Financial statements of

Scarborough and Rouge Hospital

March 31, 2018

Scarborough and Rouge Hospital
March 31, 2018

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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, 2018, and the statements of operations and changes in net assets, remeasurement gains and cash flows for the year 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 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, 2018 and the results of its operations, remeasurement gains and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 28, 2018

Scarborough and Rouge Hospital

Statement of operations

Year ended March 31, 2018

(In thousands of dollars)

	March 31, 2018 (Note 1)	Four month period ended March 31, 2017 (Note 1)
	$	$
Revenue		
Ministry of Health and Long-Term Care and Cancer Care Ontario	**567,160**	183,047
Patient revenues	**42,773**	13,473
Recoveries and other income	**32,472**	8,216
Ancillary operations	**2,832**	840
Amortization of capital grants	**8,358**	3,051
Amortization of deferred revenue - long term lease	**62**	21
	653,657	208,648
Expenses		
Compensation	**432,223**	139,350
Medical and surgical supplies	**51,469**	16,604
Drugs	**38,901**	12,261
Supplies and other expenses	**86,446**	28,367
Ancillary operations	**92**	101
Amortization of capital assets	**25,668**	9,377
Bad debt expense	**3,343**	953
Interest on long term debt	**905**	362
	639,047	207,375
Excess of revenue over expenses before the undernoted	**14,610**	1,273
Proceeds from the sale of Booth Centennial Healthcare Linen Services	**-**	56
Integration expenses (Note 1)	**(2,007)**	(2,738)
Excess (deficiency) of revenue over expenses	**12,603**	(1,409)

Scarborough and Rouge Hospital

Statement of changes in net assets

Year ended March 31, 2018

(In thousands of dollars)

	Invested in capital assets	Invested in joint venture assets	Internally restricted	Unrestricted	March 31, 2018 (Note 1) Total	Four month period ended March 31, 2017 (Note 1) Total
	$	$	$	$	$	$
Net assets, beginning of period	**120,989**	**572**	**-**	**(78,875)**	**42,686**	44,095
Excess (Deficiency) of revenue over expense	**(17,310)**	**19**	**-**	**29,894**	**12,603**	(1,409)
Net change in net assets invested in capital assets	**12,193**	**-**	**-**	**(12,193)**	**-**	-
Interfund transfers (Note 16)	**-**	**-**	**11,000**	**(11,000)**	**-**	-
Net assets, end of period	**115,872**	**591**	**11,000**	**(72,174)**	**55,289**	42,686

Scarborough and Rouge Hospital

Statement of remeasurement gains

Year ended March 31, 2018

(In thousands of dollars)

	March 31, 2018 (Note 1)	Four month period ended March 31, 2017 (Note 1)
	$	$
Accumulated remeasurement gains, beginning of period	**2,571**	2,394
Unrealized gains attributable to		
Derivatives - interest rate swap	**513**	177
Accumulated remeasurement gains, end of period	**3,084**	2,571

Scarborough and Rouge Hospital

Statement of financial position
Year ended March 31, 2018
(In thousands of dollars)

	March 31, 2018 (Note 1)	Four month period ended March 31, 2017 (Note 1)
	$	$
Assets		
Current assets		
Cash (Note 7)	**36,362**	6,046
Accounts receivable (Note 3)	**18,825**	16,855
Inventories	**3,818**	3,370
Prepaid expenses	**4,499**	5,125
	63,504	31,396
Investment in joint ventures (Note 4)	**591**	572
Restricted cash (Note 5)	**7,230**	4,873
Capital assets (Note 6)	**265,785**	271,088
	337,110	307,929
Liabilities		
Current liabilities		
Short term indebtedness (Note 8)	**-**	1,500
Accounts payable and accrued liabilities (Note 9)	**96,662**	80,908
Current portion of long-term debt (Note 11)	**2,864**	3,032
Current portion of capital lease obligation (Note 12)	**314**	336
Deferred revenue	**5,410**	4,619
	105,250	90,395
Legal defence fund (Note 10)	**4,008**	2,692
Long-term debt (Note 11)	**10,589**	13,453
Long-term capital lease obligation (Note 12)	**325**	497
Deferred capital grants(Note 13)	**135,821**	132,781
Deferred revenue - long-term lease (Note 14)	**1,260**	1,322
Employee future benefits (Note 15)	**20,696**	20,231
Derivatives - interest rate swap (Note 21)	**788**	1,301
	278,737	262,672
Net assets		
Invested in capital assets (Note 18)	**115,872**	120,989
Internally restricted	**11,000**	-
Invested in joint ventures (Note 4)	**591**	572
Unrestricted	**(72,174)**	(78,875)
	55,289	42,686
Remeasurement gains	**3,084**	2,571
	337,110	307,929

Contingent liabilities and guarantees (Note 17)

Approved by the Board

________________ Maureen Adamson, Chair, Board of Directors

________________ Elizabeth Buller, Chief Executive Officer

Scarborough and Rouge Hospital

Statement of cash flows

Year ended March 31, 2018

(In thousands of dollars)

	March 31, 2018 (Note 1)	Four month period ended March 31, 2017 (Note 1)
	$	$
Operating activities		
Excess (deficiency) of revenue over expenses	**12,603**	(1,409)
Payment of employee future benefits	**(1,228)**	(453)
Items not affecting cash		
Amortization of capital assets	**25,668**	9,377
Amortization of deferred capital grants	**(8,358)**	(3,051)
Amortization of deferred revenue - long-term lease	**(62)**	(21)
Employee future benefit expense	**1,693**	564
Joint venture income	**(19)**	33
Legal defence provision	**1,316**	440
	31,613	5,480
Changes in non-cash working items (Note 22)	**14,753**	5,977
	46,366	11,457
Financing activities		
Repayment of short term indebtedness	**(1,500)**	-
Receipt of capital lease	**185**	-
Receipt of long-term debt	**-**	94
Repayment of long-term debt	**(3,032)**	(1,345)
Repayment of capital lease	**(379)**	(113)
Legal defence claims fund	**(2,142)**	(1,342)
Sinking fund	**(215)**	215
	(7,083)	(2,491)
Capital activities		
Acquisition of capital assets	**(20,365)**	(12,570)
Receipt of deferred capital grants	**11,398**	5,129
	(8,967)	(7,441)
Net change in cash	**30,316**	1,525
Cash, beginning of period	**6,046**	4,521
Cash, end of period	**36,362**	6,046

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 and they continue as the Scarborough and Rouge Hospital (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, 2018, integration related expenses of $2,007 (2017 - $2,738) were incurred by the Hospital.

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

The Hospital signed a 2017-18 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.

2. 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.

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).

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 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.

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

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, 2018 are measured as follows:

Cash	Fair value
Accounts receivable	Amortized cost
Restricted cash	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.

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.

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

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.

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 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.

(In thousands of dollars)

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

Use of estimates (cont'd)

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.

3. Accounts receivable

	March 31, 2018	March 31, 2017
	$	$
Ministry of Health and Long-Term Care	**5,857**	3,455
Patients' accounts	**10,764**	9,750
Other	**6,235**	6,892
	22,856	20,097
Less: allowance for doubtful accounts	**4,031**	3,242
	18,825	16,855

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 $319 (2017 - $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 $272 (2017 - $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 $216 (2017 - $100) were included in other income.

The Hospital's share is as follows:

		March 31, 2018		March 31, 2017 (4 months)
	Shared Hospital Laboratories	**ProResp**	Shared Hospital Laboratories	ProResp
	$	**$**	$	$
Shareholder's equity	**16**	**412**	16	393
Revenues	**1,251**	**788**	411	245
Expenses	**1,251**	**658**	411	278
Dividends paid	**-**	**112**	-	-
Cash flow from operating	**142**	**175**	64	(49)
Cash flow from investing	**-**	**(52)**	(9)	(7)
Cash flow from financing	**-**	**(85)**	-	114

(In thousands of dollars)

5. 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 $6,483 at March 31, 2018 (2017 - $4,341) 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. During the year the Hospital paid Lakeridge Health their portion of the cash balance.The cash balance of $747 at March 31, 2018 (2017 - $532) is restricted for this purpose.

6. Capital assets

			March 31, 2018
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Land	**1,652**	**-**	**1,652**
Buildings, building improvements			**-**
and building service equipment	**412,367**	**195,951**	**216,416**
Furniture and equipment	**357,812**	**324,648**	**33,164**
Computer equipment	**41,109**	**35,268**	**5,841**
Construction in progress	**8,712**	**-**	**8,712**
	821,652	**555,867**	**265,785**

			March 31, 2017
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	1,652	-	1652
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

7. Cash and bank indebtedness

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, 2018 the available lines of credit were $45,000 (2017 - $45,000) and the Hospital has drawn $Nil (2017 - $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.

(In thousands of dollars)

8. Short term indebtedness

The Hospital's credit facility with Scarborough and Rouge Hospital Foundation was fully paid during the year.

9. Accounts payable and accrued liabilities

	March 31, 2018	March 31, 2017
	$	$
Trade payables	**35,998**	28,109
Salaries and benefits	**58,658**	49,572
Accrued liabilities	**2,006**	3,227
	96,662	80,908

10. Legal defence fund

The provision at March 31, 2018 is $4,008 (2017 - $2,692) and the related claims defence expense of $2,798 (2017 - $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 $1,309 (2017 - $260) are recognized in the current period in other income.

11. Long-term debt

	March 31, 2018	March 31, 2017
	$	$
CIBC - non-revolving demand fixed rate loan at 6.66% due April 2028 (Medical Mall office building)	**4,069**	4,353
BMO – fixed rate loan at 2.64% due November 2019 – (surgical equipment)	**238**	375
BMO – fixed rate loan at 4.81% due April 2022 – (sterile processing department)	**184**	223
BMO – fixed rate loan at 4.81% due April 2022 – (surgical equipment)	**741**	902
RBC – fixed-term mortgage at 4.86% due May 2038 on 25 Neilson Road.	**2,389**	2458
CIBC - non-revolving term fixed rate loan at 7.96% due January 2019 (General site West Wing)	**1,635**	3,460
Manulife – fixed rate loan at 4.75% due May 2025 (Energy Savings Agreement)	**4,197**	4,714
	13,453	16,485
Less: current portion	**2,864**	3,032
	10,589	13,453

(In thousands of dollars)

11. Long-term debt (cont'd)

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

	$
2019	**2,864**
2020	**1,249**
2021	**1,216**
2022	**1,282**
2023	**1,118**
Thereafter	**5,724**
	13,453

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 0.855% to 1.580% 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 year, additional debt of $Nil (2017 - $93) was taken on related to the Ameresco Canada Inc. agreement with the same repayment terms.

12. 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 expired February 2018. SRH exercised itsoption to purchase the equipment from the lessor by payment to the lessor of $1.00. The applicable rate used by lessor in pricing the lease is 3.89%.

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%.

In October 2017, the Hospital entered into a capital lease agreement for Flexible Scopes with Pentax Canada Inc for $184, 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 $1.00.

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

	March 31, 2018	March 31, 2017
	$	$
Total minimum lease payments	**639**	833
Less: current portion	**314**	336
	325	497

(In thousands of dollars)

12. Obligations under capital leases (cont'd)

Principal payments due in the next 2 periods are as follows:

	$
2019	314
2020	325
	639

13. Deferred capital grants

	March 31, 2018	March 31, 2017 (4 months)
	$	$
Balance, beginning of period	**132,781**	130,703
Capital grants received during the period	**11,398**	5,129
Amortization for the period	**(8,358)**	(3,051)
Balance, end of period	**135,821**	132,781

14. 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, 2018	March 31, 2017 (4 months)
	$	$
Balance, beginning of period	**1,322**	1,343
Amortization for the period	**(62)**	(21)
Balance, end of period	**1,260**	1,322

(In thousands of dollars)

15. 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 and extrapolated to March 31, 2018. The Hospital's liability associated with the benefit plan is as follows:

	March 31, 2018	March 31, 2017 (4 months)
	$	$
Accrued benefit obligation, beginning of period	**20,231**	20,120
Current service cost	**1,044**	351
Interest cost	**644**	200
Amortization of actuarial losses	**5**	13
Benefits paid	**(1,228)**	(453)
	20,696	20,231
Accrued benefit obligation, end of period	**20,170**	19,709
Unamortized actuarial losses	**526**	522
	20,696	20,231

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

	March 31, 2018	March 31, 2017
	%	%
Discount rate to determine accrued benefit obligation	**3.20%**	3.2%
Extended healthcare cost escalations, decreasing by 0.25% per annum to an ultimate rate of 4.5% thereafter	**6.25%**	6.25%
Expected average remaining service life of employees	**14**	14

Included in the statement of operations is an amount of $1,693 (2017 - $564) regarding employee future benefits. This amount is comprised of:

	March 31, 2018	March 31, 2017 (4 months)
	$	$
Current service costs	**1,044**	351
Amortization of actuarial gains	**5**	13
Interest on obligation	**644**	200
	1,693	564

16. Internally restricted net assets

During the year, the Board of Directors approved the restriction of $11,000 (2017 – $Nil) to be used for future capital initiatives.

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, 2018, 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, 2018.

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.

(In thousands of dollars)

18. Net assets invested in capital assets

	March 31, 2018	March 31, 2017
	$	$
Capital assets (Note 7)	**265,785**	271,088
Adjusted for amounts financed by:		
Long-term debt (Note 12)	**(13,453)**	(16,485)
Obligations under capital lease (Note 13)	**(639)**	(833)
Deferred capital grants (Note 14)	**(135,821)**	(132,781)
	115,872	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 $25,148 (2017 - $8,021) and are included in compensation expenses.

20. Related party transactions

During the period, grants were received from The Scarborough and Rouge Hospital Foundation in the amount of $6,560 (2017 - $2,296). At March 31, 2018, $18 (2017 - $34) was due from The Scarborough and Rouge 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.

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.

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

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 11.

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. 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 $1,635 at March 31, 2018 (2017 - $3,460). 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 0.855% to 1.580% 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, 2018 is $41 (2017- $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 $4,069 at March 31, 2018 (2017 - $4,353). 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 0.8550% to 1.580% 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 $747 at March 31, 2018 (2017 - $1,089). 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 year, $513 (2017 - $177) in derivative gain was included in the statement of remeasurement gains.

(In thousands of dollars)

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

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.

Fair value hierarchy (cont'd)

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

Financial liabilities at fair value as at March 31, 2018.

				March 31, 2018
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Derivatives – interest rate swap	**-**	**788**	**-**	**788**

There have been no movements between levels for the year ended March 31, 2018.

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

(In thousands of dollars)

22. Changes in non-cash working capital items

	March 31, 2018	March 31, 2017 (4 months)
	$	$
Accounts receivable	**(1,970)**	7,175
Inventories	**(448)**	147
Prepaid expenses	**626**	(653)
Accounts payable and accrued liabilities	**15,754**	1,260
Deferred revenue	**791**	(1,952)
	14,753	5,977