Financial statements of
Markham Stouffville Hospital

March 31, 2019

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Independent Auditor's Report

To the Board of Directors of
Markham Stouffville Hospital

Opinion

We have audited the financial statements of the Markham Stouffville Hospital (the "Hospital"), which comprise the statement of financial position as at March 31, 2019, and the statements of operations, changes in net assets, remeasurement gains and losses and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2019, and the results of its operations, remeasurement gains and losses, changes in net assets, and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards ("PSAS").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
May 30, 2019

Markham Stouffville Hospital

Statement of financial position

As at March 31, 2019

	Notes	2019 $	2018 $
Assets			
Current assets			
Cash	3	**57,637,953**	52,983,480
Due from MOHLTC, LHIN and Cancer Care Ontario		**1,002,364**	2,455,801
Accounts receivable	13	**14,925,827**	9,527,949
Prepaid expenses		**2,720,075**	3,384,867
Inventories		**657,402**	582,414
		76,943,621	68,934,511
Investment in joint venture	4	**194,546**	150,168
Capital assets	6	**327,442,928**	327,437,088
Other long-term assets	5	**23,881,315**	24,486,000
		428,462,410	421,007,767
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**38,418,684**	31,202,832
Due to MOHLTC, LHIN and Cancer Care Ontario		**17,179,009**	14,672,567
Deferred revenue	7	**—**	3,620,524
		55,597,693	49,495,923
Deferred grants and contributions	8	**298,576,342**	301,663,460
Employee future benefits	9	**3,539,100**	3,188,200
		357,713,135	354,347,583
Net assets		**70,749,275**	66,660,184
		428,462,410	421,007,767

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

Approved by the Board of Directors

_____________________ Director

_____________________ Director

Markham Stouffville Hospital
Statement of changes in net assets
Year ended March 31, 2019

	Investment in capital assets (Note 11) $	Internally restricted funds (Note 12) $	Operating fund - unrestricted $	2019 Total $	2018 Total $
Balance, beginning of year	**47,434,351**	**2,121,827**	**17,104,006**	**66,660,184**	61,447,915
Excess of revenue over expenses before the following items	**—**	**36,071**	**7,796,551**	**7,832,622**	8,246,066
Depreciation of capital assets	**(16,766,897)**	**—**	**—**	**(16,766,897)**	(18,788,961)
Amortization of deferred contributions	**13,023,366**	**—**	**—**	**13,023,366**	15,755,164
	(3,743,531)	**36,071**	**7,796,551**	**4,089,091**	5,212,269
Purchase of capital assets	**16,772,737**	**—**	**(16,772,737)**	**—**	—
Deferred contributions received in current year and spent	**(9,936,248)**	**—**	**9,936,248**	**—**	—
Deferred contributions received in prior year and spent in the current year	**(528,622)**	**—**	**528,622**	**—**	—
	2,564,336	**36,071**	**1,488,684**	**4,089,091**	5,212,269
Balance, end of year	**49,998,687**	**2,157,898**	**18,592,690**	**70,749,275**	66,660,184

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

Markham Stouffville Hospital
Statement of operations
Year ended March 31, 2019

	Notes	2019 $	2018 $
Revenue			
Patient income			
MOHLTC, LHIN and Cancer Care Ontario		**203,467,585**	184,417,959
Other agencies and patients		**32,387,745**	26,387,891
Amortization of deferred contributions - equipment	8	**5,473,658**	8,195,641
Investment income	4	**913,774**	487,236
Other income	13	**18,441,342**	18,395,847
Special programs	14(a)	**8,107,487**	8,250,533
		268,791,591	246,135,107
Expenses			
Salaries and wages		**120,661,400**	106,829,863
Medical staff remuneration		**21,296,846**	18,738,710
Employee benefits		**34,324,963**	31,800,737
Medical and surgical supplies		**13,335,966**	11,839,233
Drugs		**9,563,421**	7,970,994
Other supplies and expenses		**48,094,668**	43,424,841
Depreciation of capital assets - equipment		**6,429,832**	8,686,890
Special programs	14(a)	**8,208,047**	8,230,016
		261,915,143	237,521,284
Excess of revenue over expenses before the undernoted items		**6,876,448**	8,613,823
Amortization of deferred contributions - buildings	8	**7,549,708**	7,559,523
Depreciation of capital assets - buildings		**(10,337,065)**	(10,102,071)
Interest expense on medical office building and redevelopment		**—**	(859,006)
Excess of revenue over expenses for the year		**4,089,091**	5,212,269

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

Markham Stouffville Hospital

Statement of remeasurement gains and losses

Year ended March 31, 2019

	2019	2018
	$	$
Accumulated remeasurement losses, beginning of year	—	(271,308)
Unrealized gains attributable to derivatives during the year	—	140,808
Settlement of derivatives during the year	—	130,500
Accumulated remeasurement losses, end of year	—	—

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

	Notes	2019 $	2018 $
Operating activities			
Excess of revenue over expenses for the year		**4,089,091**	5,212,269
Items not affecting cash			
Depreciation of capital assets		**16,766,897**	18,788,961
Amortization of deferred contributions	8	**(13,023,366)**	(15,755,164)
Employee future benefits expense	9	**491,800**	439,100
Employee future benefits paid		**(140,900)**	(109,200)
		8,183,522	8,575,966
Changes in non-cash working capital balances			
Due from MOHLTC, LHIN and Cancer Care Ontario		**1,453,437**	(1,727,675)
Accounts receivable		**(5,397,878)**	(257,584)
Prepaid expenses		**664,792**	349,361
Inventories		**(74,988)**	(125,542)
Accounts payable and accrued liabilities		**7,215,852**	4,187,058
Due to MOHLTC, LHIN and Cancer Care Ontario		**2,506,442**	5,143,940
Deferred revenue		**(3,620,524)**	—
		10,930,655	16,145,524
Financing activities			
Repayment of long-term debt		**—**	(9,813,667)
Other long-term assets	5	**604,685**	580,550
Deferred grants and contributions received		**9,936,248**	9,324,524
		10,540,933	91,407
Capital activities			
Purchase of capital assets		**(16,772,737)**	(8,429,340)
Impairment of capital assets	6	**—**	4,024,164
		(16,772,737)	(4,405,176)
Investment activity			
Investment in joint venture		**(44,378)**	(72,685)
Change in cash during the year		**4,654,473**	11,759,070
Cash, beginning of year		**52,983,480**	41,224,410
Cash, end of year		**57,637,953**	52,983,480

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

1. Operations

Markham Stouffville Hospital (the "Hospital") is principally involved in providing hospital based health-care services to the southeast York Region and northwest Durham Region on two sites in Markham and Uxbridge. 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.

The Hospital is primarily funded by the Province of Ontario in accordance with the 2008 Hospital Service Accountability Agreement and its subsequent amending agreements up to March 31, 2019, between the Hospital and the Central Local Health Integration Network.

These financial statements include the assets, liabilities and activities of the Hospital. These financial statements do not include the activities of the Markham Stouffville Hospital Foundation (MSH Foundation) and Uxbridge Cottage Hospital Foundation (UCH Foundation), which are related non-controlled charitable organizations (Note 13).

2. Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards, including accounting standards that apply only to government not-for-profit organizations.

These financial statements reflect fund accounting and separately disclose the activities of the following funds maintained by the Hospital:

- Operating fund - activities related to day-to-day care provided by the Hospital.
- Internally restricted funds - these funds represent internally restricted funds designated by the Board of Directors (the Board). Investment income earned by these funds, which is recorded in the operating fund, is also considered Board designated. The funds currently comprise an education bursary fund, which holds funds set aside by the Board to provide employees with financial support for approved educational programs.
- Investment in capital assets - the resources the Hospital has invested in its capital assets.

Revenue recognition

The Hospital follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable. Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Under the Health Insurance Act (Ontario) and the regulations thereunder, the Hospital is funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ontario Ministry of Health and Long-Term Care (the MOHLTC) and the Local Health Integration Network (LHIN). Operating grants are recorded as revenue in the year to which they relate. Grants approved but not received at the end of year are accrued. Where a portion of a grant relates to a future year or has not been spent in accordance with the terms of the grant, it is deferred and recognized in the subsequent year. These financial statements reflect management's best estimates of funding arrangements with the MOHLTC and LHIN. The Hospital has entered into an accountability agreement with the LHIN, which requires the Hospital to meet certain financial and non-financial performance indicators.

All investment income is unrestricted and recognized as revenue when earned.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Contributions received in the form of donations and grants for specific capital expenditures are initially deferred and recorded as deferred capital contributions. These deferred contributions are realized into revenue on the same basis as the depreciation of the cost of the related capital assets.

Cash

Cash represents cash on hand and cash in the bank.

Joint ventures

Investments in jointly controlled entities are accounted for using the modified equity method, whereby the investment is initially recorded at cost and adjusted thereafter to recognize the Hospital’s share of the jointly controlled entity’s net surplus or deficit for its fiscal year ending within the Hospital’s fiscal year.

Contributed materials and services

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

Inventories

Inventories consist primarily of hospital supplies held for patient care and are stated at the lower of cost and replacement value. Cost is determined primarily on a first-in, first-out basis.

Capital assets

Capital assets are recorded at cost. Expenditures that substantially increase the useful lives of the existing capital assets are capitalized. Renovation costs to maintain normal operating efficiency are expensed as incurred. Maintenance, repairs and minor replacements are expensed as incurred.

Depreciation is provided on a straight-line basis at annual rates based on the estimated useful lives of the assets:

Buildings	25-40 years
Furniture and major equipment	3-20 years

Projects-in-progress are transferred to the appropriate capital asset category once the particular project is complete and the capital asset is ready for use. Depreciation will commence from that date on a straight-line basis over the expected useful life of the capital asset.

Impairment of long-lived assets

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

2. Summary of significant accounting policies (continued)

Deferred grants and contributions

Deferred grants and contributions represent the unamortized portion of grants and contributions that were provided for the purchase of capital assets and certain operating expenses. Deferred contributions are recognized as revenue in the year in which the related expenditures are incurred or amortized into revenue at a rate corresponding to the depreciation rate of the related capital assets purchased with the funding. Deferred grants are recognized as revenue when the related expenses are incurred.

Pension plan

Substantially all of the employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan (HOOPP), which is a multi-employer best five consecutive year average pay defined benefit pension plan. Should there be a contribution deficiency in the plan, the Hospital may be required to make additional contributions to cover these deficiencies. Contributions made to HOOPP are expensed as funded, as the plan is accounted for as a defined contribution plan.

Employee future benefits

The Hospital provides certain health-care, dental, life insurance and other benefits for certain retired employees. The cost of post-employment benefits is determined using the projected benefit method pro-rated on service actuarial cost method and various assumptions. The discount rate used to determine the accrued benefit obligation was determined based on the Ontario provincial yield curve and a spread. The actuarial gains and losses are amortized over the average remaining service period of active employees. Past service costs are expensed in the period of the plan amendment.

Financial instruments

Financial assets and liabilities are recognized when the Hospital becomes a party to the contractual provisions of the instrument. The Hospital’s financial instruments consist of cash, accounts receivable, amounts due from/to the MOHLTC, LHIN and Cancer Care Ontario, accounts payable and accrued liabilities.

The Hospital’s financial instruments are measured as follows:

Financial instrument	Measurement
Cash	Fair value
Accounts receivable	Amortized cost
Due from/to MOHLTC and LHIN	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - market based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs for the assets or liabilities that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instruments being valued in order to establish what the transaction price would have been on the measurement date in an arm’s length transaction.

2. Summary of significant accounting policies (continued)

Use of estimates

In preparing the financial statements in accordance with Canadian public sector accounting standards, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Accounts subject to significant estimates include accounts receivable, accrued liabilities, deferred revenue and employee future benefits.

The revenue recognized from the MOHLTC and 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 MOHLTC and 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 MOHLTC and LHIN have the right to adjust funding received by the Hospital. Neither the MOHLTC nor LHIN is 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 MOHLTC/LHIN funding received during a year may be increased or decreased subsequent to year-end. The amount of revenue recognized in these financial statements represents management's best estimates of amounts that have been earned during the year.

3. Cash

Cash is comprised of the following:

	2019	2018
	$	$
Unrestricted cash	**55,318,669**	51,875,667
Restricted cash for other programs (Note 14(b))	**2,319,284**	1,107,813
	57,637,953	52,983,480

The Hospital has available an unsecured revolving line of credit with a limit of $15,000,000 held at the TD Commercial Bank, which bears interest at a rate of prime less 0.75%. As at March 31, 2019 $nil (2018 -$nil) had been drawn against this facility.

4. Investment in joint venture

The Hospital has a 50% interest in Markham Stouffville ProResp Inc. (ProResp), a supplier of home oxygen and other respiratory care products. Net investment income of $44,378 (2018 - $72,685) has been included in the statement of operations. During the year, the Hospital provided respiratory therapy services to ProResp and charged $36,000 (2018 - $21,945) for its services. The Hospital provided management services in return for a management fee. Management fee income of $26,000 (2018 - $28,000) has been included in the statement of operations.

5. Other long-term assets

Other long-term assets comprise:

	2019 $	2018 $
Deposit with the Corporation of the City of Markham (a)	**1,278,500**	1,278,500
Prepayment to Markham District Energy (MDE) (b)	**23,207,500**	23,788,050
	24,486,000	25,066,550
Less: current portion (included in prepaid expenses)	**604,685**	580,550
	23,881,315	24,486,000

(a) On August 21, 2009, the Hospital deposited $1,278,500 with the Corporation of the City of Markham in lieu of a letter of credit pursuant to the Markham Stouffville Hospital site plan control agreement dated December 4, 1987, and amended August 21, 2009. The deposit accrues interest at the prime rate less 1.75% and will be returned to the Hospital on satisfactory completion of the Markham site expansion project and related site works.

(b) On September 1, 2012, the Hospital entered into a 30-year Energy Services Agreement (ESA) with Markham District Energy (MDE) for the supply, sale and delivery of energy services to the Hospital. MDE is a non-related party. Under the terms of the ESA, the Hospital was required to provide an upfront contribution, which will reduce fixed capacity charges over the life of the ESA.

The total prepayment, including unrecoverable harmonized sales tax (HST), was $26,628,661 and is amortized to other supplies and expenses on a monthly basis in accordance with a fixed capacity cost avoidance schedule provided by MDE.

6. Capital assets

	Cost $	Accumulated depreciation $	2019 Net book value $	2018 Net book value $
Land	**8,287,625**	**—**	**8,287,625**	8,277,662
Buildings	**391,309,524**	**100,393,409**	**290,916,115**	294,948,305
Furniture and major equipment	**68,201,432**	**44,113,456**	**24,087,976**	17,912,543
Projects-in-progress	**4,151,212**	**—**	**4,151,212**	6,298,578
	471,949,793	**144,506,865**	**327,442,928**	327,437,088

During the year, the Hospital wrote-off fully amortized tangible capital assets of $nil (2018 - $nil). In addition, tangible capital assets with a net book value of $nil (2018 - $2,139,952) were determined to be impaired and written-off during the year.

6. Capital assets (continued)

Projects-in-progress

Projects-in-progress includes costs for several IT projects related to system implementation and enhancing financial infrastructure totaling $453,184 (2018 - $6,025,718), redevelopment costs related to implementing facility development of $468,423 (2018 - $272,860), and other costs related to ongoing capital projects and equipment of $3,229,605 (2018 - $nil).

7. Deferred revenue

	2019	2018
	$	$
Balance, beginning of year	**3,620,524**	3,620,524
Amounts recognized as revenue	**3,620,524**	—
Balance, end of year	**—**	3,620,524

During the year, the Hospital recognized the remaining balance of deferred revenue related to PCOP start-up funds. These funds were originally received with the opening of the main site development project.

8. Deferred grants and contributions

Deferred grants and contributions related to capital assets represent the unamortized and unspent amounts of donations and grants received for prepaid expenses and the purchase of capital assets.

	2019	2018
	$	$
Balance, beginning of year	**301,663,460**	308,094,100
Amortized to revenue during the year	**(13,023,366)**	(15,755,164)
Amount received during the year	**9,936,248**	9,324,524
Balance, end of year	**298,576,342**	301,663,460
Deferred grants and contributions comprise		
Grant received for long-term prepaid expense (Note 5)	**21,132,101**	21,660,723
Grants and contributions for capital assets	**277,444,241**	280,002,737
	298,576,342	301,663,460

9. Employee future benefits

Pension plan

Substantially all the employees of the Hospital are members of HOOPP. Contributions to HOOPP made during the year by the Hospital on behalf of its employees amounted to $10,833,256 (2018 - $9,693,181) and are included in employee benefits expense or special programs expense, as appropriate, in the statement of operations.

Other employee future benefits

Certain employees of the Hospital are entitled to certain post-employment benefits. The Hospital recognizes the present value of its obligation from these benefits as they are earned. The most recent actuarial valuation of the obligation was performed as at March 31, 2017.

Expenses relating to other employee future benefits are included in employee benefits expense in the statement of operations.

The movement in the liability during the year is as follows:

	2019	2018
	$	$
Accrued benefit obligation, beginning of year	**3,607,100**	3,077,300
Current service cost	**300,500**	268,100
Interest cost	**134,300**	131,600
Benefits paid	**(140,900)**	(109,200)
Net actuarial losses (gains)	**145,600**	239,300
Accrued benefit obligation, end of year	**4,046,600**	3,607,100
Unamortized net actuarial experience (losses)	**(507,500)**	(418,900)
Accrued benefit liability, end of year	**3,539,100**	3,188,200

	2019	2018
	$	$
Employee future benefits expense		
Accrual for services	**300,500**	268,100
Interest on accrued benefits	**134,300**	131,600
Amortization of net actuarial losses	**57,000**	39,400
Net benefit expense	**491,800**	439,100

9. Employee future benefits (continued)

Other employee future benefits (continued)

The significant actuarial assumptions adopted in measuring the Hospital's employee future benefit liability for pension and other post-retirement benefit plans are as follows:

	2019	2018
Discount rate for calculation of net benefit costs	**3.25%**	3.50%
Dental benefit cost escalation	**4.00%**	3.50%
Expected average remaining life to retirement	**13.6 years**	13.6 years
Extended health-care trend rates	**See (a)**	See (a)

(a) Drugs: 7.0% per year in 2017 grading down over 20 years to an ultimate rate of 4.00% per year. Other Medical, Hospital: 4.00% per year. Vision: 0.00% per year.

10. Contingencies and commitments

(a) From time to time, the Hospital is named in lawsuits related to its activities. It is not possible to determine the merits of these claims or to estimate the possible financial liability, if any, to the Hospital. Accordingly, no provision for loss has been made in these financial statements. In management's view, these claims should not have a material adverse effect on the financial position of the Hospital.

(b) The Hospital is a member of the Healthcare Insurance Reciprocal of Canada (HIROC) and therefore has an economic interest in HIROC. HIROC is a pooling of the public liability insurance risks of its hospital members. All members of the HIROC pool pay annual premiums, which are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for years in which they were members. No assessments have been made for the year ended March 31, 2019.

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.

(c) Through to June 23, 2017, the Hospital was an equity member of the Central Ontario Healthcare Procurement Alliance (COHPA), a not-for-Profit shared service organization that has centralized contract management and purchasing/accounts payable transactions. As of June 23, 2017, COHPA integrated with Plexxus, another not-for-profit shared service organization. The equity membership in COHPA was dissolved and the Hospital now purchases services from Plexxus as a shared services customer. The Hospital letter of guarantee related to security of the TD Bank Financial Group loan on behalf of COPHA, dated February 4, 2009 has been discharged. During the year, the Hospital paid $ 1,275,159 (2018 - $1,180,044) in purchased service fees.

11. Investment in capital assets

The fund balance invested in capital assets is calculated as follows:

	2019	2018
	$	$
Capital assets (Note 6)	**327,442,928**	327,437,088
Deferred grants for capital assets (Note 8)	**(277,444,241)**	(280,002,737)
	49,998,687	47,434,351

12. Internally restricted funds

Internally restricted funds consist of the Education Bursary Fund, which was established by the Hospital's Board of Directors for the purpose of funding further education and professional development opportunities for Hospital staff. The fund utilizes only realized gains and interest earned above the initial allocation. During the year, investment income of $36,071 (2018 - $35,468) was recorded in the internally restricted fund.

13. Related party transactions

(a) The Hospital is related to the MSH Foundation and the UCH Foundation. Both foundations raise funds to support capital, education and other specific projects of the Hospital. Both foundations are incorporated without share capital under the laws of the Province of Ontario and are charitable organizations registered under the Income Tax Act (Canada). The Hospital is considered to have significant influence over both foundations due to the common directors on the boards, but does not have control. As a result, these financial statements do not include the assets, liabilities, and activities of the foundations, which, although related to the Hospital, are not controlled by it.

(b) During the year, the Hospital received from the MSH Foundation $5,105,502 (2018 - $3,229,780) for the purchase of capital assets, which is included in deferred grants and contributions for the year. In addition, the Hospital received $262,395 (2018 - $778,334) of operating grants, which are included as other income revenue in the statement of operations. Included in accounts receivable is $15,602 (2018 - $2,588) due from the MSH Foundation as a reimbursement of costs paid or payable on behalf of the MSH Foundation. The Hospital provides the MSH Foundation's premises on a rent free basis, the value of which has not been recorded in these financial statements. In turn, the MSH Foundation, in its ongoing fundraising activities, provides the Hospital with public relations services, the value of which has not been recorded in these financial statements. These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(c) During the year, the Hospital received $325,550 (2018 - $338,349) from the UCH Foundation for the purchase of capital assets, which is included in deferred grants and contributions. In addition, the Hospital received $66,141 (2018 - $83,787) of operating grants, which are included as other income revenue in the statement of operations. Included in accounts receivable is $90,341 (2018 - $17,976) due from the UCH Foundation purchase of capital assets and as a reimbursement of costs paid or payable on behalf of the UCH Foundation.

14. Special programs and other programs

(a) Special programs include programs funded by the MOHLTC, the Ministry of Community, Family and Children's Services, the Regional Municipality of York and the University of Toronto.

(b) Other programs are those programs where the Hospital acts as paymaster on behalf of the MOHLTC or LHIN. These programs include Midwifery Services of Durham and other consultancy services. As the Hospital is the paymaster for these programs, no amounts are recorded on the statement of operations. Gross funding and payments related to these programs are as follows:

	2019	2018
	$	$
Funding	**3,449,534**	2,831,365
Payments	**(3,449,534)**	(2,831,365)
	—	—

15. Risk management

Financial risks

The Hospital is exposed to a variety of financial risks, including credit risk and liquidity risk. The Hospital's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Hospital's financial performance.

Credit risk

Credit risk arises from cash held with financial institutions, and credit exposures to customers on outstanding accounts receivable balances. The Hospital does not have any significant past due accounts receivable that are not provided for. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. Cash is held at a major financial institution that has a high credit rating assigned to it by international credit rating agencies, minimizing any potential exposure to credit risk.

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.

The table below is a maturity analysis of the Hospital's financial liabilities:

	Up to 6 months	More than 6 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
	$	$	$	$	$
Accounts payable accrued liabilities	34,531,969	3,886,715	—	—	38,418,684
Due to MOHLTC, LHIN and Cancer Care Ontario	—	17,179,009	—	—	17,179,009

15. Risk management (continued)

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:

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:

	Level 1	**Level 2**	**Level 3**	**2019 Total**
	$	**$**	**$**	**$**
Cash	**57,637,953**			**57,637,953**
	57,637,953	**—**	**—**	**57,637,953**

	Level 1	Level 2	Level 3	2018 Total
	$	$	$	$
Cash	52,983,480	—	—	52,983,480
	52,983,480	—	—	52,983,480