Financial statements of
Scarborough Health Network

March 31, 2020

Deloitte.

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Independent Auditor's Report

To the Board of Directors of
Scarborough Health Network

Opinion

We have audited the consolidated financial statements of Scarborough Health Network (the "Hospital"), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of operations, remeasurement gains , changes in net assets and cash flows for the year then ended, and notes to the consolidated 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, 2020, and the results of its operations, changes in net assets, remeasurement gains and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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 5, 2020

Scarborough Health Network

Consolidated statement of operations

Year ended March 31, 2020

(In thousands of dollars)

	Notes	2020 $	2019 $
Revenue			
Ministry of Health and Cancer Care Ontario	21	**589,542**	579,028
Patient revenues		**47,611**	43,742
Recoveries and other income		**27,467**	27,168
Ancillary operations		**12,900**	11,348
Amortization of capital grants	12	**8,853**	8,804
Amortization of deferred revenue–long-term lease		**62**	62
		686,435	670,152
Expenses			
Compensation		**455,888**	448,207
Medical and surgical supplies		**54,635**	53,017
Drugs		**37,432**	35,638
Supplies and other expenses		**96,597**	90,278
Ancillary operations		**9,758**	7,874
Amortization of capital assets		**25,292**	25,670
Bad debt expense		**5,131**	3,379
Interest on long term debt		**1,471**	647
Integration expenses	1	**772**	2,671
		686,976	667,381
(Deficiency) excess of revenue over expenses		**(541)**	2,771

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

Scarborough Health Network

Consolidated statement of financial position

Year ended March 31, 2020

(In thousands of dollars)

	Notes	2020 $	2019 $
Assets			
Current assets			
Cash		**32,483**	50,459
Accounts receivable	3	**31,386**	17,747
Inventories		**4,616**	4,136
Prepaid expenses		**6,839**	6,513
		75,324	78,855
Investment in joint ventures	4	**840**	613
Restricted cash – debenture proceeds	11	**110,350**	—
Restricted cash – legal defense fund	5	**10,644**	8,695
Capital assets	6	**285,591**	266,861
		482,749	355,024
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	**113,918**	107,361
Current portion of long-term debt	10	**1,192**	1,269
Capital lease obligation		**—**	325
Deferred revenue		**13,879**	11,493
		128,989	120,448
Legal defence fund	9	**6,224**	5,293
Long-term debt	10	**8,087**	9,304
Long term debenture	11	**119,762**	—
Deferred capital grants	12	**135,274**	135,705
Deferred revenue–long-term lease	13	**1,136**	1,198
Employee future benefits	14	**21,886**	21,144
Derivatives-interest rate swap	19	**725**	702
		422,083	293,794
Contingent liabilities and guarantees	15		
Net assets			
Invested in capital assets	16	**131,626**	120,258
Internally restricted		**11,000**	11,000
Invested in joint ventures	4	**840**	613
Unrestricted		**(85,947)**	(73,811)
		57,519	58,060
Remeasurement gains		**3,147**	3,170
		482,749	355,024

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

Approved by the Board

EBuller (Jun 15, 2020 13:24 EDT) ________________________, Director

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Scarborough Health Network

Consolidated statement of remeasurement gains

Year ended March 31, 2020

(In thousands of dollars)

	Notes	2020	2019
		$	$
Accumulated remeasurement gains, beginning of year		**3,170**	3,084
Unrealized (losses) gains attributable to			
Derivatives–interest rate swap	19	**(23)**	86
Accumulated remeasurement gains, end of year		**3,147**	3,170

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

Scarborough Health Network

Consolidated statement of changes in net assets

Year ended March 31, 2020

(In thousands of dollars)

	Invested in capital assets $	Invested in joint venture assets $	Internally restricted $	Unrestricted $	2020 Total $	2019 Total $
Net assets, beginning of year	**120,258**	**613**	**11,000**	**(73,811)**	**58,060**	55,289
(Deficiency) excess of revenue over expense	**(16,439)**	**227**	**—**	**15,671**	**(541)**	2,771
Net change in net assets invested in capital assets	**27,807**	**—**	**—**	**(27,807)**	**—**	—
Net assets, end of year	**131,626**	**840**	**11,000**	**(85,947)**	**57,519**	58,060

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

Scarborough Health Network

Consolidated statement of cash flows

Year ended March 31, 2020

(In thousands of dollars)

	Notes	2020 $	2019 $
Operating activities			
(Deficiency) excess of revenue over expenses		**(541)**	2,771
Payment of employee future benefits		**(1,472)**	(1,293)
Items not affecting cash			
Amortization of capital assets		**25,292**	25,670
Amortization of deferred capital grants	12	**(8,853)**	(8,804)
Amortization of deferred revenue–long-term lease	13	**(62)**	(62)
Employee future benefit expense	14	**2,214**	1,741
Joint venture income		**(227)**	(22)
Legal defence provision		**931**	1,285
		17,282	21,286
Changes in non-cash working items	20	**(5,502)**	15,528
		11,780	36,814
Financing activities			
Net proceeds of long-term debenture	11	**119,762**	—
Repayment of long-term debt		**(1,294)**	(2,880)
Repayment of capital lease		**(325)**	(314)
Legal defence claims fund		**(1,949)**	(2,212)
Sinking fund		**—**	747
Restricted cash - debenture proceeds	11	**(110,350)**	—
		5,844	(4,659)
Capital activities			
Acquisition of capital assets		**(44,022)**	(26,746)
Receipt of deferred capital grants	12	**8,422**	8,688
		(35,600)	(18,058)
Net change in cash		**(17,976)**	14,097
Cash, beginning of year		**50,459**	36,362
Cash, end of year		**32,483**	50,459

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

1. Description of business

On December 1, 2016 the Birchmount and General sites of The Scarborough Hospital and the Centenary site of Rouge Valley Health System amalgamated forming Scarborough and Rouge Hospital. In December 2018, the legal name was changed from Scarborough and Rouge Hospital to Scarborough Health Network (the "Hospital"). The Hospital is a multi-location acute care community hospital. It is classified as a registered charity under the Income Tax Act (Canada) and, as such, is not subject to income tax provided certain disbursement requirements are met.

During the year ended March 31, 2020, integration related expenses of $772 ($2,671 in 2019) were paid by the Hospital.

The financial statements do not include the assets, liabilities and operations of The Scarborough Health Network Foundation (the "Foundation"). Revenues generated by the Foundation may be donated to the Hospital upon approval by its Board of Directors.

The Hospital signed a 2019-2020 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 any excess of capital spending over funding.

2. Summary of significant accounting policies

Financial statement presentation

The consolidated 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.

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 of revenue over expenses accumulated from the ongoing operations of the Hospital since its inception.

Internally restricted funds represent funds that have been earmarked for future purposes, such as to fund the local share of the Hospital's future capital projects. Restriction of such funds have been approved by the Board of Directors.

Revenue recognition

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

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.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

To the extent which Ministry of Health (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 or revenues earned based on services performed 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 consolidated financial statements.

Financial instruments

All financial instruments reported on the consolidated statement of financial position for the year ended March 31, 2020 are measured as follows:

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

Unrealized changes in fair value are recognized in the consolidated statement of remeasurement gains until realized and transferred to the consolidated 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 consolidated statement of operations and any unrealized gain is adjusted through the consolidated statement of remeasurement gains. When the asset is sold, the unrealized gains and losses previously recognized in the consolidated statement of remeasurement gains are reversed and recognized in the consolidated statement of operations.

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.

2. Summary of significant accounting policies (continued)

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.

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 12 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.

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.

2. Summary of significant accounting policies (continued)

Legal defence fund (continued)

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 consolidated 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 consolidated 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 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 consolidated financial statements, the amount of the Ministry and LHIN funding recognized as revenue during a period may be increased or decreased subsequent to period end. The amount of revenue recognized in these consolidated 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 defence fund, employee future benefits and derivatives.

3. Accounts receivable

	2020	2019
	$	$
Ministry of Health	**6,377**	4,263
Patients' accounts	**13,600**	12,135
Other	**18,655**	6,121
	38,632	22,519
Less: allowance for doubtful accounts	**7,246**	4,772
	31,386	17,747

4. 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 $578 ($319 in 2019). There are no significant differences between the accounting policies of the Hospital and those of the joint venture. As of April 1, 2019, the joint venture transitioned to a not-for-profit organization.

The Hospital owns 50% of Scarborough ProResp Inc. The investment is accounted for using the modified equity method in the amount of $262 ($294 in 2019).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 $237 ($300 in 2019) were included in other income.

The Hospital's share is as follows:

	Hospital Laboratories	**2020 ProResp**	Hospital Laboratories	2019 ProResp
	$	**$**	$	$
Shareholder's equity	**—**	**406**	16	436
Revenues	**1,971**	**844**	1,557	903
Expenses	**1,971**	**723**	1,557	748
Dividends paid	**—**	**154**	—	132
Cash flow from operating	**29**	**227**	(59)	145
Cash flow from investing	**(20)**	**(37)**	—	(64)
Cash flow from financing	**—**	**(191)**	—	(105)

5. Restricted cash – legal defense fund

The Hospital 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 $10,644 at March 31, 2020 ($8,695 in 2019) is restricted for these payments.

6. Capital assets

	Cost	**Accumulated amortization**	**2020 Net value book**
	$	**$**	**$**
Land	**1,652**	**—**	**1,652**
Buildings, building improvements and building service equipment	**433,937**	**222,529**	**211,408**
Furniture and equipment	**378,136**	**344,488**	**33,648**
Computer equipment	**46,745**	**39,495**	**7,250**
Construction in progress	**31,633**	**—**	**31,633**
	892,103	**606,512**	**285,591**

6. Capital assets (continued)

	Cost $	Accumulated amortization $	2019 Net book value $
Land	1,652	—	1,652
Buildings, building improvements and building service equipment	423,581	208,940	214,641
Furniture and equipment	366,145	334,919	31,226
Computer equipment	43,319	37,361	5,958
Construction in progress	13,384	—	13,384
	848,081	581,220	266,861

7. Lines of credit

The Hospital 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, 2020 the two available lines of credit total $60,000 ($45,000 in 2019) and the Hospital has drawn nil (nil in 2019). The $45,000 line of credit bears interest at a rate of prime less 0.80% and the $15,000 line of credit bears interest at a rate of prime less 0.20% and both are payable on demand.

8. Accounts payable and accrued liabilities

	2020 **$**	2019 $
Trade payables	**43,631**	38,958
Salaries and benefits	**64,843**	65,698
Accrued liabilities	**5,444**	2,705
	113,918	107,361

9. Legal defence fund

The provision at March 31, 2020 is $6,224 ($5,293 in 2019) and the related claims defence expense of $2,798 ($2,798 in 2019) 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 $2,755 ($1,942 in 2019) have been recognized in the current period in other income.

10. Long-term debt

	2020	2019
	$	$
CIBC – non-revolving demand fixed rate loan at 6.66% due April 2028 (Medical Mall office building)	**3,440**	3,765
BMO – fixed rate loan at 2.64% due November 2019 – (surgical equipment)	**–**	96
BMO – fixed rate loan at 4.81% due April 2022 – (surgical equipment)	**471**	715
RBC – fixed-term mortgage at 4.86% due May 2038 on 25 Neilson Road.	**2,205**	2,302
Manulife – fixed rate loan at 4.75% due May 2025 (Energy Savings Agreement)	**3,163**	3,695
	9,279	10,573
Less : current portion	**1,192**	1,269
	8,087	9,304

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

	$
2021	1,192
2022	1,245
2023	1,207
2024	1,173
2025	1,236
Thereafter	3,226
	9,279

The non-revolving demand loan facility, originally entered into in April 2013 for $7,000, relates to the purchase of the Medical Mall office building. This facility is repayable in 300 monthly payments through April 2028. It bears a floating interest rate based on variable banker's acceptance rates, which ranged from 1.7425% to 2.0800% during the period. Effective April 1, 2003, an interest swap modified the floating interest rate on the loan to a fixed rate of 6.66%.

In fiscal 2014, the Hospital entered into a capital energy agreement with Ameresco Canada Inc. and Manulife to commence work on capital and energy measures at the Hospital. The terms of the agreement require the Hospital to obtain a loan which bears a fixed interest rate of 4.75% and is repayable in monthly payments commencing June 2015 through May 2025.

11. Debt Issuance

On December 17, 2019, the Hospital issued series A unsecured debentures totalling $120 million to finance current and future capital projects. The debentures carry an interest rate of 2.894%, payable semi-annually for a period of 40 years. The full principal amount of the debenture is due December 17, 2059.

Transaction costs of $240 incurred have been recorded against the liability, and will be amortized over the term of the debenture. Amortization in the current year was $2.

As at March 31, 2020, unspent debenture proceeds of $110,350 have been restricted for approved capital projects.

12. Deferred capital grants

	2020	2019
	$	$
Balance, beginning of year	**135,705**	135,821
Capital grants received during the year	**8,422**	8,688
Amortization for the year	**(8,853)**	(8,804)
Balance, end of year	**135,274**	135,705

13. Deferred revenue–long-term lease

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

	2020	2019
	$	$
Balance, beginning of year	**1,198**	1,260
Amortization for the year	**(62)**	(62)
Balance, end of year	**1,136**	1,198

14. Employee future benefits

The Hospital provides certain post-employment benefits to some of its employees. The most recent actuarial valuation for the Hospital was performed March 31, 2019, with extrapolation performed to March 31, 2020. The Hospital's liability associated with the benefit plan is as follows:

	2020 $	2019 $
Accrued benefit obligation, beginning of year	**21,144**	20,696
Current service cost	**1,329**	1,077
Interest cost	**683**	659
Amortization of actuarial losses	**202**	5
Benefits paid	**(1,472)**	(1,293)
	21,886	21,144
Accrued benefit obligation, end of year	**22,974**	22,981
Unamortized actuarial losses	**(1,088)**	(1,837)
Employee future benefits liability, end of year	**21,886**	21,144

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

	2020 %	2019 %
Discount rate to determine accrued benefit obligation	**3.10%**	2.90%
Extended healthcare cost escalations, decreasing by 0.25% per annum to an ultimate rate of 4.0% thereafter	**6.00%**	6.00%
Expected average remaining service life of employees	**12**	12

Included in the consolidated statement of operations is an amount of $2,214 ($1,741 in 2019) regarding employee future benefits. This amount is comprised of:

	2020 $	2019 $
Current service costs	**1,329**	1,077
Interest on obligation	**683**	659
Amortization of actuarial losses	**202**	5
	2,214	1,741

15. 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, 2020, 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, 2020.

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

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

16. Net assets invested in capital assets

	2020	2019
	$	$
Capital assets (Note 6)	**285,591**	266,861
Adjusted for amounts financed by		
Long-term debt (Note 10)	**(9,279)**	(10,573)
Obligations under capital lease	**—**	(325)
Net debeture proceeds expended to date (Note 11)	**(9,412)**	—
Deferred capital grants (Note 12)	**(135,274)**	(135,705)
	131,626	120,258

17. 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 $27,249 ($26,344 in 2019) and are included in compensation expenses.

18. Related party transactions

During the period, grants were received from The Scarborough Health Network Foundation in the amount of $2,197 ($5,235 in 2019). At March 31, 2020, $60 ($(26) in 2019) was due from The Scarborough Health Network Foundation.

The Hospital also has related party transactions with joint ventures as disclosed in Note 4. The Hospital is also a member of Plexxus, and Hospital Diagnostic Imaging Repository Services, who provide various services to the Hospital at market value.

19. 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 and debenture are disclosed in Notes 10 and 11.

19. Financial instruments and risk management (continued)

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.

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 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 $3,440 at March 31, 2020 ($3,765 in 2019). 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 1.7425% to 2.0800% 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 $725 at March 31, 2020 ($702 in 2019). The Hospital also had the option to reduce the notional amount of the loan by $150 commencing April 1, 2004 and annually thereafter. The Hospital sold the option on November 10, 2011 and received proceeds of $530 which were recorded in the consolidated statement of remeasurement gains. The Hospital or the financial institution may elect to terminate the facility on April 1, 2023.

During the year, $23 in derivative loss ($86 in derivative gain in 2019) was included in the consolidated statement of remeasurement losses.

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.

19. Financial instruments and risk management (continued)

Fair value hierarchy (continued)

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

Financial liabilities at fair value as at March 31, 2020.

	Level 1 $	Level 2 $	Level 3 $	2020 Total $
Derivatives – interest rate swap	**—**	**725**	**—**	**725**

There have been no movements between levels for the year ended March 31, 2019

	Level 1 $	Level 2 $	Level 3 $	2019 Total $
Derivatives – interest rate swap	—	702	—	702

20. Changes in non-cash working capital items

	2020 $	2019 $
Accounts receivable	**(13,639)**	1,081
Inventories	**(480)**	(318)
Prepaid expenses	**(326)**	(2,014)
Accounts payable and accrued liabilities	**6,557**	10,699
Deferred revenue	**2,386**	6,080
	(5,502)	15,528

21. 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 Hospital has tracked expenditures related to its pandemic response and will apply for reimbursement of hospital-incurred expenditures once Provincial processes for such reimbursement are finalized in order to mitigate the financial impacts for the year ended March 31, 2020. The Hospital estimates pandemic related expenditures incurred to March 31, 2020 were approximately $2,220.

The Hospital recognized $1,801 of revenue as at March 31, 2020 as an estimate of amounts it is likely recover. Any additional recoveries that may be received will be recognized in the period in which approval is obtained.

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.