
Financial statements of
Southlake Regional Health Centre

March 31, 2018

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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, 2018, 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, 2018 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.



Chartered Professional Accountants
Licensed Public Accountants
June 14, 2018

Southlake Regional Health Centre

Statement of operations and changes in net assets

Year ended March 31, 2018

(In thousands of dollars)

	2018	2017
	\$	\$
Revenue		
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	317,297	301,550
Cancer Care Ontario	27,955	25,532
Preferred accommodation and other	24,239	24,054
Patient care	23,795	23,021
Specified programs	4,302	4,225
Amortization of deferred equipment grants and donations	5,308	5,207
Gain on disposal of capital assets	112	1,349
	403,008	384,938
Expenses		
Salaries, wages and employee benefits	271,738	253,213
Supplies and other	54,615	54,415
Medical and surgical supplies	42,086	38,453
Drugs	17,539	14,777
Specified programs	4,319	4,278
Amortization of furniture and equipment	7,889	8,313
	398,186	373,449
Excess of revenue over expenses		
per Hospital Service Accountability Agreement	4,822	11,489
Amortization of deferred building grants and donations	6,412	5,978
Amortization of buildings and land improvements	(9,439)	(9,454)
Interest expense	(1,499)	(1,686)
Excess of revenue over expenses	296	6,327
Net assets, beginning of year	21,921	15,594
Net assets, end of year	22,217	21,921

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, 2018

(In thousands of dollars)

	2018	2017
	\$	\$
Accumulated re-measurement losses at beginning of year	(4,510)	(6,247)
Unrealized gains attributable to derivatives - interest rate swap	1,788	1,737
Unrealized losses attributable to foreign exchange	(90)	—
Accumulated re-measurement losses at end of year	(2,812)	(4,510)

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, 2018

(In thousands of dollars)

	Notes	2018	2017
		\$	\$
Assets			
Current assets			
Cash		12,743	32,114
Accounts receivable	4	21,561	23,131
Inventories		2,570	2,264
Prepaid expenses		5,057	3,645
		41,931	61,154
Restricted cash	5	3,693	6,642
Investment in joint venture	7	321	216
Capital assets	8	285,631	257,954
		331,576	325,966
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	92,819	85,797
Current portion of long-term debt	9	3,604	3,416
		96,423	89,213
Long-term liabilities			
Deferred capital grants and donations	10	176,601	176,241
Long-term debt	9	21,097	24,701
Derivative liabilities	9(d)	2,722	4,510
Accrued post-retirement benefits	11	15,328	13,890
		312,171	308,555
Contingent liabilities	15		
Net assets			
Accumulated re-measurement losses		(2,812)	(4,510)
		19,405	17,411
		331,576	325,966

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, 2018

(In thousands of dollars)

	Notes	2018	2017
		\$	\$
Operating activities			
Excess of revenue over expenses for the year		296	6,327
Add (deduct) items not affecting cash			
Amortization of capital assets		17,328	17,767
Amortization of deferred capital grants and donations		(11,720)	(11,185)
Post-retirement benefits		2,405	2,208
Gain on disposal of capital assets		(112)	(1,349)
Unrealized currency translation losses		(90)	—
		8,107	13,768
Net change in non-cash working capital balances related to operations			
Accounts receivable		1,570	(594)
Inventories		(306)	96
Prepaid expenses		(1,412)	455
Accounts payable and accrued liabilities		8,608	8,365
		16,567	22,090
Investing activity			
Investment in Joint Venture		(105)	(135)
Capital activities			
Net capital contributions received from			
Southlake Regional Health Centre Foundation		9,589	10,392
Ontario Ministry of Health and Long-Term Care/Other		1,373	468
Cancer Care Ontario		1,118	649
Purchase of capital assets, net of accounts payable and accrued liabilities related to capital (2018 - \$1,586 million; 2017 - \$2.955 million)		(46,593)	(12,861)
Restricted cash used (received) for capital	5	2,949	(1,988)
Proceeds from sale of capital assets		114	1,499
		(31,450)	(1,841)
Financing activities			
Current portion of long-term debt		188	178
Repayments of long-term debt		(3,604)	(3,416)
Post-retirement payments	11	(967)	(849)
		(4,383)	(4,087)
Net (decrease) increase in cash during the year		(19,371)	16,027
Cash, beginning of year		32,114	16,087
Cash, end of year		12,743	32,114
Other information			
Total interest paid		1,499	1,686

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, 2018

(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:

<u>Financial instrument</u>	<u>Classification</u>
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 accumulated re-measurement losses 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.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2018

(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

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.

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.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2018

(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

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 Healthcare 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 2017 indicates the plan is fully funded.

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 15.9 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.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2018

(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

Use of estimates (continued)

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 2017/18. 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. As at March 31, 2018, there was \$Nil (2017 - \$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, 2018, there were \$Nil amounts (2017 - \$Nil) applied against these letters of credit.

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, 2018 the authorized amount was reduced to \$2.4 million. As at March 31, 2018, there was \$Nil (2017 - \$Nil) in borrowings under this credit facility. The stand-by fee of 35 basis points was waived this year.

The Hospital has secured a Credit Facility in the amount of \$40 million, referred to as the HIS Project Development Loan to assist with infrastructure investments, installation and implementation of the new Hospital Information System ("HIS"). This is a Demand Non Revolving Loan available for a period of nine months following the initial advance. Floating Rate Canadian dollars are advanced by way of Bankers Acceptances in minimum drawdowns with terms of 30 to 90 days, for a maximum of 10 draws. The Arrangement Fee on the Face Value of the HIS Project Take-Out Loan is 10 basis points. As at March 31, 2018 there was \$Nil (2017 - \$Nil) in borrowings under this Credit Facility.

The Hospital secured a Credit Facility in the amount of \$40 million, referred to as the HIS Project Take-Out Loan to repay the HIS Project Development Loan and provide long-term financing for the HIS Project. This Facility is a Committed Non Revolving Loan and will be advanced in one lump sum. Amortization is up to 12 years with blended payments of Principal plus Interest. As at March 31, 2018 there was \$Nil (2017 - \$Nil) in borrowings under this Credit Facility.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2018

(Tabular amounts in thousands of dollars)

4. Accounts receivable

Accounts receivable consist of the following:

	2018	2017
	\$	\$
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	2,649	1,591
Cancer Care Ontario	2,096	301
OHIP	2,053	2,298
Vendor rebates	5,686	12,699
Foundation	2,185	-
Insurers, patients and other	7,463	6,795
	22,132	23,684
Less: allowance for doubtful accounts	571	553
	21,561	23,131

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, 2018, the Foundation authorized grants to the Hospital of \$8 million (2017 - \$10.4 million) substantially for capital projects and equipment. In addition, the Foundation authorized grants of \$212 thousand (2017 - \$308 thousand) toward Hospital operations and \$3.6 million was applied as a draw down on the \$8.2 million advance. An additional \$700 thousand was advanced to the Hospital in 2018 and 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 2017/18 \$150 thousand was paid toward the long-term loan.

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, 2018

(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 \$105 thousand (2017 - \$135 thousand) has been included in the statement of operations and changes in net assets.

8. Capital assets

Capital assets consist of the following:

	2018			2017
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	7,215	-	7,215	7,215
Land improvements	4,412	3,738	674	846
Buildings	323,063	118,869	204,194	202,455
Leasehold improvements	12,068	5,414	6,654	7,156
Furniture and equipment	201,256	170,995	30,261	29,592
Projects in process	36,633	-	36,633	10,690
	584,647	299,016	285,631	257,954

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, 2018

(Tabular amounts in thousands of dollars)

9. Long-term debt

Summary

	2018	2017
	\$	\$
Redevelopment bank loan (a)	1,652	1,559
Parking garage bank loan (b)	1,790	1,703
Building bank loan (c)	162	154
Current portion	3,604	3,416
Redevelopment bank loan (a)	11,997	13,649
Parking garage bank loan (b)	6,117	7,907
Building bank loan (c)	2,983	3,145
Long-term portion	21,097	24,701

Principal repayments summary

	a)		b)	c)	
	Phase I	Redevelopment Phase II	Parking garage Bank loan	Building Bank loan	Total
	\$	\$	\$	\$	\$
2019 current portion	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	1,203	882	178	198	2,461
2024-2032	1,506	2,833	-	2,248	6,587
	6,810	6,839	7,907	3,145	24,701

a) Redevelopment bank loan

The Hospital has a non-revolving loan of \$6.8 million (2017 - \$7.7 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 \$6.8 million (2017 - \$7.5 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, 2018

(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 \$7.9 million (2017 - \$9.6 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 \$3.1 million (2017 - \$3.3 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, 2018 is \$24.7 million (2017 - \$28.1 million).

Fair value of the interest rate swaps was calculated using the discounted cash flow method. Fair value as of March 31, 2018 of these interest rate swaps is \$2.7 million (2017 - \$4.5 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 \$176.5 million (2017 - \$176.2 million) and emergency preparedness inventory of \$0.09 million (2017 - \$0.09 million).

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2018

(Tabular amounts in thousands of dollars)

10. Deferred grants and donations (continued)

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

	2018	2017
	\$	\$
Balance, beginning of year	176,241	175,917
Net contributions received during the year		
Southlake Regional Health Centre Foundation	9,589	10,392
Ontario Ministry of Health and Long-Term Care/Other	1,373	468
Cancer Care Ontario	1,118	649
	188,321	187,426
Amortization of deferred grants and donations	(11,720)	(11,185)
Balance, end of year	176,601	176,241

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 \$16.3 million (2017 - \$15.6 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, 2018.

Southlake Regional Health Centre**Notes to the financial statements**

March 31, 2018

(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

	2018	2017
	\$	\$
Accrued benefit obligation, beginning of year	19,425	18,594
Current period benefit cost	1,341	1,318
Interest on accrued benefits	669	633
Benefit payments	(967)	(849)
Actuarial gains/(losses)	262	(126)
Prior service costs	—	(145)
Accrued benefit obligation, end of year	20,730	19,425
Accrued post-retirement benefit obligation, end of year	20,730	19,425
Less: unamortized actuarial (losses)	(5,402)	(5,535)
	15,328	13,890

Included in the statement of operations and changes in net assets is an amount of \$2,405 (2017 - \$2,208) regarding employee future benefits. This amount is comprised of:

	2018	2017
	\$	\$
Total benefit cost recognized		
Current period benefit cost	1,341	1,318
Amortization of actuarial losses	395	402
Retirement benefit interest expense	669	633
Prior service costs	—	(145)
	2,405	2,208

Employer contributions for these plans were \$967 thousand (2017 - \$849 thousand).

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

	2018	2017
	\$	\$
Discount rate to determine accrued post-retirement benefit obligation	3.30%	3.25%
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	15.9	15.1

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2018

(Tabular amounts in thousands of dollars)

12. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	2018	2017
	\$	\$
Vendor payables and accruals	38,519	42,575
Accrued liability - salaries/wages & vacation earned	41,196	31,120
Employee/employer remittances payable	6,134	5,823
Deferred operating revenue	5,752	4,933
Other	1,218	1,346
	92,819	85,797

13. Capital project in progress

Health Information System (HIS) Replacement Project

The project encompasses the replacement of the various major software applications and associated technology infrastructure by January 2019. The total project cost is estimated to be \$43.2 million. The total cost incurred as at March 31, 2018 is \$27.8 million (2017 - \$3.1 million).

14. Commitments

- a) 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.
- b) 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.
- 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 COHPA, dated February 4, 2009 has been discharged.

Southlake Regional Health Centre

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March 31, 2018

(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, 2018, 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, 2018, 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.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2018

(Tabular amounts in thousands of dollars)

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.

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.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2018

(Tabular amounts in thousands of dollars)

17. Financial instruments and risk management policy (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:

- 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 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:

				2018
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Derivative liabilities	-	2,722	-	2,722

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

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

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2018

(Tabular amounts in thousands of dollars)

17. Financial instruments and risk management policy (continued)

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	4,510
Changes during the period	
Gain for the period recognized in the statement of remeasurement gains and losses	<u>(1,788)</u>
Balance, end of year	<u>2,722</u>

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, 2018 the bank indebtedness was \$Nil (2017 - \$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.