Financial statements of

Scarborough and Rouge Hospital

March 31, 2017

Scarborough and Rouge Hospital
March 31, 2017

Table of contents

Deloitte.

Deloitte LLP
400 Applewood Crescent
Suite 500
Vaughan ON L4K 0C3
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Board of Directors of
Scarborough and Rouge Hospital

We have audited the accompanying financial statements of Scarborough and Rouge Hospital, which comprise the statement of financial position as at March 31, 2017, the statements of operations, changes in net assets, remeasurement gains and cash flows for the four month period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Scarborough and Rouge Hospital as at March 31, 2017 and the results of its operations, changes in its net assets, remeasurement gains and its cash flows for the four months then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 29, 2017

Scarborough and Rouge Hospital

Statement of operations

Four month period ended March 31, 2017

(In thousands of dollars)

	March 31, 2017 (Note 1)
	$
Revenue	
Ministry of Health and Long-Term Care and Cancer Care Ontario	183,047
Patient revenues	13,473
Recoveries and other income	8,216
Ancillary operations	1,186
Amortization of capital grants	3,051
Amortization of deferred revenue – long term lease	21
	208,994
Expenses	
Compensation	139,350
Medical and surgical supplies	16,604
Drugs	12,261
Supplies and other expenses	28,367
Ancillary operations	447
Amortization of capital assets	9,377
Bad debt expense	953
Interest on long term debt	362
	207,721
Excess of revenue over expenses before the undernoted	1,273
Proceeds from the sale of Booth Centennial Healthcare Linen Services (Note 20)	56
Integration expenses (Note 1)	(2,738)
(Deficiency) of revenue over expenses	(1,409)

Scarborough and Rouge Hospital

Statement of changes in net assets

Four month period ended March 31, 2017

(In thousands of dollars)

				March 31, 2017 (Note 1)
	Invested in capital assets	Invested in joint venture assets	Unrestricted	Total
	$	$	$	$
Net assets, beginning of period	118,510	605	(75,020)	**44,095**
(Deficiency) excess of revenue over expense	(6,326)	(33)	4,950	**(1,409)**
Net change in net assets invested in capital assets	8,805	-	(8,805)	**-**
Net assets, end of period	120,989	572	(78,875)	**42,686**

Scarborough and Rouge Hospital

Statement of remeasurement gains

Four month period ended March 31, 2017

(In thousands of dollars)

	March 31, 2017 (Note 1)
	$
Accumulated remeasurement gains, beginning of period	**2,394**
Unrealized gains attributable to	
Derivatives – interest rate swap	**177**
Accumulated remeasurement gains, end of period	**2,571**

Scarborough and Rouge Hospital

Statement of financial position
As at March 31, 2017
(In thousands of dollars)

	March 31, 2017 (Note 1)
	$
Assets	
Current assets	
Cash (Note 8)	**6,046**
Accounts receivable (Note 4)	**16,855**
Inventories	**3,370**
Prepaid expenses	**5,125**
	31,396
Investment in joint ventures (Note 5)	**572**
Restricted cash (Note 6)	**4,873**
Capital assets (Note 7)	**271,088**
	307,929
Liabilities	
Current liabilities	
Short term indebtedness (Note 9)	**1,500**
Accounts payable and accrued liabilities (Note 10)	**80,908**
Current portion of long-term debt (Note 12)	**3,032**
Current portion of capital lease obligation (Note 13)	**336**
Deferred revenue	**4,619**
	90,395
Legal defence fund (Note 11)	**2,692**
Long-term debt (Note 12)	**13,453**
Long-term capital lease obligation (Note 13)	**497**
Deferred capital grants(Note 14)	**132,781**
Deferred revenue – long-term lease (Note 15)	**1,322**
Employee future benefits (Note 16)	**20,231**
Derivatives - interest rate swap (Note 21)	**1,301**
	262,672
Contingent liabilities and guarantees (Note 17)	
Net assets	
Invested in capital assets (Note 18)	**120,989**
Invested in joint ventures (Note 5)	**572**
Unrestricted	**(78,875)**
	42,686
Remeasurement gains	**2,571**
	307,929

Approved by the Board

Maureen Adamson, Chair, Board of Directors

Fred Clifford, Chair, Finance and Audit Committee

Scarborough and Rouge Hospital

Statement of cash flows

Four month period ended March 31, 2017

(In thousands of dollars)

	March 31, 2017 (Note 1)
Operating activities	
(Deficiency) of revenue over expenses	**(1,409)**
Payment of employee future benefits	**(453)**
Items not affecting cash	
Amortization of capital assets	**9,377**
Amortization of deferred capital grants	**(3,051)**
Amortization of deferred revenue – long-term lease	**(21)**
Employee future benefit expense	**564**
Joint venture income	**33**
Legal defence provision	**440**
	5,480
Changes in non-cash working items (Note 22)	**5,977**
	11,457
Financing activities	
Receipt of long-term debt	**94**
Repayment of long-term debt	**(1,345)**
Repayment of capital lease	**(113)**
Legal defence claims fund	**(1,342)**
Sinking fund	**215**
	(2,491)
Capital activities	
Acquisition of capital assets	**(12,570)**
Receipt of deferred capital grants	**5,129**
	(7,441)
Net change in cash	**1,525**
Cash, beginning of period	**4,521**
Cash, end of period	**6,046**

1. Integration of Scarborough and Rouge Hospital

On December 1, 2016 the Ministry of Government Services approved Letters Patent that amalgamated the Birchmount and General sites of The Scarborough Hospital and the Centenary site of Rouge Valley Health System and they were continued as the Scarborough and Rouge Hospital (the Hospital).

During the four month period ended March 31, 2017, integration related expenses of $2,738 were paid by the Hospital.

2. Description of business

The Hospital is a multi-location acute care community general hospital. It is classified as a registered charity under the Income Tax Act (Canada) and, as such, is not subject to income tax provided certain disbursement requirements are met.

The financial statements do not include the assets, liabilities and operations of The Scarborough Hospital Foundation or the Rouge Valley Health System Foundation (the “Foundations”). Revenues generated by the Foundations may be donated to the Hospital upon approval by its board.

The Hospital (through its predecessor organizations) signed a 2016-17 Hospital Service Accountability Agreement with the Central East Local Health Integration Network (“LHIN”) which included a balanced total margin target. Any excess of expenses over revenue is the responsibility of the Hospital and must be funded from other sources, including capital funds.

3. Summary of significant accounting policies

Financial statement presentation

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

Restructuring transaction

In June 2015, the Public Sector Accounting Board (PSAB) issued a new standard PS3430 – Restructuring Transactions which applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018 and allows for early adoption. This policy established standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. The Hospital elected to early adopt PS 3430 - Restructuring transactions on December 1, 2017, and applied the policy prospectively with no restatement of prior periods.

Accordingly, the opening balances of the Hospital as at December 1, 2016 were as follows:

(In thousands of dollars)

3. Summary of significant accounting policies (cont'd)

Restructuring transaction (cont'd)

	Birchmount and General sites of The Scarborough Hospital December 1, 2016	**Centenary site of Rouge Valley Health System December 1, 2016**	**Adjustments** (a) Reclass restricted cash (b) Eliminate inter-site balances	**Scarborough and Rouge Hospital December 1, 2016**
Assets				
Current assets				
Cash (bank indebtedness)	(4,205)	9,473	(747)(a)	4,521
Accounts receivable	17,949	6,539	(458)(b)	24,030
Inventories	1,936	1,581	-	3,517
Prepaid expenses	2,847	1,625	-	4,472
	18,527	19,218	(1,205)	36,540
Investment in joint ventures	605	-	-	605
Restricted cash	2,999	-	747(a)	3,746
Capital assets	176,045	91,850	-	267,895
	198,176	111,068	(458)	**308,786**
Liabilities				
Current liabilities				
Short term indebtedness	1,500	-	-	1,500
Accounts payable and accrued liabilities	45,256	34,850	(458)(b)	79,648
Current portion of long term debt	2,959	430	-	3,389
Current portion of capital lease obligation	342	-	-	342
Deferred revenue	4,566	2,005	-	6,571
	54,623	37,285	(458)	91,450
Legal defence fund	2,252	-	-	2,252
Long-term debt	10,681	3,666	-	14,347
Long-term capital lease obligation	604	-	-	604
Deferred capital grants	94,465	36,238	-	130,703
Deferred revenue - long-term lease	-	1,343	-	1,343
Employee future benefits	10,959	9,161	-	20,120
Derivatives - interest rate swap	1,478	-	-	1,478
	175,062	87,693	(458)	262,297
Net assets				
Invested in capital assets	66,994	51,516	-	118,510
Invested in joint ventures	605	-	-	605
Unrestricted	(46,879)	(28,141)	-	(75,020)
	20,720	23,375	-	44,095
Remeasurement gains	2,394	-	-	2,394
	198,176	111,068	-	**308,786**

3. Summary of significant accounting policies (cont'd)

Description of funds

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

Unrestricted funds represent the excess (deficiency) of revenue over expenses accumulated from the ongoing operations of the Hospital since its inception (through its predecessor organizations).

Revenue recognition

Under the Health Insurance Act and Regulations thereto, the Hospital is primarily funded by the Province of Ontario. Operating grants are recorded as revenue in the year to which they relate.

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

Revenue from other agencies, patients, special programs and other sources is recognized when the service is provided.

To the extent which the Ministry and LHIN funding has been received with the stipulated requirement that the Hospital provide specific services and these services have not yet been provided, the funding is deferred until such time as the services are performed and the monies spent. In the event that the services are not performed in accordance with the funding requirements, the funds received in excess of monies spent could be recovered by the Ministry and LHIN.

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

Contributed services

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

Financial instruments

All financial instruments reported on the statement of financial position for the period ended March 31, 2017 are measured as follows:

Cash	Fair value
Accounts receivable	Amortized cost
Restricted cash	Fair value
Bank indebtedness	Fair value
Short term indebtedness	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Derivatives – interest rate swap	Fair value

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

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

3. Summary of significant accounting policies (cont'd)

Inventories

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

Investment in joint ventures

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

Capital assets

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

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

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

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

Construction in progress

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

Capital grants

Capital asset grants received by the Hospital are deferred and amortized on a straight-line basis at a rate corresponding to the amortization rate for the related capital asset.

Employee benefit plans

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

The Hospital accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of retirement ages of employees and expected heath care costs. Actuarial gains or losses are amortized over the average remaining service period of the active employees. The average remaining service period for active employees is 14 years. Future cost escalation affects the amount of employee future benefits. The accrued benefit obligation related to employee benefits is discounted using current interest rates based on the Hospital's cost of borrowing.

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

(In thousands of dollars)

3. Summary of significant accounting policies (cont'd)

Legal defence fund

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

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

Use of estimates

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

In particular, the amount of revenue recognized from the Ministry and the LHIN requires some estimation. The Hospital has entered into accountability agreements (through its predecessor organizations) that set out the rights and obligations of the parties in respect of funding provided to the Hospital by the Ministry and the LHIN. The accountability agreements set out certain performance standards and obligations that establish acceptable results for the Hospital's performance in a number of areas.

If the Hospital does not meet its performance standards or obligations, the Ministry and the LHIN have the right to adjust funding received. Neither the Ministry nor the LHIN are required to communicate certain funding adjustments until after submission of year end data. Since this data is not submitted until after the completion of the financial statements, the amount of the Ministry and LHIN funding received during a period may be increased or decreased subsequent to period end. The amount of revenue recognized in these financial statements represents management's best estimates of amounts that have been earned during the period.

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

4. Accounts receivable

	March 31, 2017
	$
Ministry of Health and Long-Term Care	**3,455**
Patients' accounts	**9,750**
Other	**6,892**
	20,097
Less: allowance for doubtful accounts	**3,242**
	16,855

(In thousands of dollars)

5. Investment in joint ventures

The Hospital owns 33.33% of Shared Hospital Laboratories Inc. The investment is accounted for using the modified equity method in the amount of $124. There are no significant differences between the accounting policies of the Hospital and those of the joint venture.

The Hospital owns 50% of Scarborough ProResp Inc. The investment is accounted for using the modified equity method in the amount of $260.There are no significant differences between the accounting policies of the Hospital and those of the joint venture.

The Hospital has a Management Services Agreement with Scarborough ProResp Inc. to provide supervisory and management services. During the period management fees of $100 were included in other income.

The Hospital's share is as follows:

		March 31, 2017 (4 months)
	Shared Hospital Laboratories	**ProResp**
	$	**$**
Shareholder's equity	**16**	**393**
Revenues	**411**	**245**
Expenses	**411**	**278**
Dividends paid		**-**
Cash flow from operating	**64**	**(49)**
Cash flow from investing	**(9)**	**(7)**
Cash flow from financing	**0**	**114**

6. Restricted cash

The Hospital (through its predecessor organizations) entered into an agreement with Health Care Insurance Reciprocal of Canada ("HIROC") effective January 1, 2015 for the Birchmount and General sites and effective January 1, 2017 for the Centenary site, whereby the cost of investigating and defending any litigation claims would be borne by the Hospital. To fund the expected payments, the Hospital transfers funds to an operating account managed by HIROC Management Ltd. as the Hospital's appointed agent. The cash balance of $4,341 at March 31, 2017 is restricted for these payments.

The Hospital (through its predecessor organizations) is required in its Development Accountability Agreement with the MOHLTC to maintain an amount equal to three months of the Hospital's debt service payments for specific obligations in a sinking fund until such times as these financial obligations have been fully discharged. The cash balance of $532 at March 31, 2017 is restricted for this purpose.

(In thousands of dollars)

7. Capital assets

March 31, 2017

	Cost	Accumulated amortization	Net book value
	$	$	$
Land	1,652	-	1,652
Buildings, building improvements and building service equipment	404,906	182,647	222,259
Furniture and equipment	353,235	314,513	38,722
Computer equipment	37,618	33,038	4,580
Construction in progress	3,875	-	3,875
	801,286	**530,198**	**271,088**

8. Cash and bank indebtedness

Cash and bank indebtedness has been combined for reporting purposes. The Hospital (through its predecessor organizations) has operating lines of credit with its financial institutions to assist in managing the day to day cash flows of the Hospital. As of March 31, 2017 the available lines of credit were $45,000 and the Hospital has drawn $5,139. The $30,000 line of credit bears interest at a rate of prime less 0.25% and the $15,000 line of credits bears interest at a rate of prime less 0.20% and both are payable on demand.

9. Short term indebtedness

The Hospital has a credit facility with The Scarborough Hospital Foundation. Amounts borrowed are due on demand and bear interest at prime less 0.50%.

10. Accounts payable and accrued liabilities

	March 31, 2017
	$
Trade payables	28,109
Salaries and benefits	49,572
Accrued liabilities	3,227
	80,908

11. Legal defence fund

The provision at March 31, 2017 is $2,692 and the related claims defence expense of $854 is included in other expenses.

The liability for future litigation costs is calculated by an independent actuary who reviews the claims experience and is discounted using the current interest rate based on the Hospital's cost of borrowing. Actuarial gains of $260 are recognized in the current period in other income.

(In thousands of dollars)

12. Long-term debt

	March 31, 2017
	$
CIBC - non-revolving demand fixed rate loan at 6.66% due April 2028 (Medical Mall office building)	4,353
BMO – fixed rate loan at 2.64% due November 2019 – (surgical equipment)	375
BMO – fixed rate loan at 4.81% due April 2022 – (sterile processing department)	223
BMO – fixed rate loan at 4.81% due April 2022 – (surgical equipment)	902
RBC – fixed-term mortgage at 4.86% due May 2038 on 25 Neilson Road.	2,458
CIBC - non-revolving term fixed rate loan at 7.96% due January 2019 (General site West Wing)	3,460
Manulife – fixed rate loan at 4.75% due May 2025 (Energy Savings Agreement)	4,714
	16,485
Less: current portion	3,032
	13,453

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

	$
2018	3,032
2019	2,863
2020	1,250
2021	1,216
2022	1,282
Thereafter	6,842
	16,485

The non-revolving term loan facility, originally entered into (through predecessor organizations) in February 2009 for $14,000, relates to the construction of the General site West Wing. This facility is repayable in 120 monthly payments through January 2019. It bears a floating interest rate based on variable banker's acceptance rates, which ranged from 0.878% to 0.950% during the period. Effective January 2, 2009 an interest rate swap modified the floating interest rate on the loan to a fixed rate of 7.96%.

In fiscal 2014, the Hospital entered into (through its predecessor organizations) a capital energy agreement with Ameresco Canada Inc. and Manulife to commence work on capital and energy measures at the Hospital. The terms of the agreement require the Hospital to obtain a loan which bears a fixed interest rate of 4.75% and is repayable in monthly payments commencing June 2015 through May 2025. During the period, additional debt of $93 was taken on related to the Ameresco Canada Inc. agreement with the same repayment terms.

13. Obligations under capital leases

In March 2013, the Hospital (through its predecessor organizations) entered into a capital lease agreement for SAN and Meditech server with Macquarie Equipment Finance Ltd. for $602 payable monthly. The agreement expires February 2018 and provides an option to purchase the equipment from the lessor at the expiration of the base term by payment to the lessor of $1.00. The applicable rate used by lessor in pricing the lease is 3.89%.

(In thousands of dollars)

13. Obligations under capital leases (cont'd)

In November 2013, the Hospital (through its predecessor organizations) entered into a capital lease agreement for endoscope equipment with Olympus Canada Inc. Medical Systems Group for $1,343 payable monthly. The agreement expires October 2019 and provides an option to purchase the equipment from the lessor at the expiration of the base term by payment to the lessor of $131. The applicable rate used by lessor in pricing the lease is 5.0%.

The future minimum lease payments required under the capital lease agreements are as follows:

	$
Total minimum lease payments	833
Less: current portion	336
Long-term portion	497

Principal payments due in the next 3 periods are as follows:

	$
2018	336
2019	226
2020	271
	833

14. Deferred capital grants

	March 31, 2017 (4 months)
	$
Balance, beginning of period	130,703
Capital grants received during the period	5,129
Amortization for the period	(3,051)
Balance, end of period	132,781

15. Deferred revenue – long-term lease

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

	March 31, 2017 (4 months)
	$
Balance, beginning of period	1,343
Amortization during the period	(21)
Balance, end of period	1,322

(In thousands of dollars)

16. Employee future benefits

The Hospital (through its predecessor organizations) provides certain post-employment benefits to some of its employees. The most recent actuarial valuation for the Hospital was performed March 31, 2017. The Hospital's liability associated with the benefit plan is as follows:

	March 31, 2017 (4 months)
	$
Accrued benefit obligation, beginning of period	20,120
Current service cost	351
Interest cost	200
Amortization of actuarial losses	13
Benefits paid	(453)
	20,231
Accrued benefit obligation, end of period	19,709
Unamortized actuarial losses	522
	20,231

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

	March 31, 2017
	%
Discount rate to determine accrued benefit obligation	**3.2%**
Extended healthcare cost escalations, decreasing by 0.25% per annum to an ultimate rate of 4.5% thereafter	6.25%
Expected average remaining service life of employees	14

Included in the statement of operations is an amount of $564 regarding employee future benefits. This amount is comprised of:	**March 31, 2017 (4 months)**
	$
Current service costs	351
Amortization of actuarial gains	13
Interest on obligation	200
	564

17. Contingent liabilities and guarantees

A. Due to the nature of its operations, the Hospital is periodically subject to lawsuits in which the Hospital is a defendant, as well as grievances filed by its various unions. Management accrues liabilities for claims against the Hospital when a liability is likely to be incurred and the amount of the claim can be reasonably estimated. With respect to claims at March 31, 2017, management believes the Hospital has valid defences and appropriate insurance coverage in place.

B. On July 1, 1987, a group of health care organizations ("subscribers") formed Healthcare Insurance Reciprocal of Canada (HIROC). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts, which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces of Ontario, Manitoba, Saskatchewan and Newfoundland. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No such assessments have been made to March 31, 2017.

(In thousands of dollars)

17. Contingent liabilities and guarantees (cont'd)

C. In the normal course of business, the Hospital enters into agreements that meet the definition of a guarantee. The Hospital's primary guarantees are as follows:

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

b) Indemnity has been provided to all directors and or officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased errors and omissions insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Hospital. The maximum amount of any potential future payment cannot be reasonably estimated.

c) The Hospital has entered into agreements (through its predecessor organizations) that include indemnities in favour of third parties. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

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

18. Net assets invested in capital assets

	March 31, 2017
	$
Capital assets (Note 7)	271,088
Adjusted for amounts financed by:	
Long-term debt (Note 12)	(16,485)
Obligations under capital lease (Note 13)	(833)
Deferred capital grants (Note 14)	(132,781)
	120,989

19. Pension plan

Substantially all of the employees of the Hospital are members of the Healthcare of Ontario Pension Plan ("the Plan"), a multi-employer defined benefit plan. Contributions to the Plan made during the period by the Hospital on behalf of its employees amounted to $8,021 and are included in compensation expenses.

20. Related party transactions

During the period, grants were received from The Scarborough Hospital Foundation in the amount of $2,296 and from the Rouge Valley Health System Foundation in the amounts of $80. At March 31, 2017, $34 was due from The Scarborough Hospital Foundation.

The Hospital also has related party transactions with joint ventures as disclosed in Note 5. The Hospital is a member of Plexxus, and Hospital Diagnostic Imaging Repository Services, who provide various services to the Hospital at market value.

At the August 30, 2016 member's meeting of Booth Centennial Healthcare Linen Services, the members approved the sale of Booth Centennial Healthcare Linen Services. The payout of the proceeds of sale on closing of $2,052 was received by the Hospital (through its predecessor organizations) in the eight month period ended November 30, 2017. The payout of the funds held in escrow of $56 was received by the Hospital in the four month period ended March 31, 2017 and is included in the statement of operations.

21. Financial instruments and risk management

Risk management

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

Interest rate risk

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

Credit risk

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

The Hospital's credit risk is primarily attributable to its patient receivables. The amounts disclosed are net of allowance for doubtful accounts, estimated by the management of the Hospital based on previous experience and its assessment of the current economic environment. The credit risk on short-term investments is limited because the counterparties are banks with high credit-ratings assigned by national credit-rating agencies.

Liquidity risk

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

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

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

The contractual maturities of long-term debt are disclosed in Note 12.

Fair value

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

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

21. Financial instruments and risk management (cont'd)

Fair value (cont'd)

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

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

Fair value of derivative financial instruments

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

A. A non-revolving term loan facility for the construction of the General site West Wing in the amount of $14,000 was originally obtained in February 2009. The notional value of this loan is $3,460 at March 31, 2017. The Hospital entered into an interest rate swap arrangement to modify the rate of the loan from a variable banker's acceptance rate ranging from 0.878% to 0. 950% to a fixed rate of 7.96%. The start date of the interest rate swap was January 2, 2009 with a maturity date of January 2, 2019. The fair value of the interest rate swap at March 31, 2017 is $ 212.

B. A non-revolving demand loan facility for the financing of the Medical Mall office building in the amount of $7,000 was originally obtained in April 2003. The notional value of this loan is $4,353 at March 31, 2017. The Hospital has entered into an interest rate swap arrangement to modify the rate of the loan from a variable banker's acceptance rate ranging from 0.878% to 0. 950% to a fixed rate of 6.66%. The start date of the interest rate swap was April 1, 2003 with a maturity date of April 3, 2028. The fair value of the interest rate swap is $1,089 at March 31, 2017. The Hospital also had the option to reduce the notional amount of the loan by $150 commencing April 1, 2004 and annually thereafter. The Hospital sold the option on November 10, 2011 and received proceeds of $530 which were recorded in the statement of remeasurement gains. The Hospital or the financial institution may elect to terminate the facility on April 1, 2018 or April 1, 2023.

During the period, $177 in derivative gain was included in the statement of remeasurement gains.

Fair value hierarchy

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

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

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

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

(In thousands of dollars)

21. Financial instruments and risk management (cont'd)

Fair value hierarchy (cont'd)

Financial liabilities at fair value as at March 31, 2017.

				March 31, 2017
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Derivatives – interest rate swap	-	1,301	-	1,301

There have been no movements between levels for the period ended March 31, 2017.

22. Changes in non-cash working capital items

	March 31, 2017 (4 months)
	$
Accounts receivable	7,175
Inventories	147
Prepaid expenses	(653)
Accounts payable and accrued liabilities	1,260
Deferred revenue	(1,952)
	5,977