 ($nil in 2020) were made to the fund.

13. Deferred capital grants

	2021	2020
	$	$
Balance, beginning of year	**135,274**	135,705
Capital grants received during the year	**12,096**	8,422
Amortization for the year	**(9,084)**	(8,853)
Balance, end of year	**138,286**	135,274

14. Deferred revenue – long-term lease

In 1993, a long-term lease of the Thomas J. Shoniker Building to Interfaith Homes (Centenary) Corporation was entered into for the provision of housing for seniors. Proceeds from the lease of $3,100 were advanced to the Hospital. The proceeds are being amortized over 50 years, the term of the lease.

	2021	2020
	$	$
Balance, beginning of year	**1,136**	1,198
Amortization for the year	**(62)**	(62)
Balance, end of year	**1,074**	1,136

15. Employee future benefits

The Hospital provides certain post-employment benefits to some of its employees. The most recent actuarial valuation for the Hospital was performed March 31, 2019, with extrapolation performed to March 31, 2021. The Hospital's liability associated with the benefit plan is as follows:

	2021 $	2020 $
Accrued benefit obligation, beginning of year	**21,886**	21,144
Current service cost	**1,337**	1,329
Interest cost	**732**	683
Amortization of actuarial losses	**156**	202
Benefits paid	**(1,428)**	(1,472)
	22,683	21,886
Accrued benefit obligation, end of year	**24,467**	22,974
Unamortized actuarial losses	**(1,784)**	(1,088)
Employee future benefits liability, end of year	**22,683**	21,886

The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit obligations are as follows:

	2021 %	2020 %
Discount rate to determine accrued benefit obligation	**2.80%**	3.10%
Extended healthcare cost escalations, grading down to an ultimate rate of 4.0% per annum over 18 years	**5.80%**	6.00%
Expected average remaining service life of employees	**12**	12

Included in the consolidated statement of operations is an amount of $2,225 ($2,214 in 2020) regarding employee future benefits. This amount is comprised of:

	2021 $	2020 $
Current service costs	**1,337**	1,329
Interest on obligation	**732**	683
Amortization of actuarial losses	**156**	202
	2,225	2,214

16. Contingent liabilities and guarantees

A. Due to the nature of its operations, the Hospital is periodically subject to lawsuits in which the Hospital is a defendant, as well as grievances filed by its various unions. Management accrues liabilities for claims against the Hospital when a liability is likely to be incurred and the amount of the claim can be reasonably estimated. With respect to claims at March 31, 2021, management believes the Hospital has valid defences and appropriate insurance coverage in place.

16. Contingent liabilities and guarantees (continued)

B. On July 1, 1987, a group of health care organizations (“subscribers”) formed Healthcare Insurance Reciprocal of Canada (HIROC). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts, which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces of Ontario, Manitoba, Saskatchewan and Newfoundland. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No such assessments have been made to March 31, 2021.

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:

(a) The Hospital has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Hospital agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, losses, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all directors and or 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 errors and omissions insurance to mitigate the cost of any potential future suits or actions. The term of the 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. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) 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 terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

Historically, the Hospital has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued with respect to these agreements.

17. Net assets invested in capital assets

	2021	2020
	$	$
Capital assets (Note 6)	**325,981**	285,591
Adjusted for amounts financed by		
Long-term debt (Note 10)	**(8,077)**	(9,279)
Obligations under capital lease (Note 11)	**(3,396)**	—
Net debenture proceeds expended to date (Note 11)	**(36,776)**	(9,412)
Deferred capital grants (Note 12)	**(138,286)**	(135,274)
	139,446	131,626

18. Pension plan

Substantially all of the employees of the Hospital are members of the Healthcare of Ontario Pension Plan ("the Plan"), a multi-employer defined benefit plan. Contributions to the Plan made during the period by the Hospital on behalf of its employees amounted to $28,299 ($27,249 in 2020) and are included in compensation expenses.

19. Related party transactions

During the period, grants were received from The Scarborough Health Network Foundation in the amount of $4,536 ($2,197 in 2020). At March 31, 2021, $67 ($60 in 2020) was due from The Scarborough Health Network Foundation.

The Hospital also has related party transactions with joint ventures as disclosed in Note 4. The Hospital is also a member of Plexxus, Shared Hospital Laboratories Inc. and Hospital Diagnostic Imaging Repository Services, who provide various services to the Hospital at market value.

20. Financial instruments and risk management

Risk management

The Hospital, through its financial assets, including financial instruments and liabilities has exposure to credit risk and interest rate risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of debt held by the Hospital. The Hospital has mitigated this risk by entering into interest rate swaps.

Credit risk

The Hospital's principal financial assets are accounts receivable and short term investments which are subject to credit risk. The carrying amounts of financial assets represent the Hospital's maximum credit exposure.

The Hospital's credit risk is primarily attributable to its patient receivables. The amounts disclosed are net of allowance for 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 short-term investments is limited because the counterparties are banks with high credit-ratings assigned by national credit-rating agencies.

Liquidity risk

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Hospital manages its liquidity risk by monitoring its operating requirements.

The Hospital prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

The contractual maturities of long-term debt and debenture are disclosed in Notes 10 and 12.

20. Financial instruments and risk management (continued)

Fair value

Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. The Hospital's fair values are management's estimates and are generally determined using market conditions at a specific point in time and may not reflect future fair values. The determinations are subjective in nature, involving uncertainties and the exercise of significant judgment.

The fair value of short term indebtedness, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

The fair value of short-term investments is based on cost plus accrued interest which approximates fair value due to their short term maturity.

The fair value of long term debt approximates its carrying value due to interest rate swaps which have been entered on each debt instrument that account for the change in market values relative to the fixed rates.

Fair value of derivative financial instruments

The Hospital has entered into the following derivative financial instrument transactions with a financial institution. Descriptions of the current derivative financial instruments are as follow:

A non-revolving demand loan facility for the financing of the Medical Mall office building in the amount of $7,000 was originally obtained in April 2003. The notional value of this loan is $3,093 at March 31, 2021 ($3,440 in 2020). The Hospital has entered into an interest rate swap arrangement to modify the rate of the loan from a variable banker's acceptance rate ranging from 0.4175% to 1.1975% to a fixed rate of 6.66%. The start date of the interest rate swap was April 1, 2003 with a maturity date of April 3, 2028. The fair value of the interest rate swap is $526 at March 31, 2021 ($725 in 2020). The Hospital also had the option to reduce the notional amount of the loan by $150 commencing April 1, 2004 and annually thereafter. The Hospital sold the option on November 10, 2011 and received proceeds of $530 which were recorded in the consolidated statement of remeasurement gains. The Hospital or the financial institution may elect to terminate the facility on April 1, 2023.

During the year, $200 in derivative gain ($23 in derivative loss in 2020) was included in the consolidated statement of remeasurement gains.

Fair value hierarchy

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

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

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

20. Financial instruments and risk management (continued)

Fair value hierarchy (continued)

The following table presents the financial instruments recorded at fair value in the consolidated statement of financial position, classified using the fair value hierarchy described above.

Financial liabilities at fair value as at March 31, 2021:

	Level 1	**Level 2**	**Level 3**	**2021 Total**
	$	**$**	**$**	**$**
Derivatives – interest rate swap	**—**	**525**	**—**	**525**

There have been no movements between levels for the year ended March 31, 2020:

	Level 1	Level 2	Level 3	2020 Total
	$	$	$	$
Derivatives – interest rate swap	—	725	—	725

21. Changes in non-cash working capital items

	2021	2020
	$	$
Accounts receivable	**(61,367)**	(13,639)
Inventories	**(5,929)**	(480)
Prepaid expenses	**(1,855)**	(326)
Accounts payable and accrued liabilities	**35,564**	6,557
Deferred revenue	**23,009**	2,386
	(10,578)	(5,502)

22. 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 COVID-19 pandemic response, the Hospital experienced a change in the demand for its services and incurred unbudgeted pandemic response expenditures during the year ended March 31, 2021. The MOH/LHIN/OH have issued a series of funding announcements during the year to support the continued COVID-19 response across the hospital sector. The various funding envelopes are intended to support the continued provision of patient care during the pandemic, to reduce operating pressures resulting from surgical backlogs, delayed or cancelled procedures, and lost non-MOH revenue, and to offset the incremental operating and capital expenditures incurred to provide direct COVID-19 care, including assessments, vaccine administration, and critical care.

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

23. Working capital grant

During the year, the Hospital was allocated a one-time working funds grant in the amount of $26,833 ($nil in 2020) from the Ministry of Health. The intent of this grant is to address systemic working fund deficits to improve the financial health and stability of the Hospital.