

Financial statements of

Toronto East General Hospital

March 31, 2015

Toronto East General Hospital

March 31, 2015

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Independent Auditor's Report

To the Board of Directors
Toronto East General Hospital

We have audited the accompanying financial statements of Toronto East General Hospital, which comprise the statement of financial position as at March 31, 2015, the statements of revenue and expenses, changes in net assets, cash flows, and remeasurement gains and losses 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 the 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 Toronto East General Hospital as at March 31, 2015, the results of its operations and its cash flows, and its remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
May 20, 2015

Toronto East General Hospital


Statement of financial position


as at March 31, 2015

(in thousands of dollars)

	2015	2014
	\$	\$
Assets		
Current		
Cash and short-term investments (Note 3)	27,028	24,596
Accounts receivable (Note 4)		
Ministry of Health and Long-Term Care ("MOHLTC")/		
Toronto Central Local Health Integration Network ("LHIN")	1,371	1,017
Toronto East General Hospital Foundation	336	391
Patients	850	1,648
Government agencies	1,964	2,241
Miscellaneous	2,635	945
Supplies	977	1,175
Prepaid expenses and deposits	2,643	2,357
	37,804	34,370
Restricted cash (Note 14)	1,379	-
Long-term investment (Note 5)	124	124
Capital assets (Note 6)	179,186	165,539
Total assets	218,493	200,033
Liabilities		
Current		
Due to MOHLTC/LHIN	1,232	1,363
Accounts payable and accrued liabilities	29,526	27,322
Current portion of long-term debt (Note 8)	782	1,557
Current portion of capital lease obligation (Note 8)	592	176
Deferred revenue - MOHLTC/LHIN	1,706	1,699
Research funds	1,749	1,037
	35,587	33,154
Long-term debt (Note 7)	7,700	8,482
Long-term capital lease obligations (Note 8)	2,384	660
Derivative liability (Note 10)	365	221
Deferred capital grants and donations (Note 9)	77,950	65,136
Obligations for employee future benefits (Note 11)	7,105	6,685
Legal defence fund (Note 14)	999	-
	132,090	114,338
Net assets		
Invested in capital assets	82,189	85,050
Internally restricted	20,000	20,000
Unrestricted	(15,421)	(19,134)
	86,768	85,916
Accumulated remeasurement losses	(365)	(221)
	86,403	85,695
	218,493	200,033

Approved by the Board

 Director

 Director

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

Toronto East General Hospital

Statement of revenue and expenses

year ended March 31, 2015

(in thousands of dollars)

	2015	2014
	\$	\$
Revenue		
MOHLTC/LHIN	211,246	210,613
Patient income	17,956	18,008
Other income	13,692	12,410
Other vote programs (Note 12)	6,410	5,883
Amortization of deferred contributions - equipment and building	5,327	5,994
Interest income	285	221
	254,916	253,129
Expenses		
Salaries and wages	126,701	125,746
Employee benefits	29,690	29,550
Medical remuneration and reimbursement	18,014	18,427
Medical and surgical supplies	12,654	12,042
Drugs and medicines	8,652	8,073
Other supplies and expenses	38,555	38,866
Equipment and building amortization	13,372	13,002
Other votes programs (Note 12)	6,426	5,840
	254,064	251,546
Excess of revenue over expenses	852	1,583

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

Toronto East General Hospital
Statement of remeasurement gains and losses
year ended March 31, 2015
(in thousands of dollars)

	2015	2014
	\$	\$
Accumulated remeasurement losses at beginning of year	(221)	(97)
Unrealized losses attributable to derivatives (Note 10)	(144)	(124)
Accumulated remeasurement losses at end of year	(365)	(221)

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

Toronto East General Hospital

Statement of changes in net assets

year ended March 31, 2015

(in thousands of dollars)

	2015			2014	
	Invested in capital assets	Unrestricted	Internally restricted	Total	Total
	\$	\$	\$	\$	\$
Balance, beginning of year	85,050	(19,134)	20,000	85,916	84,333
Excess (deficiency) of revenue over expenses	(8,045)	8,897	-	852	1,583
Repayment of long-term debt (net)	1,557	(1,557)	-	-	-
Repayment of capital leases	400	(400)	-	-	-
Additions to capital assets (net of change in accounts payable relating to capital asset additions and issuance of capital leases of \$5,651; (2014 - \$2,077)	21,368	(21,368)	-	-	-
Capital grants received (Note 9)	(18,141)	18,141	-	-	-
Balance, end of year	82,189	(15,421)	20,000	86,768	85,916

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

Toronto East General Hospital

Statement of cash flows

year ended March 31, 2015

(in thousands of dollars)

	2015	2014
	\$	\$
Operating activities		
Excess of revenue over expenses	852	1,583
Items not affecting cash and cash equivalents		
Amortization of capital assets	13,372	13,002
Amortization of deferred grants	(5,327)	(5,994)
Legal defence fund obligation (Note 14)	999	-
Employee future benefits expense	838	828
	10,734	9,419
Change in non-cash operating items		
Accounts receivable	(914)	795
Supplies	198	218
Prepaid expenses and deposits	(286)	18
Due to MOHLTC/LHIN	(131)	1,116
Accounts payable and other accrued liabilities	(907)	(2,601)
Research Funds	712	291
Deferred revenue - MOHLTC/LHIN	7	(446)
Employee future benefits paid	(418)	(418)
	8,995	8,392
Capital activity		
Additions to capital assets (net of change in accounts payable relating to capital asset additions and issuance of capital leases of \$5,651 (2014 - \$2,077))	(21,368)	(11,278)
Investing activity		
Net contribution to legal defence fund (Note 14)	(1,379)	-
Financing activities		
Capital grants (Note 10)		
Toronto East General Hospital Foundation	5,000	5,977
MOHLTC	13,141	730
Repayment of capital lease obligation	(400)	-
Repayment of long-term debt	(1,557)	(1,491)
	16,184	5,216
Increase in cash and short-term investments	2,432	2,330
Cash, beginning of year	24,596	22,266
Cash, end of year	27,028	24,596
Supplemental cash flow information		
Interest paid (Note 7)	339	328
Capital assets acquired by way of capital lease (Note 8)	2,534	836

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

Toronto East General Hospital

Notes to the financial statements

March 31, 2015

(In thousands of dollars)

1. Purpose

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

As provided under the Local Health System Integration Act 2006, effective April 1, 2007, the Ministry of Health and Long Term Care ("MOHLTC") assigned to the Toronto Central Local Health Integration Network ("LHIN"), all its rights, duties and obligations. This agreement is aligned with the MOHLTC's transformation agenda and will enable the LHIN to take on full responsibility for planning, funding and integrating health services in the LHIN area, which includes the Hospital.

2. Significant accounting policies

Financial statement presentation

Management has prepared these financial statements in accordance with Canadian Public Sector Accounting Standards ("PSAS") for government not-for-profit organizations, using the deferral method of reporting restricted contributions. The financial statements do not include the assets, liabilities or operations of Toronto East General Hospital Foundation (the "Foundation"). The Hospital has an economic interest in the net assets of the Foundation. Revenues generated by the Foundation may be donated to the Hospital upon approval of their respective boards.

Description of funds

Invested in capital assets fund represents the net book value of the Hospital's capital assets, less any related debt and unamortized capital grants.

Internally restricted funds represent funds for the Hospital's portion of the redevelopment project, which pertains to the multi-year project approved by MOHLTC. Unrestricted funds represent the excess of revenue over expenses (expenses over revenue) accumulated from the ongoing operations of the Hospital since its inception.

Revenue recognition

Under the Health Insurance Act and Regulations thereto, the Hospital is primarily funded by the Province of Ontario in accordance with budget arrangements established by the MOHLTC through the LHIN. Operating funding is recorded as revenue in the year to which it relates. These financial statements reflect funding arrangements with the MOHLTC/LHIN for the 2015 fiscal year. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Revenue for preferred accommodation and marketed services is recognized when the service is provided or the goods are sold.

The extent to which the MOHLTC/LHIN funding has been received, with the stipulated requirement that the Hospital provide specific services, and these services have not yet been provided, the funding is deferred until such time as the services are performed and the monies spent. In the event that the services are not performed in accordance with the funding requirements, the funds received in excess of monies spent could be recovered by the MOHLTC or LHIN.

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

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

Income from patients and other sources is recognized when earned.

Toronto East General Hospital

Notes to the financial statements

March 31, 2015

(In thousands of dollars)

2. Significant accounting policies (continued)

Physicians receive payments on a fee for service basis from the Ontario Health Insurance Plan ("OHIP"). This is a direct relationship between OHIP and physicians and the Hospital is generally not involved in this arrangement. In addition, the MOHLTC provides special funds for physicians through the Hospital such as Hospital On Call Coverage ("HOCC") and these are flow-through funds and the Hospital only acts as a paymaster. The Hospital provides stipends to some physicians who take administrative roles in the Hospital and these payments are made out of the Hospital global budget.

Financial instruments

The carrying value of all financial instruments reported on the Statement of Financial Position of the Hospital are as follows:

Cash and short-term investments	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Due to MOHLTC/LHIN	Amortized cost
Long-term debt	Amortized cost
Derivable liability	Fair value

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

Interest expense

Interest on long-term debt is recorded using the effective interest rate method. Interest on debt related to construction-in-process is capitalized during the period from the date construction commences until the asset is operational.

Supplies

Supplies which represent Hospital medical, surgical and other supplies are valued at the lower of average cost or net.

Capital assets

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

Building	40 to 50 years
Building renovations	20 to 40 years
Leasehold improvements	Over the term of the lease
Electronic patient records	10 to 20 years
Equipment	3 to 15 years or estimated life
Equipment under capital lease	Shorter of the lease term and estimated life

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

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

Toronto East General Hospital

Notes to the financial statements

March 31, 2015

(In thousands of dollars)

2. Significant accounting policies (continued)

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 LHIN beginning for the year ended March 31, 2008 and for subsequent years. The accountability agreements set out certain performance standards and obligations that establish acceptable results for the Hospital's performance in a number of areas. If the Hospital does not meet its performance standards or obligations, the LHIN has the right to adjust funding received by the Hospital. The LHIN is not required to communicate funding adjustments until after submission of year end data. Since this data is not submitted until after the completion of financial statements, the amount of the 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 estimate of amounts that have been earned during the year.

Employee future benefits

Employees of the Hospital are eligible to be members of the Hospitals of Ontario Pension Plan, which is a multi-employer final average pay contributory pension plan, and are entitled to certain post-employment benefits.

The cost of post-employment benefits is actuarially determined using the projected benefit method prorated on service, retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation was determined based on the Ontario provincial yield curve and a spread. The spread is equal to 50% of the yield spread between Ontario provincial and AA corporate bonds. The actuarial gains and losses are amortized over the average remaining service period of active employees. Past service costs are expensed when incurred.

Contributed services

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

3. Cash and short-term investments

	2015	2014
	\$	\$
Cash	17,279	9,559
Short-term investments	8,000	14,000
Restricted funds - research payments	1,749	1,037
	27,028	24,596

The Hospital has negotiated an operating credit facility (the "Facility") with a single Canadian financial institution to finance working capital. The amount available under the Facility is \$4,000 (2014 - \$4,000) by way of prime-base loans at prime less 0.25%. During the year, the Hospital had drawn a total of \$Nil, (2014 - \$Nil) upon the Facility.

Toronto East General Hospital

Notes to the financial statements

March 31, 2015

(In thousands of dollars)

4. Accounts receivable

	2015	2014
	\$	\$
Ministry of Health and Long-Term Care ("MOHLTC")/ Toronto Central Local Health Integration Network ("LHIN")	1,371	1,017
Toronto East General Hospital Foundation	336	391
Patients	1,754	2,202
Government agencies	1,964	2,241
Miscellaneous	2,635	945
	8,060	6,796
Provision for uncollectible accounts	(904)	(554)
	7,156	6,242

5. Long-term investments

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

6. Capital assets

	2015		2014	
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land and land improvements	202	-	202	202
Buildings and building renovations	181,013	(76,572)	104,441	96,633
Leasehold improvements	4,354	(3,068)	1,286	1,369
Equipment	154,153	(123,008)	31,145	28,385
Equipment under capital leases	3,237	(1,791)	1,446	836
Electronic patient records	27,103	(11,304)	15,799	16,268
Construction in progress	24,867	-	24,867	21,846
	394,929	(215,743)	179,186	165,539

Toronto East General Hospital

Notes to the financial statements

March 31, 2015

(In thousands of dollars)

7. Long-term debt

Bank

	2015	2014
	\$	\$
Bank loan, bears interest at a rate of Royal Bank Prime less 0.65% with monthly payments of principal and interest until May 2032	8,028	8,390
Bank loan with a fixed interest rate of 4.9% compounded monthly due July 1, 2015 with blended monthly payments of \$104	411	1,606
Security deposit, non-interest bearing due upon termination of lease	43	43
	8,482	10,039
Less: current portion	(782)	(1,557)
Long term portion	7,700	8,482

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

	\$
2016	782
2017	382
2018	393
2019	403
2020 and thereafter	6,522
	8,482

Interest recorded in the statement of revenue and expenses related to the long-term debt is \$339 (2014 - \$328) and the amount of interest recorded as construction-in-progress is \$Nil (2014 - \$Nil).

8. Capital lease obligations

Principal payments required under capital leases in the next five years are as follows:

	2015	2014
	\$	\$
Equipment loans secured by certain equipment with interest rates of -1.60% to 2.35% due at various times up to May 2022 with blended monthly payments of \$53	2,976	836
Less: current portion	(592)	(176)
Long term portion	2,384	660

Toronto East General Hospital

Notes to the financial statements

March 31, 2015

(In thousands of dollars)

8. Capital lease obligations (continued)

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

	\$
2016	592
2017	601
2018	609
2019	584
2020 and thereafter	590
	<u>2,976</u>

9. Deferred capital grants and donations

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

	2015	2014
	\$	\$
Deferred capital grants and donations, beginning of year	65,136	64,423
Contributions received during the year		
Ministry of Health and Long-Term Care	13,141	730
Toronto East General Hospital Foundation	5,000	5,977
	<u>18,141</u>	<u>6,707</u>
Amortization for the year	(5,327)	(5,994)
Deferred capital grants and donations, end of year	<u>77,950</u>	<u>65,136</u>

Included in deferred capital grants and donations is an amount of \$30,776 (2014 - \$16,847) which has not been amortized since either the related capital assets were included in construction in progress, were not operational or have not yet been purchased.

10. Derivative liability

In connection with the financing obtained for the purpose of the facility at 840 Coxwell Ave, the Hospital entered into an interest rate swap agreement to modify the floating rate of interest on the loan from Royal Bank Prime rate less 0.65%, to a fixed rate of 2.54%. The start date of this interest rate swap was June 15, 2012 and has a maturity date of June 15, 2032. The notional value of the derivative financial instrument is \$9,000. The fair value of the interest rate swap at March 31, 2015 is \$365 (liability), (2014 - \$221 (liability)).

11. Employee future benefits

Pension plan

Employees of the Hospital are eligible to be members of the Hospitals of Ontario Pension Plan, which is a multi-employer final average pay contributory defined benefit pension plan. Contributions made to the plan during the year by the Hospital amounted to \$10,484 (2014 - \$10,342). These amounts are included in the employee benefits expense in the statement of revenue and expenses. Should there be a contribution deficiency in the plan; the Hospital may be required to make additional contributions to cover these deficiencies.

Toronto East General Hospital

Notes to the financial statements

March 31, 2015

(In thousands of dollars)

11. Employee future benefits (continued)

Other post-employee benefits

Employees of the Hospital are entitled to certain post-employee benefits. The Hospital accounts for employee future benefits using accrual accounting for post-employment benefits. This method uses current market rates to estimate the present value of the post-retirement liabilities, based on actuarial valuations. The most recent actuarial valuation of the Hospital was in March 2015.

Information about the Hospital's employee future benefits is as follows:

	2015	2014
	\$	\$
Change in benefit obligation		
Accrued benefit obligation, beginning of year	7,311	7,189
Current service cost	486	485
Interest cost	304	280
Benefits paid	(418)	(418)
Actuarial experience (gains) losses	2,968	(225)
Accrued benefit obligation, end of year	10,651	7,311
Accrued benefit obligation, end of year	10,651	7,311
Unamortized actuarial experience losses	(3,546)	(626)
Accrued benefit liability, end of year	7,105	6,685
Plan expense		
Current service cost	486	485
Interest cost	304	280
Amortization of actuarial experience losses	48	63
Net benefit expense during the year	838	828
Significant assumptions on obligations		
Discount rate (%)	3.00	4.00
Average remaining service period of active employees to retirement who are expected to receive benefits under the benefit plan (years)	15	15
Dental cost increase	3.75% per annum in fiscal 2015-2016, 4% per annum from fiscal 2016 and thereafter	4% per annum in fiscal 2014-2015, 4% per annum from fiscal 2015 and thereafter
Extended health care	6.5% per annum in fiscal 2016, decreasing by 0.25% per annum to an ultimate rate of 4.75% per annum	7.25% per annum in fiscal 2015, decreasing by 0.25% per annum to an ultimate rate of 5.0% in 2024 and thereafter

Toronto East General Hospital

Notes to the financial statements

March 31, 2015

(In thousands of dollars)

12. Other votes programs

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

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

13. Related entities

The Hospital is related to the Volunteer Services of the Toronto East General Hospital ("Volunteer Services") and the Toronto East General Hospital Foundation ("Foundation").

Volunteer Services supports the volunteer programs directed by the Volunteer Services Department of the Hospital and raises funds for the support of the Hospital. The Foundation raises funds to support projects of the Hospital.

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

Deferred contributions received from the Foundation in the year are disclosed in Note 9. At March 31, 2015, the Foundation owed the Hospital \$336 (2014 - \$391) for operating costs paid on its behalf. This amount will be reimbursed by the Foundation subsequent to fiscal year end.

The Hospital is a member of Plexxus, a not for profit shared services organization whose mandate is to provide supply chain services, financial, human resources and payroll services to member organizations. The objectives of Plexxus are to improve and maximize non-clinical efficiencies, resulting in savings that will be reinvested in direct patient care. During the year, the Hospital has paid \$1,751 (2014 - \$1,916) and accrued \$Nil (2014 - \$Nil) for a total of \$1,751 (2014 - \$1,916).

The Hospital is a member of Booth Centennial, a not for profit shared services organization whose mandate is to provide laundry services to member organizations. In fiscal 2015, the amount paid to Booth Centennial \$1,825 (2014 - \$1,839).

The Hospital has an equity investment in Shared Hospital Laboratory Inc., and paid \$845 (2014 - \$891) to the organization in connection with laboratory services.

14. Contingencies, commitments and guarantees

- A. The Hospital is a member of the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of liability insurance risks of its members. All members of the pool pay annual premiums, which are actuarially determined. All members are subject to reassessment for losses, if any, experienced by the pool for the years in which they are members. No negative reassessments have been made to March 31, 2015.

Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income, less the obligation for claims reserves and expenses and operating expenses. Each subscriber who has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors at HIROC. There are no distributions receivables from HIROC as at March 31, 2015.

In 2014, the Hospital entered into an agreement with HIROC whereby HIROC continues to provide indemnity insurance to the Hospital; however, the cost of investigating and defending any claims, previously included in the insurance premium, will be borne by the Hospital. Under the agreement, the Hospital transfers funds to HIROC Management Limited ("HML"), which acts as an agent to pay legal expenses on behalf of the Hospital. For the year ended March 31, 2015, the Hospital has cash restricted for these purposes of \$1,379 and has estimated the liability of defence costs associated with claims arising subsequent to the start of the agreement as \$999.

Toronto East General Hospital

Notes to the financial statements

March 31, 2015

(In thousands of dollars)

14. Contingencies, commitments and guarantees (continued)

- B. Minimum annual operating lease payments for leases which expire at various dates up to March 31, 2018 are as follows:

	\$
2016	161
2017	133
2018	50
	<u>344</u>

- C. In the normal course of business, the Hospital enters into agreements that meet the definition of a guarantee. The Hospital's primary guarantees are as follows:

- a) 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.
- 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 that stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Hospital has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the statement of financial position with respect to these agreements. As well, the current inventory of contracts and agreements does not indicate any exposure to liability.

- D. 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, 2015, 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.

15. Financial instruments and risk management

Establishing fair value

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

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,

Toronto East General Hospital

Notes to the financial statements

March 31, 2015

(In thousands of dollars)

15. Financial instruments and risk management (continued)

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The only financial instrument that is remeasured to fair value on a regular basis is the interest rate swap (see Note 10). The valuation of the swap is considered a Level 2 fair value measurement.

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

Credit risk

The Hospital's principal financial assets are cash and accounts receivable, which are subject to credit risk. The carrying amounts of financial assets on the balance sheet represent the Hospital's maximum credit exposure at the balance sheet date.

The Hospital's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the balance sheet are net of allowance of doubtful accounts, estimated by the management of the Hospital based on previous experience and its assessment of the current economic environment. The credit risk on cash is limited because the counterparty is a chartered bank with a high credit rating assigned by national credit-rating agencies.

Interest rate risk

The Hospital has debt with floating and fixed rates. The interest rate risk on long-term debt with floating rates is mitigated through interest rate swap contracts (Note 10).