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# Financial statements of Southlake Regional Health Centre

March 31, 2021

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## Independent Auditor's Report

To the Board of Directors of  
Southlake Regional Health Centre

### Opinion

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

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

### Basis for Opinion

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

### Responsibilities of Management and Those charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Hospital's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Hospital or to cease operations, or has no realistic alternative but to do so.

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

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Hospital to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
May 27, 2021

# Southlake Regional Health Centre

## Statement of financial position

As at March 31, 2021

(In thousands of dollars)

	Notes	2021 \$	2020 \$
<b>Assets</b>			
Current assets			
Cash		29,672	16,888
Accounts receivable	3 and 19	72,815	28,125
Inventories		4,478	3,034
Prepaid expenses		5,838	5,380
		<b>112,803</b>	53,427
Restricted cash	4	2,415	2,281
Investment in joint venture	6	813	674
Capital assets	7	272,208	279,873
		<b>388,239</b>	336,255
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	12	109,629	85,687
Current portion of capital lease obligation	9	94	126
Current portion of long-term debt	8	7,630	6,994
		<b>117,353</b>	92,807
Long-term liabilities			
Long-term debt	8	45,178	50,300
Derivative liabilities	8 and 17	1,167	2,235
Capital lease obligation	9	197	195
Deferred capital grants and donations	10	171,270	169,650
Accrued post-retirement benefits	11	20,334	18,619
		<b>355,499</b>	333,806
Commitments and contingent liabilities	13, 15 and 16		
<b>Net assets</b>		<b>34,056</b>	4,695
Accumulated re-measurement losses		(1,316)	(2,246)
		<b>32,740</b>	2,449
		<b>388,239</b>	336,255

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

Approved by the Board

 \_\_\_\_\_, Director

 \_\_\_\_\_, Director

**Southlake Regional Health Centre**  
**Statement of operations and changes in net assets**

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

	Notes	2021 \$	2020 \$
<b>Revenue</b>			
Ontario Ministry of Health and Central Local Health Integration Network	19	400,180	342,347
Ontario Health - Cancer Care Division		35,289	35,206
Preferred accommodation and other Patient care		20,096	22,915
Specified programs		21,898	26,838
Amortization of deferred equipment grants and donations		9,934	8,128
Gain on disposal of capital assets		5,091	4,757
		40	—
		<b>492,528</b>	<b>440,191</b>
<b>Expenses</b>			
Salaries, wages and employee benefits		313,892	298,103
Supplies and other		71,424	61,958
Medical and surgical supplies		43,780	46,296
Drugs		25,489	24,910
Specified programs		9,934	8,326
Amortization of furniture and equipment		13,079	12,891
Loss on disposal of capital assets		—	13
		<b>477,598</b>	<b>452,497</b>
Excess (deficiency) of revenue over expenses per Hospital Service Accountability Agreement		14,930	(12,306)
Gain on land expropriation		1,385	—
Amortization of deferred building grants and donations		6,276	6,563
Amortization of buildings and land improvements		(10,123)	(9,985)
Interest expense		(1,656)	(1,951)
Excess (deficiency) of revenue over expenses before the undernoted		10,812	(17,679)
One-time Ontario Ministry of Health Working Capital Grant	20	18,549	—
Excess (deficiency) of revenue over expenses		29,361	(17,679)
Net assets, beginning of year		4,695	22,374
<b>Net assets, end of year</b>		<b>34,056</b>	<b>4,695</b>

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

**Southlake Regional Health Centre**  
**Statement of re-measurement gains and losses**

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

	<b>2021</b>	2020
	<b>\$</b>	<b>\$</b>
<b>Accumulated re-measurement losses at beginning of year</b>	<b>(2,246)</b>	(2,379)
Unrealized gains attributable to derivatives – interest rate swap	<b>1,068</b>	90
Unrealized (losses) gains attributable to foreign exchange	<b>(138)</b>	43
<b>Accumulated re-measurement losses at end of year</b>	<b>(1,316)</b>	(2,246)

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

## Southlake Regional Health Centre

### Statement of cash flows

Year ended March 31, 2021

(In thousands of dollars)

	Notes	2021 \$	2020 \$
<b>Operating activities</b>			
Excess (deficiency) of revenue over expenses for the year		29,361	(17,679)
Add (deduct) items not affecting cash			
Amortization of capital assets		23,202	22,876
Amortization of deferred capital grants and donations		(11,367)	(11,320)
Post-retirement benefits	11	2,447	2,417
(Gain) loss on disposal of capital assets		(40)	13
Gain on land expropriation		(1,385)	—
Unrealized currency translation losses		(138)	43
Post-retirement payments	11	(732)	(534)
		<b>41,348</b>	<b>(4,184)</b>
Net change in non-cash working capital balances related to operations			
Accounts receivable		(44,690)	(128)
Inventories		(1,444)	(483)
Prepaid expenses		(458)	(169)
Accounts payable and accrued liabilities		23,942	(726)
		<b>18,698</b>	<b>(5,690)</b>
<b>Investing activity</b>			
Investment in Joint Venture		(139)	(61)
<b>Capital activities</b>			
Proceeds from sale of capital assets		40	—
Proceeds from land expropriation		1,385	—
Purchase of capital assets, net of accounts payable and accrued liabilities related to capital (nil in 2021; \$882 thousand in 2020)		(15,537)	(14,245)
		<b>(14,112)</b>	<b>(14,245)</b>
<b>Financing activities</b>			
Net capital contributions received from			
Southlake Regional Health Centre Foundation		7,028	5,058
Ontario Ministry of Health/Other		5,959	3,747
Ontario Health - Cancer Care Division		—	126
Restricted cash utilized for capital	4	(134)	(2,104)
Repayments of short-term borrowing		—	(28,000)
Repayments of long-term debt		(4,486)	(3,802)
Proceeds of long-term debt		—	40,000
(Repayments) proceeds of capital leases		(30)	321
		<b>8,337</b>	<b>15,346</b>
Net increase (decrease) in cash during the year		12,784	(4,650)
Cash, beginning of year		16,888	21,538
<b>Cash, end of year</b>		<b>29,672</b>	<b>16,888</b>
<b>Other information</b>			
Total interest paid		1,656	1,951

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



# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

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### 1. Status and nature of activities

Southlake Regional Health Centre (the "Hospital"), incorporated without share capital under the laws of the Province of Ontario, operates a public hospital pursuant to The Public Hospitals Act. The Hospital receives the majority of its operating revenue from the Ontario Ministry of Health (the "Ministry") in amounts determined by the Ministry's annual review and approval process. The Hospital is a registered charity under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

### 2. Significant accounting policies

#### *Basis of presentation*

The financial statements of the Hospital have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 series of standards for government not-for-profit organizations, as issued by the Public Sector Accounting Board. These financial statements do not include the activities of the Southlake Residential Care Village (the "Village") (Note 5), nor the Southlake Regional Health Centre Foundation (the "Foundation") (Note 4), as the respective organizations maintain their own accounts and report separately from the Hospital to their own governing bodies.

The significant accounting policies are as follows:

#### *Financial instruments*

All financial instruments reported on the statement of financial position of the Hospital are classified as follows:

Financial instrument	Classification
Cash	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Derivative liabilities	Fair value

Financial instruments measured at fair value are initially recognized at cost and subsequently carried at fair value. Unrealized changes in fair value are recognized in the statement of re-measurement gains and losses until they are realized, when they are transferred to the statement of operations and changes in net assets. Transaction costs related to financial instruments in the fair value category are expensed as incurred.

Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from accumulated re-measurement gains and losses, and recognized into the statement of operations and changes in net assets. If the loss in value subsequently reverses, the write-down to the statement of operations is not reversed until the instrument is sold or disposed. On sale or disposal, the amount held in accumulated re-measurement gains and losses associated with that instrument is removed from accumulated re-measurement losses and recognized in the statement of operations and changes in net assets.

Financial instruments measured at amortized cost are initially recognized at cost, and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

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## 2. Significant accounting policies (continued)

### *Financial instruments (continued)*

Write downs on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write down being recognized in the statement of operations and changes in net assets.

### *Revenue recognition*

The Hospital follows the deferral method of accounting for contributions, which include donations and grants. 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. Grants and donations received for capital purposes are included in deferred capital grants and donations and are amortized on the same basis as the related depreciable capital assets.

Under the Health Insurance Act and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry. Operating funding is recorded as revenue in the period to which it relates. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. The extent to which the Ministry funding has been received, with the stipulated requirement that the Hospital provides 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. Some Ministry revenue is tied to patient volume and activity. Revenue is, therefore, based on actual patient volumes.

### *Revenue recognition related to COVID-19 grants and funding*

Grants and funding authorized by the Ministry 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 19 for further discussion on funding relating to COVID-19 pandemic response, and Note 20 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.

### *Inventories*

Inventories are valued at the lower of cost (on a weighted average cost basis) and replacement cost.

### *Investment in joint venture*

Investments in jointly controlled entities are accounted for using the modified equity method, whereby the investment is initially recorded at cost and adjusted thereafter to recognize the Hospital's share of the jointly controlled entity's net surplus or deficit for its fiscal year ending within the Hospital's fiscal year. Any distributions received are accounted for as a reduction in the investment.

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

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## 2. Significant accounting policies (continued)

### *Capital assets*

Purchased capital assets are recorded at historical cost less accumulated amortization.

Contributed capital assets are recorded at fair value at the date of the contribution.

Amortization is provided on a straight-line basis at rates based on the estimated service lives of the assets at the following annual rates:

Land improvements	5%
Buildings	2% to 2.5%
Leasehold improvements	lease term
Furniture and equipment	5% to 33.3%

Projects in process comprise of direct construction and development costs. Interest costs, net of related interest income, are capitalized during the construction period.

Amortization is not recorded until construction is substantially complete and the assets are ready for productive use.

When a capital asset no longer has any long-term service potential to the Hospital, the excess of the carrying value amount over any residual value is recognized as an expense in the statement of operations.

### *Equipment under capital leases*

Assets leased on terms that transfer substantially all of the benefits and risks of ownership to the Hospital are accounted for as capital leases as though the asset had been purchased and a liability incurred. All other leases are accounted for as operating leases.

Capital lease obligations are recorded at the present value of the minimum lease payments. The discount rate used to determine the present value of the lease payments is the lower of the Hospital's rate for incremental borrowing or the interest rate implicit in the lease.

### *Employee benefits plans*

The Hospital provides defined retirement and post-employment benefits. The Hospital has adopted the following policies with respect to accounting for these employee benefits:

#### *(a) 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 best five consecutive year average pay defined benefit pension plan. The multi-employer plan is accounted for as a deferred contribution plan as there is not sufficient information to apply defined benefit plan accounting.

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

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## 2. Significant accounting policies (continued)

### *Employee benefits plans (continued)*

#### *(b) Accrued post-retirement benefits*

The Hospital accrues its obligations under non-pension employee benefits as full-time employees render services. The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate assumptions 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. 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. Past service costs and settlement gains (losses) are recognized when incurred.

### *Contributed materials and services*

The Hospital has other individuals and organizations that volunteer numerous valuable hours to assist the Hospital in carrying out certain aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and, as such, is not reflected in these financial statements. Contributed materials are also not recognized in these financial statements.

### *Use of estimates*

The preparation of financial statements in conformity 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 date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates. Accounts involving significant estimates include accounts receivable, amortization of capital assets, deferred capital grants, accrued liabilities, accrued post-retirement benefits and derivatives.

Revenue recognized from the Ministry has a number of estimates. The Hospital has entered into a Hospital Service Accountability Agreement ("HSAA") that sets out the rights and obligations of the two parties with respect to funding provided to the Hospital by the Ministry for fiscal 2008/09 and 2009/10, amended to include 2010/11 through 2020/21. The HSAA sets 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 has the right to adjust funding received by the Hospital. The Ministry is not required to communicate certain funding adjustments until after the submission of year-end data. Since this data is not submitted until after the completion of the financial statements, the amount of Ministry funding received during the year may be increased or decreased subsequent to year-end. The amount of revenue recognized in these financial statements represents management's best estimates of amounts that have been earned during the year.

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

#### 3. Accounts receivable

Accounts receivable consist of the following:

	2021	2020
	\$	\$
Ontario Ministry of Health and Central Local Health Integration Network	<b>49,579</b>	1,898
Ontario Health - Cancer Care Division	<b>2,036</b>	1,131
OHIP	<b>2,068</b>	1,726
Vendor rebates	<b>11,167</b>	13,168
Foundation	<b>617</b>	976
Insurers, patients and other	<b>8,540</b>	10,019
	<b>74,007</b>	28,918
Less: allowance for doubtful accounts	<b>1,192</b>	793
	<b>72,815</b>	28,125

#### 4. Southlake Regional Health Centre Foundation

The Foundation, an independent organization, raises funds and holds resources primarily for the benefit of the Hospital. During the year ended March 31, 2021, the Foundation authorized grants to the Hospital of \$7 million (\$5 million in 2020) substantially for capital projects and equipment. In addition, the Foundation authorized grants of \$598 thousand (\$400 thousand in 2020) toward Hospital operations and \$896 thousand was applied as a draw down on the \$2.3 million advanced in the prior year by the Foundation for clinical capital equipment. On March 31, 2021 an additional \$1 million was advanced from the Foundation to be utilized against designated clinical capital equipment.

#### 5. Southlake Residential Care Village

The Village runs a long-term care facility of 192 beds which the Hospital helps manage. The Village is a registered charity under the Income Tax Act and, as such, is exempt from income taxes.

The Hospital provided the Village with a long-term loan totaling \$4.5 million effective February 26, 2002. Of the long-term loan, \$2M bears an Interest payable monthly at bank's prime rate minus 2.5%, \$2.03 million is non-interest bearing and \$475 thousand bears an interest payable monthly at bank's prime rate plus 0.5%. As at March 31, 2021, \$375 thousand (nil in 2020) amounts were paid towards the long-term loan. In addition, to assist with the Village's capital financing arrangement, the Hospital has secured a revolving six month standby letter of credit in favour of its lender for \$500 thousand. All direct costs and financing fees related to the letter of credit are the responsibility of the Village.

The Hospital entered into a 40-year Ground Lease Agreement with the Village, commencing August 1, 2003, to accommodate the construction of a new long-term care facility on the Hospital's property. The annual lease payment shall be no less than \$75 thousand which compensates the Hospital for parking revenue lost or rendered unusable as a result of the new facility. Pursuant to an agreement between the Village and its lender, the Hospital has agreed to defer rental payments on the land lease effective January 2005 until such time that the additional advance to the Village is repaid in full and the debt to service coverage ratio of the Village reached 1.20 to 1.

The Hospital also entered into a sublease with the Village, effective November 21, 2003 for 40 years for the first and fifth floors (approximately 35,500 sq. ft.) of the Village facility for hospital use. Annual lease payments are \$718 thousand.

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

#### 6. Investment in joint venture

The Hospital has a 50% interest in Southlake ProResp Inc., a joint venture with ProResp Inc. Southlake ProResp is a supplier of home oxygen and other respiratory care products. Net investment income of \$120 thousand (\$111 thousand in 2020) has been included in the statement of operations and changes in net assets.

#### 7. Capital assets

Capital assets consist of the following:

	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	7,215	—	7,215	7,215
Land improvements	4,503	4,335	168	372
Buildings	332,745	144,837	187,908	193,484
Leasehold improvements	12,825	6,854	5,971	6,494
Furniture and equipment	247,541	186,130	61,411	65,812
Projects in process	9,535	—	9,535	6,496
	<b>614,364</b>	<b>342,156</b>	<b>272,208</b>	279,873

Furniture and equipment include \$454.6 thousand (\$454.6 thousand in 2020) of costs and \$91 thousand (\$45.5 thousand in 2020) of accumulated amortization related to assets under capital lease obligations (Note 9).

#### 8. Long-term debt

Summary

	2021	2020
	\$	\$
Redevelopment bank loan (a)	1,967	1,855
Parking garage bank loan (b)	2,079	1,978
Building bank loan (c)	188	179
HIS project bank loan (d)	3,042	2,982
Equipment Refinancing loan (e)	354	—
Current portion	<b>7,630</b>	6,994
Redevelopment bank loan (a)	6,424	8,391
Parking garage bank loan (b)	178	2,257
Building bank loan (c)	2,446	2,634
HIS project bank loan (d)	33,976	37,018
Equipment Refinancing loan (e)	2,154	—
Long-term portion	<b>45,178</b>	50,300

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

## 8. Long-term debt (continued)

### Principal repayments summary

	Redevelopment		Parking Garage	Building	HIS Project	Equipment Refinancing	Total
	Phase I	Phase II	Bank loan	Bank loan	Bank loan	Bank loan	
	\$	\$	\$	\$	\$	\$	\$
2022 Current portion	1,127	840	2,079	188	3,042	354	7,630
2023	1,203	882	178	198	3,102	366	5,929
2024	1,284	926	—	208	3,165	376	5,959
2025	222	973	—	218	3,228	388	5,029
2026	—	934	—	230	3,293	400	4,857
2027-2033	—	—	—	1,592	21,188	624	23,404
	<u>3,836</u>	<u>4,555</u>	<u>2,257</u>	<u>2,634</u>	<u>37,018</u>	<u>2,508</u>	<u>52,808</u>

#### (a) Redevelopment bank loan

The Hospital has a non-revolving loan of \$3.8 million (\$4.9 million in 2020) for Phase I Redevelopment and has entered into a swap agreement related to this loan whereby the floating rate debt is swapped against the fixed rate debt with an interest rate of 6.52% and settled on a net basis. This agreement expires with the maturity of the loan on June 1, 2024.

The Hospital has a non-revolving loan of \$4.6 million (\$5.4 million in 2020) for Phase II Redevelopment and has entered into a swap agreement related to this loan whereby the floating rate debt is swapped against the fixed rate debt with the interest rate of 4.92% and settled on a net basis. This agreement expires with the maturity of the loan on March 2, 2026.

#### (b) Parking garage bank loan

The Hospital has a non-revolving reducing term loan for \$2.3 million (\$4.2 million in 2020) for the construction of the parking garage. Interest on the loan is at the bank's prime rate and repayments are to be made in equal monthly installments of principal plus interest, with the final installment due May 1, 2022.

The Hospital has entered into a swap agreement related to this loan whereby the floating rate debt (prime plus 25 basis points) is swapped against the fixed rate debt with an interest rate of 5.00% and settled on a net basis. This agreement expires with the maturity of the loan on May 1, 2022.

#### (c) Building bank loan

The Hospital has a non-revolving or fixed rate term loan for \$2.6 million (\$2.8 million in 2020) for the acquisition of a building. Interest on the loan is at the bank's prime rate and repayments are to be made in equal monthly installments of principal plus interest, with the final installment due February 2, 2032.

The Hospital has entered into a swap agreement related to this loan whereby the floating rate debt (prime plus 25 basis points) is swapped against the fixed rate debt with an interest rate of 4.98% and settled on a net basis. This agreement expires with the maturity of the loan on February 2, 2032.

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

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#### 8. Long-term debt (continued)

*(d) Health Information System (HIS) Project bank loan*

The Hospital secured a Credit Facility in the amount of \$40 million, referred to as the HIS Project Loan to repay the HIS Project Development Loan and provide long-term Financing for the HIS Project. In order to create a fixed interest rate financing structure, the Hospital entered into a Banker's Acceptance (BA) Loan & Interest Rate Swap. The BA Loan has a floating rate of interest based on a market driven BA rate plus a Credit Spread referred to as the Stamping Fee. In order to fix the interest rate, the Hospital was provided with an Interest Rate Swap. The Interest Rate Swap contract allows for fixed rate interest payments to be exchanged for floating rate payments.

The fixed interest rate is 1.6% and the Stamping Fee is 0.37%. Amortization is for 12 years and payments are to be made quarterly. This agreement expires with the maturity of the loan on March 5, 2032. As at March 31, 2021 there was \$37 million (\$40 million in 2020) in Borrowings under this Credit Facility.

*(e) Equipment Refinancing Loan*

The Hospital secured a Credit Facility in the amount of \$2.68 million to refinance equipment purchases. In order to create a fixed interest rate financing structure, the Hospital entered into a Banker's Acceptance (BA) Loan & Interest Rate Swap. The BA Loan has a floating rate of interest based on a market driven BA rate plus a Credit Spread referred to as the Stamping Fee. In order to fix the interest rate, the Hospital was provided with an Interest Rate Swap. The Interest Rate Swap contract allows for fixed rate interest payments to be exchanged for floating rate payments.

The fixed interest rate is 1.12% and the Stamping Fee is 1.95%. Amortization is for 7 years and payments are to be made quarterly. This agreement expires with the maturity of the loan on August 16, 2027. As at March 31, 2021 there was \$2.5 million in Borrowings under this Credit Facility.

*(f) The Hospital enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.*

The Hospital has entered into interest rate swap contracts with banks in order to hedge its variability in future interest payments relating to its long-term debt. These swaps effectively lock-in the interest rate applicable on the long-term debt.

Notional amount represents the contract amounts to which interest rates are applied to calculate the cash flows to be exchanged. The notional amount of the Hospital's interest rate swaps as of March 31, 2021 is \$52.8 million (\$57.3 million in 2020).

Fair value of the interest rate swaps was calculated using the discounted cash flow method. Fair value as of March 31, 2021 of these interest rate swaps is \$1.2 million (\$2.2 million in 2020) and is reflected as a liability on the statement of financial position.



## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

#### 9. Capital lease obligation

The Hospital entered into a lease agreement for new equipment. The lease has an interest rate of 3.50% expiring on March 31, 2023. The capital lease is recorded as follows:

	<b>2021</b>	2020
	\$	\$
Capital lease obligation	<b>291</b>	321
Less: current portion	<b>94</b>	126
	<b>197</b>	195

Future minimum lease payments are as follows:

	\$
2022	94
2023	197
	<b>291</b>

#### 10. Deferred grants and donations

Deferred grants and donations represent the unamortized balance of contributions received for the purchase of capital assets in the amount of \$171 million (\$169 million in 2020).

Changes in the deferred grants and donations balance are as follows:

	<b>2021</b>	2020
	\$	\$
Balance, beginning of year	<b>169,650</b>	172,039
Net contributions received during the year		
Southlake Regional Health Centre Foundation	<b>7,028</b>	5,058
Ontario Ministry of Health/Other	<b>5,959</b>	3,747
Ontario Health - Cancer Care Division	—	126
	<b>182,637</b>	180,970
Amortization of deferred grants and donations	<b>(11,367)</b>	(11,320)
Balance, end of year	<b>171,270</b>	169,650

#### 11. Pension and other post-retirement benefit plans

The Hospital provides certain retirement and post-employment benefits to most of its employees.

The Hospital's non-pension post-retirement benefit plans are comprised of medical, dental and life insurance coverage for certain groups of employees who have retired from the Hospital and are based on the age and service requirements of the plan.

Contributions to the multi employer defined benefit plan are expensed when due. The most recent actuarial valuation of the plan as at March 31, 2021 indicates the plan is fully funded.

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

#### 11. Pension and other post-retirement benefit plans (continued)

Information for the Hospital's non-pension post-retirement benefit plans, and reconciliation to the accrued benefit liability, is as follows:

##### *Post-retirement benefit liability*

	2021	2020
	\$	\$
Accrued benefit obligation, beginning of year	19,945	18,841
Current period benefit cost	1,593	1,597
Interest on accrued benefits	678	605
Benefit payments	(732)	(534)
Actuarial gains (losses)	893	(564)
Prior service costs	(103)	—
Accrued benefit obligation, end of year	<b>22,274</b>	19,945
Accrued post-retirement benefit obligation, end of year	<b>22,274</b>	19,945
Less: unamortized actuarial	<b>(1,940)</b>	(1,326)
	<b>20,334</b>	18,619

Included in the statement of operations and changes in net assets is an amount of \$2.4 million (\$2.4 million in 2020) regarding employee future benefits. This amount is comprised of:

	2021	2020
	\$	\$
Total benefit cost recognized		
Current period benefit cost	1,593	1,597
Amortization of actuarial losses	176	215
Retirement benefit interest expense	678	605
	<b>2,447</b>	2,417

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

	2021	2020
	\$	\$
Discount rate to determine accrued post-treatment benefit obligation	<b>2.90%</b>	3.00%
Extended healthcare cost escalations, grading down to 4% per annum over 20 years per annum thereafter	<b>6.00%</b>	6.00%
Dental cost increases	<b>4.00%</b>	4.00%
Expected average remaining service life of employees	<b>14.7</b>	14.7

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

#### 12. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	2021	2020
	\$	\$
Vendor payables and accruals	31,326	33,087
Accrued liability – salaries/wages & vacation earned	38,807	35,081
Employee/employer remittances payable	9,386	7,557
Deferred operating revenue	27,717	9,220
Other	2,393	742
	<b>109,629</b>	<b>85,687</b>

Deferred operating revenue includes \$82.9 thousand carry over of approved 2020/21 unspent funding relating to one-time Emergency Mental Health and Addictions funding. The carry over will address COVID-19 related pressures in 2021/22.

#### 13. Commitments

- (a) The Hospital has entered into a 30-year lease for a Medical Arts Building for use in part by the Hospital, a family health team, physician offices and retail. The lease provides for delivery of the building on a “turn-key” basis and includes three five-year renewal options. On completion of each ten-year term, the rent will be adjusted by increments equal to the Consumer Price Index.
- (b) The Hospital has entered into a sale leaseback agreement with landlord of the Medical Arts Building relating to the respective leasehold improvements. The lease commenced on December 21, 2010. The term of the lease is co-terminus with the lease in the Medical Arts Building.

#### 14. Credit facilities and letters of credit

The Hospital has an operating line of credit to a maximum of \$40 million, available by overdraft, fixed rate operating advances or standby letters of credit. This Credit Facility bears interest at the bank’s prime rate plus 50 basis points. As at March 31, 2021, there was nil (nil in 2020) in borrowings under this Credit Facility. In addition, the Hospital has two standby letters of credit in the amounts of \$100 thousand and \$500 thousand outstanding. As at March 31, 2021, there were nil amounts (nil in 2020) applied against these letters of credit.

#### 15. Contingent liabilities

- (a) The nature of the Hospital’s activities is such that there is usually litigation pending or in progress at any one time. With respect to claims as at March 31, 2021, it is management’s position that the Hospital has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have a material effect on the Hospital’s financial position.
- (b) A group of healthcare institutions, including the Hospital, are members of the Healthcare Insurance Reciprocal of Canada (“HIROC”). HIROC is a pooling of the liability insurance risk of its members. All members pay annual deposit premiums which are actuarially determined and are subject to further assessment for losses, if any, experienced by the pool for the years in which they were members. As at March 31, 2021, no assessments have been received.

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

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#### 16. Guarantees

In the normal course of business, the Hospital has entered into agreements that meet the definition of a guarantee and may include indemnities in favor of third parties. The Hospital's primary guarantees are as follows:

- (a) Indemnity has been provided to all directors and officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Hospital. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction.

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

#### 17. Financial instruments and risk management policy

The Hospital is exposed to various risks through its financial instruments. The following analysis provides a measure of the risks at the Hospital.

##### *Credit risk*

Credit risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and incur a financial loss. The Hospital is exposed to credit risk on its accounts receivable. For patient accounts receivable, the Hospital maintains an allowance for doubtful accounts, which reduces the receivable to its estimated realizable value. The receivable is adjusted on a monthly basis. The loan receivable from the village is reviewed regularly to determine if impairment exists and a provision is required. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

##### *Currency risk*

Currency risk relates to the Hospital operating in different currencies and converting non-Canadian monies at different points in time when adverse changes in foreign currency rates occur. The Hospital does not have any material transactions of financial instruments denominated in foreign currencies. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

#### 17. Financial instruments and risk management policy (continued)

##### *Fair values*

The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximates their carrying values 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 into for each debt instrument that account for the change in market values related to fixed rates.

The fair value of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reported borrowing date. In situations in which there is no market for these guarantees and they were issued without explicit costs, it is not practicable to determine their fair value with sufficient reliability. Unless otherwise noted, it is management's opinion that the Hospital is not subject to significant interest or currency risk arising from these instruments

The fair values of the interest rate swaps are determined using the discounted cash flow method.

##### *Fair value hierarchy*

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

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

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

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

Financial liabilities at fair value as at:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>Total</b>
				<b>\$</b>
Derivative liabilities	—	<b>1,167</b>	—	<b>1,167</b>
	Level 1	Level 2	Level 3	2020
	\$	\$	\$	Total
				\$
Derivative liabilities	—	2,235	—	2,235

There have been no movements between levels for the year ended March 31, 2021.

## Southlake Regional Health Centre

### Notes to the financial statements

March 31, 2021

(Tabular amounts in thousands of dollars)

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#### 17. Financial instruments and risk management policy (continued)

##### *Fair value hierarchy (continued)*

For fair value measurements in Level 2 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing changes during the period has been provided in the table below:

	2021	2020
	\$	\$
Derivative liabilities		
Balance, beginning of year	2,235	2,325
Changes during the period		
Gain for the period recognized in the statement of re-measurement gains and losses	(1,068)	(90)
Balance, end of year	<u>1,167</u>	<u>2,235</u>

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Hospital is exposed to interest rate risk on its short-term borrowing, long-term debt and bank indebtedness. For its long-term debt, the Hospital has entered into interest rate swap agreements in order to manage the impact of fluctuating interest rates. The Hospital's policy is not to utilize derivative instruments for trading or speculative purposes. Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the long-term debt.

Interest rate risk related to the short-term borrowing is mitigated given the short time to maturity of the debt. Furthermore, the Hospital has the option of converting this debt to long-term at its convenience.

As at March 31, 2021 and 2020 the bank indebtedness was nil and is monitored daily.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

#### 18. Related party transactions

The related parties and the nature of their transactions are identified in (Note 4) the Foundation, (Note 5) the Village, (Note 6) Southlake ProResp Inc., and (Note 13) Commitments. All the transactions were monetary in nature and recorded at the exchange value.

## **Southlake Regional Health Centre**

### **Notes to the financial statements**

March 31, 2021

(Tabular amounts in thousands of dollars)

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#### **19. Pandemic response**

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

As a result of the 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 Ministry has 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-Ministry 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 various funding envelopes are subject to a broader funding reconciliation by the Ministry and is subjected to a high degree of uncertainty. The Hospital has made its best estimates based on the guidance received to recognize the amount of funding available. The outcomes of any funding reconciliations, which may be material to the financial statements, will be adjusted in the year of notification by MOH and Ontario Health.

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. Management has considered the impact of COVID-19 in its assessment of the Hospital's assets and liabilities and its ability to continue as a going concern. Although COVID-19 has had an impact on operations, the Hospital has sufficient liquidity to maintain current operations, including the operational demands relating to the Hospital's continued COVID-19 response.

#### **20. Working capital grant**

During the year, the Hospital was allocated a one-time working funds grant in the amount of \$18.5 million from the Ministry. The intent of this grant is to address working fund deficits of the Hospital.