Financial statements of
Toronto East Health Network

March 31, 2018

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Independent Auditor's Report

To the Board of Directors of
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, 2018, 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, 2018, 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 22, 2018

Toronto East Health Network

Statement of financial position

As at March 31, 2018

(In thousands of dollars)

	Notes	2018	2017 (Note 16)
		$	$
Assets			
Current			
Cash and short-term investments	3	**40,296**	21,725
Accounts receivable			
Due from MOHLTC/TCLHIN		**6,887**	1,695
Toronto East Health Network Foundation	12	**197**	269
Other (net of allowance of $754 (2017 - $391))		**4,373**	3,638
Inventory		**820**	775
Prepaid expenses and deposits		**2,738**	2,780
		55,311	30,882
Restricted cash	13(a)	**3,401**	2,934
Long-term investment	4	**140**	124
Capital assets	5	**189,178**	194,394
Total assets		**248,030**	228,334
Liabilities			
Current			
Due to MOHLTC/TCLHIN		**123**	262
Accounts payable and accrued liabilities		**34,496**	33,510
Current portion of long-term debt	6	**401**	392
Current portion of capital lease obligations	7	**1,303**	1,321
Deferred revenue - MOHLTC/TCLHIN		**7,947**	3,766
Research funds	3	**1,348**	1,393
		45,618	40,644
Long-term debt	6	**6,482**	6,883
Long-term capital lease obligations	7	**1,751**	3,054
Derivative liability	8	**54**	373
Deferred capital grants and donations	9	**93,032**	83,126
Employee future benefits liability	10	**9,658**	8,942
Legal defence fund	13(a)	**2,560**	2,228
		159,155	145,250
Commitment and contingencies	5, 13		
Net assets			
Invested in capital assets		**102,197**	115,606
Internally restricted		**20,000**	20,000
Unrestricted		**(33,268)**	(52,149)
		88,929	83,457
Accumulated remeasurement losses		**(54)**	(373)
		88,875	83,084
		248,030	228,334

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

Approved by the Board

Susan Mauricho... Director

Director

Toronto East Health Network

Statement of revenue and expenses

Year ended March 31, 2018
(In thousands of dollars)

	Notes	2018	2017 (Note 16)
		$	$
Revenue			
MOHLTC/TCLHIN		**225,032**	216,631
Patient income		**18,031**	18,251
Other income		**11,580**	11,713
Other votes programs	11	**7,155**	6,542
Amortization of deferred contributions - equipment and building		**3,171**	2,950
Research		**550**	382
Interest income		**194**	105
		265,713	256,574
Expenses			
Salaries and wages		**127,631**	124,917
Employee benefits		**31,808**	30,572
Medical remuneration and reimbursement		**17,525**	17,322
Medical and surgical supplies		**13,460**	12,820
Drugs and medicines		**9,533**	9,060
Other supplies and expenses		**38,348**	38,016
Equipment and building amortization		**14,101**	14,570
Other votes programs	11	**7,285**	6,657
Research		**550**	382
		260,241	254,316
Excess of revenue over expenses for the year		**5,472**	2,258

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

Toronto East Health Network

Statement of remeasurement gains and losses

Year ended March 31, 2018

(In thousands of dollars)

	Note	2018	2017
		$	$
Accumulated remeasurement losses, beginning of year		**(373)**	(655)
Change in unrealized losses for the year attributable to derivatives	8	**319**	282
Accumulated remeasurement losses, end of year		**(54)**	(373)

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

Toronto East Health Network

Statement of changes in net assets

Year ended March 31, 2018
(In thousands of dollars)

	Notes	Invested in capital assets (Note 14)	Unrestricted	Internally restricted	2018 Total	2017 Total
		$	$	$	$	$
Balance, beginning of year	16	**115,606**	**(52,149)**	**20,000**	**83,457**	81,199
Excess of revenue over expenses before the following items		**(10,930)**	**16,402**	—	**5,472**	2,258
Repayment of long-term debt		**392**	**(392)**	—	—	—
Repayment of capital leases		**1,321**	**(1,321)**	—	—	
Additions to capital assets		**8,885**	**(8,885)**	—	—	—
Capital grants received	9	**(13,077)**	**13,077**	—	—	—
Balance, end of year		**102,197**	**(33,268)**	**20,000**	**88,929**	83,457

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

Toronto East Health Network

Statement of cash flows

Year ended March 31, 2018
(In thousands of dollars)

	Note	2018	2017
		$	$
Operating activities			
Excess of revenue over expenses for the year		**5,472**	2,258
Items not affecting cash and short-term investments			
Amortization of capital assets		**14,101**	14,570
Amortization of deferred grants		**(3,171)**	(2,950)
Income on long-term investment		**(16)**	—
Legal defence fund obligation	13(a)	**332**	568
Employee future benefits expense	10	**1,308**	1,275
		18,026	15,721
Change in non-cash operating items			
Accounts receivable		**(5,855)**	639
Inventory		**(45)**	165
Prepaid expenses and deposits		**42**	(550)
Due to MOHLTC/TCLHIN		**(139)**	(151)
Accounts payable and other accrued liabilities		**678**	(1,794)
Research Funds		**(45)**	103
Deferred revenue - MOHLTC/TCLHIN		**4,181**	2,193
Employee future benefits paid	10	**(592)**	(560)
		16,251	15,766
Investing activity			
Contributions to legal defence fund	13(a)	**(467)**	(780)
Capital activity			
Additions to capital assets (net of change in accounts payable and other accrued liabilities relating to capital asset additions and assets through capital leases of $308 (2017 - $4,263))		**(8,577)**	(13,300)
Financing activities			
Capital grants	9		
Toronto East Health Network Foundation		**1,606**	1,332
Ministry of Health and Long-Term Care		**11,471**	3,523
Repayment of long-term debt		**(392)**	(382)
Repayment of capital lease obligations		**(1,321)**	(1,239)
		11,364	3,234
Increase in cash and short-term investments		**18,571**	4,920
Cash and short-term investments, beginning of year		**21,725**	16,805
Cash and short-term investments, end of year		**40,296**	21,725
Supplemental cash flow information			
Interest paid	6	**187**	202
Capital assets acquired by way of capital lease	7	**—**	2,425

The accompanying notes to the financial statements 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 (Canada) and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) 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 ("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"), which is a related non-controlled organization (Note 12).

Description of funds

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

Unrestricted funds represent the excess of expenses over revenue accumulated from the ongoing operations of the Hospital since its inception less amounts invested in capital assets.

Internally restricted funds represent funds for the Hospital's portion of the redevelopment project, which pertains to the multi-year project approved by MOHLTC.

Revenue recognition

Under the Health Insurance Act (Ontario) 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 with no restrictions is recorded as revenue in the fiscal year to which it relates. Restricted contributions are recognized as revenue in the year in which the related eligible 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. 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.

2. Significant accounting policies (continued)

Revenue recognition (continued)

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.

Financial instruments

Financial assets and liabilities are recognized when the Hospital becomes a party to the contractual provisions of the financial instrument.

The carrying value of financial instruments reported on the statement of financial position of the Hospital are measured as follows:

Cash and short-term investments	Amortized cost
Restricted cash	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Due to MOHLTC/TCLHIN	Amortized cost
Long-term debt	Amortized cost
Derivative liability	Fair value

The carrying value of cash and short-term investments, restricted 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 long-term debt related to construction-in-process is capitalized during the period from the date construction commences until the capital asset is operational.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and short-term highly liquid investments that are readily convertible to known amounts of cash with a short-term maturity of three months or less from the date of acquisition.

Inventory

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

2. Significant accounting policies (continued)

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 useful life

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

Impairment of long-lived assets

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

Use of estimates

The preparation of financial statements in accordance 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.

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 liability

Employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan, which is a multi-employer best five consecutive year average pay defined benefit pension plan, and are entitled to certain post-employment benefits. Contributions made to the Healthcare of Ontario Pension Plan are expensed as funded, as the plan is accounted for as a defined contribution plan.

(In thousands of dollars)

2. Significant accounting policies (continued)

Employee future benefits liability (continued)

The Hospital provides certain post-employment benefits, which includes health, dental, and life insurance. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost 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 provincial cost of borrowing rate recommended for hospital use as at December 31, 2017. 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 and short-term investments

	2018	2017
	$	$
Cash and equivalents	**27,148**	20,332
Short-term investments	**11,800**	—
Restricted funds - research payments	**1,348**	1,393
	40,296	21,725

Short-term investments are comprised of term deposits and guaranteed investment certificates with maturity dates between 3 months and 1 year.

The Hospital has available 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 (2017 - $12,000) at prime less 0.25%. As at March 31, 2018, the Hospital had drawn a total of $Nil (2017 - $Nil) against this Facility.

4. Long-term investments

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

(In thousands of dollars)

5. Capital assets

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land and land improvements	**202**	**—**	**202**	202
Buildings and building renovations	**212,027**	**(93,471)**	**118,556**	104,979
Leasehold improvements	**4,354**	**(3,910)**	**444**	725
Equipment	**163,693**	**(138,155)**	**25,538**	27,260
Equipment under capital leases	**9,277**	**(5,457)**	**3,820**	5,097
Electronic patient records	**27,557**	**(16,829)**	**10,728**	11,992
New Patient Care Centre in progress	**25,830**	**—**	**25,830**	22,233
Other construction in progress	**4,060**	**—**	**4,060**	21,906
	447,000	**(257,822)**	**189,178**	194,394

There was no interest capitalized during the year (2017 - $Nil).

Ken and Marilyn Thomson New Patient Care Centre ("NPCC")

(a) The Hospital, in conjunction with MOHLTC, has undertaken a major capital redevelopment project to design, build, and finance a new patient care centre. The new patient care centre will enable the Hospital to meet the healthcare needs of the community.

(b) A Project Agreement was entered into on February 6, 2018 between the Hospital and Ellisdon Infrastructure MGH Inc ("Project Co"). Project Co will design, engineer, construct, and commission the new patient care centre so as to provide the Hospital with a complete and operational facility. The construction's guaranteed price is $411,018 of which the Hospital's local share is $62,000.

6. Long-term debt

	2018	2017 (Note 16)
	$	$
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	**6,883**	7,275
Less: current portion	**(401)**	(392)
Long-term portion	**6,482**	6,883

(In thousands of dollars)

6. Long-term debt (continued)

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

	$
2019	401
2020	414
2021	424
2022	436
2023	448
2024 and thereafter	4,760
	6,883

Interest recorded in the statement of revenue and expenses related to long-term debt is $187 (2017 - $202).

7. Capital lease obligations

	2018	2017
	$	$
Equipment loans secured by certain equipment with interest rates of -2.05% to 9.47% due at various times up to May 2022 with blended monthly payments of $112	**3,054**	4,375
Less: current portion	**(1,303)**	(1,321)
Long-term portion	**1,751**	3,054

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

	$
2019	1,303
2020	916
2021	635
2022	197
2023	3
	3,054

Interest on capital lease recorded in the statement of revenue and expenses related to the capital leases.

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 $6,883 (2017 - $7,275). The fair value of the interest rate swap calculated using the discounted cash flow method at March 31, 2018 is a derivative liability of $54 (2017 - $373) and is reflected on the statement of financial position.

(In thousands of dollars)

9. Deferred capital grants and donations

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

	2018	2017
	$	$
Deferred capital grants and donations, beginning of year	83,126	81,221
Contributions received during the year		
Ministry of Health and Long-Term Care	11,471	3,523
Toronto East Health Network Foundation	1,606	1,332
	13,077	4,855
Amortization for the year	(3,171)	(2,950)
Deferred capital grants and donations, end of year	93,032	83,126

Included in deferred capital grants and donations is an amount of $44,000 (2017 - $38,789) related to either capital assets under construction/not yet operational or unspent capital funding.

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 best five consecutive year average pay defined benefit pension plan. Contributions made to the plan during the year by the Hospital amounted to $10,662 (2017 - $10,701). 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 accrued benefit cost 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 as of March 31, 2018.

(In thousands of dollars)

10. Employee future benefits liability (continued)

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

	2018	2017
	$	$
Change in benefit obligation		
Accrued benefit obligation, beginning of year	11,250	10,812
Current service cost	720	702
Interest cost	385	365
Benefits paid	(592)	(560)
Actuarial experience losses (gains)	1,670	(69)
Accrued benefit obligation, end of year	13,433	11,250
Unamortized actuarial experience losses	(3,775)	(2,308)
Accrued benefit liability, end of year	9,658	8,942
Plan expense		
Current service cost	720	702
Interest cost	385	365
Amortization of actuarial experience losses	203	208
Net benefit expense during the year	1,308	1,275
Significant assumptions on obligations		
Discount rate (%)	3.43	3.30
Average remaining service period of active employees to retirement who are expected to receive benefits under the benefit plan (years)	10	15
Dental cost increase	4% per annum	3.75% per annum
Extended health care	7% per annum in fiscal 2018, decreasing by 0.3% per annum to an ultimate rate of 4% 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 (the "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 has an economic interest in the net assets of the Foundation. Excess of revenue over expenses generated by the Foundation are donated to the Hospital upon approval of their respective boards.

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, 2018, the Foundation owed the Hospital $147 (2017 - $269) for operating costs paid on its behalf. This amount will be reimbursed by the Foundation subsequent to fiscal year end. The remaining receivable of $50 (2017 - $Nil) relates to grants.

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 $1,896 (2017 - $1,898) to Plexxus.

The Hospital has an equity investment in Shared Hospital Laboratory Inc., and paid $892 (2017 - $839) 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, 2018.

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, 2018.

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, 2018, the Hospital has cash restricted for these purposes of $3,401 (2017 - $2,934) and has estimated the liability of defence costs associated with claims arising subsequent to the start of the agreement as $2,560 (2017 - $2,228).

(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:

	$
2019	1,077
2020	746
2021	587
2022	335
2023	123
2024 and thereafter	385
	3,253

(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, 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.

(In thousands of dollars)

14. Invested in capital assets

Invested in capital assets is determined as follows:

	2018	2017 (Note 16)
	$	$
Capital assets	**189,178**	194,394
Less:		
Current portion of long-term debt	**(401)**	(392)
Current portion of capital lease obligations	**(1,303)**	(1,321)
Long-term debt	**(6,482)**	(6,883)
Long-term capital lease obligations	**(1,751)**	(3,054)
Deferred capital grants and donations	**(93,032)**	(83,126)
Add:		
Unspent Foundation grants for NPCC	**15,988**	15,988
Invested in capital assets	**102,197**	115,606

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.

15. Financial instruments and risk management (continued)

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 short-term investments, restricted cash and accounts receivable, which are subject to credit risk. The carrying amounts of financial assets on the statement of financial position represents the Hospital's maximum credit exposure at the statement of financial position date.

The Hospital's credit risk is primarily attributable to its accounts receivable. The amounts recognized on the statement of financial position 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.

Liquidity risk

Liquidity risk is the risk the Hospital will not be able to meet its financial obligations when they come due. The Hospital manages its liquidity risk by forecasting cash flows from operations and anticipating investing and financing activities and maintaining credit facilities to ensure it has sufficient funds to meet current and foreseeable financial requirements.

Accounts payable and due to MOHLTC/TCLHIN mature within six months. The maturities of other financial liabilities are provided in the notes to the financial statements related to these liabilities.

Interest rate risk

The Hospital has long-term debt with floating and fixed rates. The interest rate risk on long-term debt with floating rates is mitigated through an interest rate swap contract (Note 8).

16. Comparative figures

The comparative figures have been reclassified from the financial statements previously presented to conform to the presentation of the 2018 financial statements.

An amount of $282 which was included in salaries and wages in 2017 has been reclassified to medical remuneration and an amount of $58 which was included in employee benefits in 2017 has been reclassified to medical remuneration.

Net assets were reclassified between the invested in capital assets and the unrestricted categories by an amount of $69 to reflect the current year's presentation for unspent deferred capital grants and donations.

An amount of $43 which was included in long-term debt in 2017 has been reclassified to accounts payable and accrued liabilities.