Financial statements of

Toronto East Health Network

(Formerly Toronto East General Hospital)

March 31, 2017

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(Formerly Toronto East General Hospital)
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Table of contents

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Independent Auditor's Report

To the Board of Directors
Toronto East Health Network

We have audited the accompanying financial statements of Toronto East Health Network, which comprise the statement of financial position as at March 31, 2017, the statements of revenue and expenses, remeasurement gains and losses, changes in net assets, 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 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 Health Network as at March 31, 2017, the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
May 23, 2017

Toronto East Health Network

(Formerly Toronto East General Hospital)
Statement of financial position
as at March 31, 2017
(In thousands of dollars)

	2017	2016 (Note 17)
	$	$
Assets		
Current		
Cash and short-term investments (Note 3)	**21,725**	16,805
Accounts receivable		
Patients, Government Agencies and Toronto Central Local Health Integration Network ("TCLHIN") (net of allowance of $391 (2016 - $278))	**5,333**	5,820
Toronto East Health Network Foundation	**269**	421
Inventory	**775**	940
Prepaid expenses and deposits	**2,780**	2,230
	30,882	26,216
Restricted cash (Note 13)	**2,934**	2,154
Long-term investment (Note 4)	**124**	124
Capital assets (Note 5)	**194,394**	191,401
Total assets	**228,334**	219,895
Liabilities		
Current		
Due to MOHLTC/TCLHIN	**262**	413
Accounts payable and accrued liabilities	**33,467**	33,423
Current portion of long-term debt (Note 6)	**392**	382
Current portion of capital lease obligations (Note 7)	**1,321**	771
Deferred revenue - MOHLTC/LHIN	**3,766**	1,573
Research funds	**1,393**	1,290
	40,601	37,852
Long-term debt (Note 6)	**6,926**	7,318
Long-term capital lease obligations (Note 7)	**3,054**	2,418
Derivative liability (Note 8)	**373**	655
Deferred capital grants and donations (Note 9)	**83,126**	81,221
Employee future benefits liability (Note 10)	**8,942**	8,227
Legal defence fund (Note 13)	**2,228**	1,660
	145,250	139,351
Net assets		
Invested in capital assets	**115,675**	115,391
Internally restricted	**20,000**	20,000
Unrestricted	**(52,218)**	(54,192)
	83,457	81,199
Accumulated remeasurement losses	**(373)**	(655)
	83,084	80,544
	228,334	219,895

Approved by the Board

_______________ Director   Susan M Armstrong _______________ Director

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

Toronto East Health Network
(Formerly Toronto East General Hospital)
Statement of revenue and expenses
year ended March 31, 2017
(In thousands of dollars)

	2017	2016 (Note 17)
	$	$
Revenue		
MOHLTC/TCLHIN	**216,631**	215,318
Patient income	**18,251**	17,527
Other income	**11,713**	13,530
Other vote programs (Note 11)	**6,542**	6,479
Amortization of deferred contributions - equipment and building	**2,950**	3,930
Research	**382**	388
Interest income	**105**	128
	256,574	257,300
Expenses		
Salaries and wages	**125,199**	132,045
Employee benefits	**30,630**	31,240
Medical remuneration and reimbursement	**16,982**	17,414
Medical and surgical supplies	**12,820**	12,812
Drugs and medicines	**9,060**	8,904
Other supplies and expenses	**38,016**	39,819
Equipment and building amortization	**14,570**	13,409
Other votes programs (Note 11)	**6,657**	6,838
Research	**382**	388
	254,316	262,869
Excess (deficiency) of revenue over expenses	**2,258**	(5,569)

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

Toronto East Health Network
(Formerly Toronto East General Hospital)
Statement of remeasurement gains and losses
year ended March 31, 2017
(In thousands of dollars)

	2017	2016
	$	$
Accumulated remeasurement losses at beginning of year	**(655)**	(365)
Change in unrealized losses for the year attributable to derivatives (Note 8)	**282**	(290)
Accumulated remeasurement losses at end of year	**(373)**	(655)

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

Toronto East Health Network

(Formerly Toronto East General Hospital)
Statement of changes in net assets
year ended March 31, 2017
(In thousands of dollars)

				2017	2016
	Invested in capital assets (Note 14)	Unrestricted	Internally restricted	Total	Total
	$	$	$	$	$
Balance, beginning of year (Note 17)	**115,391**	**(54,192)**	**20,000**	**81,199**	86,768
Excess (deficiency) of revenue over expenses	**(11,620)**	**13,878**	**-**	**2,258**	(5,569)
Repayment of long-term debt (net)	**382**	**(382)**	**-**	**-**	-
Additions to capital leases (net of repayments)	**(1,186)**	**1,186**	**-**	**-**	
Additions to capital assets	**17,563**	**(17,563)**			-
Capital grants received (Note 9)	**(4,855)**	**4,855**	**-**	**-**	-
Balance, end of year	**115,675**	**(52,218)**	**20,000**	**83,457**	81,199

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

Toronto East Health Network
(Formerly Toronto East General Hospital)
Statement of cash flows
year ended March 31, 2017
(In thousands of dollars)

	2017	2016
	$	$
Operating activities		
Excess (deficiency) of revenue over expenses	**2,258**	(5,569)
Items not affecting cash and cash equivalents		
Amortization of capital assets	**14,570**	13,409
Amortization of deferred grants	**(2,950)**	(3,930)
Legal defence fund obligation (Note 13)	**568**	661
Employee future benefits expense (Note 10)	**1,275**	1,271
	15,721	5,842
Change in non-cash operating items		
Accounts receivable	**639**	915
Inventory	**165**	37
Prepaid expenses and deposits	**(550)**	413
Due to MOHLTC/TCLHIN	**(151)**	(819)
Accounts payable and other accrued liabilities	**(1,794)**	2,006
Research Funds	**103**	(459)
Deferred revenue - MOHLTC/TCLHIN	**2,193**	(133)
Employee future benefits paid (Note 10)	**(560)**	(149)
	15,766	7,653
Investing activity		
Contribution to legal defence fund (Note 13)	**(780)**	(775)
Capital activity		
Additions to capital assets (net of change in accounts payable relating to capital asset additions and assets acquried through capital leases of $4,263 (2016 - $2,757)	**(13,300)**	(22,867)
Financing activities		
Capital grants (Note 9)		
Toronto East Health Network Foundation	**1,332**	5,011
Ministry of Health and Long-Term Care	**3,523**	2,190
Repayment of long-term debt	**(382)**	(782)
Repayment of capital lease obligations	**(1,239)**	(653)
	3,234	5,766
Increase (decrease) in cash and short-term investments	**4,920**	(10,223)
Cash, beginning of year	**16,805**	27,028
Cash, end of year	**21,725**	16,805
Supplemental cash flow information		
Interest paid (Note 6)	**202**	230
Capital assets acquired by way of capital lease (Note 7)	**2,425**	866

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

1. Purpose

Toronto East Health Network (the "Hospital") is a community teaching hospital located in southeast Toronto. The Hospital is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met. Toronto East Health Network changed its legal name from Toronto East General Hospital, effective April 1, 2016.

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

The extent to which the MOHLTC/TCLHIN funding has been received, with the stipulated requirement that the Hospital provide specific services, and these services have not yet been provided, the funding is deferred until such time as the services are performed 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 TCLHIN.

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

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

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
Derivative liability	Fair value

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities and due to MOHLTC/TCLHIN 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.

Inventory

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

Capital assets

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

Buildings	40 to 50 years
Building renovations	20 to 40 years
Leasehold improvements	Over the term of the lease
Electronic patient records	10 to 20 years
Equipment	3 to 15 years
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.

(In thousands of dollars)

2. Significant accounting policies (continued)

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

Employee future benefits

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

The cost of post-employment benefits is actuarially determined using the projected benefit method pro-rated on service, retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation was determined based on the 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 at fair value when received.

3. Cash

	2017	2016
	$	$
Cash	**20,332**	15,515
Restricted funds - research payments	**1,393**	1,290
	21,725	16,805

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 $12,000 (2016 - $8,000) by way of prime-base loans at prime less 0.25%. As at March 31, 2017, the Hospital had drawn a total of $Nil, (2016 - $Nil) upon the Facility.

4. Long-term investments

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

(In thousands of dollars)

5. Capital assets

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land and land improvements	**202**	-	**202**	202
Buildings and building renovations	**192,496**	**(87,517)**	**104,979**	109,718
Leasehold improvements	**4,354**	**(3,629)**	**725**	1,006
Equipment	**160,090**	**(132,830)**	**27,260**	29,745
Equipment under capital leases	**9,277**	**(4,180)**	**5,097**	1,879
Electronic patient records	**27,557**	**(15,565)**	**11,992**	14,066
Construction in progress	**44,139**	-	**44,139**	34,785
	438,115	**(243,721)**	**194,394**	191,401

6. Long-term debt

	2017	2016
	$	$
Bank loan, bears interest at a rate of Royal Bank Prime less 0.65% or Bankers' Acceptances rate plus 0.40% with monthly payments of principal and interest until May 2032	**7,275**	7,657
Security deposit, non-interest bearing due upon termination of lease	**43**	43
	7,318	7,700
Less: current portion	**(392)**	(382)
Long term portion	**6,926**	7,318

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

	$
2018	392
2019	403
2020	414
2021	424
2022	436
2023 and thereafter	5,206
	7,275

Interest recorded in the statement of revenue and expenses related to the long-term debt is $202 (2016 - $230).

(In thousands of dollars)

7. Capital lease obligations

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

	2017	2016
	$	$
Equipment loans secured by certain equipment with interest rates of -1.60% to 9.74% due at various times up to May 2022 with blended monthly payments of $112	**4,375**	3,189
Less: current portion	**(1,321)**	(771)
Long term portion	**3,054**	2,418

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

	$
2018	1,321
2019	1,303
2020	916
2021	635
2022	195
2023 and thereafter	5
	4,375

8. Derivative liability

In connection with the financing obtained for the purpose of the facility at 840 Coxwell Ave, the Hospital entered into an interest rate swap agreement to modify the floating rate of interest on the loan from Royal Bank Prime rate less 0.65% or Bankers' Acceptances plus 0.40%, to a fixed rate of 2.54%. The start date of this interest rate swap was June 15, 2012 and has a maturity date of June 15, 2032. The notional value of the derivative financial instrument is $7,275. The fair value of the interest rate swap at March 31, 2017 is $373 (liability), (2016 - $655 (liability)).

9. Deferred capital grants and donations

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

	2017	2015
	$	$
Deferred capital grants and donations, beginning of year	**81,221**	77,950
Contributions received during the year		
Ministry of Health and Long-Term Care	**3,523**	2,190
Toronto East General Hospital Foundation	**1,332**	5,011
	4,855	7,201
Amortization for the year	**(2,950)**	(3,930)
Deferred capital grants and donations, end of year	**83,126**	81,221

9. Deferred capital grants and donations (continued)

Included in deferred capital grants and donations is an amount of $38,789 (2016 - $35,692) 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. Employee future benefits liability

Pension plan

Employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan, which is a multi-employer final average pay defined benefit pension plan. Contributions made to the plan during the year by the Hospital amounted to $10,701 (2016 - $10,626). 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.

Other post-employment benefits

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

(In thousands of dollars)

10. Employee future benefits liability (continued)

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

	2017	2016
	$	$
Change in benefit obligation		
Accrued benefit obligation, beginning of year	**10,812**	10,651
Current service cost	**702**	707
Interest cost	**365**	333
Benefits paid	**(560)**	(532)
Actuarial experience gains	**(69)**	(347)
Accrued benefit obligation, end of year	**11,250**	10,812
Unamortized actuarial experience losses	**(2,308)**	(2,585)
Accrued benefit liability, end of year	**8,942**	8,227
Plan expense		
Current service cost	**702**	707
Interest cost	**365**	333
Amortization of actuarial experience losses	**208**	231
Net benefit expense during the year	**1,275**	1,271
Significant assumptions on obligations		
Discount rate (%)	**3.3**	3.25
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**	3.75% per annum in fiscal 2016-2017, 4% per annum from fiscal 2017 and thereafter
Extended health care	**6.5% per annum in fiscal 2017, decreasing by 0.25% per annum to an ultimate rate of 4.75% per annum**	6.5% per annum in fiscal 2017, decreasing by 0.25% per annum to an ultimate rate of 4.75% per annum

11. 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.

12. Related entities

The Hospital is related to the Volunteer Services of the Toronto East General Hospital ("Volunteer Services") and the Toronto East Health Network 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, 2017, the Foundation owed the Hospital $269 (2016 - $421) 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 $1,898 (2016 - $1,815) and accrued $Nil (2016 - $22) for a total of $1,898 (2016 - $1,837).

The Hospital was a member of Booth Centennial, a not for profit shared services organization whose mandate is to provide laundry services to member organizations. In fiscal 2017, the amount paid to Booth Centennial up to August 30, 2016 was $780 (2016 - $1,721 up to March 31, 2016). (See also Note 16)

The Hospital has an equity investment in Shared Hospital Laboratory Inc., and paid $839 (2016 - $798) to the organization in connection with laboratory services.

13. Contingencies, commitments and guarantees

a. The Hospital is a member of the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of liability insurance risks of its members. All members of the pool pay annual premiums, which are actuarially determined. All members are subject to reassessment for losses, if any, experienced by the pool for the years in which they are members. No negative reassessments have been made to March 31, 2017.

   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, 2017.

   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, 2017, the Hospital has cash restricted for these purposes of $2,934 (2016 - $2,154) and has estimated the liability of defence costs associated with claims arising subsequent to the start of the agreement as $2,228 (2016 - $1,660).

(In thousands of dollars)

13. Contingencies, commitments and guarantees (continued)

b. Minimum annual operating lease payments for leases which expire at various dates up to April 30, 2026 are as follows:

	$
2018	1,050
2019	722
2020	468
2021	466
2022	301
Later	508
	3,515

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:

i) Indemnity has been provided to all directors and officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Hospital.

ii) In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction.

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

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, 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.

(In thousands of dollars)

14. Invested in capital assets

Invested in capital assets is determined as follows:

	2017	2016
	$	$
Capital assets	**194,394**	191,401
Less:		
Current portion of long-term debt	**(392)**	(382)
Current portion of capital lease obligations	**(1,321)**	(771)
Long-term debt	**(6,926)**	(7,318)
Long-term capital lease obligations	**(3,054)**	(2,418)
Deferred capital grants and donations	**(83,126)**	(81,221)
Add:		
Unspent deferred capital grants and donations	**16,100**	16,100
Invested in capital assets at March 31	**115,675**	115,391

15. Financial instruments and risk management

Establishing fair value

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

Fair value hierarchy

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The only financial instrument that is remeasured to fair value on a regular basis is the interest rate swap (see Note 8). 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:

15. Financial instruments and risk management (continued)

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 8).

16. Sale of share in Booth Centennial

The Board of Booth Centennial Healthcare Linen Services, which consisted of 22 Member Hospitals, met on August 30, 2016 and ratified the sale of the company to a third party. The Hospital had a 5.47% ownership stake. Payments related to the sale are in three instalments – an initial distribution in the current fiscal year, a payment after 18 months and a potential further payment in 5 years' time. A gain on sale of $838 was recognized in the current year and is included in Other income.

17. Comparative figures

An amount of $500 which was included in salaries and wages in 2016 has been reclassified to employee benefits to conform with the current year's presentation. Research revenues and expenses of $388 which were previously reported on a net basis are reported on a gross basis to conform with the current year's presentation. Net assets were reclassified between the invested in capital assets and the unrestricted categories by an amount of $25,580 to reflect the current year's presentation for unspent deferred capital grants and donations.