Financial statements of
Toronto East Health Network

March 31, 2020

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Independent Auditor's Report

To the Board of Directors of
Toronto East Health Network

Opinion

We have audited the financial statements of Toronto East Health Network (the "Hospital"), which comprise the statement of financial position as at March 31, 2020, and the statements of revenue and expenses, remeasurement gains and losses, changes in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2020, and the results of its operations, its remeasurement gains and losses and its 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
May 26, 2020

Toronto East Health Network

Statement of financial position

As at March 31, 2020

(In thousands of dollars)

	Notes	2020	2019
		$	$
Assets			
Current			
Cash and short-term investments	3	**66,183**	61,279
Accounts receivable			
Patient and other (net of allowance of $555 (2019 - $695))		**4,372**	3,922
Due from government agencies		**2,972**	885
Toronto East Health Network Foundation	12	**177**	197
Inventory		**1,428**	934
Prepaid expenses and deposits		**3,360**	2,679
		78,492	69,896
Restricted cash	13(a)	**4,418**	3,817
Long-term investment	4	**123**	140
Capital assets	5	**190,294**	190,100
		273,327	263,953
Liabilities			
Current			
Accounts payable and accrued liabilities		**38,569**	34,521
Current portion of long-term debt	6	**424**	415
Current portion of capital lease obligations	7	**615**	916
Deferred revenue		**12,382**	9,006
Research funds	3	**1,449**	1,642
		53,439	46,500
Long-term debt	6	**5,643**	6,067
Long-term capital lease obligations	7	**220**	835
Derivative liability	8	**566**	221
Deferred capital grants and donations	9	**103,329**	102,215
Employee future benefits liabilities	10	**12,021**	10,878
Legal defence fund	13(a)	**3,164**	2,871
		178,382	169,587
Net assets			
Invested in capital assets	14	**96,051**	95,640
Internally restricted		**20,000**	20,000
Unrestricted		**(20,540)**	(21,053)
		95,511	94,587
Accumulated remeasurement losses		**(566)**	(221)
		94,945	94,366
		273,327	263,953

Commitment and contingencies 5 and 13

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

Approved by the Board

Susan M Armstrong, Director

_______________, Director

Toronto East Health Network

Statement of revenue and expenses

Year ended March 31, 2020

(In thousands of dollars)

	Notes	2020 $	2019 $
Revenue			
Government agencies		**236,289**	237,417
Patient income		**19,907**	18,729
Other income		**12,208**	10,545
Other votes programs	11	**9,729**	7,829
Amortization of deferred capital grants and donations	9	**4,187**	3,518
Interest income		**583**	481
Research		**159**	322
		283,062	278,841
Expenses			
Salaries and wages		**135,589**	132,571
Other supplies and expenses		**43,419**	40,475
Employee benefits		**34,492**	34,986
Medical remuneration and reimbursement		**20,190**	19,156
Equipment and building amortization		**13,901**	14,590
Medical and surgical supplies		**13,397**	13,722
Drugs and medicines		**11,202**	9,546
Other votes programs	11	**9,789**	7,815
Research		**159**	322
		282,138	273,183
Excess of revenue over expenses for the year		**924**	5,658

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

Toronto East Health Network

Statement of remeasurement gains and losses

Year ended March 31, 2020

(In thousands of dollars)

	Notes	2020 $	2019 $
Accumulated remeasurement losses, beginning of year		**(221)**	(54)
Change in unrealized losses for the year attributable to derivatives	8	**(345)**	(167)
Accumulated remeasurement losses, end of year		**(566)**	(221)

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

Toronto East Health Network

Statement of changes in net assets

Year ended March 31, 2020
(In thousands of dollars)

	Notes	Invested in capital assets $ (Note 14)	Unrestricted $	Internally restricted $	2020 Total $	2019 Total $
Balance, beginning of year		**95,640**	**(21,053)**	**20,000**	**94,587**	88,929
Excess of revenue over expenses for the year		**(9,714)**	**10,638**	**—**	**924**	5,658
Repayment of long-term debt		**415**	**(415)**	**—**	**—**	—
Repayment of capital leases		**916**	**(916)**	**—**	**—**	—
Additions to capital assets		**14,095**	**(14,095)**	**—**	**—**	—
Capital grants and donations received	9	**(5,301)**	**5,301**	**—**	**—**	—
Balance, end of year		**96,051**	**(20,540)**	**20,000**	**95,511**	94,587

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

Toronto East Health Network
Statement of cash flows
Year ended March 31, 2020
(In thousands of dollars)

	Notes	2020 $	2019 $
Operating activities			
Excess of revenue over expenses for the year		**924**	5,658
Items not affecting cash and short-term investments			
Amortization of capital assets		**13,901**	14,590
Amortization of deferred capital grants and donations	9	**(4,187)**	(3,518)
Loss on long-term investment		**17**	—
Legal defence fund obligation	13(a)	**293**	311
Employee future benefits expense	10	**1,686**	1,580
		12,634	18,621
Change in non-cash operating items			
Accounts receivable		**(2,517)**	6,335
Inventory		**(494)**	(114)
Prepaid expenses and deposits		**(681)**	59
Accounts payable and other accrued liabilities		**3,814**	(409)
Research funds		**(193)**	294
Deferred revenue		**3,376**	1,059
Employee future benefits paid	10	**(543)**	(360)
		15,396	25,485
Investing activity			
Contributions to legal defence fund	13(a)	**(601)**	(416)
Capital activity			
Additions to capital assets (net of change in accounts payable and other accrued liabilities relating to capital asset additions and assets through capital leases of $545 (2019 - $311))		**(13,861)**	(15,201)
Financing activities			
Capital grants	9	**5,301**	12,701
Repayment of long-term debt		**(415)**	(401)
Repayment of capital lease obligations		**(916)**	(1,303)
		3,970	10,997
Increase in cash and short-term investments		**4,904**	20,865
Cash and short-term investments, beginning of year		**61,279**	40,414
Cash and short-term investments, end of year	3	**66,183**	61,279

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

1. Purpose

Toronto East Health Network (the "Hospital") is a community teaching hospital located in southeast Toronto. The Hospital is a registered charity under the Income Tax Act (Canada) and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

As provided under the Local Health System Integration Act 2006, effective April 1, 2007, the Ministry of Health and Long Term Care ("MOHLTC") assigned to the Toronto Central Local Health Integration Network ("TCLHIN"), all its rights, duties and obligations.

In March 2019, the Government of Ontario passed legislation to create Ontario Health. Ontario Health assumed the oversight responsibilities of the TCLHIN. The Board of Directors for Ontario Health constitutes the board that oversees a number of provincial agencies including all fourteen Local Health Integration Networks (LHINs) in Ontario, and Cancer Care Ontario (CCO).

2. Significant accounting policies

Financial statement presentation

Management has prepared these financial statements in accordance with Canadian Public Sector Accounting Standards ("PSAS") for government not-for-profit organizations, using the deferral method of reporting restricted contributions. The financial statements do not include the assets, liabilities or operations of Toronto East Health Network Foundation (the "Foundation"), which is a related non-controlled organization (Note 12).

Description of net assets

Invested in capital assets net assets represents the net book value of the Hospital's capital assets, less any related long-term debt, capital leases and unamortized capital grants and donations.

Unrestricted net assets represent the deficiency of revenues over expenses accumulated from the ongoing operations of the Hospital since its inception less amounts invested in capital assets and amounts internally restricted.

Internally restricted net assets represent net assets for the Hospital's portion of the redevelopment project, which pertains to the multi-year project approved by MOHLTC.

Revenue recognition

Under the Health Insurance Act (Ontario) and Regulations thereto, the Hospital is primarily funded by the Province of Ontario in accordance with budget arrangements established by the MOHLTC through the TCLHIN. Operating funding with no restrictions is recorded as revenue in the fiscal year to which it relates. Restricted contributions are recognized as revenue in the year in which the related eligible expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated, and collection is reasonably assured.

The extent to which the MOHLTC/TCLHIN 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. 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 MOHLTC or TCLHIN.

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

2. Significant accounting policies (continued)

Revenue recognition (continued)

Some MOHLTC/TCLHIN revenue is tied to patient volume and activity. Revenue is, therefore, based on estimated patient volumes pending MOHLTC/TCLHIN confirmation. In addition, revenue linked to programs not yet underway has been deferred. The unrecognized revenue is included under deferred revenue.

Financial instruments

Financial assets and liabilities are recognized when the Hospital becomes a party to the contractual provisions of the financial instrument.

The carrying value of financial instruments reported on the statement of financial position of the Hospital are measured as follows:

Cash and short-term investments	Fair value
Restricted cash	Fair value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Derivative liability	Fair value

The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. Transaction costs on financial assets measured at fair value are expensed as incurred.

Interest expense

Interest on long-term debt is recorded using the effective interest rate method.

Cash and short-term investments

Cash and short-term investments consists of cash on hand and short-term highly liquid investments that are readily convertible to known amounts of cash with a short-term maturity of 3 months or less from the date of acquisition.

Inventory

Inventory, which represent Hospital medical, surgical and other supplies are valued at the lower of average cost or replacement value.

Capital assets

Capital assets are recorded at cost and amortization is provided on a straight-line basis over their estimated useful life at the following rates:

Buildings	40 to 50 years
Building renovations	20 to 40 years
Leasehold improvements	Over the term of the lease
Electronic patient records	10 to 20 years
Equipment	3 to 20 years
Equipment under capital lease	Shorter of the lease term and estimated useful life

2. Significant accounting policies (continued)

Capital assets (continued)

Upon completion, costs in construction-in-progress including the New Patient Care Centre are reclassified to the appropriate capital asset account and amortization is commenced when the asset is operational.

Impairment of long-lived assets

When conditions indicate a capital asset no longer contributes to the Hospital's ability to provide services, or that the value of future economic benefits associated with the capital asset is less than its net book value, the cost of the capital asset will be reduced to reflect the decline in the asset's value.

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 revenue and expenses during the reporting period, in addition to the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Significant estimates included in the financial statements relate to obligations for employee future benefits, certain accruals, deferred revenue and estimated useful life of capital assets.

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 TCLHIN for the year ended March 31, 2008 and for subsequent years. 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 TCLHIN has the right to adjust funding received by the Hospital. The TCLHIN is not required to communicate funding adjustments until after submission of year end data. Since this data is not submitted until after the completion of financial statements, the amount of the TCLHIN funding recognized during a year may be increased or decreased subsequent to year end. The amount of revenue recognized in these financial statements represents management's best estimate of amounts that have been earned during the year.

Employee future benefits liabilities

Employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan, which is a multi-employer best five consecutive year average pay defined benefit pension plan, and are entitled to certain post-employment benefits. Contributions made to the Healthcare of Ontario Pension Plan are expensed as funded, as the plan is accounted for as a defined contribution plan.

The Hospital provides certain post-employment benefits, which includes health, dental, and life insurance. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost method pro-rated on service, retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation was determined based on the provincial cost of borrowing rate recommended for hospital use as at March 31, 2020. The actuarial gains and losses are amortized over the average remaining service period of active employees. Past service costs are expensed when incurred.

(In thousands of dollars)

2. Significant accounting policies (continued)

Contributed services

A substantial number of volunteers contribute a significant amount of time each year to the Hospital. Due to the difficulty in determining the fair value, these contributed services are not recognized or disclosed in the financial statements and related notes in the financial statements. Contributed materials are recorded at fair value when received.

3. Cash and short-term investments

	2020	2019
	$	$
Cash and cash equivalents	**17,595**	31,637
Short-term investments	**47,139**	28,000
Restricted funds - research payments	**1,449**	1,642
	66,183	61,279

Short-term investments are restricted for redevelopment and are comprised of term deposits and guaranteed investment certificates.

The Hospital has available an operating credit facility (the "Facility") with a single Canadian financial institution to finance working capital. The amount available under the Facility is $12,000 (2019 - $12,000) at prime less 0.25%. As at March 31, 2020, the Hospital had drawn a total of nil (2019 - nil) against this Facility.

4. Long-term investments

Long-term investments represents the Hospital's 33.33% equity ownership in Shared Hospital Laboratory Inc. The investment is accounted for using the equity method.

5. Capital assets

	Cost	**Accumulated amortization**	**2020 Net book value**	2019 Net book value
	$	**$**	**$**	$
Land and land improvements	**202**	**–**	**202**	202
Buildings and building renovations	**218,609**	**(105,668)**	**112,941**	117,210
Leasehold improvements	**4,354**	**(4,240)**	**114**	164
Equipment	**175,180**	**(149,821)**	**25,359**	29,159
Equipment under capital lease	**9,277**	**(7,383)**	**1,894**	2,595
Electronic patient records	**27,524**	**(19,204)**	**8,320**	9,465
New Patient Care Centre construction-in-progress	**35,862**	**–**	**35,862**	29,311
Other construction-in-progress	**5,602**	**–**	**5,602**	1,994
	476,610	**(286,316)**	**190,294**	190,100

(In thousands of dollars)

5. Capital assets (continued)

Ken and Marilyn Thomson New Patient Care Centre ("NPCC")

(a) The Hospital, in conjunction with MOHLTC, has undertaken a major capital redevelopment project to design, build, and finance a new patient care centre. The new patient care centre will enable the Hospital to meet the healthcare needs of the community.

(b) A Project Agreement was entered into on February 6, 2018 between the Hospital and Ellisdon Infrastructure MGH Inc. ("Project Co"). Project Co will design, engineer, construct, and commission the new patient care centre to provide the Hospital with a complete and operational facility. The construction's guaranteed price is $411,018 of which the Hospital's local share is $62,000.

6. Long-term debt

	2020	2019
	$	$
Bank loan, bears interest at a rate of Royal Bank Prime rate less 0.65% or Bankers' Acceptances rate plus 0.40% with monthly payments of principal and interest until May 2032	**6,067**	6,482
Less: current portion	**(424)**	(415)
Long-term portion	**5,643**	6,067

Principal payments required in the next five years and thereafter are as follows:

	$
2021	424
2022	436
2023	448
2024	459
2025	473
2026 and thereafter	3,827
	6,067

Interest expense recorded in the statement of revenue and expenses related to long-term debt is $161 (2019 - $170).

7. Capital lease obligations

	2020	2019
	$	$
Equipment loans secured by certain equipment with interest rates of -1.87% to 2.35% due at various times up to May 2022 with blended monthly payments of $48	**835**	1,751
Less: current portion	**(615)**	(916)
Long-term portion	**220**	835

(In thousands of dollars)

7. Capital lease obligations (continued)

Principal payments required in the next three years are as follows:

	$
2021	615
2022	207
2023	13
	835

Interest on capital lease recorded in the statement of revenue and expenses related to the capital leases is $34 (2019 - $10).

8. Derivative liability

In connection with the financing obtained for the purpose of the facility at 840 Coxwell Ave, the Hospital entered into an interest rate swap agreement to modify the floating rate of interest on the loan from Royal Bank Prime rate less 0.65% or Bankers' Acceptances rate plus 0.40%, to a fixed rate of 2.54%. The start date of this interest rate swap was June 15, 2012 and has a maturity date of June 15, 2032. The notional value of the derivative financial instrument is $6,067 (2019 - $6,482). The fair value of the interest rate swap calculated using the discounted cash flow method at March 31, 2020 is a derivative liability of $566 (2019 - $221) and is reflected on the statement of financial position.

9. Deferred capital grants and donations

Deferred capital grants and donations recorded for the year were as follows:

	2020	2019
	$	$
Deferred capital grants and donations, beginning of year	**102,215**	93,032
Capital grants and donations received during the year	**5,301**	12,701
Amortization for the year	**(4,187)**	(3,518)
Deferred capital grants and donations, end of year	**103,329**	102,215

Included in deferred capital grants and donations is an amount of $47,187 (2019 - $49,424) related to either capital assets under construction/not yet operational or unspent capital funding.

10. Employee future benefits liabilities

Pension plan

Employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan, which is a multi-employer best five consecutive year average pay defined benefit pension plan. Contributions made to the plan during the year by the Hospital amounted to $11,549 (2019 - $11,222). These amounts are included in the employee benefits expense in the statement of revenue and expenses. Should there be a contribution deficiency in the plan; the Hospital may be required to make additional contributions to cover these deficiencies.

(In thousands of dollars)

10. Employee future benefits liabilities (continued)

Other post-employment benefits

Employees of the Hospital are entitled to certain post-employment benefits. The Hospital uses the accrued benefit cost method for post-employment benefits. This method uses current market rates to estimate the present value of the post-employment liabilities, based on actuarial valuations. The most recent actuarial valuation of the Hospital was as of March 31, 2018.

Information about the Hospital's post-employment future benefits liability is as follows:

	2020	2019
	$	$
Change in benefit obligation		
Accrued benefit obligation, beginning of year	**14,698**	13,433
Current service cost	**788**	728
Interest cost	**484**	480
Benefits paid	**(543)**	(360)
Actuarial experience losses	**(742)**	417
Accrued benefit obligation, end of year	**14,685**	14,698
Unamortized actuarial experience losses	**(2,664)**	(3,820)
Accrued benefit liability, end of year	**12,021**	10,878
Plan expense		
Current service cost	**788**	728
Interest cost	**484**	480
Amortization of actuarial experience losses	**414**	372
Net benefit expense during the year	**1,686**	1,580
Significant assumption on obligations		
Discount rate (%)	**3.29**	3.18
Average remaining service period of active employees to retirement who are expected to receive benefits under the benefits plan (years)	**10**	10
Dental cost increase	**4% per annum**	4% per annum
Extended health care	**4.14% per annum in fiscal 2020, changing annually based on the Canadian Institute of Actuaries Trend Rate Model 4.05% per annum in 2040**	6.70% per annum in fiscal 2019, decreasing by 0.3% per annum to an ultimate rate of 4.00% per annum in 2028

11. Other votes programs

Other votes programs represent Community Mental Health programs, Children's Mental Health Program, Psychiatric Outpatient Medical Services Program, Primary Care programs and Substance Abuse Program administered by the Hospital with funding from the MOHLTC.

Generally, funding is provided to cover all operating expenses. In some years there may be an operating deficit, which is to be covered by the Hospital.

12. Related entities

The Hospital is related to the Toronto East Health Network Foundation (the "Foundation").

The Foundation raises funds to support projects of the Hospital. The Hospital has an economic interest in the net assets of the Foundation. Excess of revenue over expenses generated by the Foundation are donated to the Hospital upon approval of the Foundation's Board of Directors.

The Hospital does not exercise control or significant influence over the Foundation; consequently, these financial statements do not include assets, liabilities and activities of the Foundation.

Deferred capital grants and donations received from the Foundation in the year are $1,132 (2019 – $4,838). In addition, the Foundation provided contributions of $2,282 (2019 - $2,226) during the year to fund operating expenses paid by the Hospital on behalf of the Foundation. As at March 31, 2020, the Foundation owed the Hospital $173 (2018 - $181) for operating costs paid on its behalf. This amount will be reimbursed by the Foundation subsequent to fiscal year end. Operating, research and education grants received from the Foundation in the year are $899 (2019 - $353). The remaining receivable of $4 (2019 - $16) relates to operating grants.

The Hospital is a member of Plexxus, a not for profit shared services organization whose mandate is to provide supply chain services, financial, human resources and payroll services to member organizations. The objectives of Plexxus are to improve and maximize non-clinical efficiencies, resulting in savings that will be reinvested in direct patient care. During the year, the Hospital has paid $2,059 (2019 - $2,022) to Plexxus.

The Hospital has an equity investment in Shared Hospital Laboratory Inc., and paid $891 (2019 - $765) to the organization in connection with laboratory services.

13. Contingencies, commitments and guarantees

(a) The Hospital is a member of the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of liability insurance risks of its members. All members of the pool pay annual premiums, which are actuarially determined. All members are subject to reassessment for losses, if any, experienced by the pool for the years in which they are members. No negative reassessments have been made to March 31, 2020.

Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income, less the obligation for claims reserves and expenses and operating expenses. Each subscriber who has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors at HIROC. There are no distributions receivable from HIROC as at March 31, 2020.

In 2014, the Hospital entered into an agreement with HIROC whereby HIROC continues to provide indemnity insurance to the Hospital; however, the cost of investigating and defending any claims, previously included in the insurance premium, will be borne by the Hospital. Under the agreement, the Hospital transfers funds to HIROC Management Limited ("HML"), which acts as an agent to pay legal expenses on behalf of the Hospital. For the year ended March 31, 2020, the Hospital has cash restricted for these purposes of $4,418 (2019 - $3,817) and has estimated the liability of defence costs associated with claims arising subsequent to the start of the agreement as $3,164 (2019 - $2,871).

(In thousands of dollars)

13. Contingencies, commitments and guarantees (continued)

(b) Minimum annual operating lease payments for leases which expire at various dates up to April 30, 2031 are as follows:

	$
2021	1,359
2022	1,804
2023	1,552
2024	1,503
2025	1,408
2026 and thereafter	6,922
	14,548

(c) Effective March 31, 2020, the Hospital entered into a joint venture agreement between the Hospital, Flemingdon Health Centre and the Neighbourhood Organization whereby the Hospital has been assigned as the Head Lease by the TCLHIN for the Thorncliffe Hub, the construction and operation of a community health hub at 45 Overlea Boulevard. The lease commitments have been included in the schedule of annual operating lease payments in Note 13(b).

(d) 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:

(i) Indemnity has been provided to all directors and officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of 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.

(ii) In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a 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 nature of these indemnification agreements prevents the Hospital from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability that stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Hospital has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the statement of financial position with respect to these agreements. As well, the current inventory of contracts and agreements does not indicate any exposure to liability.

(e) The nature of the Hospital's activities is such that there is usually litigation pending or in progress at any one time. With respect to claims as at March 31, 2020, it is management's position that the Hospital has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have a material effect on the Hospital's financial position.

(In thousands of dollars)

14. Invested in capital assets

Invested in capital assets is determined as follows:

	2020 $	2019 $
Capital assets	**190,294**	190,100
Less:		
Current portion of long-term debt	**(424)**	(415)
Current portion of capital lease obligations	**(615)**	(916)
Long-term debt	**(5,643)**	(6,067)
Long-term capital lease obligations	**(220)**	(835)
Deferred capital grants and donations	**(103,329)**	(102,215)
Add:		
Unspent Foundation grants for NPCC	**15,988**	15,988
Invested in capital assets	**96,051**	95,640

15. Financial instruments and risk management

Establishing fair value

The fair value of the interest rate swap is determined using the discounted cash flow method.

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 only financial instrument that is remeasured to fair value on a regular basis is the derivative liability arising from the interest rate swap (Note 8). The valuation of the derivative liability is considered a Level 2 fair value measurement.

15. Financial instruments and risk management (continued)

Fair value hierarchy (continued)

The Hospital, through its financial assets and liabilities has exposure to the following risks from its use of financial instruments:

Credit risk

The Hospital’s principal financial assets are cash and short-term investments, restricted cash and accounts receivable, which are subject to credit risk. The carrying amounts of financial assets on the statement of financial position represents the Hospital’s maximum credit exposure at the statement of financial position date.

The Hospital’s credit risk is primarily attributable to its accounts receivable. The amounts recognized on the statement of financial position are net of allowance of 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 cash is limited because the counterparty is a chartered bank with a high credit rating assigned by national credit-rating agencies.

Liquidity risk

Liquidity risk is the risk the Hospital will not be able to meet its financial obligations when they come due. The Hospital manages its liquidity risk by forecasting cash flows from operations and anticipating investing and financing activities and maintaining credit facilities to ensure it has sufficient funds to meet current and foreseeable financial requirements.

Accounts payable mature within six months. The maturities of other financial liabilities are provided in the notes to the financial statements related to these liabilities.

Interest rate risk

The Hospital has long-term debt with floating and fixed rates. The interest rate risk on long-term debt with floating rates is mitigated through an interest rate swap contract (Note 8).

16. Pandemic response

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

As a result of the Hospital’s COVID-19 response, the Hospital is experiencing a change in service capacity and demand for its services and is working diligently to mitigate the financial impacts while carrying out its response to the impacts of COVID-19. The Hospital has tracked expenditures related to its COVID-19 response and will apply for reimbursement once Provincial processes for such reimbursement are finalized. Any recoveries that may be received in the future will be recognized in the period in which approval is obtained.

The duration of the COVID-19 pandemic is unknown at this time and it is not possible to reliably estimate the financial impact in the future periods.