

Consolidated Financial Statements of

**SCARBOROUGH HEALTH  
NETWORK**

And Independent Auditors' Report thereon

Year ended March 31, 2022



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Scarborough Health Network

### ***Opinion***

We have audited the consolidated financial statements of Scarborough Health Network (the "Entity"), which comprise:

- the consolidated statement of financial position as at March 31, 2022
- the consolidated statement of operations for the year then ended
- the consolidated statement of remeasurement gains for the year then ended
- the consolidated statement of changes in net assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2022, and its consolidated results of operations, remeasurement gains, changes in net assets 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. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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.



### ***Other Matter - Comparative Information***

The financial statements of the Entity for the year ended March 31, 2021 were audited by another auditor who expressed an unqualified opinion on those financial statements on June 3, 2021.

### ***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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' 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 auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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- 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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 group Entity 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.
- 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.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 9, 2022

# SCARBOROUGH HEALTH NETWORK

Consolidated Statement of Financial Position  
(In thousands of dollars)

March 31, 2022, with comparative information for 2021

	2022	2021
<b>Assets</b>		
Current assets:		
Cash	\$ 85,616	\$ 41,971
Accounts receivable (notes 3 and 19)	70,532	92,753
Inventories	13,581	10,545
Prepaid expenses	8,640	8,694
	<u>178,369</u>	<u>153,963</u>
Investment in joint venture (note 4)	252	250
Restricted cash:		
Sinking fund cash and investments (note 5)	6,967	4,496
Debenture net proceeds (note 14)	55,926	82,992
Legal defense fund (note 6)	13,300	11,944
Capital assets (note 7)	368,577	325,981
	<u>\$ 623,391</u>	<u>\$ 579,626</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 162,741	\$ 149,482
Current portion of long-term debt (note 11)	1,207	1,245
Capital lease obligation (note 12)	1,067	1,015
Deferred revenue	54,416	36,888
	<u>219,431</u>	<u>188,630</u>
Legal defense fund (note 10)	7,365	7,160
Long-term debt (note 11)	5,625	6,832
Other long-term liabilities (note 13)	7,766	—
Long-term debenture (note 14)	119,774	119,768
Long-term capital lease obligation (note 12)	1,315	2,381
Deferred capital grants (note 15)	141,629	138,286
Deferred revenue - long-term lease (note 16)	1,012	1,074
Employee future benefits (note 17)	23,547	22,683
Derivative interest rate swap (note 22(f))	270	525
	<u>527,734</u>	<u>487,339</u>
Net assets:		
Invested in capital assets (note 19)	146,120	139,446
Internally restricted	11,000	11,000
Invested in joint venture (note 4)	252	250
Unrestricted	(65,610)	(61,756)
	<u>91,762</u>	<u>88,940</u>
Remeasurement gains	3,895	3,347
Contingent liabilities and guarantees (note 18)		
Commitments (note 13)		
	<u>\$ 623,391</u>	<u>\$ 579,626</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

 Director

Director



Director

# SCARBOROUGH HEALTH NETWORK

Consolidated Statement of Operations  
(In thousands of dollars)

Year ended March 31, 2022, with comparative information for 2021

	2022	2021
Revenue:		
Ministry of Health and Cancer Care Ontario (note 24)	\$ 715,752	\$ 688,622
Patient revenues	42,383	38,452
Recoveries and other income (notes 4 and 20)	15,991	14,168
Ancillary operations	14,515	11,850
Amortization of capital grants (note 15)	9,725	9,084
Amortization of deferred revenue - long-term lease	62	62
	<u>798,428</u>	<u>762,238</u>
Expenses:		
Compensation	534,400	514,455
Supplies and other	119,890	110,517
Medical and surgical supplies	57,348	52,543
Drugs	40,045	36,314
Amortization of capital assets	26,993	27,132
Ancillary operations	11,030	8,889
Interest on long-term debt	3,986	4,064
Bad debt	1,914	3,736
	<u>795,606</u>	<u>757,650</u>
Excess of revenue over expenses before the undernoted	2,822	4,588
One-time working capital grant (note 24)	—	26,833
Excess of revenue over expenses	<u>\$ 2,822</u>	<u>\$ 31,421</u>

See accompanying notes to consolidated financial statements.

# SCARBOROUGH HEALTH NETWORK

Consolidated Statement of Remeasurement Gains  
(In thousands of dollars)

Year ended March 31, 2022, with comparative information for 2021

	2022	2021
Accumulated remeasurement gains, beginning of year	\$ 3,347	\$ 3,147
Unrealized gain attributable to sinking fund investments (note 5)	293	–
Unrealized gains attributable to derivatives, interest rate swap (note 22(f))	255	200
<b>Accumulated remeasurement gains, end of year</b>	<b>\$ 3,895</b>	<b>\$ 3,347</b>

See accompanying notes to consolidated financial statements.

# SCARBOROUGH HEALTH NETWORK

## Consolidated Statement of Changes in Net Assets

Year ended March 31, 2022, with comparative information for 2021

					2022	2021
	Invested in capital assets	Invested in-joint venture	Internally restricted	Unrestricted	Total	Total
Net assets, beginning of year	\$ 139,446	\$ 250	\$ 11,000	\$ (61,756)	\$ 88,940	\$ 57,519
Excess (deficiency) of revenue over expenses	(17,268)	2	–	20,088	2,822	31,421
Net change in net assets invested in capital assets	23,942	–	–	(23,942)	–	–
<b>Net assets, end of year</b>	<b>\$ 146,120</b>	<b>\$ 252</b>	<b>\$ 11,000</b>	<b>\$ (65,610)</b>	<b>\$ 91,762</b>	<b>\$ 88,940</b>

See accompanying notes to consolidated financial statements.



# SCARBOROUGH HEALTH NETWORK

Consolidated Statement of Cash Flows  
(In thousands of dollars)

Year ended March 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 2,822	\$ 31,421
Items not involving cash:		
Amortization of capital assets	26,993	27,132
Amortization of deferred capital grants (note 15)	(9,725)	(9,084)
Amortization of deferred revenue - long-term lease (note 16)	(62)	(62)
Amortization of transaction costs (note 14)	6	6
Employee future benefit expense (note 17)	2,393	2,225
Joint venture equity earnings	(2)	12
Legal defence provision	205	936
Shared hospital lab membership fee	-	578
Change in non-cash working capital (note 23)	50,026	(10,578)
Other long-term liabilities (note 13)	7,766	-
Payment of employee future benefits (note 15)	(1,529)	(1,428)
	<u>78,893</u>	<u>41,158</u>
Financing activities:		
Repayment of long-term debt	(1,245)	(1,202)
Repayment of capital lease	(1,014)	(805)
Legal defence claims fund	(1,356)	(1,300)
Sinking fund	(2,178)	(4,496)
Restricted cash - utilized for capital projects (note 14)	27,066	27,358
Acquisition of capital lease	-	4,201
	<u>21,273</u>	<u>23,756</u>
Investing activities:		
Acquisition of capital assets	(69,589)	(67,522)
Receipt of deferred capital grants (note 15)	13,068	12,096
	<u>(56,521)</u>	<u>(55,426)</u>
Increase in cash	43,645	9,488
Cash, beginning of year	41,971	32,483
Cash, end of year	<u>\$ 85,616</u>	<u>\$ 41,971</u>

See accompanying notes to consolidated financial statements.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2022

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## 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 consolidated 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" or "MOH") and Ontario Health - East ("OH"). The Hospital signed a 2019-2021 Hospital Service Accountability Agreement (the "Agreement") with OH 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 24), OH, at its discretion, notified the Hospital that the 2019-2021 Agreement would be extended to include the 2021-2022 fiscal year. Both parties signed the extension agreement.

## 2. Significant accounting policies:

### (a) Financial statement presentation:

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS") including standards that apply to government not-for-profit organizations.

### (b) 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.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 2. Significant accounting policies (continued):

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 has been approved by the Board of Directors.

### (c) Revenue recognition:

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

The Hospital follows the deferral method of accounting for contributions. 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. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

Capital contributions received for the purpose of acquiring amortizable capital assets are deferred and amortized on the same basis and over the same period as the related capital assets.

Revenue from other agencies, patients, special programs and other sources is recognized when the service is provided. To the extent that Ministry and 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 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 OH.

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

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 2. Significant accounting policies (continued):

### (d) Revenue recognition related to COVID-19 grants and funding:

Grants and funding authorized by the Ministry/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 consolidated financial statements. Final funding approved is subject to the funders' reconciliation process, and could differ from these estimates. Refer to note 24 for further discussion on funding relating to COVID-19 pandemic response, and 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 year, it is deferred and recognized in that subsequent fiscal year.

### (e) Contributed services:

Volunteers contribute a significant amount of their time each year. The fair value of these contributed services is not readily determinable and as such is not reflected in these consolidated financial statements. Contributed materials are also not recognized in these consolidated financial statements.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 2. Significant accounting policies (continued):

### (f) Financial instruments:

All financial instruments reported on the consolidated statement of financial position for the year ended March 31, 2022 are measured as follows:

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Cash	Fair value
Accounts receivable	Amortized cost
Restricted cash - debenture net proceeds	Fair value
Restricted cash - legal defense fund	Fair value
Sinking fund cash and investments	Fair value
Accounts payable and accrued liabilities	Amortized cost
Other long-term liabilities	Fair value
Long-term debt	Amortized cost
Long-term debenture	Amortized cost
Derivatives - interest rate swap	Fair value

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Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value of portfolio investments that are unrestricted or Board designated are recognized in the consolidated statement of remeasurement gains and losses until they are realized, when they are transferred to the consolidated statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 2. Significant accounting policies (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year. When a decline is determined to be other than temporary, the amount of the loss is reported in the consolidated statement of operations and 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.

### (g) Inventories:

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

### (h) Investment in joint venture:

The investment in joint venture is accounted for using the modified equity method.

### (i) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful life of the related capital asset. The amortization periods are as follows:

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Buildings, building improvements and building service equipment	5-50 years
Furniture and equipment	5-20 years
Software	15 years
Computer equipment	3-5 years
Equipment under capital lease obligations	Term of lease

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Building renovations and alterations that restore original operating conditions are expensed in the year incurred. Building improvements that reduce original operating costs or increase original capacity are capitalized as building improvements.

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

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 2. Significant accounting policies (continued):

### (j) Equipment under capital lease obligation:

Equipment leases that effectively transfer substantially all of the risks and rewards of ownership to the Hospital as lessee are capitalized at the present value of the minimum payments, excluding executor costs, under the lease with a corresponding liability for the related lease obligations. The discount rate used to determine the present value of the lease payment is the lower of the Hospital's rate of incremental borrowing or the interest rate implicit in the lease. Charges to expenses are made for amortization on the equipment and interest on the lease obligations.

### (k) Impairment of long-lived assets:

Long-lived assets, including capital assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the asset's carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, it is considered impaired. An impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Hospital uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

### (l) Employee benefit plans:

#### (i) Multi-employer plan:

Employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan ("HOOPP"), which is a multi-employer, defined benefit pension plan. In accordance with PSAS, the plan is accounted for as a defined contribution plan as there is insufficient information to apply defined benefit plan accounting.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 2. Significant accounting policies (continued):

### (ii) Post-retirement benefit obligations:

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 health 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 13 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.

### (m) 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 year.



# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 2. Significant accounting policies (continued):

### (n) Use of estimates:

The preparation of consolidated financial statements 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 revenue and expenses for the year then ended. Actual results may differ from such estimates.

In particular, the amount of revenue recognized from the Ministry and the OH requires considerable 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 OH. 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 OH have the right to adjust funding received. Neither the Ministry nor the OH 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 OH funding recognized as revenue during a period may be increased or decreased subsequent to year end. The amount of revenue recognized in these consolidated financial statements represents management's best estimates of amounts that have been earned during the year.

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

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

### 3. Accounts receivable:

	2022	2021
Ministry of Health	\$ 47,630	\$ 74,051
Patients' accounts	15,163	14,554
Other	14,537	11,994
	77,330	100,599
Less allowance for doubtful accounts	6,798	7,846
	\$ 70,532	\$ 92,753

### 4. Investment in joint venture:

The Hospital owns 50% of Scarborough ProResp Inc., an organization that provides home based oxygen therapy, CPAP therapy and complex airway care services. The investment is accounted for using the modified equity method in the amount of \$252 (2021 - \$250). 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 year, management fees of \$200 (2021 - \$213) were included in other income.

The Hospital's share is as follows:

	2022	2021
Shareholder's equity	\$ 399	\$ 395
Revenue	915	856
Expenses	804	748
Dividends paid	109	120
Cash flow from operating activities	76	242
Cash flow used in investing activities	(22)	(50)
Cash flow used in financing activities	(129)	(117)

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

## 5. Sinking fund cash and investments:

	2022		2021	
	Cost	Fair value	Cost	Fair value
Cash	\$ 337	\$ 337	\$ 4,496	\$ 4,496
Fixed income:				
Canadian	1,296	1,211	–	–
Equities:				
Canadian	3,904	4,252	–	–
International	1,022	1,167	–	–
	<u>\$ 6,559</u>	<u>\$ 6,967</u>	<u>\$ 4,496</u>	<u>\$ 4,496</u>

Fixed income investment have an average yield of 0.66% to 4.05% and mature between April 2022 to March 2081.

## 6. Restricted cash - legal defense fund:

The Hospital entered into an agreement with 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 \$13,300 at March 31, 2022 (2021 - \$11,944) is restricted for these payments.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

## 7. Capital assets:

2022	Cost	Accumulated amortization	Net book value
Land	\$ 1,652	\$ –	\$ 1,652
Buildings, building improvements and building service equipment	455,976	250,624	205,352
Furniture and equipment	405,444	365,132	40,312
Computer equipment and software	143,374	44,881	98,493
Construction in progress	22,768	–	22,768
	<u>\$ 1,029,214</u>	<u>\$ 660,637</u>	<u>\$ 368,577</u>

2021	Cost	Accumulated amortization	Net book value
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
	<u>\$ 959,625</u>	<u>\$ 633,644</u>	<u>\$ 325,981</u>

## 8. 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, 2022, the two available lines of credit total \$60,000 (2021 - \$60,000) and as at March 31, 2022 and 2021, no funds were drawn on the lines of credit. 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.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

## 9. Accounts payable and accrued liabilities:

	2022	2021
Trade payables	\$ 67,808	\$ 62,352
Salaries and benefits	92,755	82,980
Accrued liabilities	2,178	4,150
	<u>\$ 162,741</u>	<u>\$ 149,482</u>

## 10. Legal defense fund:

The provision at March 31, 2022 is \$7,365 (2021 - \$7,160) and the related claims defense expense of \$2,798 (2021 - \$2,798) 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 \$4,243 (2021 - \$3,188) have been recognized in the current year in other income.

## 11. Long-term debt:

	2022	2021
CIBC - non-revolving demand fixed rate loan at 6.66% due April 2028 (Medical Mall office building)	\$ 2,723	\$ 3,093
BMO - fixed rate loan at prime due September 2022 (surgical equipment)	94	283
RBC - fixed-term mortgage at 2.44% due May 2038 on 25 Neilson Road	1,997	2,097
Manulife - fixed rate loan at 4.75% due May 2025 (Energy Savings Agreement)	2,018	2,604
	<u>6,832</u>	<u>8,077</u>
Less current portion	1,207	1,245
	<u>\$ 5,625</u>	<u>\$ 6,832</u>

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 11. Long-term debt (continued):

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

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2023	\$ 1,207
2024	1,172
2025	1,235
2026	679
2027	630
Thereafter	1,909
	<hr/>
	\$ 6,832

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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 0.4113% to 0.7300% during the year. 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.

## 12. Obligations under capital lease:

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%.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 12. Obligations under capital lease (continued):

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%.

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2023	\$ 1,161
2024	1,161
2025	196
<hr/>	
Total minimum lease payments	2,518
Less amount representing interest at 5%	136
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Present value of net minimum capital lease payments	2,382
Less current portion of obligations under capital lease	1,067
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	\$ 1,315

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## 13. Other long-term liabilities:

Other long-term liabilities represent upfront licensing fees payable by the Hospital in relation to its clinical information system. The licensing fees are payable on a monthly basis until December 31, 2025. Included in accounts payable and accrued liabilities is \$2,157 representing the current portion of the licensing fees payable.

In addition to the above, the Hospital has an annual commitment of \$3,941 related to software maintenance.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

## 14. 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 2020, transaction costs of \$240 were incurred and were recorded against the liability. These costs will be amortized over the term of the debenture. Amortization in the current year was \$6 (2021 - \$6).

As at March 31, 2022, unspent debenture proceeds of \$55,926 (2021 - \$82,992) have been restricted for approved capital projects. A continuity of debenture proceeds is as follows:

	2022	2021
Opening balance	\$ 82,992	\$ 110,350
Use of debenture proceeds for capital projects	(27,066)	(27,358)
	\$ 55,926	\$ 82,992

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.

The changes in the sinking fund cash and investments as noted in note 5 are comprised of the following:

	2022	2021
Balance, beginning of year	\$ 4,496	\$ —
Contributions	2,248	4,496
Unrealized gain on investments	293	—
Interest earned, net of transaction costs	(70)	—
Balance, end of year	\$ 6,967	\$ 4,496



# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

## 15. Deferred capital grants:

	2022	2021
Balance, beginning of year	\$ 138,286	\$ 135,274
Capital grants received during the year	13,068	12,096
Amortization for the year	(9,725)	(9,084)
Balance, end of year	\$ 141,629	\$ 138,286

## 16. 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.

	2022	2021
Balance, beginning of year	\$ 1,074	\$ 1,136
Amortization for the year	(62)	(62)
Balance, end of year	\$ 1,012	\$ 1,074

## 17. Employee future benefits:

### (a) Multi-employer plan:

The Hospital's contributions to HOOPP during the year amounted to \$28,571 (2021 - \$28,299) and are included in salaries and employee benefits expense. The most recent actuarial valuation of HOOPP as at December 31, 2021 indicates the plan has a 20% surplus in disclosed actuarial assets and is fully funded on a solvency basis.

### (b) Post-retirement 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, 2022.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

## 17. Employee future benefits (continued):

The post-retirement benefits as at March 31, 2022 includes the following components:

	2022	2021
Accrued benefit obligation, beginning of year	\$ 22,683	\$ 21,886
Current service cost	1,462	1,337
Interest cost	704	732
Amortization of actuarial losses	227	156
Benefits paid	(1,529)	(1,428)
	<u>\$ 23,547</u>	<u>\$ 22,683</u>
Accrued benefit obligation, end of year	\$ 27,210	\$ 24,467
Unamortized actuarial losses	(3,663)	(1,784)
<b>Employee future benefits liability, end of year</b>	<b>\$ 23,547</b>	<b>\$ 22,683</b>

The significant actuarial assumptions utilized in measuring the Hospital's accrued benefit obligations for the non-pension post-retirement benefit plans are as follows:

	2022	2021
Discount	3.70%	2.80%
Extended healthcare cost escalations, grading down to an ultimate rate of 4.0% per annum over 18 years	4.53%	5.80%
Expected average remaining service life of employees	13	12

Included in the consolidated statement of operations is an amount of \$2,393 (2020 - \$2,225) regarding employee future benefits. This amount is comprised of:

	2022	2021
Current service costs	\$ 1,462	\$ 1,337
Interest on obligation	704	732
Amortization of actuarial losses	227	156
	<u>\$ 2,393</u>	<u>\$ 2,225</u>

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 18. 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, 2022, management believes the Hospital has valid defences and appropriate insurance coverage in place.
- (b) On July 1, 1987, a group of health care organizations ("subscribers") formed 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, 2022.
- (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) 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.
  - (ii) 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.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 18. Contingent liabilities and guarantees (continued):

(iii) 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.

## 19. Net assets invested in capital assets:

(a) Net assets invested in capital assets are calculated as follows:

	2022	2021
Capital assets (note 7)	\$ 368,577	\$ 325,981
Adjusted for amounts financed by:		
Long-term debt (note 11)	(6,832)	(8,077)
Other long-term liabilities (note 13)	(7,766)	–
Obligations under capital lease (note 12)	(2,382)	(3,396)
Net debenture proceeds expended to date (note 14)	(63,848)	(36,776)
Deferred capital grants (note 15)	(141,629)	(138,286)
	\$ 146,120	\$ 139,446

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

## 19. Net assets invested in capital assets (continued):

(b) Net change in invested in capital assets is calculated as follows:

	2022	2021
Amortization of capital assets	\$ (26,993)	\$ (27,132)
Amortization of deferred capital contributions	9,725	9,084
	(17,268)	(18,048)
Purchase of capital assets, net	69,589	67,522
Amounts funded by deferred capital contributions	(13,068)	(12,096)
Amounts repaid by long-term debt	1,239	1,196
Amounts funded by other long-term liabilities	(7,766)	–
Amounts funded by restricted cash - debenture net proceeds	(27,066)	(27,358)
Decrease (increase) in capital lease obligations	1,014	(3,396)
	\$ 6,674	\$ 7,820

## 20. Related party transactions:

During the year, grants were received from the Foundation in the amount of \$250 (2021 - \$4,536). At March 31, 2022, \$73 (2021 - \$67) was due from the Foundation. The Hospital also has related party transactions with joint venture as disclosed in note 4.

## 21. Shared services:

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.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 22. Financial instruments and risk management:

### (a) Risk management:

The Hospital is exposed to a variety of financial risks, including interest rate risk, credit risk, and liquidity risk. The Hospital's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Hospital's financial performance. The Hospital is exposed to market risk with regards to its sinking fund investments, floating rate debt, which are regularly monitored.

### (b) 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.

### (c) 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 sinking fund investments is limited because the counterparties are banks with high credit-ratings assigned by national credit-rating agencies.

### (d) 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.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 22. Financial instruments and risk management (continued):

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

The contractual maturities of long-term debt and debentures are disclosed in notes 11 and 14.

### (e) 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 accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

The fair value of sinking fund cash and 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.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## 22. Financial instruments and risk management (continued):

### (f) 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 follows:

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 \$2,723 at March 31, 2022 (2021 - \$3,093). The Hospital entered into an interest rate swap arrangement to modify the rate of the loan from a variable banker's acceptance rate ranging from 0.4113% to 0.7300% 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 \$270 at March 31, 2022 (2021 - \$525). 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, \$255 in derivative gain (2021 - \$200 in derivative gain) was included in the consolidated statement of remeasurement gains.

### (g) 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).



# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

## 22. Financial instruments and risk management (continued):

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 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 assets and liabilities at fair value as at March 31, 2022:

	Level 1	Level 2	Level 3	Total
Sinking fund cash and investments	\$ 6,967	\$ –	\$ –	\$ 6,967
Derivatives - interest rate swap	–	270	–	270

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

	Level 1	Level 2	Level 3	Total
Sinking fund cash and investments	\$ 4,496	\$ –	\$ –	\$ 4,496
Derivatives - interest rate swap	–	525	–	525

## 23. Statement of cash flows:

The net change in non-cash working capital balances related to operations consists of the following:

	2022	2021
Accounts receivable	\$ 22,221	\$ (61,367)
Inventories	(3,036)	(5,929)
Prepaid expenses	54	(1,855)
Accounts payable and accrued liabilities	13,259	35,564
Deferred revenue	17,528	23,009
	\$ 50,026	\$ (10,578)

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

## 24. Pandemic response:

The Hospital continues to respond to the pandemic and plans for continued operational and financial impacts during the fiscal 2023 year. Management has assessed the impact of COVID-19 and believes there are no significant financial issues that compromise its ongoing operations.

The MOH has continued a number of funding programs intended to assist hospitals with incremental operating and capital costs, and revenue impacts resulting from COVID-19. Similar to prior year, the MOH is also permitting hospitals, on a one-time basis, to redirect unearned funding from select hospital programs towards COVID-19 costs and other budgetary pressures through a broad-based funding reconciliation.

Management's estimate of MOH revenue for COVID-19 is based on the most recent guidance provided by the MOH and the impacts of COVID-19 on the Hospital's operations, revenues and expenses. As a result of management's estimation process, the Hospital has determined a range of reasonably possible amounts that are considered by management to be realistic, supportable and consistent with the guidance provided by the MOH. Any adjustments to management's estimate of MOH revenues will be reflected in the Hospital's financial statements in the year of settlement.,

Details of the MOH funding for COVID-19 included in OH revenue for the year are summarized below:

	2022	2021
Incremental COVID-19 operating expenses	\$ 42,258	\$ 46,864
Unearned funding from select hospital programs	17,829	20,781
Temporary physician funding	15,518	17,307
Lost insurance based or non-MOH revenue resulting from COVID-19	—	10,086
Pandemic wage enhancement programs	5,660	10,020
Health human resources	2,226	417
Working capital grant	—	26,833
	<u>\$ 83,491</u>	<u>\$ 132,308</u>

In addition to the above, the Hospital has also recognized \$2,009 (2021 - \$2,745) in MOH funding for COVID-19 related capital expenditures, which has been recorded as an addition to deferred capital contributions during the year.

# SCARBOROUGH HEALTH NETWORK

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2022

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## **24. Pandemic response (continued):**

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 years.

During 2021, the Hospital was allocated a one-time working fund grant in the amount of \$26,833 from the Ministry. The intent of this grant was to address systemic working fund deficits to improve the financial health and stability of the Hospital.

## **25. Future accounting change - asset retirement obligations:**

This accounting standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets. The Hospital plans to adopt this accounting standard on a modified retroactive basis, consistent with the transitional provisions in PS 3280, and information presented for comparative purposes will be restated. The impact of the adoption of this accounting standard on the consolidated financial statements is currently being analyzed, however this standard is expected to have a material impact on the consolidated statement of financial position in the year of adoption.