Financial statements of
Headwaters Health Care Centre

March 31, 2021

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Independent Auditor's Report

To the Board of Directors and Members
of the Headwaters Health Care Centre

Opinion

We have audited the financial statements of the Headwaters Health Care Centre (the "Hospital"), which comprise the statement of financial position as at March 31, 2021, and the statements of operations, changes in net assets, and of 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 ("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
June 8, 2021

Headwaters Health Care Centre
Statement of financial position
As at March 31, 2021

	Notes	2021	2020
		$	$
Assets			
Current assets			
Cash		**5,267,292**	6,812,356
Accounts receivable	3 and 13	**5,754,673**	3,064,518
Inventories		**1,094,744**	783,896
Prepaid expenses		**602,024**	889,397
		12,718,733	11,550,167
Restricted investments		**130,141**	126,448
Capital assets	4	**54,279,028**	51,639,408
		67,127,902	63,316,023
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**13,240,507**	11,574,798
Capital lease obligation - current	6	**279,416**	212,741
Deferred revenues	7	**1,194,381**	1,267,587
		14,714,304	13,055,126
Long-term			
Sick leave benefits payable		**19,796**	9,727
Capital lease obligation - long-term	6	**746,000**	410,443
Employee future benefits	8	**4,716,700**	4,572,801
Deferred capital contributions	9	**45,263,337**	44,224,161
		50,745,833	49,217,132
Commitments, contingencies and guarantees	14		
Net assets (deficiency)			
Invested in capital assets		**7,990,275**	6,792,063
Endowment fund		**105,579**	105,579
Unrestricted		**(6,428,089)**	(5,853,877)
		1,667,765	1,043,765
		67,127,902	63,316,023

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

On behalf of the Board

Lori Kell _____________________ Chair

_____________________ Treasurer

	Notes	2021 $	2020 $
Revenues			
Ministry of Health and Long-Term Care			
Patient care		**50,050,124**	47,019,860
One-time		**12,495,878**	4,789,332
Physician programs	10	**1,666,980**	1,609,915
Other sources	13	**11,621,688**	15,206,225
Other programs	11	**6,956,310**	6,665,928
Amortization of deferred capital contributions - equipment		**1,622,674**	1,655,381
		84,413,654	76,946,641
Expenses			
Salaries		**37,450,741**	33,168,961
Benefits	12	**11,744,674**	10,668,213
Medical staff remuneration			
Patient care		**4,553,701**	4,633,260
Physician programs	10	**1,666,980**	1,609,915
Supplies and other		**12,691,509**	11,816,494
Medical and surgical supplies		**3,127,705**	3,246,486
Drugs		**3,866,984**	3,944,548
Bad debts		**73,095**	101,500
Loss on disposal of capital assets		**1,390**	122,519
Other programs		**6,799,465**	6,665,928
Amortization - equipment		**1,677,656**	1,685,446
		83,653,900	77,663,270
Excess (deficiency) of revenues over expenses before the undernoted		**759,754**	(716,629)
Other revenue (expenses)			
Amortization of			
Deferred capital contributions - building and land improvements		**2,011,188**	1,883,763
Building and land improvements		**(2,146,942)**	(2,015,613)
		(135,754)	(131,850)
Excess (deficiency) of revenues over expenses		**624,000**	(848,479)

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

Headwaters Health Care Centre

Statement of changes in net assets

Year ended March 31, 2021

	Invested in capital assets	Endowment fund	Unrestricted	2021 Total	2020 Total
	$	$	$	$	$
Balance, beginning of year	**6,792,063**	**105,579**	**(5,853,877)**	**1,043,765**	1,892,244
Excess (deficiency) of revenues over expenses	**(192,126)**	**—**	**816,126**	**624,000**	(848,479)
Additions to capital assets	**5,850,636**	**—**	**(5,850,636)**	**—**	—
Capital grants and capital donations	**(4,673,038)**	**—**	**4,673,038**	**—**	—
Capital lease obligations (net)	**212,740**	**—**	**(212,740)**	**—**	—
Balance, end of year	**7,990,276**	**105,579**	**(6,428,089)**	**1,667,765**	1,043,765

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

Headwaters Health Care Centre
Statement of cash flows
Year ended March 31, 2021

	2021 $	2020 $
Operating activities		
Excess (deficiency) of revenues over expenses	**624,000**	(848,479)
Items not affecting cash		
Recognition of deferred contributions	**(3,633,862)**	(3,572,065)
Amortization of capital assets	**3,824,598**	3,701,059
Loss on disposal of capital assets	**1,390**	122,519
Employee future benefit costs	**386,000**	382,300
	1,202,126	(214,666)
Change in non-cash working capital		
Accounts receivable	**(3,051,093)**	43,673
Inventories	**(310,848)**	(294,808)
Prepaid expenses	**287,373**	(338,719)
Accounts payable and accrued liabilities	**847,840**	1,750,627
Deferred revenues	**(73,206)**	574,121
	(1,097,808)	1,520,228
Capital activity		
Addition to capital assets		
Capital liabilties included in accounts payable and accrued liabilities are $817,869 (2020 - $1,557,076)	**(5,032,767)**	(2,973,284)
Investing activity		
Increase in restricted investments	**(3,693)**	—
Financing activities		
Decrease in accounts receivable - Foundation capital donations	**226,627**	189,416
Decrease (increase) in accounts receivable - capital grants	**134,311**	(47,200)
Increase (decrease) in sick leave benefits payable	**10,069**	(98)
Capital lease payments	**(212,740)**	(212,741)
Contributions to employee future benefits	**(242,101)**	(261,200)
Increase in deferred capital grants	**2,490,047**	993,890
Increase in deferred capital donations	**2,182,991**	2,719,369
	4,589,204	3,381,436
(Decrease) increase in cash	**(1,545,064)**	1,928,380
Cash, beginning of year	**6,812,356**	4,883,976
Cash, end of year	**5,267,292**	6,812,356

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

1. Nature of the Organization

Headwaters Health Care Centre (the "Hospital") was incorporated under the laws of the Province of Ontario as a corporation without share capital and has been granted tax exempt status under the *Income Tax Act* (Canada). The Hospital provides health care services to the residents of Dufferin County – Caledon.

As provided under the Local Health System Integration Act, 2006, effective April 1, 2007, the Ministry of Health (the "Ministry" or "MOH") assigned to the Central West Local Health Integration Network (the "LHIN"), all its rights, duties and obligations under its 2007-2008 Hospital Accountability Agreement with the Hospital. This agreement is aligned with the Ministry's transformation agenda and will enable the Central West LHIN to take on full responsibility for planning, funding, including negotiating the annual Hospital Service Accountability Agreement and integrating health services in the Central West LHIN area, which includes the Hospital.

The Government of Ontario passed legislation to create Ontario Health ("OH"). The Board of Directors for OH constitutes the board that oversees a number of provincial agencies including all fourteen Local Health Integration Networks ("LHINs") in Ontario, including the Central West Local Health Integration Network ("CWLHIN") and the Cancer Care Ontario division ("CCO").

Effective April 1, 2021, OH assumed all responsibilities of the LHIN as it relates to the Hospital. In addition, all agreements between the Hospital and the LHIN were transferred to OH.

2. Significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian public sector accounting standards, using the deferral method of reporting restricted contributions and include the following significant accounting policies:

Revenue recognition

These financial statements reflect arrangements approved by the Ministry and LHIN with respect to the year ended March 31, 2021.

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 and assigned to the LHIN and assumed by OH.

Operating grants are recognized as revenue in the period to which they relate. 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. To the extent that the Ministry or LHIN 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 or set up as a repayable to the funder. Some Ministry or LHIN revenue is tied to patient volume and activity. Revenue is recognized based on actual patient volumes.

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

2. Significant accounting policies (continued)

Revenue recognition (continued)

Grants and funding for which revenue has been earned but not received as at the end of the fiscal year is recognized as accounts receivable. Where a portion of a grant or funding relates to performance requirements in a future fiscal period, it is deferred and included as deferred revenue.

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 incurred. Contributions and grants restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Revenues from patients and other services are recognized when the services are provided.

Net assets

Invested in capital assets represents the Hospital's capital assets less amounts financed by deferred capital contributions and capital leases.

The endowment fund is subject to externally imposed restrictions stipulating that principal of $105,579 be retained intact. The accumulated investment income is intended to be spent by the Hospital on a restricted basis.

The unrestricted (deficiency) fund represents the accumulated deficiency of revenue over expenses from the ongoing operational activity of the Hospital since its inception, less amounts invested in capital assets and endowment funds.

Contributed services

The Hospital is dependent on the voluntary services of many individuals. As the fair market values of these services cannot be reasonably estimated, these contributed services are not recognized or disclosed in these financial statements.

Financial instruments

The Hospital initially measures its financial assets and liabilities at fair value and subsequently measures all its financial assets and liabilities at amortized cost.

Cash	Amortized cost
Accounts receivable	Amortized cost
Restricted investments	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis.

2. Significant accounting policies (continued)

Capital assets

Capital assets are recorded at acquisition cost. Contributed capital assets are recorded at fair value at the date of acquisition. Expenditures that substantially increase the useful lives of existing capital assets are capitalized. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following rates:

Land improvements	5 to 15 years
Buildings	5 to 40 years
Building service equipment	5 to 40 years
Equipment and software	3 to 20 years

Projects in progress consist of direct construction, development costs and financing costs. Amortization is recorded only when the capital asset is available for its intended use.

Capital leases are those that transfer substantially all of the benefits and risks of ownership to the Hospital. Capital leases are accounted for as though the asset was purchased and liability incurred. All other items of equipment held on lease are accounted for as operating leases.

Sick leave benefits

Employees who have accumulated sick leave credits and are entitled to special payments upon separation or retirement are expensed on an accrual basis in the year such credits are incurred.

Employee future benefits

The Hospital offers non-pension post-employment benefits to most employees, the cost of which is accrued under employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method, prorated on service, and management's best estimate of retirement ages of employees and expected benefit plans costs.

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

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

Use of estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates as additional information becomes available at a future date. Accounts involving significant estimates include revenue recognition, accounts receivable, capital assets, accrued liabilities, employee future benefits, deferred revenues and amortization.

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 and the LHIN. Included with the accountability agreements are the base or one-time volume that if not achieved will result in an adjustment to the funding received.

2. Significant accounting policies (continued)

Use of estimates (continued)

The availability of confirmed volumes lags the completion of these financial statements and hence the amount of the MOH and LHIN volume 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 estimate of amounts that have been earned during the year.

3. Accounts receivable

	2021	2020
	$	$
Insurers and patients	**1,241,115**	911,572
MOH, LHIN and Cancer Care Ontario	**3,371,641**	432,603
MOH for Redevelopment	**396,605**	396,605
Headwaters Health Care Foundation (Note 13(i))	**324,510**	625,077
HST Receivable	**357,349**	328,365
Miscellaneous	**242,797**	582,919
	5,934,017	3,277,141
Less: allowance for doubtful accounts	**(179,344)**	(212,623)
	5,754,673	3,064,518

4. Capital assets

			2021	2020
		Accumulated	**Net book**	Net book
	Cost	**amortization**	**value**	value
	$	**$**	**$**	$
Land	**1,457,180**	**—**	**1,457,180**	1,457,180
Land improvements	**1,957,408**	**1,456,214**	**501,194**	626,298
Buildings	**61,458,361**	**24,360,017**	**37,098,344**	36,465,777
Building service equipment	**7,443,544**	**2,753,365**	**4,690,179**	4,831,272
Equipment and software	**31,932,622**	**25,893,999**	**6,038,623**	5,523,101
Projects in progress	**4,493,508**	**—**	**4,493,508**	2,735,780
	108,742,623	**54,463,595**	**54,279,028**	51,639,408

During the year, the Hospital wrote-off fully amortized capital assets that were no longer in use with an original cost of $52,191 (2020 - $9,810,062). In addition, capital assets with a net book value of $1,390 (2020 - $122,516) were determined to be impaired and written-off during the year.

5. Credit facilities

On May 28, 2020, the Hospital entered into an updated credit facility agreement and established the following credit facilities:

(a) Facility 1 – a revolving credit facility for $6,000,000 (2020 - $3,000,000) to support general operating requirements of the Hospital. This facility bears interest at the bank's prime rate minus 0.5%. As at March 31, 2021, this facility remains unused.

(b) Facility 2 – letters of credit for $1,000,000. As at March 31, 2021, this facility remains unused.

(c) Facility 3 – a non-revolving term facility for $6,500,000 for the purpose of financing a HIS upgrade. This facility bears interest at the bank's BA rate plus an acceptance fee. As at March 31, 2021, this facility remains unused.

6. Capital lease obligation

The Hospital has undertaken capital leases for certain operating equipment. The effective interest rate of these capital leases ranges from 2.45% to 6.08%.

Future minimum payments under the capital leases are as follows:

	$
2022	303,033
2023	303,033
2024	258,371
2025	113,238
2026	113,238
	1,090,913
Less: amounts representing interest	65,497
Present value of minimum lease payments	1,025,416
Current portion	279,416
Long-term portion	746,000

Interest recorded in the Statement of operations related to the capital lease obligations is $15,580 (2020 - $15,580).

7. Deferred revenues

Included in deferred revenues is $273,879 (2020 - $234,973) of funding received from the Ministry of Health through their Health Infrastructure Renewal Fund. These funds were required to be spent by March 31, 2021 (March 31, 2020), however, the Ministry has granted a one-time exception to carry over unspent funding into the following fiscal year.

Also included in deferred revenues is $191,130 of funding received from the Ministry of Health for Ontario Health Teams Implementation Support funding. These funds were required to be spent by March 31, 2021, however, the Ministry has granted a one-time exception to carry over unspent funding into the fiscal 2022 year.

8. Employee future benefits

The Hospital provides health, dental, accidental death and dismemberment and life insurance benefits to its employees. The Hospital participates in an unfunded benefit plan and accrues its obligations under employee benefit plans and related costs as they are earned. For all active employees, the accrued benefit obligation was calculated using the projected benefit method pro-rated on service.

The measurement date for the accrued benefit obligation, as calculated in the Hospital's last actuarial valuation for post-retirement benefits was performed as at March 31, 2021.

	2021	2020
	$	$
Accrued benefit obligation, end of year	**4,055,400**	4,141,201
Unamortized actuarial losses	**661,300**	431,600
Accrued benefit liability	**4,716,700**	4,572,801
Net benefits recognized		
Current service cost	**270,700**	269,700
Interest cost	**133,000**	122,900
Amortization of actuarial experience losses	**(17,700)**	(10,300)
	386,000	382,300
Accrued benefit liability, beginning of year	**4,572,801**	4,451,701
Expense for the year	**386,000**	382,300
Benefits paid during the year	**(242,101)**	(261,200)
Accrued benefit liability, end of year	**4,716,700**	4,572,801

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

	2021	2020
Discount rate (%)	**2.80%**	2.90%
Average remaining service period of active employees to retirement who are expected to receive benefits under the benefit plan (years)	**12**	12
Dental cost trend rate (yearly %)	**2.75%**	2.75%
Medical benefits cost escalation - external health care (yearly %)	**See (a)**	See (a)

(a) 6.00% per annum commencing in fiscal 2020, decreasing by 0.25% per annum to an ultimate rate of 4.5% per annum.

9. Deferred capital contributions

	Capital grants	Capital donations	2021 Total	2020 Total
	$	$	$	$
Balance, beginning of year	**24,165,995**	**20,058,166**	**44,224,161**	44,082,967
Additional contributions received	**2,490,047**	**2,182,991**	**4,673,038**	3,713,259
Less: amounts recognized as revenue	**(1,354,859)**	**(2,279,003)**	**(3,633,862)**	(3,572,065)
	25,301,183	**19,962,154**	**45,263,337**	44,224,161

10. Physician programs

Effective September 1, 2000, the Hospital entered into an agreement with the Ministry for Hospital on Call Coverage. During the year the Hospital received $1,666,980 (2020 - $1,609,915), which was fully paid to physicians for on call coverage.

11. Other programs – revenues

	2021	2020
	$	$
County of Dufferin - Ambulance	**6,948,210**	6,657,828
Municipal tax assistance	**8,100**	8,100
	6,956,310	6,665,928

12. Pension plan

The Hospital is a member of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan. Plan members will receive benefits based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement, termination or death, which provide the highest earnings.

The Plan's 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 investment policy.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with the 6.9% of annualized earnings contributed by employees (9.2% of annualized earnings above the respective year's maximum pensionable earnings), 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 employer contributions to the Plan to remain a constant percentage of employee's contributions. The employer currently contributes 126% of the employee's contribution.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The most recent actuarial valuation of the plan as at December 31, 2020 indicates the plan is fully funded. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to $3,064,433 (2020 - $3,355,791) and are included in benefits expense in the Statement of operations.

13. Related party entities

(i) *Headwaters Health Care Foundation*

The Hospital has an economic interest in the Foundation. The Foundation was established to raise funds for the use of the Hospital. The Foundation is incorporated under the Canada Hospitals Act and is a registered charity under the Income Tax Act (Canada).

The Hospital does not exercise control or significant influence over the Foundation and therefore the net assets and results of operations of the Foundation are not included in the financial statements of the Hospital.

Included in accounts receivable is $324,510 (2020 - $625,077) receivable from the Foundation related to operating costs of $133,118 (2020 - $207,058) and capital donations of $191,392 (2020 - $418,019).

During the year, $2,182,991 (2020 - $2,719,369) was received and deferred from the Foundation related to capital assets and $106,812 (2020 - $310,103) was recognized as donation income.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties.

(ii) *Headwaters Health Care - Orangeville Auxiliary*

The Auxiliary is a volunteer organization registered as a charity under the Income Tax Act (Canada). The Auxiliary undertakes a wide range of fundraising and volunteer activities for the benefit of the Hospital. Amounts raised by the Auxiliary are flowed to the Hospital through the Foundation. The Hospital does not exercise control or significant influence over the Auxiliary and therefore the net assets and results of operations of the Auxiliary are not included in the financial statements of the Hospital.

14. Commitments, contingencies and guarantees

(a) On December 1, 2020, the Hospital signed a Shared Services Alliance Agreement with Collingwood General & Marine Hospital, Georgian Bay General Hospital and Royal Victoria Regional Health Centre ("RVH") for shared access to the Meditech Expanse Health Care Information System, which is expected to become available for use in fiscal 2022.

The Hospital has committed to pay RVH base annual support fees until November 2035. The cost of the annual commitment cannot yet be reasonably estimated.

(b) The Hospital is a member of the Healthcare Insurance Reciprocal of Canada ("HIROC") and therefore, has an economic interest in HIROC. HIROC is a provider of healthcare liability insurance which provides for the pooling of liability insurance risks of its members. All members of the pool pay annual premiums, which are actuarially determined. All members are subject to reassessment for losses, if any, experienced by the pool for the years in which they are members. Members are also entitled to a refund, should a surplus exist. No negative reassessments have been made to March 31, 2021.

Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income, less the obligation for claims reserves and expenses and operating expenses. Each subscriber who has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors at HIROC.

14. Commitments, contingencies and guarantees (continued)

(c) In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction.

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

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.

15. Financial instruments and risk management

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

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. 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.

Liquidity risk

Liquidity risk relates to the potential that the Hospital will not be able to meet a demand for cash or fund its obligations as they come due as a result of the Hospital's inability to liquidate assets in a timely manner and at a reasonable price. The Hospital is exposed to liquidity risk on its accounts payable and accrued liabilities and expect to meet these obligations as they come due through operating funding. There has been an increase in liquidity risk from the previous year as a result of increased accounts payable and accrued liabilities.

16. 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, the Hospital experienced a change in the demand for its services and incurred unbudgeted pandemic response expenditures. The MOH/LHIN/OH have issued funding announcements to the Hospital to support the COVID-19 response. The Hospital has tracked expenditures related to its pandemic response and has applied for reimbursement for incremental expenses. Any recoveries that may be received in the future will be recognized in the period in which approval is obtained.

The duration and longer-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.