Financial statements of
Niagara Health System

March 31, 2021

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Independent Auditor's Report

To the Board of Directors of
Niagara Health System

Report on the Audit of the Financial Statements

Opinion

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

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

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 PSAS, 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 25, 2021

Niagara Health System

Statement of operations

Year ended March 31, 2021

(In thousands of dollars)

	Notes	2021 $	2020 $
Revenue			
Ministry of Health (MOH)			
and Local Health Integration Network (LHIN)			
Base allocation		**406,958**	413,033
One-time funding, specialized programs		**65,400**	8,229
Other		**13,986**	13,388
Ontario Health - Cancer Care Ontario Division (OH)		**68,782**	65,263
		555,126	499,913
Patient revenue from other payers		**32,585**	40,820
Differential and co-payments		**1,955**	3,422
Recoveries and miscellaneous		**13,265**	20,177
Amortization of grants and donations - equipment		**7,452**	7,245
		610,383	571,577
Expenses			
Compensation - salaries and wages		**300,447**	271,628
Benefit contributions for employees		**82,359**	79,987
Employee future benefits	12	**3,143**	2,370
Medical staff remuneration		**40,274**	40,033
Supplies and other expenses		**82,501**	77,381
Medical and surgical supplies		**32,304**	34,076
Drugs and medical gases		**41,698**	40,343
Bad debts		**569**	657
Interest on short-term borrowings		**496**	526
Interest on capital lease obligations		**44**	37
Amortization of equipment and software licenses		**12,610**	11,817
Equipment rentals and leases		**4,205**	4,040
		600,650	562,895
Surplus from operations before other votes and other funds		**9,733**	8,682
Deficit from other votes and other funds	18	**(987)**	(1,163)
Surplus before net capital expenditures		**8,746**	7,519
Net capital expenditures	19	**(2,509)**	(2,401)
Surplus for the year before one time funding		**6,237**	5,118
One-time funding - working fund deficit	26	**53,384**	—
Surplus for the year after one time funding		**59,621**	5,118

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

Niagara Health System

Statement of remeasurement losses

Year ended March 31, 2021

(In thousands of dollars)

	Notes	2021 $	2020 $
Accumulated remeasurement losses at beginning of year		**(247)**	(256)
Unrealized gains attributable to derivative	10	**93**	9
Accumulated remeasurement losses at end of year		**(154)**	(247)

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

Niagara Health System

Statement of changes in net assets

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

	Investment in land, buildings and equipment	**Endowments and trusts**	**Externally restricted**	**Internally restricted**	**Unrestricted**	**2021**
	$	**$**	**$**	**$**	**$**	**$**
	(Note 14)	**(Note 15)**	**(Note 16)**	**(Note 17)**		
Balance, beginning of the year	**38,827**	**3,528**	**74**	**12,710**	**(128,106)**	**(72,967)**
Net surplus (deficit) for the year	**(7,616)**				**67,237**	**59,621**
Transfer of funds						
Additions to restricted funds	**—**	**—**	**—**	**6,237**	**(6,237)**	**—**
Investments in capital assets	**11,269**	**—**	**—**	**—**	**(11,269)**	**—**
Reallocation of interest earned on restricted funds	**—**	**—**		**188**	**(188)**	**—**
Balance, end of year	**42,480**	**3,528**	**74**	**19,135**	**(78,563)**	**(13,346)**

	Investment in land, buildings and equipment	Endowments and trusts	Externally restricted	Internally restricted	Unrestricted	2020
	$	$	$	$	$	$
	(Note 14)	(Note 15)	(Note 16)	(Note 17)		
Balance, beginning of the year	34,180	3,528	73	7,485	(123,351)	(78,085)
Net surplus (deficit) for the year	(6,881)	—	—		11,999	5,118
Transfer of funds						
Additions to restricted funds				5,118	(5,118)	—
Investment in capital assets	11,528	—	—	—	(11,528)	—
Reallocation of interest earned on restricted funds	—	—	1	107	(108)	—
Balance, end of year	38,827	3,528	74	12,710	(128,106)	(72,967)

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

Niagara Health System
Statement of financial position
As at March 31, 2021
(In thousands of dollars)

	Notes	2021 $	2020 $
Assets			
Current assets			
Cash		**47**	47
Receivables	3	**98,647**	19,112
Current portion of contributions receivable	4	**24,035**	23,580
Inventories		**9,067**	7,426
Prepaid expenses and other assets		**12,051**	8,023
Patient trust funds		**12**	12
		143,859	58,200
Land, buildings, and equipment	5	**746,580**	754,720
Contributions receivable	4	**131,537**	138,246
Cash and investments restricted for capital	6	**120,671**	101,835
Endowments and trust funds	7	**3,528**	3,528
		1,146,175	1,056,529
Liabilities			
Current liabilities			
Short-term borrowings	8	**11,156**	9,995
Payables and accruals		**112,713**	106,792
Patient trust accounts		**12**	12
Unearned revenues		**40,333**	12,467
Current portion of obligations under capital leases	9	**121**	482
Current portion of long-term debt	11	**4,297**	3,823
Current portion of employee future benefits	12	**3,106**	2,647
Current portion of deferred capital contributions	13	**28,140**	28,749
		199,878	164,967
Obligations under capital leases	9	**144**	966
Long-term debt	11	**193,465**	197,829
Derivative liability	10	**117**	210
Employee future benefits	12	**32,159**	31,884
Deferred capital contributions	13	**733,912**	733,887
		1,159,675	1,129,743
Commitments and contingencies	20 and 21		
Net deficiency		**(13,346)**	(72,967)
Accumulated remeasurement losses		**(154)**	(247)
		1,146,175	1,056,529

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

Barry Alexander, Chair of the Board

R. Tiffin, Director

Niagara Health System
Statement of cash flows
Year ended March 31, 2021
(In thousands of dollars)

	Notes	2021 $	2020 $
Operating activities			
Surplus for the year		**59,621**	5,118
Items not affecting cash			
Amortization of land improvements, buildings, and equipment	14	**37,770**	36,591
Amortization of deferred capital contributions	13	**(30,148)**	(29,722)
(Gain) loss on disposal of land, buildings, and equipment	14	**(6)**	12
Change in non-cash activities			
Receivables		**(79,535)**	1,590
Inventories		**(1,641)**	(2,199)
Prepaid expenses and other assets		**(4,028)**	(1,574)
Payables and accruals		**5,921**	4,309
Employee future benefits		**734**	391
Unearned revenues		**27,866**	(1,893)
		16,554	12,623
Investing activity			
Investments (including endowments and trust funds)		**(18,836)**	(20,037)
Capital activities			
Additions to land, buildings, and equipment		**(29,634)**	(17,164)
Proceeds from sale of land, buildings, and equipment	14	**10**	2
		(29,624)	(17,162)
Financing activities			
Decrease in contributions receivable		**6,254**	5,482
(Decrease) increase in short-term borrowings		**1,161**	4,192
Decrease in obligations under capital lease		**(1,183)**	(487)
Decrease in long-term debt		**(3,890)**	(3,569)
Deferred capital contributions		**29,564**	18,958
		31,906	24,576
Net change in cash		**—**	—
Cash, beginning of year		**47**	47
Cash, end of year		**47**	47
Supplemental cash flow information			
Interest income received		**359**	495
Interest expense paid - operating		**766**	975
Interest expense paid - capital		**16,846**	17,109

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

1. Nature of operations

Created at the direction of the province of Ontario's Health Services Restructuring Commission in March 2000, the Niagara Health System ("NHS" or the "Hospital") is now comprised of five sites serving approximately 447,900 residents across the 12 municipalities making up the Regional Municipality of Niagara.

Sites are as follows: Greater Niagara General Site in Niagara Falls, Welland Hospital Site, Douglas Memorial Site in Fort Erie, Port Colborne Site, and the St. Catharines Site.

The Hospital operated 835 Acute care, Complex Continuing care, and Mental Health beds as well as 115 Long Term Care beds and 55 Addiction Treatment beds during the year. A wide range of inpatient and outpatient clinics and services are provided across the five sites. The NHS has approximately 5,700 employees, over 600 physicians, and over 750 volunteers.

The Hospital is incorporated under the laws of Ontario as a corporation without share capital and is a registered charity under the Income Tax Act. Continued operations are dependent upon the receipt of funding from the Ministry of Health ("MOH") through the Hamilton Niagara Haldimand Brant Local Health Integration Network ("HNHBLHIN").

2. Significant accounting policies

The financial statements 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, and reflect the following significant accounting policies:

Funding

Under the Health Insurance Act and the regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the MOH and HNHBLHIN. These financial statements reflect agreed funding arrangements approved by the MOH and the HNHBLHIN with respect to the year ended March 31, 2021. Ontario Health ("OH"), a Crown agency of the Government of Ontario, was established on June 6, 2019. Effective April 1, 2021, OH assumed all responsibilities of the HNHBLHIN as it relates to the Hospital. In addition, all agreements between the Hospital and the HNHBLHIN were transferred to OH.

Grants and funding authorized by the MOH/HNHBLHIN/OH as of the end of the fiscal year, and for which a specific purpose or use has been identified, are recognized as revenue when there is reasonable assurance that the Hospital has complied with, and will continue to comply with, all conditions necessary to earn the grant. The recognition of revenue associated with such grants requires management to make estimates and assumptions based on the best information available at the time of preparation of these financial statements. Final funding approved is subject to the funders' reconciliation process, and could differ from these estimates. Refer to Note 28 for further discussion on funding relating to COVID-19 pandemic response, and Note 26 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.

2. Significant accounting policies (continued)

Revenue recognition

The financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenue is recorded when earned and expenses are recorded when incurred.

The Hospital follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Provincial equipment and building grants received are deferred and amortized on a straight-line basis at a rate corresponding with the amortization rate for the related equipment or building purchased. Donations received for the purpose of purchasing capital assets are deferred and amortized on a straight-line basis at a rate corresponding with the amortization rate for the related equipment or building purchased.

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

Revenue from other services is recognized when services are provided or goods are sold.

Inventories

Inventories consist primarily of hospital supplies held for patient care and are valued at the lower of cost and replacement cost. Cost is determined on a first in, first out basis.

Land, buildings, and equipment

Land, buildings, and equipment are recorded at cost. Amortization is provided on a straight-line basis over the assets' estimated useful lives. The amortization periods are as follows:

Land improvements	3 to 20 years
Buildings	15 to 50 years
Building service equipment	5 to 25 years
Leasehold improvements	2 to 15 years
Equipment	2 to 20 years

Construction-in-progress comprises construction, development costs, and interest capitalized during the construction period. Upon completion, costs in construction-in-progress are reclassified to the appropriate capital asset account and amortization commences when the asset is operational.

Leased equipment

Equipment taken on lease with terms which transfer substantially all of the benefits and risks of ownership to the Hospital are accounted for as "capital leases", as though an asset has been purchased and a liability incurred. The assets are amortized on a straight line basis at rates ranging from 4%-20% per annum commencing in the month of purchase. All other items of equipment held on lease 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 of incremental borrowing or the interest rate implicit in the lease. Note 9 provides a schedule of repayments and amount of interest on the leases.

2. Significant accounting policies (continued)

Pension plan

Substantially all of the employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan ("HOOPP") which is a multi-employer final average pay contributory pension plan. For HOOPP, the Hospital uses defined contribution plan accounting as required by Canadian public sector accounting standards. Should there be a contribution deficiency in the plan the Hospital may be required to make additional contributions the cover these deficiencies.

Past service costs arising from a plan amendment are recognized in the period of the plan amendment.

Employee future benefits

The Hospital pays certain benefits of its retired employees including life insurance, health benefits, dental benefits, and deluxe travel benefits. The post-retirement costs are recognized in the period in which the employees rendered their services to the Hospital.

The actuarial determination of the accrued benefit obligations were determined using the projected benefit method pro-rated on service.

Experience gains and losses in a year are combined with the unamortized balance of gains or losses from prior years. The Hospital amortizes these accrued benefit obligations into future years' expenses over the average remaining service life to retirement.

Contributed services

The Hospital is dependent on the voluntary services of many individuals. Since these services are not normally purchased by the Hospital and because of the difficulty in estimating their fair market value, these services are not recorded in these financial statements.

Classification of financial instruments

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

Receivables	Amortized cost
Cash and investments restricted for capital	Amortized cost
Endowment and trust funds	Amortized cost
Short-term receivable	Amortized cost
Contributions receivable	Amortized cost
Short-term bank borrowings	Amortized cost
Payables and accruals	Amortized cost
Long-term debt	Amortized cost
Derivative liability	Fair value

Financial instruments measured at amortized cost are initially recognized at fair value, 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.

(In thousands of dollars)

2. Significant accounting policies (continued)

Classification of 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 or recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the statement of operations.

Use of estimates

The preparation of these financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of useful lives for amortization of capital assets, estimates of accounts receivable collectability and allowance for doubtful accounts, payables and accruals, revenue recognition, unearned revenue, and the estimation of future employee benefits. Actual results could differ from management's best estimates as additional information becomes available in the future. These estimates and assumptions are reviewed periodically and as adjustments become necessary they are reported in earnings in the periods in which they are known.

The revenue recognized from the MOH, Ontario Health – Ontario Cancer Care Division (OH) and HNHBLHIN requires some estimation. The Hospital has entered into accountability agreements that set out the rights and obligations of the parties in respect of funding provided to the Hospital by the MOH, OH, and HNHBLHIN for the year ended March 31, 2021. 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 MOH, OH, and HNHBLHIN have the right to adjust funding received by the Hospital. Neither the MOH, OH, nor HNHBLHIN 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 financial statements, the amount of the MOH/OH/HNHBLHIN funding received during a year may be increased or decreased subsequent to year end. The amount of revenue recognized in these financial statements represents management's best estimates of amounts that have been earned during the year.

3. Accounts receivables

	2021	2020
	$	$
Ministry of Health, LHIN, Ontario Health	**83,956**	7,183
Insurers and patients	**11,982**	9,213
Foundation	**529**	627
Others	**3,854**	3,207
	100,321	20,230
Allowance for doubtful receivables	**(1,674)**	(1,118)
	98,647	19,112

Included in the accounts receivable from the MOH is $53,385 in respect of one time funding for working fund deficits (see Note 26)

(In thousands of dollars)

4. Contributions receivable

	2021	2020
	$	$
Ministry of Health	**149,548**	152,505
Other receivables - St. Catharines site	**6,024**	9,321
	155,572	161,826
Less: current portion of long-term accounts receivables	**24,035**	23,580
	131,537	138,246

On March 27, 2009, the Hospital entered into an agreement to design, build, finance, and property manage the St. Catharines site. Construction was completed in March 2013.

As part of the Project Funding Agreement, the Ministry has committed to fund a portion of the capital and financing cost of the site. The Hospital has recognized the unpaid MOH funding commitment for the St. Catharines site construction project as a contribution receivable with a corresponding deferred capital contribution.

The local share of the cost of the building and related finance cost will be funded through a combination of municipal, foundation and other contributions. The Hospital has contractual commitments from various area municipalities for certain amounts to be received over the term of the financing period. These contributions have been set up as a receivable with a corresponding deferred contribution.

The contribution receivable was originally set up at its fair value and is subsequently measured at amortized cost using the effective interest rate method.

5. Land, buildings, and equipment

	Cost	**Accumulated depreciation**	**2021 Net book value**	2020 Net book value
	$	**$**	**$**	$
Land	**6,512**	**—**	**6,512**	6,512
Land improvements	**6,208**	**3,011**	**3,197**	3,317
Buildings	**160,030**	**93,195**	**66,835**	67,231
Leasehold improvements	**3,981**	**2,291**	**1,690**	1,972
Equipment	**228,568**	**190,309**	**38,259**	37,991
Building and building services equipment St. Catharines site	**762,581**	**156,226**	**606,355**	623,986
Construction-in-progress	**23,576**	**—**	**23,576**	13,380
	1,191,456	**445,032**	**746,424**	754,389
Equipment under capital lease	**18,265**	**18,109**	**156**	331
	1,209,721	**463,141**	**746,580**	754,720

(In thousands of dollars)

6. Cash and investments restricted for capital

Cash and investments restricted for capital are represented by the following:

	2021		2020	
		Amortized		Amortized
	Cost	**cost**	Cost	cost
	$	**$**	$	$
Government and other bonds, 1.2% to 2.97%, maturing from June 2021 to December 2023	**4,672**	**4,683**	3,846	3,901
Real Estate Investments Trusts	**31**	**43**	15	26
Blue Chip Canadian and US equities	**1,119**	**1,602**	1,090	1,246
Money market fund	**2,144**	**2,136**	2,931	2,952
Short term investment certificates, 0.85 to 1.25% maturing October 2021 to October 2022	**70,292**	**70,292**	65,204	65,204
GICs, 0.40%, maturing February 2022	**30**	**30**	30	3,030
Total investment vehicles	**78,288**	**78,786**	73,116	76,359
Add: Restricted construction payment treasury accounts, interest prime less 1.75% (1.7% interest rate)	**32,566**	**32,566**	22,637	22,636
Add: unrealized gain	**—**	**(498)**	—	(244)
Total investment vehicles for capital purposes	**110,854**	**110,854**	95,753	98,751
Other investments:				
Externally restricted cash	**3,580**	**3,580**	857	857
Internally restricted cash	**6,237**	**6,237**	5,227	5,227
Total cash and investment restricted for capital	**120,671**	**120,671**	101,837	104,835

Investments are tracked to support restricted funds which have been received by the Hospital in advance of the expenditures required under the terms of each commitment.

(In thousands of dollars)

6. Cash and investments restricted for capital (continued)

	Balance, beginning of the year $	Additions during year $	Interest $	**Balance, end of year $**
Restricted investment				
NHS	14,657	7,269	224	**22,150**
Capital - MOH Capital, Superbuild, and Niagara Health Local Share	87,178	9,980	1,363	**98,521**
Total	101,835	17,249	1,587	**120,671**

The restricted investments represent contributions received for capital projects, equipment, and operations and funds internally restricted by the Board of Directors for capital projects and equipment.

The Hospital received capital grants under the SuperBuild Growth Fund for capital projects directed by the Health Services Restructuring Commission (HSRC). In establishing the grant, the MOH focused solely on the new construction component of HSRC directions. Use of the grant is restricted to capital initiatives that are consistent with implementing the functional program which is approved in writing by the MOH for addressing HSRC directions.

Also, the hospital received capital grants from the MOH to fund their cost-share commitment for approved capital projects. The unspent SuperBuild and MOH capital grants have been invested and the interest income has been added to the original grants.

7. Endowments and trust funds

Endowments and trust funds are represented by the following:

		2021		2020
	Cost $	**Amortized cost $**	Cost $	Amortized cost $
Mutual funds	**354**	**354**	345	345
Cash - treasury accounts	**3,174**	**3,174**	3,183	3,183
Total cash and investments for endowments and trusts	**3,528**	**3,528**	3,528	3,528

8. Short-term borrowings

As at March 31, 2021, the Hospital has a $70,000 ($70,000 in 2020) unsecured demand operating line of credit. The line of credit bears interest at prime rate minus 0.85% (primate rate minus 0.85% in 2020). As at March 31, 2021, the short-term borrowings are nil ($1,584 in 2020) against this facility.

Short-term borrowings on the statement of financial position consist of the Hospital’s positive bank balance less restricted funds in the operating bank.

(In thousands of dollars)

9. Obligations under capital leases

Future minimum payments under capital leases, by year end in aggregate, consist of the following at March 31, 2021:

	$
Fiscal year ending:	
2022	138
2023	129
2024	19
Total minimum lease payments	286
Less: Amount representing interest at rates 1.2%	(21)
Balance of obligation	265
Current portion of obligations	121
Long-term portion of obligations	144

The debt obligation is secured by the specific equipment under capital lease.

10. Derivative liability

The hospital has a credit facility for the financing of construction costs related to an energy retrofit project in the amount of $11,900 million. The hospital entered into an interest rate swap agreement to modify the floating rate of interest on the loan from Bankers Acceptance rates ranging from .9175% to 1.6975% (2.2425% to 2.58% in 2020) during the year, to a fixed rate of 4.35%. The start date of this interest rate swap was September 3, 2013, with a maturity date of September 3, 2023. The notional value of the derivative financial instruments is $11,000 and amortized monthly during the term of the interest rate swap. The fair value of the interest rate swap at March 31, 2021 is $117 ($210 in 2020). The change in fair value during the year of $93 ($9 in 2020) is recorded in the statement of remeasurement losses.

11. Long-term debt

	2021	2020
	$	$
Energy retrofit swap facility - borrowing at an interest rate of 4.35%, payable over the next 4 years	**2,750**	3,850
St. Catharines site mortgage - borrowings at an interest rate of 9.1%, payable over the next 23 years in monthly payments, which escalate based on consumer price index	**195,012**	197,802
	197,762	201,652
Less: current portion	**4,297**	3,823
Long-term debt	**193,465**	197,829

(In thousands of dollars)

11. Long-term debt (continued)

The principal repayments required in the next five fiscal years are as follows:

	$
2022	4,297
2023	4,585
2024	4,348
2025	4,141
2026	4,514
2027 and thereafter	175,877
	197,762

Energy retro-fit

The Hospital has a revolving credit facility for major expenditures for equipment and construction related to hospital redevelopment projects, subject to specified conditions, of $15,000 bearing interest at prime plus 0.5%. Funds advanced on the credit facility are payable in monthly or quarterly payments with a maximum term of 10 years at the borrowers option.

On July 20, 2011, the Hospital entered into a financing agreement for the purposes of financing construction costs related to an energy retrofit project at 6 sites of the Niagara Health System.

As at March 31, 2013, funds were advanced on the revolving credit facility against the Energy Retrofit project with interest to be capitalized during the construction drawdown period and has since been converted to a swap loan. The balance against this facility, as at March 31, 2021, was an amount of $2,750 ($3,850 in 2020).

St. Catharines site

The Hospital entered into an alternate financing and procurement project under PIR's ReNew Ontario Infrastructure investment plan with Plenary Health Niagara LP to Design, Build, Finance and Maintain (DBFM) the health care complex in St. Catharines. The facility was substantially completed on November 26, 2012. Under the terms of the Project Agreement, payments will be made by the Hospital for principal and interest costs. Payments have comprised construction progress payments, payment at substantial completion and mortgage payments. As at March 31, 2021, $195,000 ($197,000 in 2020) of principal has been recorded as a long-term obligation for these mortgage payments and will be paid over a 30-year period with payments having commenced after the substantial completion date.

12. Employee future benefits

The Hospital pays certain benefits of its retired employees including life insurance, health benefits, dental benefits and deluxe travel benefits. These post-retirement benefits are recognized in the period in which the employees rendered their services to the Hospital.

(In thousands of dollars)

12. Employee future benefits (continued)

The Hospital measures its accrued benefits obligations for accounting purposes at December 31st each year. The most recent actuarial valuation of the benefit plans was March 31, 2021. Information about the defined benefit plan is as follows:

	2021	2020
	$	$
Accrued benefit obligation, end of year	**45,388**	36,857
Less: actuarial losses	**10,123**	2,326
Accrued benefit liability, end of year	**35,265**	34,531
Current portion	**3,106**	2,647
Long-term portion	**32,159**	31,884
	35,265	34,531

Movement in the accrued benefit obligation is as follows:

	2021	2020
	$	$
Accrued benefit obligation, beginning of the year	**36,857**	37,276
Accrual for service	**1,884**	1,450
Interest on accrued benefits	**1,185**	1,141
Benefits paid for the year	**(2,747)**	(2,641)
Actuarial loss (gain)	**8,209**	(369)
Actual accrued benefit obligation, end of year	**45,388**	36,857

Included in the statement of operations is an amount of $3,143 ($2,370 in 2020) regarding employees future benefits. This amount is comprised of:

	2021	2020
	$	$
Plan expense		
Current service cost	**1,545**	788
Interest cost	**1,186**	1,141
Amortization of actuarial loss	**412**	441
	3,143	2,370

The main actuarial assumptions employed for the valuation are as follows:

	2021	2020
Average remaining service period to full eligibility	**14 years**	13 years
Discount rate	**3.21%**	3.29%
Expected annual increase in dental care costs *	**3.00%**	2,75%
Expected annual increase in heatlh care costs *	**5.57%**	6.00%

* These rates are determined based on the McMaster model of Long-Term care Cost Trends in Canada, and are expected to converge to an ultimate rate of 3.57% in 2040.

(In thousands of dollars)

13. Deferred capital contributions

Deferred capital contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2021	2020
	$	$
Balance, beginning of year	**762,636**	773,400
Contribution received & interest earned during the year	**29,564**	18,958
Amortization	**(30,148)**	(29,722)
	762,052	762,636
Less: current portion of deferred contributions	**(28,140)**	(28,749)
Balance, end of year	**733,912**	733,887

14. Investment in land, buildings, and equipment

Investment in land, buildings, and equipment

	2021	2020
	$	$
Investments	**100,405**	88,016
Land, buildings, and equipment	**746,580**	754,720
Contributions receivable	**155,572**	161,826
Deferred capital contributions	**(762,052)**	(762,636)
Long-term debt	**(197,762)**	(201,652)
Obligations under capital leases	**(265)**	(1,448)
Investments in land, buildings, and equipment	**42,478**	38,826

(In thousands of dollars)

14. Investment in land, buildings, and equipment (continued)

Changes in net assets invested in land, buildings, and equipment are calculated as follows:

	2021 $	2020 $
Amortization of land improvements, buildings, and equipment	**(37,770)**	(36,591)
Amortization of deferred contributions	**30,148**	29,722
Gain (loss) on disposal of land, buildings, and equipment	**6**	(12)
Net deficit for the year	**(7,616)**	(6,881)
Net land, buildings, and equipment additions	**29,634**	17,164
Proceeds on sale on assets	**(10)**	(2)
Contributions receivable	**(6,254)**	(5,482)
Net increase in deferred contributions	**(29,564)**	(18,958)
Obligations under capital leases	**1,183**	487
Repayment of long-term debt	**3,890**	3,569
Increase in cash and investments	**12,390**	14,750
	11,269	11,528
Net change in investments in land, buildings, and equipment	**3,653**	4,647

15. Endowments and trust funds

	2021 $	2020 $
Summary of endowments by site:		
Niagara Health System	**3,528**	3,528

All of the assets restricted for endowment or trusts purposes are subject to externally imposed restrictions that the principal be maintained intact. The interest earned on the funds is restricted for expenditures that meet the stipulations of the donation.

16. Externally restricted funds

	2021 $	2020 $
Niagara Health Systems		
Opening balance	**74**	73
Interest	**—**	1
	74	74

The Hospital has $74 (2020 - $74) in externally restricted funds. Externally restricted funds represent donations which have been restricted by the donor for a specific expenditure or type of expenditure. The Board has the discretion to spend the funds in accordance with the stipulations of the donations.

(In thousands of dollars)

17. Internally restricted funds

	2021	2020
	$	$
Opening balance	**12,710**	7,485
Interest allocated on funds	**188**	107
Transfers into the fund	**6,237**	5,118
	19,135	12,710

The internally restricted net assets represent funds internally restricted by the Board of Directors for capital purposes.

18. Other votes and other funds

Other votes represent funding received for specific programs/services from the Ministry of Health and Ministry of Long-Term Care, approved by a separate vote of the provincial legislature. Other fund types are funding received from other sources than the Ministry of Health and Ministry of Long-Term Care. Funding for other votes and fund types are not included in the hospital's global funding.

	2021	2020
	$	$
Other votes		
Revenue	**10,231**	10,845
Expenses	**10,304**	11,030
	(73)	(185)
Other fund types		
Endowment and trust interest income - net	**24**	65
Extended care unit and interim long-term care loss	**(938)**	(1,043)
	(914)	(978)
Bundled care		
Post acute revenues	**1,242**	1,168
Post acute expenses	**(1,242)**	(1,168)
	—	—
	(987)	(1,163)

(In thousands of dollars)

19. Net capital expenditures

	2021	2020
	$	$
Amortzation of building and land improvements	**(25,019)**	(24,628)
Amortization of deferred grants	**22,643**	22,411
Donte and grant revenue	**13**	6
Donation and grant revenue - Capital mortgage interest for St. Catharines Health Complex	**16,700**	16,919
Capital mortgage interest for St. Catharines Health Complex	**(16,700)**	(16,919)
Capital expense	**(146)**	(190)
	(2,509)	(2,401)

20. Commitments

Operating leases

The Hospital is committed to payments under operating leases for certain equipment and facilities in the total amount of $7,633. Annual payments are as follows:

	$
2022	2,716
2023	2,109
2024	1,459
2025	936
2026	413
	7,633

St. Catharines site health-care complex

The Hospital entered into financial arrangements with Plenary Health Niagara to design, build, finance, and maintain the health-care complex in St. Catharines on March 27, 2009. Over the 22-year period, payment commitments related to facilities and lifecycle maintenance are expected to be as follows:

	$
2022	8,611
2023	9,236
2024	9,381
2025	9,400
2026	9,396
2027 and thereafter	273,286
	319,310

20. Commitments (continued)

St. Catharines site health-care complex (continued)

These payments related to facilities maintenance and lifecycle costs will be indexed over the term of the agreement to provide for changes in certain operating costs. The Hospital has entered into an agreement with the MOH to share in these costs based on MOH funding policy.

See Note 4 for further details regarding the hospital complex.

21. Contingent liabilities

As at March 31, 2021, there were a number of claims outstanding, none of which exceeded the insurance coverage of the Hospital. The nature of Hospital activities is such that there is usually litigation pending or in prospect at any time. With respect to claims and possible claims, management believes the Hospital has valid defenses and/or appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have material adverse effect on Hospital's financial position and results of operations.

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

In the normal course of business, the Hospital has entered into agreements that meet the definition of a guarantee. 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 director's and officers' liability insurance to mitigate the costs 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.

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 results 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.

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, if any, which stems from the unpredictability of future events and the unlimited coverage offered to the counterparties. Accruals recorded are based on management's best estimate given the most current information available.

22. Pension plan

Substantially all of the employees of the Niagara Health System are members of the Hospitals of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Plan members will receive benefits, terminating on death, based on the defined benefit formula which is calculated using the best five consecutive years of earnings and number of years of contributory service in the Plan.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing plan assets in trust and through the Plan investments policy. The plan is currently funded at 119%. Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members.

Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to $24,954 ($23,792 in 2020) and are included in the statement of operations. Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with contributions by employees of 6.9% of the first $62 of salary and 9.2% thereafter, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for the employer contributions to the Plan to remain a constant percentage of employee's contributions.

23. Financial instruments and risk management

Establishing fair value

The carrying value of cash, receivables, long-term receivable, cash and investments restricted for capital, payables and accruals, obligations under capital leases, and bank borrowings approximates their fair value because of the relatively short period to maturity of the instruments. The fair value of long-term debt is not materially different from their carrying values as it bears interest at variable rates and has financing conditions similar to those currently available to the Hospital.

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.

23. Financial instruments and risk management (continued)

Fair value hierarchy (continued)

The table below analyzes financial instruments carried at fair value, by valuation method, for financial instruments where fair value is disclosed in the financial statements.

				2021
				Fair value measurement using
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Derivative liability		**117**		**117**

				2020
				Fair value measurement using
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Derivative liability	—	210	—	210

The Hospital manages its exposure to the risks associated with financial instruments that have the potential to affect its operating and financial performance in accordance with its Risk Management Policy. The objective of the policy is to reduce the volatility in cash flow and earnings. The Board monitors compliance with the risk management policies and reviews risk management policies and procedures on an annual basis.

The Hospital has exposure to the following risks associated with its financial instruments.

Credit risk

Cash and investments restricted for capital

Credit risk associated with cash and investments restricted for capital is minimized substantially by ensuring these assets are invested in financial obligations of: governments; major financial institutions that have been accorded investment grade ratings by a primary rating agency; and/or other creditworthy parties. An ongoing review is performed to evaluate changes in the status of the issuers authorized for investment under the Hospital’s investment policy.

Accounts receivable

Credit risk associated with accounts receivable is minimized due to the nature of the Hospital’s funding from the Province of Ontario. For other accounts receivable, the Hospital maintains allowances for potential credit losses, and any such losses to date have been within management's expectations.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the credit quality of the parties extended credit, as well as the large number of smaller customers.

The Hospital must make estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information and reasons for the accounts being past due are all considered in the determination of when to allow for past due accounts; the same factors are considered when determining whether to write off amounts charged to the allowance account against the amounts receivable.

23. Financial instruments and risk management (continued)

Credit risk (continued)

Liquidity risk

Liquidity risk is the risk that the Hospital will not be able to meet a demand for cash or fund its obligations as they come due.

Liquidity risk also includes the risk of the Hospital not being able to liquidate assets in a timely manner at a reasonable price.

The Hospital meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and financing activities and holding assets that can be readily converted into cash. The Hospital has a short-term unsecured bank financing facility in place should it be required to meet temporary fluctuations in cash requirements as well as funding arrangements in place with the MOH, MLTC, OH, and HNHBLHIN as described in Note 8.

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in the market interest rates. The interest rate exposure of the Hospital arises from its interest-bearing assets and its pension and other post-retirement benefit obligations. The Hospital also has short-term and long-term borrowings subject to interest rate risk. The primary objective of the Hospital with respect to its investments in fixed income investments is to ensure the security of principal amounts invested and provide for a high degree of liquidity, while achieving a satisfactory investment return.

The Hospital manages the interest rate risk exposure of its fixed income investments by using a laddered portfolio with varying terms to maturity. The laddered structure of maturities helps to enhance the average portfolio yield while reducing the sensitivity of the portfolio to the impact of interest rate fluctuations. At March 31, 2021, the Hospital had $40,531 ($30,517 in 2020) of investments exposed to interest rate risk.

The Hospital is exposed to interest rate risk since changes in interest rates may impact the Hospital’s borrowing costs. Floating rate debt exposes the Hospital to fluctuations in short-term interest rates. At March 31, 2021, the Hospital had nil ($1,584 in 2020) of short-term borrowings subject to variable interest rate. The risk is mitigated for part of the year as provincial funding is advanced.

24. Related parties and shared services

Related parties

In 2021 the Hospital was associated with the following Foundations and Auxiliaries: Niagara Health Foundation, St. Catharines General Hospital Auxiliary, Greater Niagara General Hospital Auxiliary, Douglas Memorial Hospital Auxiliary, Port Colborne General Hospital Auxiliary, and Welland Hospital Auxiliary.

The Foundations and Auxiliaries are independent organizations that raise funds and hold in part resources for the benefit of the Hospital sites. All amounts received from the Foundations and Auxiliaries are deferred and recognized into income as the money is spent for its intended purpose. The Foundations and Auxiliaries contributed $4,250 during fiscal 2021 ($1,625 in 2020). Included in the Hospital’s assets as at March 31, 2021, is $3,709 ($4,658 in 2020) in accounts receivable from the Foundations and Auxiliaries.

(In thousands of dollars)

24. Related parties and shared services (continued)

Shared services

The Hospital is a member of Mohawk Medbuy Corporation ("Mohawk"). Mohawk is a not-for-profit organization which provides centralized Laundry Services, Diagnostic Imaging Repository Services, Employee Assistance Program Services, Supply Chain Services, Capital Procurement Services, and Accounts Payable Services to its members and participants in the Hamilton-Niagara and surrounding areas. Mohawk is incorporated without share capital under the laws of the Province of Ontario and is exempt from income taxes under the Income Tax Act. Member hospitals share in paying the operating costs for the corporation. The Hospital's share of operating costs in 2021 was $1,812 ($1,667 in 2020) reflected in expenses on the statement of operations. Included in the hospital's liabilities at March 31, 2021, is $340 ($242 in 2020) in accounts payable to Mohawk.

25. Funding agreements

The Hospital entered into funding agreements with various parties which require the disclosure of the revenues and expenditures for the respective program.

a) *LHIN Diabetes Funding*

	2021	2020
	$	$
Adult program		
Revenue	**470**	470
Expenses		
Salaries and benefits	**439**	439
Supplies and other expenses	**35**	28
Travel/transportation	**—**	7
	474	474
Program deficit	**(4)**	(4)

	2021	2020
	$	$
Pediatric program		
Revenue	**38**	38
Expenses		
Salaries and benefits	**45**	48
Supplies and other expenses	**—**	—
	45	48
Program deficit	**(7)**	(10)

(In thousands of dollars)

25. Funding agreements (continued)

b) Global Diabetes Funding

	2021	2020
	$	$
Adult program		
Revenue	**1,264**	1,264
Expenses		
Salaries and benefits	**1,277**	1,270
Supplies and other expenses	**12**	20
	1,289	1,290
Program deficit	**(25)**	(26)

	2021	2020
	$	$
Pediatric program		
Revenue	**153**	153
Expenses		
Salaries and benefits	**135**	150
Program surplus	**18**	3

c) Niagara Children's Centre

	2021	2020
	$	$
Preschool speech and language program		
Revenue	**355**	388
Expenses		
Salaries and wages	**286**	308
Benefit contribution for employees	**88**	94
	374	402
Program deficit	**(19)**	(14)

(In thousands of dollars)

25. Funding agreements (continued)

d) Patient Digital Identity, Authentication and Authorization Project

	2021 $	2020 $
Paymaster revenue	**3,162**	—
Paymaster expenses		
Planning, design and development	**2,360**	—
Implementation and adoption	**882**	—
Sustainability and scalability planning	**8**	—
	3,250	—
Program deficit	**(88)**	—

26. One-time funding –working funds deficit

During the year the Hospital was allocated one-time funding totaling $53,384 in respect of historic working fund deficits. The intent of the funding is to help address the Hospital's working fund deficit in order to improve the financial health and stability of the Hospital. After recognition of this funding the Hospital's working capital deficiency has improved, however remains in a negative position as at March 31, 2021 and the unrestricted fund balance remains in a deficit position of $78,563 ($128,106 in 2020).

27. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

28. Pandemic response

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

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

As a result of the COVID-19 pandemic, the Hospital experienced a change in the demand for its services and incurred unbudgeted pandemic response expenditures. The duration and 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.