Financial statements of

St. Joseph's Health Centre

March 31, 2017

St. Joseph’s Health Centre
March 31, 2017

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ST JOSEPH'S
HEALTH CENTRE TORONTO

June 1, 2017

Management's Report

To the Members of and the Board of Directors of
St. Joseph's Health Centre

The accompanying financial statements of St. Joseph's Health Centre (the "Health Centre") have been prepared by, and are the responsibility of management. The financial statements have been prepared in accordance with Canadian public sector accounting standards. The accounting policies selected by management are considered to be the most appropriate to fairly represent the Health Centre's financial affairs. The preparation of financial statements necessarily involves management judgement and estimates of expected outcomes of current events and transactions with appropriate consideration to materiality.

The Health Centre maintains a system of internal accounting and financial controls designed to provide reasonable assurance about the reliability of financial data, to ensure adequate control over transactions, and to safeguard the assets of the Health Centre. This system of internal controls includes formal written accounting and administrative policies and procedures and an organizational structure that provides an appropriate division of responsibilities and authority. Management recognizes the inherent risk in any system and believes the overall systems and controls provide reasonable assurance as to the integrity of the financial statements.

The members of the Health Centre and the Board of Directors have appointed Deloitte LLP as the Health Centre's auditors. Their accompanying report is based on an examination conducted in accordance with Canadian generally accepted auditing standards.

Elizabeth Buller
President and CEO

David Graham
VP Corporate Services and Chief Planning and
Development Officer

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Independent Auditor's Report

To the Board of Directors and Members of
St. Joseph's Health Centre

We have audited the accompanying financial statements of St. Joseph's Health Centre, which comprise the statement of financial position as at March 31, 2017, the statements of operations, changes in net assets, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in 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 St. Joseph's Health Centre as at March 31, 2017 and the results of its operations, its re-measurement gains and losses, and its cash flows for the then year ended, in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 1, 2017

St. Joseph's Health Centre

Statement of financial position
As at March 31, 2017
(In thousands of dollars)

	2017	2016
	$	$
Assets		
Current assets		
Cash	**14,256**	24,028
Short-term investments (Note 15)	**-**	2,826
Accounts receivable (Note 5)	**8,768**	10,663
Inventories	**1,476**	1,791
Prepaid expenses	**1,783**	3,549
	26,283	42,857
Restricted cash (Note 4)	**1,731**	1,110
Pension benefits - registered plan (Note 8)	**12,811**	776
Property, plant and equipment (Note 6)	**178,434**	174,593
	219,259	219,336
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**13,324**	12,597
Accrued salaries and employee deductions	**13,577**	12,988
Accrued vacation and sick leave benefits	**8,127**	8,365
Current portion of long-term liabilities	**61**	71
Due to Ministry of Health/Toronto Central LHIN	**1,372**	2,229
Deferred revenue	**2,569**	2,766
	39,030	39,016
Pension benefits - supplementary plan (Note 8)	**10,909**	9,875
Other post-employment benefits (Note 8)	**11,427**	10,569
Provision for sick leave benefits	**66**	75
Legal defense fund (Note 14(a))	**1,334**	813
Other long-term liabilities	**17**	61
Deferred capital contributions (Note 9)	**105,457**	106,567
	168,240	166,976
Net assets		
Invested in property, plant and equipment (Note 10(a))	**72,977**	68,026
Internally restricted (Note 11)	**-**	10,000
Unrestricted	**(21,958)**	(26,120)
Total net assets	**51,019**	51,906
Accumulated remeasurement gains	**-**	454
Total liabilities and net assets and accumulated remeasurement gains	**219,259**	219,336

Contingencies and commitments (Note 14)

Approved by the Board

______________________ Director

______________________ Director

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

St. Joseph's Health Centre

Statement of operations
For the year ended March 31, 2017
(In thousands of dollars)

	2017	2016
	$	$
Revenues		
Ministry of Health/Toronto Central LHIN		
Grants	**238,377**	239,331
Other votes and programs	**6,037**	6,040
Patient revenue from other payers	**22,450**	21,432
Other income	**19,894**	17,066
Amortization of deferred capital contributions	**968**	1,067
	287,726	284,936
Expenses		
Salaries, wages and employee benefits	**204,673**	201,467
Medical and surgical supplies	**14,462**	14,918
Drugs and medical gases	**13,368**	13,498
Other supplies and expenses	**45,102**	42,295
Amortization of equipment	**7,564**	8,022
	285,169	280,200
Surplus for the year before the undernoted items	**2,557**	4,736
Amortization of deferred building and building service equipment contributions	**3,995**	3,892
Less: Amortization of buildings and building service equipment	**(7,439)**	(7,188)
(Deficit) surplus for the year	**(887)**	1,440

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

St. Joseph's Health Centre

Statement of changes in net assets

For the year ended March 31, 2017

(In thousands of dollars)

				2017	2016
	Invested in property plant and equipment	Unrestricted	Internally restricted	Total	Total
	$	$	$	$	$
Net assets, beginning of year	**68,026**	**(26,120)**	**10,000**	**51,906**	50,466
(Deficit) surplus for the year	**(10,040)**	**9,153**	**-**	**(887)**	1,440
Interfund transfer (Note 11)	**-**	**10,000**	**(10,000)**	**-**	-
Invested in property, plant and equipment (Note 10(b))	**14,991**	**(14,991)**	**-**	**-**	-
Net assets, end of year	**72,977**	**(21,958)**	**-**	**51,019**	51,906

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

St. Joseph's Health Centre

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	**454**	607
Change in unrealized (losses)/gains during the year	**(10)**	(20)
Realized gains recognized in the statement of operations during the year	**(444)**	(133)
Accumulated remeasurement gains, end of year	**-**	454

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

St. Joseph's Health Centre
Statement of cash flows
For the year ended March 31, 2017
(In thousands of dollars)

	2017	2016
	$	$
Operating activities		
(Deficit) surplus for the year	**(887)**	1,440
Realized gains on investments, recognized in the statement of operations during the year	**(444)**	(133)
Items not affecting cash		
Amortization of property, plant and equipment	**15,003**	15,210
Pension and other post-employment benefits expense	**4,092**	4,248
Amortization of deferral capital contributions	**(4,963)**	(4,959)
Net change in sick leave provision	**(9)**	(75)
Net change in legal defense fund	**521**	628
Net change in non-cash working capital balances (Note 12)	**3,537**	(9,917)
	16,850	6,442
Capital activity		
Purchase of property, plant and equipment (net of change in accounts payable related to purchase of property, plant and equipment of $409 (2016 - $1,006))	**(18,435)**	(15,285)
	(18,435)	(15,285)
Financing activities		
Proceeds from redemption of short-term investments	**2,816**	-
Contributions received for capital purposes	**3,853**	3,495
Employer pension and other post-employment benefits contributions	**(14,235)**	(14,173)
Contributions to restricted cash - legal defense fund	**(621)**	(1,110)
	(8,187)	(11,788)
Net decrease in cash	**(9,772)**	(20,631)
Cash, beginning of year	**24,028**	44,659
Cash, end of year	**14,256**	24,028

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

1. Operations

St. Joseph's Health Centre (the "Health Centre") was incorporated under the Corporations Act (Ontario) on November 28, 1994 as a corporation without share capital. The Health Centre is principally involved in providing health-care services to southwest Toronto. The Health Centre 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.

2. Basis of presentation

Nature of the Health Centre

The Health Centre is a Catholic facility founded by the Sisters of St. Joseph of Toronto. It is governed and operated within the philosophy and values of the Sisters of St. Joseph and is currently sponsored by the Catholic Health Corporation of Ontario ("CHCO"). The members of the Board of Directors of the CHCO are also the members of the St. Joseph's Health Centre Corporation.

Ownership of land and buildings

As part of the incorporation process, legal title of the land and buildings of the Health Centre was retained by the Sisters. Shortly after the date of incorporation, the Health Centre entered into a lease agreement with the Sisters for the land and buildings. The lease calls for annual nominal rent and expired December 31, 2015. An agreement has been reached regarding the annual rent which remains at a nominal rate, and the term of the lease renewal is under negotiation. Though there are no legally enforceable renewal periods, it is the intention of both the Health Centre and the Sisters to negotiate in good faith a renewal period. The terms of the lease agreement grant the Health Centre exclusive control over the leased premises to carry out the operations of the Health Centre. Prior to entering into the lease agreement, the Health Centre was responsible for all capital and operating costs associated with the premises. Under the terms of the lease agreement, the Health Centre continues to maintain responsibility for these same costs throughout the term of the lease.

The Health Centre has effectively maintained all of the risks and benefits of ownership arising from the land and buildings throughout the lease term. As such, the land and buildings continue to be accounted for in the financial statements of the Health Centre at their historical net book value. In addition, the buildings will continue to be amortized over their estimated useful lives regardless of the lease expiration date.

St. Joseph's Health Centre Foundation

These financial statements do not include the assets, liabilities and activities of the St. Joseph's Health Centre Foundation of Toronto (the "Foundation"), which although related to the Health Centre, is not controlled by it.

3. Summary of significant accounting policies

A summary of the significant accounting policies is as follows. The financial statements are prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Revenue recognition

The Health Centre follows the deferral method of accounting for contributions, which includes donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Under the Health Insurance Act (Ontario) and the regulations thereunder, the Health Centre is funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ministry of Health and Long-Term Care (the "Ministry of Health") through the Hospital Service Accountability Agreement with the Toronto Central Local Health Integration Network (the "Toronto Central 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 the subsequent period, unless the Ministry of Health/Toronto Central LHIN makes a request for funds to be repaid, at which time the amounts are reclassified as amounts due to the Ministry of Health/Toronto Central LHIN.

Restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions received subsequent to April 1, 1990, which are restricted for the purchase of property, plant and equipment (including interest earned that is explicitly required to be used for the purchase of property, plant and equipment), are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related property, plant and equipment. The dollar amounts of capital grants received prior to April 1, 1990 were not readily determinable and therefore any pre-April 1, 1990 capital grant contributions would be included in the unrestricted net asset balance.

To the extent that Ministry of Health/Toronto Central LHIN funding has been received with the stipulated requirement that the Health Centre provides specific services, and these services have not yet been provided, the funding is deferred until such time as the services are performed.

Investment income earned on unspent Ministry of Health/Toronto Central LHIN capital grants is recognized as an increase in deferred capital contributions and is considered restricted to these purposes. Unrestricted investment income, which consists of interest, income distributions from pooled funds and realized gains and losses, is recognized as revenue when earned. Unrealized gains and losses are recorded in the statement of remeasurement gains and losses.

Revenue from patient revenue from other payers, preferred accommodation and co-payment revenues, and marketed services is recognized when the goods are sold or the service is provided.

Investments

Short-term investments are comprised of mutual funds.

Inventories

Inventories consist primarily of hospital supplies held for patient care and are recorded at the lower of cost and current replacement cost. Cost is determined by the first-in, first-out method.

3. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost. Contributed property, plant and equipment are recorded at fair value at the date of contribution. Expenditures for new facilities or those expenditures that substantially increase the useful lives of existing property, plant and equipment are capitalized. Renovation costs to maintain normal operating efficiency are expensed as incurred. Maintenance, repairs and minor replacements are also expensed as incurred. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets at the following rates:

Land improvements	10 to 20 years
Buildings	10 to 50 years
Building equipment	5 to 25 years
Equipment	3 to 20 years

Construction-in-progress consists of direct construction and development costs. No amortization is recorded until construction is substantially complete and the assets are brought into service.

Gains or losses on dispositions are included in the statement of operations in the year of disposal.

Employee benefit plans

The Health Centre administers the St. Joseph's Health Centre Pension Plan, which is a contributory defined benefit final average pay plan. Substantially all of the Health Centre's employees belong to this plan. The Health Centre also administers the St. Joseph's Health Centre Supplementary Retirement Plan, which is unfunded and provides benefits for members in excess of limits imposed by the Income Tax Act.

In addition to the pension plans, the Health Centre administers a post-employment benefits plan for full-time Ontario Nurses' Association employees and Canadian Union of Public Employees who retire from active service.

The discount rate used to determine the accrued benefit obligation for the Pension Plan is determined by reference to the rate of return of plan assets. The discount rate used to determine the accrued benefit obligation for the Supplementary Retirement Plan and Other post-retirement benefits plan is determined by reference to the Health Centre's cost of borrowing. Actuarial gains and losses are amortized using the straight-line method over the expected average remaining service life of active employees.

The Health Centre contributes to the pension plan in accordance with regulatory requirements.

Internally restricted net assets

Internally restricted net assets include certain fund surpluses designated for specific purposes by the Board of Directors.

Contributed services and materials

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

3. Summary of significant accounting policies (continued)

Financial instruments

Financial instruments reported on the Statement of financial position of the Health Centre are measured as follows:

Financial instrument	Measurement
Cash	Fair value
Restricted cash	Fair value
Investments	Fair value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Accrued salaries and employee decuctions	Amortized cost
Accrued vacation and sick leave benefits	Amortized cost
Due to the Ministry of Health/Toronto Central LHIN	Amortized cost

Under Public Sector Accounting Standard 3450, unrealized changes in fair value are recognized in the Statement of remeasurement gains and losses until they are realized, when they are transferred to the Statement of operations. Transaction costs related to financial instruments in the fair value category are expensed as incurred.

Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from accumulated remeasurement gains and losses, and recognized into the Statement of operations. On sale or disposal, the amount held in accumulated remeasurement gains and losses associated with that instrument is removed from accumulated remeasurement gains and losses and recognized in the Statement of operations.

Financial instruments measured at amortized cost are carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Write downs on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to recoverable value with the write down being recognized in the Statement of Operations.

Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards for government not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are subject to significant measurement uncertainty. For all estimates, actual results could differ from those estimates. Accounts involving significant estimates include accounts receivable, accounts payable and accrued liabilities, sick leave provision, legal defense fund, property, plant & equipment, deferred revenue, pension benefits and other employee future benefits.

(In thousands of dollars)

4. Restricted cash

Effective January 1, 2015, St Joseph's Health Centre entered into an agreement with Health Care Insurance Reciprocal of Canada (HIROC) whereby the costs of investigating and defending any litigation claims are borne by the Health Centre. To fund the expected costs, St. Joseph's Health Centre transfers funds to an operating account managed by HIROC Management Limited (HML) as St. Joseph's Health Centre's appointed agent. The cash balance of $1,731 (2016 - $1,110) is restricted for these costs.

5. Accounts receivable

Accounts receivable consists of the following:

	2017	2016
	$	$
Patients and other	**6,427**	5,422
Ministry of Health/Toronto Central LHIN	**2,200**	2,363
St. Joseph's Health Centre Foundation	**141**	2,878
	8,768	10,663

6. Property, plant and equipment

Property, plant and equipment consist of the following:

	2017	2016
	$	$
Cost		
Land and land improvements	**2,043**	2,043
Buildings and building equipment	**263,255**	256,549
Equipment	**143,870**	134,763
Construction-in-progress	**6,822**	3,791
	415,990	397,146
Accumulated amortization		
Land improvements	**546**	546
Buildings and building equipment	**129,569**	122,130
Equipment	**107,441**	99,877
	237,556	222,553
	178,434	174,593

Expenses incurred to date on the Health Centre's electronic health record technology platform, eCare are $21,966 (2016 - $21,836). Phase I of the project has been completed, and a substantial portion of Phase II has also been completed; as such, all Phase I and certain Phase II related costs, totalling $20,631, have been classified under Equipment, while the remaining Phase II costs are classified under Construction-in-progress.

(In thousands of dollars)

7. Line of credit

The Health Centre has a $10,000 unsecured, revolving demand line of credit with a Canadian bank. During the year, the Heath Centre utilized $520 (2016 - $Nil) from the line of credit, which was fully repaid by the end of the year. Interest incurred relating to the line of credit totalled $1 (2016 - $Nil).

8. Pension and other post-employment benefits

Information about the Health Centre's pension plans is calculated as at December 31, 2016, the fiscal year-end of the pension plan. The details of the Health Centre's pension plans and other post-employment benefits are as follows:

			2017
	Registered pension plan	**Supplementary pension plan**	**Other post-employment benefits**
	$	**$**	**$**
Reconciliation of funded status to accrued benefit (asset) liability			
Accrued benefit obligation	**543,566**	**13,215**	**10,555**
Fair value of plan assets	**592,642**	**-**	**-**
Funded status - (surplus) deficit	**(49,076)**	**13,215**	**10,555**
Unamortized actuarial gain (loss)	**40,890**	**(2,220)**	**872**
Contributions made between January 1 and March 31	**(4,625)**	**(86)**	**-**
Employee future benefits (asset) liability	**(12,811)**	**10,909**	**11,427**
Change in employee future benefits			
Employee future benefits, beginning of year	**(776)**	**9,875**	**10,569**
Benefit expense for the year	**1,704**	**1,374**	**1,014**
Employer contributions	**(13,739)**	**(340)**	**(156)**
Employee future benefits, end of year	**(12,811)**	**10,909**	**11,427**
Benefits paid to beneficiaries during the year	**21,788**	**338**	**156**
Components of benefit expense (recovery) for the year			
Current service cost	**12,334**	**589**	**541**
Interest cost	**31,190**	**470**	**380**
Expected return on plan assets	**(34,020)**	**-**	**-**
Amortizations of actuarial (gains) losses	**(7,800)**	**315**	**93**
Benefit expense for the year	**1,704**	**1,374**	**1,014**

(In thousands of dollars)

8. Pension and other post-employment benefits (continued)

	2016		
	Registered pension plan	Supplementary pension plan	Other post-employment benefits
	$	$	$
Reconciliation of funded status to accrued benefit (asset) liability			
Accrued benefit obligation	499,772	12,450	10,594
Fair value of plan assets	557,124	-	-
Funded status - (surplus) deficit	(57,352)	12,450	10,594
Unamortized actuarial gain (loss)	60,440	(2,491)	(25)
Contributions made between January 1 and March 31	(3,864)	(84)	-
Employee future benefits (asset) liability	(776)	9,875	10,569
Change in employee future benefits			
Employee future benefits, beginning of year	13,168	8,618	7,807
Benefit expense for the year	(224)	1,594	2,878
Employer contributions	(13,720)	(337)	(116)
Employee future benefits, end of year	(776)	9,875	10,569
Benefits paid to beneficiaries during the year	23,990	325	116
Components of benefit expense (recovery) for the year			
Current service cost	10,259	851	614
Interest cost	30,608	377	338
Plan amendments	-	-	1,812
Expected return on plan assets	(33,292)	-	-
Amortizations of actuarial (gains) losses	(7,799)	366	114
Benefit expense for the year	(224)	1,594	2,878

(In thousands of dollars)

St. Joseph's Health Centre

8. Pension and other post-employment benefits (continued)

The significant actuarial assumptions adopted in measuring the Health Centre's accrued benefit obligations for the defined benefit plans are as follows:

	2017	2016
	%	%
Discount rate - Registered pension plan	**5.95**	6.30
Discount rate - Supplementary pension plan	**3.55**	3.65
Discount rate - Other post-retirement benefits	**3.55**	3.65
Expected return on plan assets	**6.10**	6.30
Range for age related compensation increases	**4.05-0.6**	4.05-0.65

The expected annual increase in medical and dental costs applicable to the post-employment benefits was 7.59% at the end of 2017 (2016 - 7.59%) decreasing over thirteen years to an ultimate rate of 4.5%

The last actuarial valuation for accounting purposes for the registered and supplementary pension plans was as of December 31, 2014 and for the other post-retirement benefits was as of March 31, 2016.

9. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of contributions received, which were specified for the purchase of property, plant and equipment. The amortization of these contributions is recorded as revenue in the statement of operations.

	2017			2016
	Foundation	Ministry of Health/ Toronto Central LHIN	Total	Total
	$	$	$	$
Balance, beginning of year	**11,373**	**95,194**	**106,567**	108,031
Contributions received, including transfer from capital grants received in advance	**2,346**	**1,507**	**3,853**	3,495
Amounts amortized into revenue	**(1,361)**	**(3,602)**	**(4,963)**	(4,959)
Balance, end of year	**12,358**	**93,099**	**105,457**	106,567

(In thousands of dollars)

10. Net assets invested in property, plant and equipment

(a) Net assets invested in property, plant and equipment is comprised of the following:

	2017	2016
	$	$
Property, plant and equipment	**178,434**	174,593
Less amounts funded by deferred capital contributions, net of capital funding received in advance	**(105,457)**	(106,567)
	72,977	68,026

(b) The net change in net assets invested in property, plant and equipment is calculated as follows:

	2017	2016
	$	$
Purchase of property, plant and equipment	**18,844**	16,291
Amounts funded by deferred capital contributions	**(3,853)**	(3,495)
	14,991	12,796

11. Internally restricted net assets

Internally restricted net assets include certain fund surpluses designated for specific purposes by the Board of Directors. An amount of $10,000 has been approved by the Board of Directors to be used for redevelopment and IT infrastructure upgrades. During 2017, the Health Centre approved an interfund transfer of $10,000 (2016 - $nil) for the designated purpose.

12. Net change in non-cash working capital balances

The changes in working capital items are as follows:

	2017	2016
	$	$
Accounts receivable	**1,895**	(2,357)
Inventories	**315**	66
Prepaid expenses	**1,766**	(1,482)
Accounts payable and accrued liabilities (net of changes in accounts payable related to purchase of property, plant and equipment of $409 (2016 - $1,006)	**318**	(2,627)
Accrued salaries and employee deductions	**589**	2,330
Accrued vacation and sick leave benefits	**(238)**	280
Current portion of long-term liabilities	**(10)**	3
Other long-term liabilities	**(44)**	(129)
Due to Ministry of Health/Toronto Central LHIN	**(857)**	(5,157)
Deferred revenue	**(197)**	(844)
	3,537	(9,917)

(In thousands of dollars)

13. Related party transactions

(a) Related party transactions in the normal course of operations between the Health Centre and various related parties measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, were as follows:

	2017	2016
	$	$
Capital donations received from the Foundation	**2,346**	2,013
Non-capital donations received from the Foundation	**211**	182
Reimbursements received from the Foundation of operating expenditures paid by Health Centre on behalf of the Foundation	**2,896**	4,242
Payments to Plexxus	**1,864**	1,744

(b) The Health Centre has an economic interest in the Foundation. The objectives of the Foundation are to “receive and maintain funds for the benefit of the Health Centre through the enhancement or improvement of facilities or the services provided by the Health Centre.”

(c) At March 31, 2017, there is $148 (2016 - $2,878) receivable from the Foundation representing the reimbursement of operating expenditures paid by the Health Centre on behalf of the Foundation.

(d) The Health Centre has an economic interest in Plexxus. The objectives of Plexxus are to improve service levels and maximize non-clinical efficiencies, resulting in savings for members that will be reinvested in direct patient care.

(e) On incorporation of the Health Centre, a lease agreement was established with the owners, the Sisters of St. Joseph of Toronto, for the land and buildings. The lease requires a monthly nominal payment of one dollar, expired December 31, 2015, and renewal is under negotiation. The Health Centre is responsible for all occupancy costs including leasehold improvements.

(In thousands of dollars)

14. Contingencies and commitments

(a) The Health Centre is a member of the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the public liability insurance risks of its members. All members of the pool pay annual deposit premiums, which are actuarially determined and are expensed in the current year. These premiums are subject to further assessment for experience gains and losses, by the pool, for the years in which the Health Centre was a member. 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 premiums plus investment income over the obligation for their allocation of claims reserves and 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 of HIROC. There are no distributions receivable from HIROC as at March 31, 2017.

(b) From time to time, the Health Centre is named in lawsuits related to its activities. It is not possible to determine the merits of these claims or to estimate the possible financial liability, if any, to the Health Centre. Accordingly, no provision for loss has been made in these financial statements, but in management's view, these claims should not have a material adverse effect on the financial position of the Health Centre.

(c) Future minimum operating lease payments, relating primarily to the off-site Renal Centre, are as follows:

	$
2018	402
2019	405
2020	409
2021	409
2022	409
Thereafter	546
	2,580

(d) The Health Centre has outstanding contractual commitments for capital expenditures amounting to approximately $1,750 (2016 - $7,660).

15. Financial instruments and risk management

The Health Centre, through its exposure to financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk and credit risk. The Health Centre has policies that establish thresholds on concentration of investment holdings, minimum credit ratings and varying terms of the securities held.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by the Health Centre.

Credit risk

The Health Centre's principal financial assets are short-term investments, and accounts receivable, all of which are subject to credit risk. The carrying amount of financial assets on the statement of financial position represents the Health Centre's maximum credit exposure at the balance sheet date.

The Health Centre's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the statement of financial position are net of allowance for doubtful accounts, estimated by management based on previous experience and its assessment of the current economic environment. The credit risk on investments is limited due to the conservative nature of the Health Centre's investment policies.

The Health Centre's financial instruments consist of cash, investments, accounts receivable, accrued salaries and employee deductions, accrued vacation and sick leave benefits, and accounts payable and accrued liabilities.

Investments are carried at fair value. Cash, restricted cash, accounts receivable, long-term receivable, accounts payable and all other accrued liabilities are carried at amortized cost.

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.

15. Financial instruments and risk management (continued)

Credit risk (continued)

The following table presents the financial instruments recorded at fair value in the Statement of financial position, classified using the fair value hierarchy described above:

Financial assets at fair value as at (in thousand dollars)				**2017**
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Short-term investments	-	-	-	-

Financial assets at fair value as at (in thousand dollars)				2016
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Short-term investments	2,826	-	-	2,826

16. Proposed integration

On January 30, 2017, the Health Centre's Board of Directors approved the signing of a trilateral Memorandum of Understanding with Providence Healthcare and St. Michael's Hospital to begin a voluntary integration exploration between the three organizations. The intent is to create a health network with a single governance and management model that provides value for patients by improving hospital operations, delivering the best in quality health care and responding to changing community needs.

17. Comparative figures

Certain comparative figures have been reclassified from financial statements previously presented to conform to the presentation of the current year financial statements. Balances reclassified include cash and restricted cash.