

Financial statements of

**Southlake Regional Health Centre**

March 31, 2017

# Southlake Regional Health Centre

March 31, 2017

## Table of contents

Independent Auditor’s Report ..... 1-2

Statement of operations and changes in net assets ..... 3

Statement of re-measurement gains and losses..... 4

Statement of financial position ..... 5

Statement of cash flows ..... 6

Notes to the financial statements ..... 7-19

## Independent Auditor's Report

To the Board of Directors of  
Southlake Regional Health Centre

We have audited the accompanying financial statements of Southlake Regional Health Centre, which comprise the statement of financial position as at March 31, 2017, and the statements of operations and changes in net assets, re-measurement gains and losses 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 Southlake Regional Health Centre as at March 31, 2017 and the results of its operations, re-measurement gains and losses and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

The image shows a handwritten signature in black ink that reads "Deloitte LLP". The word "Deloitte" is written in a cursive, flowing style, while "LLP" is written in a more straightforward, blocky font.

Chartered Professional Accountants  
Licensed Public Accountants  
May 31, 2017

# Southlake Regional Health Centre

## Statement of operations and changes in net assets year ended March 31, 2017

(In thousands of dollars)

	2017	2016
	\$	\$
<b>Revenue</b>		
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	301,550	290,993
Cancer Care Ontario	25,532	25,946
Preferred accommodation and other	24,054	23,352
Patient care	23,021	22,011
Specified programs	4,225	4,114
Amortization of deferred equipment grants and donations	5,207	7,243
	<b>383,589</b>	<b>373,659</b>
<b>Expenses</b>		
Salaries, wages and employee benefits	253,213	239,050
Supplies and other	54,415	50,276
Medical and surgical supplies	38,453	40,267
Drugs	14,777	16,082
Specified programs	4,278	4,114
Amortization of furniture and equipment	8,313	7,932
Gain on disposal of capital assets	(1,349)	(95)
	<b>372,100</b>	<b>357,626</b>
Excess of revenue over expenses		
per Hospital Service Accountability Agreement	11,489	16,033
Amortization of deferred building grants and donations	5,978	6,063
Amortization of buildings and land improvements	(9,454)	(9,487)
Interest expense	(1,686)	(1,862)
Excess of revenue over expenses	6,327	10,747
Net assets, beginning of year	15,594	4,847
<b>Net assets, end of year</b>	<b>21,921</b>	<b>15,594</b>

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

# Southlake Regional Health Centre

## Statement of re-measurement gains and losses

year ended March 31, 2017

(In thousands of dollars)

	2017	2016
	\$	\$
<b>Accumulated re-measurement losses at beginning of year</b>	<b>(6,247)</b>	<b>(6,993)</b>
Unrealized gains attributable to derivatives - interest rate swap	1,737	746
<b>Accumulated re-measurement losses at end of year</b>	<b>(4,510)</b>	<b>(6,247)</b>

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

# Southlake Regional Health Centre

## Statement of financial position


as at March 31, 2017

(In thousands of dollars)

	2017	2016
	\$	\$
<b>Assets</b>		
Current assets		
Cash	32,114	16,087
Accounts receivable (Note 4)	23,131	22,537
Inventories	2,264	2,360
Prepaid expenses	3,645	4,100
	<b>61,154</b>	<b>45,084</b>
Restricted cash (Note 5)	6,642	4,654
Investment in joint venture (Note 7)	216	81
Capital assets (Note 8)	257,954	260,055
	<b>325,966</b>	<b>309,874</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	85,797	74,477
Current portion of long-term debt (Note 9)	3,416	3,238
	<b>89,213</b>	<b>77,715</b>
Long-term liabilities		
Deferred capital grants and donations (Note 10)	176,241	175,917
Long-term debt (Note 9)	24,701	28,117
Derivative liabilities (Note 9(d))	4,510	6,247
Accrued post-retirement benefits (Note 11)	13,890	12,531
	<b>308,555</b>	<b>300,527</b>
Contingent liabilities (Note 15)		
<b>Net assets</b>	<b>21,921</b>	<b>15,594</b>
Accumulated re-measurement losses	(4,510)	(6,247)
	<b>17,411</b>	<b>9,347</b>
	<b>325,966</b>	<b>309,874</b>

Approved by the Board

 Board Chair

 Treasurer

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

# Southlake Regional Health Centre

## Statement of cash flows year ended March 31, 2017 (In thousands of dollars)

	2017	2016
	\$	\$
<b>Operating activities</b>		
Excess of revenue over expenses for the year	6,327	10,747
Add (deduct) items not affecting cash		
Amortization of capital assets	17,767	17,415
Amortization of deferred capital grants and donations	(11,185)	(13,306)
Post-retirement benefits	2,208	1,644
Gain on disposal	(1,349)	(95)
	<b>13,768</b>	<b>16,405</b>
Net change in non-cash working capital balances related to operations		
Accounts receivable	(594)	(6,270)
Inventories	96	92
Prepaid expenses	455	(231)
Accounts payable and accrued liabilities	8,365	(3,658)
	<b>22,090</b>	<b>6,338</b>
<b>Investing activity</b>		
Investment in Joint Venture	(135)	(81)
<b>Capital activities</b>		
Net capital contributions received from		
Southlake Regional Health Centre Foundation	10,392	2,169
Ontario Ministry of Health and Long-Term Care/Other	468	1,111
Cancer Care Ontario	649	3,505
Purchase of capital assets, net of accounts payable and accrued liabilities related to capital (2017 - \$2.955 million; 2016 - \$1.426 million)	(12,861)	(12,040)
Restricted cash received for capital (Note 5)	(1,988)	346
Proceeds from sale of capital assets	1,499	255
	<b>(1,841)</b>	<b>(4,654)</b>
<b>Financing activities</b>		
Current portion of long-term debt	178	169
Repayments of long-term debt	(3,416)	(3,238)
Post-retirement payments (Note 11)	(849)	(596)
	<b>(4,087)</b>	<b>(3,665)</b>
Net increase (decrease) in cash during the year	<b>16,027</b>	<b>(2,062)</b>
Cash, beginning of year	<b>16,087</b>	<b>18,149</b>
<b>Cash, end of year</b>	<b>32,114</b>	<b>16,087</b>
<b>Other information</b>		
Total interest paid	<b>1,686</b>	<b>1,862</b>

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



# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

---

### 1. Status and nature of activities

Southlake Regional Health Centre (the "Hospital"), incorporated without share capital under the laws of the Province of Ontario, operates a public hospital pursuant to The Public Hospitals Act. The Hospital receives the majority of its operating revenue from the Ontario Ministry of Health and Long-Term Care (the "Ministry") in amounts determined by the Ministry's annual review and approval process. The Hospital is a registered charity under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

### 2. Significant accounting policies

#### *Basis of presentation*

The financial statements of the Hospital have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 series of standards for government not-for-profit organizations, as issued by the Public Sector Accounting Board. These financial statements do not include the activities of the Southlake Residential Care Village (the "Village"), nor the Southlake Regional Health Centre Foundation (the "Foundation"), as the respective organizations maintain their own accounts and report separately from the Hospital to their own governing bodies.

The significant accounting policies are as follows:

#### *Financial instruments*

All financial instruments reported on the statement of financial position of the Hospital are classified as follows:

Financial instrument	Classification
Cash	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Derivative liabilities	Fair value

Financial instruments measured at fair value are initially recognized at cost and subsequently carried at fair value. Unrealized changes in fair value are recognized in the statement of re-measurement gains and losses until they are realized, when they are transferred to the statement of operations and changes in net assets. Transaction costs related to financial instruments in the fair value category are expensed as incurred.

Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from accumulated re-measurement gains and losses, and recognized into the statement of operations and changes in net assets. On sale or disposal, the amount held in accumulated re-measurement gains and losses associated with that instrument is removed from net assets and recognized in the statement of operations and changes in net assets.

Financial instruments measured at amortized cost are initially recognized at cost, and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Write downs on financial assets in the amortized cost category, are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write down being recognized in the statement of operations and changes in net assets.

# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

---

### 2. Significant accounting policies (continued)

#### *Revenue recognition*

The Hospital follows the deferral method of accounting for contributions, which include donations and grants. 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. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Grants and donations received for capital purposes are included in deferred capital grants and donations and are amortized on the same basis as the related depreciable capital assets.

Under the Health Insurance Act and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care (the "Ministry"). Operating funding is recorded as revenue in the period to which it relates. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. The extent to which the Ministry funding has been received, with the stipulated requirement that the Hospital provides 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. Some Ministry revenue is tied to patient volume and activity. Revenue is, therefore, based on actual patient volumes.

#### *Inventories*

Inventories are valued at the lower of cost (on a weighted average cost basis) and replacement cost.

#### *Investment in joint venture*

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. Any distributions received are accounted for as a reduction in the investment.

#### *Capital assets*

Purchased capital assets are recorded at historical cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of the contribution. Amortization is provided on a straight-line basis at rates based on the estimated service lives of the assets at the following annual rates:

Land improvements	5%
Buildings	2% to 2.5%
Leasehold improvements	lease term
Furniture and equipment	5% to 33.3%

Projects in process comprise of direct construction and development costs. Interest costs, net of related interest income, are capitalized during the construction period.

Amortization is not recorded until construction is substantially complete and the assets are ready for productive use.

#### *Employee benefits plans*

The Hospital provides defined retirement and post-employment benefits. The Hospital has adopted the following policies with respect to accounting for these employee benefits:

##### a) Multi-employer plan

Employees of the Hospital are eligible to be members of the Hospitals of Ontario Pension Plan ("HOOPP"), which is a multi-employer best five consecutive year average pay defined benefit pension plan. The multi-employer plan is accounted for as a deferred contribution plan as there is not sufficient information to apply defined benefit plan accounting. Contributions to the multi-employer defined benefit plan are expensed when due. The most recent actuarial valuation of the plan as at December 31, 2016 indicates the plan is fully funded.

# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

---

### 2. Significant accounting policies (continued)

#### *Employee benefits plans (continued)*

##### *b) Accrued post-retirement benefits*

The Hospital accrues its obligations under non-pension employee benefits as full-time employees render services. The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate assumptions of retirement ages of employees and expected health care costs. Actuarial gains or losses are amortized over the average remaining service period of the active employees. The average remaining service period of active employees is 15.1 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.

#### *Contributed materials and services*

Southlake Regional Health Centre has other individuals and organizations that volunteer numerous valuable hours to assist the Hospital in carrying out certain aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and, as such, is not reflected in these financial statements. Contributed materials are also not recognized in these financial statements.

#### *Use of estimates*

The preparation of financial statements in conformity 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 date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates. Accounts involving significant estimates include accounts receivable, amortization of capital assets, deferred capital grants, accrued liabilities, accrued post-retirement benefits and derivatives.

Revenue recognized from the Ministry has a number of estimates. The Hospital has entered into a Hospital Service Accountability Agreement ("HSAA") that sets out the rights and obligations of the two parties with respect to funding provided to the Hospital by the Ministry for fiscal 2008/09 and 2009/10, amended to include 2010/11 through 2016/17. The HSAA sets 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 has the right to adjust funding received by the Hospital. The Ministry is not required to communicate certain funding adjustments until after the submission of year-end data. Since this data is not submitted until after the completion of the financial statements, the amount of Ministry funding received during the 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 and bank indebtedness

The Hospital has an operating line of credit to a maximum of \$15 million, available by overdraft, fixed rate operating advances or standby letters of credit. This Credit Facility bears interest at the bank's prime rate plus 50 basis points or bank's cost of funds plus 75 basis points. As at March 31, 2017, there was \$Nil (2016 - \$Nil) in borrowings under this Credit Facility. In addition, the Hospital has two standby letters of credit in the amounts of \$100 thousand and \$500 thousand outstanding. As at March 31, 2017, there were \$Nil amounts (2016 - \$Nil) applied against these letters of credit.

# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

### 3. Cash and bank indebtedness (continued)

The Hospital secured a Credit Facility in the amount of \$10 million to ensure availability of funds if required under the Capital Fund Sharing Agreement. Effective January 1, 2017 the authorized amount was reduced to \$4.1 million. As at March 31, 2017, there was \$Nil (2016 - \$Nil) in borrowings under this credit facility. This Credit Facility charges a stand-by fee of 35 basis points.

The Hospital has secured a Credit Facility in the amount of \$7.36 million to ensure availability of funds if required for the construction and purchase of equipment for the Electrophysiology/Cardiac Cath Lab Project. As at March 31, 2017, there was \$Nil (2016 - \$Nil) in borrowing under this Credit Facility.

### 4. Accounts receivable

Accounts receivable consist of the following:

	2017	2016
	\$	\$
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	1,591	1,450
Cancer Care Ontario	301	1,954
OHIP	2,298	2,148
Vendor rebates	12,699	11,225
Insurers, patients and other	6,795	6,314
	<b>23,684</b>	23,091
Less: allowance for doubtful accounts	553	554
	<b>23,131</b>	22,537

### 5. Southlake Regional Health Centre Foundation

The Foundation, an independent organization, raises funds and holds resources primarily for the benefit of the Hospital. Amounts received from the Foundation are externally restricted. Accordingly, capital grants and donations are deferred and are recognized when the related expenses are recognized. During the year ended March 31, 2017, the Foundation authorized grants to the Hospital of \$10.4 million (2016 - \$2.2 million) substantially for capital projects and equipment. In addition, the Foundation authorized grants of \$308 thousand (2016 - \$224 thousand) toward Hospital operations and \$512 thousand was applied as a draw down on the \$7.5 million advance to the Hospital which is classified as restricted cash on the statement of financial position.

### 6. Southlake Residential Care Village

Southlake Residential Care Village runs a long-term care facility of 192 beds which the Hospital helps manage. The Village is a registered charity under the Income Tax Act and, as such, is exempt from income taxes.

The Hospital provided the Village with a long-term loan of \$4.5 million effective February 26, 2002 with interest payable monthly at prime minus 2.5%. \$475 thousand bears interest at the bank's prime rate plus 0.5% until the Village obtains permanent financing. In prior years, the Hospital fully provided for the loan receivable. Management has determined that the loan impairment is other than temporary as a result of the Village's continued inability to make re-payments since the inception of the loan and has also ceased interest income recognition.

In addition, to assist with the Village's capital financing arrangement, the Hospital has secured a revolving six month standby letter of credit in favour of its lender for \$500 thousand. All direct costs and financing fees related to the letter of credit are the responsibility of the Village.

# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

### 6. Southlake Residential Care Village (continued)

The Hospital entered into a 40-year Ground Lease Agreement with the Village, commencing August 1, 2003, to accommodate the construction of a new long-term care facility on the Hospital's property. The annual lease payment shall be no less than \$75 thousand which compensates the Hospital for parking revenue lost or rendered unusable as a result of the new facility. Pursuant to an agreement between the Village and its lender, the Hospital has agreed to defer rental payments on the land lease effective January 2005 until such time that the additional advance to the Village is repaid in full and the debt to service coverage ratio of the Village reached 1.20 to 1.

The Hospital also entered into a sublease with the Village, effective November 21, 2003 for 40 years for the first and fifth floors (approximately 35,500 sq. ft.) of the Village facility for hospital use. Annual lease payments are \$718 thousand per annum.

### 7. Investment in joint venture

In 2016, the Hospital obtained a 50% interest in Southlake ProResp Inc. (ProResp), a supplier of home oxygen and other respiratory care products. The Hospital's share of the net surplus in Southlake ProResp Inc. for the fiscal year of \$135 thousand (2016 - \$81 thousand) has been included in the statement of operations and changes in net assets.

### 8. Capital assets

Capital assets consist of the following:

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	7,215	-	7,215	7,215
Land improvements	4,401	3,555	846	948
Buildings	312,593	110,138	202,455	210,729
Leasehold improvements	12,040	4,884	7,156	7,686
Furniture and equipment	196,873	167,281	29,592	29,988
Projects in process	10,690	-	10,690	3,489
	<b>543,812</b>	<b>285,858</b>	<b>257,954</b>	<b>260,055</b>

Projects in process are Capital Projects which have been started and not completed (Note 13).

# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

### 9. Long-term debt

#### Summary

	2017	2016
	\$	\$
Redevelopment bank loan (a)	1,559	1,471
Parking garage bank loan (b)	1,703	1,620
Building bank loan (c)	154	147
Current portion	<b>3,416</b>	3,238
Redevelopment bank loan (a)	<b>13,649</b>	15,208
Parking garage bank loan (b)	<b>7,907</b>	9,609
Building bank loan (c)	<b>3,145</b>	3,300
Long-term portion	<b>24,701</b>	28,117

#### Principal repayments summary

	a)		b)	c)	Total
	Phase I	Redevelopment Phase II	Parking garage Bank loan	Building Bank loan	
	\$	\$	\$	\$	\$
2018 current portion	869	690	1,703	154	3,416
2019	928	724	1,790	162	3,604
2020	990	761	1,882	170	3,803
2021	1,056	799	1,978	179	4,012
2022	1,127	840	2,079	188	4,234
2023-2034	2,709	3,715	178	2,446	9,048
	<b>7,679</b>	<b>7,529</b>	<b>9,610</b>	<b>3,299</b>	<b>28,117</b>

#### a) Redevelopment bank loan

The Hospital has a non-revolving loan of \$7.7 million (2016 - \$8.5 million) for Phase I Redevelopment and has entered into a swap agreement related to this loan whereby the floating rate debt is swapped against the fixed rate debt with an interest rate of 6.52% and settled on a net basis. This agreement expires with the maturity of the loan on June 1, 2024.

The Hospital has a non-revolving loan of \$7.5 million (2016 - \$8.2 million) for Phase II Redevelopment and has entered into a swap agreement related to this loan whereby the floating rate debt is swapped against the fixed rate debt with the interest rate of 4.92% and settled on a net basis. This agreement expires with the maturity of the loan on March 2, 2026.

# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

---

### 9. Long-term debt (continued)

*Principal repayments summary (continued)*

#### b) Parking garage bank loan

The Hospital has a non-revolving reducing term loan for \$9.6 million (2016 - \$11.2 million) for the construction of the parking garage. Interest on the loan is at the bank's prime rate and repayments are to be made in equal monthly installments of principal plus interest, with the final installment due May 1, 2022.

The Hospital has entered into a swap agreement related to this loan whereby the floating rate debt (prime plus 25 basis points) is swapped against the fixed rate debt with an interest rate of 5.00% and settled on a net basis. This agreement expires with the maturity of the loan on May 1, 2022.

#### c) Building bank loan

The Hospital has a non-revolving or fixed rate term loan for \$3.3 million (2016 - \$3.4 million) for the acquisition of a building. Interest on the loan is at the bank's prime rate and repayments are to be made in equal monthly installments of principal plus interest, with the final installment due February 2, 2032.

The Hospital has entered into a swap agreement related to this loan whereby the floating rate debt (prime plus 25 basis points) is swapped against the fixed rate debt with an interest rate of 4.98% and settled on a net basis. This agreement expires with the maturity of the loan on February 2, 2032.

#### d) The Hospital enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

The Hospital has entered into interest rate swap contracts with banks in order to hedge its variability in future interest payments relating to its long-term debt. These swaps effectively lock-in the interest rate applicable on the long-term debt.

Notional amount represents the contract amounts to which interest rates are applied to calculate the cash flows to be exchanged. The notional amount of the Hospital's interest rate swaps as of March 31, 2017 is \$28.1 million (2016 - \$31.4 million).

Fair value of the interest rate swaps was calculated using the discounted cash flow method.

Fair value as of March 31, 2017 of these interest rate swaps is \$4.5 million (2016 - \$6.2 million) and is reflected as a liability on the statement of financial position.

### 10. Deferred grants and donations

Deferred grants and donations represent the unamortized balance of contributions received for the purchase of capital assets in the amount of \$176,150 thousand and emergency preparedness inventory of \$91 thousand.

# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

### 10. Deferred grants and donations (continued)

Changes in the deferred grants and donations balance are as follows:

	2017	2016
	\$	\$
Balance, beginning of year	175,917	182,438
Net contributions received during the year		
Southlake Regional Health Centre Foundation	10,392	2,169
Ontario Ministry of Health and Long-Term Care/Other	468	1,111
Cancer Care Ontario	649	3,505
	187,426	189,223
Amortization of deferred grants and donations	(11,185)	(13,306)
Balance, end of year	176,241	175,917

### 11. Pension and other post-retirement benefit plans

The Hospital is a member of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating member of the Ontario Hospital Association. Plan members will receive benefits based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement, termination or death that provide the highest earnings.

The Plan's assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing plan assets in trust and through the Plan investment policy.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with the 6.9% of salary contributed by employees (9.2% of salary above the years maximum pensionable earnings), required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employee's contributions. The employer currently contributes 126% of the employee's contribution.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to \$15.6 million (2016 - \$15.0 million) and are included in salaries, wages and employee benefits expense in the statement of operations and change in net assets.

The Hospital's non-pension post-retirement benefit plans are comprised of medical, dental and life insurance coverage for certain groups of full-time employees who have retired from the Hospital and are between the ages of 55 and 65. Spouses of eligible retirees are covered by the plans. The most recent actuarial valuation of post-retirement benefits was March 31, 2016 and was extrapolated forward to March 31, 2017.



# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

### 11. Pension and other post-retirement benefit plans (continued)

Information for the Hospital's non-pension post-retirement benefit plans, and reconciliation to the accrued benefit liability, is as follows:

#### *Post-retirement benefit liability*

	2017	2016
	\$	\$
Accrued benefit obligation, beginning of year	18,594	14,236
Current period benefit cost	1,318	1,012
Interest on accrued benefits	633	449
Benefit payments	(849)	(596)
Actuarial losses	(126)	3,493
Prior service costs	(145)	-
<b>Accrued benefit obligation, end of year</b>	<b>19,425</b>	<b>18,594</b>
Accrued post-retirement benefit obligation, end of year	19,425	18,594
Less: unamortized actuarial (losses)	(5,535)	(6,063)
	<b>13,890</b>	<b>12,531</b>

Included in the statement of operations and changes in net assets is an amount of \$2,208 (2016 - \$1,644) regarding employee future benefits. This amount is comprised of:

	2017	2016
	\$	\$
Total benefit cost recognized		
Current period benefit cost	1,318	1,012
Amortization of actuarial losses	402	183
Retirement benefit interest expense	633	449
Prior service costs	(145)	-
	<b>2,208</b>	<b>1,644</b>

Employer contributions for these plans were \$849 (2016 - \$596 thousand).

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

	2017	2016
	\$	\$
Discount rate to determine accrued post-retirement benefit obligation	3.25%	3.00%
Extended healthcare cost escalations, decreasing by .25% per annum to an ultimate rate of 4.5% per annum thereafter	6.25%	6.25%
Dental cost increases	3.00%	3.00%
Expected average remaining service life of employees	15.1	15.9

# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

### 12. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	2017	2016
	\$	\$
Vendor payables and accruals	42,575	25,412
Accrued liability - salaries/wages & vacation earned	31,120	28,015
Employee/employer remittances payable	5,823	6,207
Deferred operating revenue	4,933	13,538
Other	1,346	1,305
	<b>85,797</b>	<b>74,477</b>

### 13. Capital projects in progress

#### *Cardiac EP Expansion and CATH Labs Modernization Project*

This is a four phase project. Phases one, two and three are complete. Phase 4 is in the construction tender stage. Phases one and two were the relocation of the Heart Rhythm program and Cardiac Diagnostic clinics respectively. Phase three was the construction of three new Cardiac EP labs. These labs are occupied with some minor costs still being processed. The fourth and final phase is the modernization of the Cath Labs. The construction for Phase four has been tendered and, following Southlake Board of Director's approval, will be requesting Ministry of Health and Long Term Care approval to award the contract. \$26.5 million has been spent as of March 31, 2017 and an estimated \$5.3 million of costs are anticipated before completion.

### 14. Commitments

- The Hospital has entered into a 30-year lease for a Medical Arts Building for use in part by the Hospital, a family health team, physician offices and retail. The lease provides for delivery of the building on a "turn-key" basis and includes three five-year renewal options. On completion of each ten-year term, the rent will be adjusted by increments equal to the Consumer Price Index.
- The Hospital has entered into a sale leaseback agreement with landlord of the Medical Arts Building relating to the respective leasehold improvements. The lease commenced on the 21st day of December, 2010. The term of the lease is co-terminus with the lease in the Medical Arts Building.
- The Hospital is 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. In lieu of a cash equity contribution, the member hospitals have provided security to TD Bank Financial Group on behalf of COHPA up to a combined amount of \$6 million. The Hospital signed a letter of guarantee on February 4, 2009. The maximum liability for the Hospital in respect of this guarantee is \$1.9 million. Services to the Hospital commenced on April 1, 2009. During the year, the Hospital paid \$1.94 million (2016 - \$1.27 million) for membership fees.
- The Hospital entered into an initial agreement with Precise Parklink on February 1, 2006 for their management services including the installation and service of parking equipment. On December 1, 2013 a new contract was signed to continue the maintenance services to be received. The contract will expire on November 30, 2018.
- In partnership with Markham Stouffville Hospital and Stevenson Memorial Hospital, the Hospital entered into an agreement with Medical Information Technology Inc. for the delivery of a hospital information system. The contract was signed February 8, 2017. The Hospital incurred \$2,735,814 in related cost during the year.

# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

---

### 15. Contingent liabilities

- a) 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, 2017, 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.
- b) A group of healthcare institutions, including the Hospital, are members of the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the liability insurance risk of its members. All members pay annual deposit premiums which are actuarially determined and are subject to further assessment for losses, if any, experienced by the pool for the years in which they were members. As at March 31, 2017, no assessments have been received.

### 16. Guarantees

In the normal course of business, the Hospital has entered into agreements that meet the definition of a guarantee and may include indemnities in favor of third parties. The Hospital's primary guarantees are as follows:

- a) 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. The maximum amount of any potential future payment cannot be reasonably estimated.
- b) 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 which 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.

### 17. Financial instruments and risk management policy

The Hospital is exposed to various risks through its financial instruments. The following analysis provides a measure of the risks at the Hospital.

#### *Credit risk*

Credit risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and incur a financial loss. The Hospital is exposed to credit risk on its accounts receivable. For patient accounts receivable, the Hospital maintains an allowance for doubtful accounts, which reduces the receivable to its estimated realizable value. The receivable is adjusted on a monthly basis. The loan receivable from the village is reviewed regularly to determine if impairment exists and a provision is required. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

---

### 17. Financial instruments and risk management policy (continued)

#### *Currency risk*

Currency risk relates to the Hospital operating in different currencies and converting non-Canadian monies at different points in time when adverse changes in foreign currency rates occur. The Hospital does not have any material transactions of financial instruments denominated in foreign currencies. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

#### *Fair values*

The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximates their carrying values 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 into for each debt instrument that account for the change in market values related to fixed rates.

The fair value of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reported borrowing date. In situations in which there is no market for these guarantees and they were issued without explicit costs, it is not practicable to determine their fair value with sufficient reliability. Unless otherwise noted, it is management's opinion that the Hospital is not subject to significant interest or currency risk arising from these instruments

The fair values of the interest rate swaps are 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.

# Southlake Regional Health Centre

## Notes to the financial statements

March 31, 2017

(Tabular amounts in thousands of dollars)

### 17. Financial instruments and risk management policy (continued)

#### *Fair value hierarchy (continued)*

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

				2017
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Derivative liabilities	-	4,510	-	4,510

				2016
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Derivative liabilities	-	6,247	-	6,247

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

For fair value measurements in Level 2 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing changes during the period has been provided in the table below:

	\$
Derivative liabilities	
Balance, beginning of year	6,247
Changes during the period	
Gain for the period recognized in the statement of remeasurement gains and losses	(1,737)
Balance, end of year	4,510

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Hospital is exposed to interest rate risk on its long-term debt and bank indebtedness. For its long term debt, the Hospital has entered into interest rate swap agreements in order to manage the impact of fluctuating interest rates. The Hospital's policy is not to utilize derivative instruments for trading or speculative purposes. Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the long term debt.

As at March 31, 2017 the bank indebtedness was \$Nil (2016 - \$Nil) and is monitored on a daily basis.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

### 18. Related party transactions

The related parties and the nature of their transactions are identified in (Note 5) Southlake Regional Health Centre Foundation, (Note 6) Southlake Residential Care Village and (Note 14) Commitments. All the transactions were monetary in nature and recorded at the exchange value.