Trillium Health Partners

Financial Statements
March 31, 2017

June 2, 2017

Independent Auditor's Report

To the Members of the Board of Directors of
Trillium Health Partners

We have audited the accompanying financial statements of Trillium Health Partners, which comprise the statement of financial position as at March 31, 2017 and the statements of operations, remeasurement gains and losses, changes in net assets and cash flows for the year then ended, and the related notes, which comprise 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.

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Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Trillium Health Partners as at March 31, 2017 and 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.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants, Licensed Public Accountants

Trillium Health Partners

Statement of Financial Position

As at March 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Assets		
Current assets		
Cash	174,848	186,010
Short-term investments (note 3)	8,336	7,361
Accounts receivable		
Ministry of Health and Long-Term Care, Mississauga-Halton Local Health Integration Network and other Ministries	17,841	28,683
Other	24,251	20,337
Inventories	5,946	6,285
Prepaid expenses	12,130	10,276
	243,352	258,952
Capital assets (note 4)	735,111	699,346
Intangible assets - licences	2,892	2,892
Other receivables	67,758	34,304
Restricted cash and long-term investments (note 3)	26,741	25,287
	1,075,854	1,020,781

Approved by the Board of Directors

______________________________ Director ______________________________ Director

The accompanying notes are an integral part of these financial statements.

Trillium Health Partners

Statement of Financial Position ...*continued*

As at March 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	111,398	119,221
Due to Ministry of Health and Long-Term Care, Mississauga-Halton Local Health Integration Network and other Ministries	8,078	5,886
Deferred contributions	5,025	5,924
Provincial capital grant	4,236	4,236
Obligation under capital leases	-	504
Current portion of long-term debt (note 7)	3,576	2,787
	132,313	138,558
Long-term debt (note 7)	37,891	41,467
Fair value adjustment for interest rate swap	371	669
Employee future benefits (note 8)	39,652	36,677
Legal defense liability	2,972	1,755
Other long-term obligations (note 4)	72,707	39,481
Deferred capital grants and contributions (note 6)	512,193	489,374
	798,099	747,981
Net Assets		
Investment in capital assets (note 6)	181,451	165,214
Internally restricted - major initiatives	84,268	88,665
Internally restricted - other	5,593	5,525
Unrestricted	5,455	13,560
	276,767	272,964
Accumulated remeasurement gains (losses)	988	(164)
	1,075,854	1,020,781

Commitments and contingencies (note 10)

The accompanying notes are an integral part of these financial statements.

Trillium Health Partners

Statement of Operations

For the year ended March 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Revenue		
Ministry of Health and Long-Term Care, Mississauga-Halton Local Health Integration Network and other Ministries	850,161	825,126
Other income	62,987	59,058
Investment income	2,270	2,880
Amortization of deferred capital grants and contributions - equipment	6,846	5,417
Other agencies and patients	90,783	93,407
Special programs - Ministries of Health and Long-Term Care and Community and Social Services	33,984	30,930
	1,047,031	1,016,818
Expenses		
Salaries, wages and employee benefits	690,783	674,833
Medical and surgical	72,119	68,707
Drug supplies	43,897	46,224
Other supplies and expenses	165,178	160,622
Amortization - equipment	23,214	23,002
Special programs - Ministries of Health and Long-Term Care and Community and Social Services	33,923	30,867
	1,029,114	1,004,255
Excess of revenue over expenses before the undernoted	17,917	12,563
Amortization of deferred capital grants and contributions - building	14,148	15,550
Amortization - land improvements and buildings	(26,284)	(24,438)
Interest on long-term debt	(1,978)	(2,094)
	(14,114)	(10,982)
Excess of revenue over expenses for the year	3,803	1,581

The accompanying notes are an integral part of these financial statements.

Trillium Health Partners

Statement of Remeasurement Gains and Losses

For the year ended March 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Accumulated remeasurement gains - Beginning of year	(164)	797
Unrealized gains (losses) attributable to		
Long-term investments	846	(625)
Interest rate swaps	297	191
Amounts reclassified to statement of operations		
Loss (gain) on sale of long-term investments	9	(527)
Net remeasurement gains (losses) for the year	1,152	(961)
Accumulated remeasurement gains (losses) - End of year	988	(164)

The accompanying notes are an integral part of these financial statements.

Trillium Health Partners

Statement of Changes in Net Assets

For the year ended March 31, 2017

(in thousands of dollars)

	Investment in capital assets $ (note 6)	Internally restricted - major initiatives $	Internally restricted - other $	Unrestricted $	2017 Total $	2016 Total $
Balance - Beginning of year	165,214	88,665	5,525	13,560	272,964	271,383
Excess of revenue over expenses for the year	(28,624)	(693)	68	33,052	3,803	1,581
Acquisition of capital assets	85,383	(3,704)	-	(81,679)	-	-
Payment of capital leases	504	-	-	(504)	-	-
Payment of long-term debt	2,787	-	-	(2,787)	-	-
Deferred capital grants and contributions received	(43,813)	-	-	43,813	-	-
	16,237	(4,397)	68	(8,105)	3,803	1,581
Balance - End of year	181,451	84,268	5,593	5,455	276,767	272,964

The accompanying notes are an integral part of these financial statements.

Trillium Health Partners

Statement of Cash Flows

For the year ended March 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	3,803	1,581
Add (deduct) items not affecting cash		
Amortization of capital assets	49,498	47,440
Amortization of deferred capital grants and contributions	(20,994)	(20,967)
Employee future benefits	2,975	7,830
Legal defense liability	1,217	1,755
Loss (gain) on capital assets retirement	101	(5)
Loss (gain) on sale of long-term investments	9	(527)
	36,609	37,107
Changes in non-cash operating items		
Accounts receivable	(26,526)	(41,972)
Inventories	339	(179)
Prepaid expenses	(1,854)	(4,078)
Accounts payable and accrued liabilities	(2,417)	(843)
Deferred contributions	(899)	3,144
Due to Ministry of Health and Long-Term Care, Mississauga-Halton Local Integration Network and other Ministries	2,192	(5,502)
	7,444	(12,323)
Investing activities		
Purchase of short-term investments - net	(975)	(285)
(Purchase) sale of long-term investments - net	(536)	839
Increase in restricted cash	(927)	(2,540)
Changes in fair value of investments	855	(1,152)
	(1,583)	(3,138)
Capital activities		
Proceeds from disposal of capital assets	19	5
Acquisition of capital assets	(57,564)	(45,570)
	(57,545)	(45,565)
Financing activities		
Deferred capital grants and contributions received	43,813	47,740
Repayment of long-term debt	(2,787)	(3,393)
Obligation under capital leases	(504)	(172)
	40,522	44,175
Decrease in cash during the year	(11,162)	(16,851)
Cash - Beginning of year	186,010	202,861
Cash - End of year	174,848	186,010
Supplemental disclosure		
Capital asset additions included in accounts payable and accrued liabilities	4,708	10,115
Capital asset acquisitions funded by long-term obligations	33,226	39,481

The accompanying notes are an integral part of these financial statements.

(in thousands of dollars)

1 Operations

Trillium Health Partners (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.

The Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by both the Ministry of Health and Long-Term Care (the Ministry) and the Mississauga-Halton Local Health Integration Network (the LHIN). The Hospital Service Accountability Agreement (HSAA) sets out the performance standards and obligations of the Hospital and established acceptable results for the Hospital's performance.

2 Summary of significant accounting policies

Financial statement presentation

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS) including accounting standards that apply only to government not-for-profit organizations.

These financial statements include the assets, liabilities and activities of the Hospital.

The financial statements do not include the assets, liabilities or operations of Trillium Health Partners Foundation (THP Foundation) or Trillium Health Partners Volunteers (THP Volunteers), formerly named the Volunteers of Trillium Health Centre, as the respective organizations are not controlled by the Hospital, maintain their own accounts and report separately from the Hospital to their own governing bodies.

Internally restricted - major initiatives

The Hospital internally restricts net assets for strategic initiatives such as replacement of the Hospital's information systems, advancing the Hospital's planning and redevelopment, and funding the Hospital's share of Ministry approved capital projects, research and innovation.

Internally restricted - other

The Hospital internally restricts net assets from endowment funds that are used for specific purposes including education and innovation.

Revenue recognition

The Hospital follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable. Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

(in thousands of dollars)

Under the Health Insurance Act (Ontario) and the regulations thereunder, the Hospital is funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ministry/the LHIN. Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of a period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in a subsequent period. These financial statements reflect management's best estimates of funding arrangements with the Ministry and the LHIN. The Hospital has entered into an accountability agreement with the LHIN, which requires the Hospital to meet certain financial and non-financial performance indicators.

All investment income is unrestricted and recognized as revenue when earned.

Contributions received in the form of donations and grants for specific capital expenditures are initially deferred and recorded as deferred capital contributions. These deferred contributions are realized into revenue on the same basis as the amortization of the cost of the related capital assets.

Other income is primarily derived from the Hospital's pharmacies, parking and certain clinics. Revenue is recognized when services are performed or goods are delivered.

Contributed materials and 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 of these contributed services received directly by the Hospital, these volunteered/contributed services are not recognized or disclosed in the financial statements and related notes to the financial statements.

Financial instruments

Financial instruments are financial assets or liabilities of the Hospital which, in general, provide the Hospital the right to receive cash or another financial asset from another party or require the Hospital to pay another party cash or other financial assets.

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

Cash	fair value
Short-term investments	fair value
Accounts receivable	amortized cost
Restricted cash and long-term investments	fair value
Accounts payable and accrued liabilities	amortized cost
Obligation under capital lease	amortized cost
Due to/from the Ministry/LHIN and other ministries	amortized cost
Long-term debt	amortized cost
Interest rate swaps	fair value
Provincial capital grant	amortized cost

Transaction costs on assets measured at fair value are expensed as incurred.

(in thousands of dollars)

Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. The Hospital's fair values are management's estimates and are generally determined using market conditions at a specific point in time. The determinations are subjective in nature, involving uncertainties and the exercise of significant judgment.

The Hospital has entered into interest rate swap contracts to manage exposure to interest rate risks. The unrealized gain or loss on the interest rate swap is recorded in the statement of remeasurement gains and losses.

The fair value of the hedging derivative is estimated based on the standard swap valuation methodology. That is, the value of the swap is calculated as the difference between the present values of the future cash flows associated with the floating-receive leg and the fixed pay leg. The fair value estimates are not necessarily indicative of the amounts that the Hospital might receive or pay in actual market transactions.

The Hospital does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities.

Impairment of financial instruments

Management reviews its financial instruments for other than temporary impairment on an annual basis. When a decline in value is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain or loss is removed from the statement of remeasurement gains and losses.

Inventories

Inventories are recorded at the lower of average cost or net realizable value.

Capital assets

Capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Expenditures for new facilities or expenditures, which substantially increase the useful lives of the existing capital assets, are capitalized. Renovation costs to maintain normal operating efficiency are expensed as incurred. Maintenance, repairs and minor replacements are expensed as incurred. Amortization is provided on a straight-line basis at the following annual rates based on the estimated useful lives of the assets:

Land improvements	2% - 20%
Buildings	2% - 10%
Equipment	5% - 33%

Construction-in-progress is comprised of direct construction and development costs. No amortization is recorded until construction is substantially completed and the assets are ready for productive use.

(in thousands of dollars)

Equipment under capital lease

Equipment under capital lease that effectively transfers substantially all of the benefits and risks of ownership to the Hospital as the lessee, is recorded as capital assets at the present value of the minimum payments under the lease with a corresponding liability for the related lease obligations. Equipment under capital lease is amortized over its estimated useful life at the same rates used for similar equipment.

Impairment of long-lived assets

An impairment charge is recorded for long-lived assets when a capital asset no longer has any long-term service potential. The impairment loss is calculated as the difference between the net carrying value of the asset over any residual value.

Intangible assets

Intangible assets include long-term care licences acquired by the Hospital and are stated at cost. The cost of the licences is not subject to amortization, as the licences have indefinite useful lives.

Short-term investments

Short-term investments are comprised of short-term deposits with a maturity at acquisition of less than 92 days. The Hospital determines fair value by reference to quoted bid and ask prices, as appropriate, where available. Unrealized gains and losses are recorded in the statement of remeasurement gains and losses.

Long-term investments

Equity and fixed income securities are carried at fair value. The fair value of securities that are actively traded is valued at the closing bid price on the recognized stock exchange on which the securities are listed or principally traded. Unrealized gains and losses are recorded in the statement of remeasurement gains and losses.

Joint venture

Investments in jointly controlled entities are accounted for using the modified equity method, whereby the investment is initially recorded at cost and adjusted thereafter to recognize the Hospital's share of the jointly controlled entity's net surplus or deficit for its fiscal year ending within the Hospital's fiscal year. Any distributions received are accounted for as a reduction in the investment.

Pension plan

Employees of the Hospital are eligible to be members of the Hospitals of Ontario Pension Plan (HOOPP), which is a multi-employer best five consecutive year average pay defined benefit pension plan. The Hospital expenses contributions to the plan in the year they are due.

(in thousands of dollars)

Employee future benefits

For other non-pension defined plans, the cost of post-employment benefits earned by employees is actuarially determined using the accrued benefit method, pro-rated on service, and management's best estimate of salary escalation (where applicable), retirement ages of employees and expected health-care costs. The discount rate used to determine the accrued benefit obligation was determined by reference to the rate of return on provincial government and corporate bonds for varying durations based on the cash flows expected from the post-employment benefit obligations. Actuarial gains and losses are amortized over the remaining service lives of the employees. Past service costs relating to plan amendments are expensed when incurred.

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Accounts requiring significant estimates include collectibility of accounts receivable, accrued liabilities, deferred revenue and employee future benefits.

The revenue recognized from the Ministry and the LHIN requires some estimation. 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 Ministry and the LHIN for the year ended March 31, 2017. 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 Ministry and the LHIN have the right to adjust funding received by the Hospital. Neither the Ministry nor the LHIN are required to communicate certain funding adjustments until after submission of year-end data. Since this data is not submitted until after the completion of the financial statements, the amount of the Ministry and 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 estimates of amounts that have been earned during the year.

(in thousands of dollars)

3 Investments

	2017 $	2016 $
Short-term investments	8,336	7,361
Investment in Credit Valley Trillium ProResp Inc.	198	198
Restricted cash and cash equivalents	10,408	9,481
Fixed income securities	10,177	10,105
Equity securities	5,958	5,503
Restricted cash and long-term investments	26,741	25,287
	35,077	32,648

Under the terms of a trust agreement with the Ministry, the Hospital is required to maintain funds to support certain future payments under long-term financing arrangements. These amounts are included in the restricted cash and cash equivalents balances within long-term investments.

A total of 56% (2016 - 50%) of the fixed income securities at fair value are issued by the provincial and Canadian governments and 44% (2016 - 50%) by Canadian corporations.

The weighted average term to maturity for fixed income securities is approximately 6.1 years (2016 - 6.1 years).

Approximately 56% (2016 - 60%) of the equity securities at fair value are issued by Canadian corporations, 21% (2016 - 20%) by US corporations and 23% (2016 - 20%) by international corporations.

The Hospital has a joint venture agreement with Professional Respiratory Home Care Service Corp., contributing $0.1 for a 50% interest in Credit Valley Trillium ProResp Inc. As at March 2017, the investment was $198 (2016 - $198). The Hospital has a management services agreement with Credit Valley Trillium ProResp Inc. to provide supervisory and management services in return for a management fee. Management fee income of $300 (2016 - $400) has been included in the statement of operations as other income.

Effective January 1, 2015, the Hospital entered into an agreement with Health Care Insurance Reciprocal of Canada (HIROC) where the Hospital assumes the cost of investigating and defending any litigation claims. Under the agreement, the Hospital provides deposits to HIROC Management Limited (HML) that acts as an agent to pay all claims defense costs on behalf of the Hospital. The cash balance of $3,864 (2016 - $2,475) is restricted for these payments.

(in thousands of dollars)

4 Capital assets

			2017
	Cost $	Accumulated amortization $	Net $
Land	3,216	-	3,216
Buildings and land improvements	831,991	320,857	511,134
Equipment	439,377	353,362	86,015
Construction-in-progress	134,746	-	134,746
	1,409,330	674,219	735,111

			2016
	Cost $	Accumulated amortization $	Net $
Land	3,216	-	3,216
Buildings and land improvements	819,689	294,140	525,549
Equipment	420,004	335,880	84,124
Equipment under capital lease	1,191	476	715
Construction-in-progress	85,742	-	85,742
	1,329,842	630,496	699,346

Facility redevelopment

In November 2014 , under the Ontario government's alternative financing and procurement program, the Hospital entered into agreements with the Ministry and with a third party construction company, Walsh Infrastructure Credit Valley Ltd. (Project Co), to build and finance redevelopment at its Credit Valley Hospital site. Construction began in 2015 and substantial completion is scheduled to be in 2018. The total cost of construction, financing and equipment is $141,897 including fixed interest of $7,087. The approved maximum grant from the Ministry is $117,579. The remaining funding will be raised through the Hospital's operations and the THP Foundation.

During construction, the Hospital in substance retains title to the capital assets being constructed by Project Co. As a result, the Hospital records the value of construction-in-progress based on the percentage of completion as certified periodically by an independent certifier. As at March 31, 2017, the construction is about 70.9% (2016 - 38.5%) complete. Costs totalling $93,292 (2016 - $54,356) have been recorded as construction-in-progress, comprised of construction costs of $72,707 (2016 - $39,481), which include interest of $5,024 (2016 - $2,728), and ancillary and other project costs of $20,585 (2016 - $14,875). Based on the payment terms in the project agreement, the Hospital has recorded long-term obligations to Project Co in the amount of $72,707 (2016 - $39,481) and a long-term receivable of $67,251 (2016 - $34,304) from the Ministry for approved funding expected relating to the project. Deferred grants in the amount of $82,017 (2016 - $49,070) have been included

(in thousands of dollars)

in deferred grants (note 6). A change in the estimated percentage of completion by 1% would increase/decrease the construction costs by $1,025 with a corresponding increase/decrease in long-term payable.

5 Credit facilities

The Hospital has an available line of credit of $40,000 at the Royal Bank of Canada (RBC) prime rate minus 0.75% (2016 - $40,000 at RBC prime rate minus 0.75%). As at March 31, 2017, $100 is utilized for letters of credit (2016 - $100 utilized for letters of credit). As well, the Hospital has an available line of credit for leases of $13,000 (2016 - $13,000). As at March 31, 2017, the full amount was unutilized (2016 - the full amount was unutilized).

6 Deferred capital grants and contributions

Deferred capital grants and contributions include the unamortized balance of funding received from the Ministry for approved capital construction projects and the unamortized and unspent amounts of restricted donations from the THP Foundation, the THP Volunteers and other sources, which were specified for and will be used for future capital asset acquisitions and development.

The changes for the year in the deferred balance reported in these funds are as follows:

	2017 $	2016 $
Balance - Beginning of year	489,374	462,601
Amortized to revenue during the year	(20,994)	(20,967)
Amount received/receivable	43,813	47,740
Balance - End of year	512,193	489,374

Included in deferred capital grants and contributions is $3,848 (2016 - $3,833) restricted by the Ministry for amounts advanced to the Hospital for redevelopment.

The investment in capital assets comprises the following:

	2017 $	2016 $
Capital assets (note 4)	735,111	699,346
Amounts financed by deferred capital grants and contributions	(512,193)	(489,374)
Amounts financed by long-term debt (note 7)	(41,467)	(44,254)
Amounts financed by capital leases	-	(504)
	181,451	165,214

(in thousands of dollars)

7 Long-term debt

	2017 $	2016 $
Loan due November 1, 2020, interest at 7.14%, requiring current monthly principal repayments of approximately $32, secured by a first charge on parking revenue	1,544	1,900
Loan due June 30, 2021, interest at prime, requiring current monthly principal repayments of approximately $190, interest fixed at 3.42% through an interest rate swap contract, secured by a second charge on parking revenue	10,146	12,354
Loan due December 1, 2036, interest at 4.87%, requiring monthly principal payments of approximately $74 starting January 1, 2017, unsecured	29,777	30,000
	41,467	44,254
Less: Current portion	3,576	2,787
	37,891	41,467

In July 2000, the Hospital entered into a loan agreement as financing for a parking garage expansion. The loan is due November 1, 2020. The bank loan and interest rate swap due June 30, 2021 were entered into on June 30, 2011 as financing for the expansion of a parking garage and building.

On December 1, 2006, the Hospital entered into a fixed rate unsecured loan agreement, in the amount of $30 million, for a term of 30 years. The proceeds were used to primarily finance the construction of a new clinical administration building in Mississauga, Ontario. Interest only is payable, monthly in arrears, during the first ten years of the term beginning January 1, 2007. Principal repayments started January 1, 2017, at which time blended payments of principal and interest commenced.

Required principal repayments on the long-term debt are as follows:

	$
2018	3,575
2019	3,719
2020	3,867
2021	3,860
2022	1,751
Thereafter	24,695
	41,467

(in thousands of dollars)

8 Employee future benefits

Pension plan

HOOPP is a multi-employer best five consecutive year average pay defined benefit pension plan. Enrolment in HOOPP is mandatory for full-time staff on the hire date. Part-time employees may qualify for optional membership. Contributions made to the Plan during the year by the Hospital amounted to $41,957 (2016 - $38,866) and are included in salaries, wages and employee benefits in the statement of operations.

Employee future benefits

Certain employees of the Hospital are entitled to post-employment benefits. The Hospital recognizes the present value of its obligation from these benefits as they are earned. The date of the last actuarial valuation was March 31, 2017.

The annual cost of employee future benefits are included in salaries, wages and employee benefits expense in the statement of operations.

	2017 $	2016 $
Change in benefit obligation		
Accrued benefit obligation - Beginning of year	42,453	36,616
ONA past service cost	-	4,526
Adjusted accrued benefit obligations	42,453	41,142
Current period benefit cost	3,026	3,056
Interest on accrued benefits	1,445	1,301
Benefit payments	(2,011)	(1,674)
Actuarial gains	(9,587)	(1,372)
Accrued benefit obligation - End of year	35,326	42,453
Accrued benefit obligation - End of year	35,326	42,453
Unamortized actuarial gains (losses)	4,326	(5,776)
Accrued benefit liability - End of year	39,652	36,677
Expense recorded in the statement of operations		
Current period benefit cost	3,026	3,056
ONA past service cost	-	4,526
Amortization of actuarial losses - net	515	620
Interest expense	1,445	1,301
	4,986	9,503

(in thousands of dollars)

	2017 $	2016 $
Significant assumptions		
Discount rate - accrued benefit obligation (%)	3.30	3.25
Dental cost trend rate (%)	2.75	3.75
Extended health-care trend rates	see (a) below	see (b) below
Expected average remaining service life to retirement (years)	13	13

Extended health care trend rates are as follows:

a) 2019 - 6.0% in fiscal 2019; decreasing by 0.25% per annum to 4.5% per annum and thereafter in 2025.

b) 2016 - 7.0% in fiscal 2016; decreasing by 0.25% per annum to 4.75% and thereafter in 2025.

9 Related party transactions and balances

The Hospital is related to the THP Foundation and the THP Volunteers. The THP Volunteers support the volunteer programs directed by the volunteer services department of the Hospital and raise funds for the support of the Hospital. The THP Foundation raises funds to support operating initiatives and capital projects of the Hospital. The Hospital does not exercise control or significant influence over the THP Volunteers or the THP Foundation; consequently, the financial statements do not include the assets, liabilities, and activities of the THP Volunteers and the THP Foundation, which, although related to the Hospital, are not controlled by it.

Related party transactions during the year not separately disclosed in the financial statements include the following:

	2017			2016
	THP Foundation $	THP Volunteers $	Total $	Total $
Capital grants and contributions received during the year	2,124	-	2,124	389
Operating contributions	1,940	-	1,940	4,898
	4,064	-	4,064	5,287

During the year, the fair value of certain assets of THP Volunteers was transferred to the Hospital for $90.

In conjunction with two other hospitals, the Hospital is a member of West GTA Healthcare Shared Services Corporation, operating as Shared Services West (SSW). SSW is a not-for profit corporation, administered by a ten-member board including four voting members from the Hospital and four from the other member hospitals. During the year, the Hospital paid membership fees to SSW in the amount of $4,953 (2016 - $4,797). SSW provides purchasing, contract management and logistics services for the Hospital. During the year, the Hospital provided employee health and safety advisory services to SSW and charged $12 (2016 - $12) as well as $252 (2016 - $nil) for its project support services.

(in thousands of dollars)

10 Contingencies, commitments and guarantees

a) The Hospital is named in lawsuits from time to time. With respect to claims as at March 31, 2017, management believes the Hospital has valid defences and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Hospital's financial position.

b) The Hospital is a member of HIROC and, therefore, has an economic interest in HIROC. HIROC is a pooling of the 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 and these losses could be material. No 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 un-appropriated surplus at the time such distributions are declared by the Board of Directors at HIROC.

c) Effective January 1, 2015, the Hospital entered into an agreement with HIROC whereby HIROC will provide indemnity insurance to the Hospital; however, the cost of investigating and defending any litigation claim will be paid by the Hospital. The Hospital has appointed HML to act as agent for the Hospital for such claims in accordance with an Agency Agreement. Costs associated with claims arising prior to January 1, 2015 will be borne by HIROC. Projected costs of defending claims that arise subsequent to January 1, 2015 are based on claims defence costs incurred by HIROC in the past. In fiscal 2017, an additional $1,782 (2016 - $1,789) was recorded for claims defence costs and included in the financial statements as supplies and other expenses in the statement of operations.

d) The Hospital's current operating lease commitments for the following years are as follows:

	$
2018	546
2019	373
2020	200
2021	144
2022	125
2023 and thereafter	750
	2,138

e) 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

(in thousands of dollars)

the period over which the indemnified party served as a director or officer of the Hospital. The maximum amount of any potential future payment cannot be reasonably estimated.

11 Financial instruments

Establishing fair value

The fair value of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reported borrowing date. In situations in which there is no market for these guarantees and they were issued without explicit costs, it is not practicable to determine their fair value with sufficient reliability.

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 following table presents for each of the fair value hierarchies, the assets and liabilities that are measured at fair value on a recurring basis as at March 31, 2017:

	Fair value asset (liability) $	Level 1 $	Level 2 $	Level 3 $
Cash	174,848	174,848	-	-
Restricted cash	10,408	10,408	-	-
Short-term investments	8,336	8,336	-	-
Investments in equity securities	5,958	5,598	-	-
Investments in fixed income securities	10,177	-	10,177	-
Interest rate swaps	(371)	-	(371)	-

(in thousands of dollars)

The following table presents for each of the fair value hierarchies, the assets and liabilities that are measured at fair value on a recurring basis as at March 31, 2016:

	Fair value asset (liability) $	Level 1 $	Level 2 $	Level 3 $
Cash	186,010	186,010	-	-
Restricted cash	9,482	9,482	-	-
Short-term investments	7,361	7,361	-	-
Investments in equity securities	5,502	5,502	-	-
Investments in fixed income securities	10,105	-	10,105	-
Interest rate swaps	(669)	-	(669)	-

Risks arising from financial instruments and risk management

The Hospital is exposed to a variety of financial risks including credit risk, liquidity risk and market risk. The Hospital's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Hospital's financial performance.

Credit risk

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

The Hospital's credit risk is primarily attributable to its receivables. The amounts disclosed in the statement of financial position are net of an allowance for doubtful accounts, estimated by the management of the Hospital based on previous experience and its assessment of the current economic environment. The Hospital does not have any significant past due accounts receivable that are not provided for. The Hospital is exposed to credit risk in the event of non-payment by patients for non-insured services and services provided to non-resident patients. The risk is common to hospitals as they are required to provide care to patients regardless of their ability to pay for the services provided.

As at March 31, 2017, the following patient accounts receivable were past due but not impaired:

	30 days $	60 days $	90 days $	120 days $
Accounts receivable	8,253	2,492	832	857

The credit risk on cash and investments is limited because the counterparties are chartered banks with high credit ratings assigned by national credit rating agencies.

(in thousands of dollars)

Liquidity risk

Liquidity risk results from the Hospital's potential inability to meet its obligations associated with the financial liabilities as they come due. The Hospital monitors its operations and cash flows to ensure current and future obligations will be met. The Hospital believes its current sources of liquidity are sufficient to cover its currently known short and long-term cash obligations.

The table below is a maturity analysis of the Hospital's financial liabilities:

	To 1 year $	1 year to 5 years $	More than 5 years $	Total $
Accounts payable and accrued liabilities	111,398	-	-	111,398
Other long-term	-	72,707	-	72,707
Long-term debt	5,414	21,356	32,314	59,084

Market risk

The Hospital is exposed to interest rate risk and price risk with regard to its short and long-term investments and interest rate risk on its long-term debt, all of which are regularly monitored. The interest rate risk on long-term debt is mitigated through interest rate swap contracts (note 7).

12 Reclassification of comparative figures

Certain of the prior year comparative figures relating to cash and investments have been reclassified to conform to the current year's financial statement presentation.