

# **Markham Stouffville Hospital**

Financial Statements  
**March 31, 2015**



June 16, 2015

## **Independent Auditor's Report**

### **To the Board of Directors of Markham Stouffville Hospital**

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

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

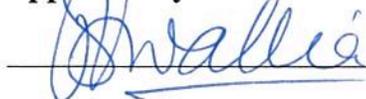
# Markham Stouffville Hospital

## Statement of Financial Position

As at March 31, 2015

	2015 \$	2014 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash (note 3)	44,953,252	30,227,439
Due from MOHLTC and LHIN	494,304	11,324,356
Accounts receivable (note 14(b))	10,408,044	10,085,732
Prepaid expenses (note 5)	3,138,715	2,275,172
Inventories	485,963	764,283
	<u>59,480,278</u>	<u>54,676,982</u>
<b>Investment in joint venture</b> (note 4)	77,483	91,856
<b>Capital assets</b> (note 6)	370,059,929	298,442,789
<b>Other long-term assets</b> (note 5)	26,159,061	26,672,835
	<u>455,776,751</u>	<u>379,884,462</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	29,920,628	34,707,087
Current portion of long-term debt (note 8)	6,920,620	7,505,516
Due to MOHLTC and LHIN	5,833,008	596,043
Deferred revenue (note 7)	3,620,524	3,717,813
	<u>46,294,780</u>	<u>46,526,459</u>
<b>Long-term debt</b> (note 8)	31,024,045	32,429,111
<b>Derivative liability</b> (note 8)	1,803,692	44,966
<b>Deferred grants and contributions</b> (note 9)	324,809,719	253,169,550
<b>Employee future benefits</b> (note 10)	2,300,500	2,101,700
	<u>406,232,736</u>	<u>334,271,786</u>
<b>Net Assets</b>		
<b>Net assets</b>	51,347,707	45,657,642
<b>Accumulated remeasurement losses</b>	(1,803,692)	(44,966)
	<u>49,544,015</u>	<u>45,612,676</u>
	<u>455,776,751</u>	<u>379,884,462</u>
<b>Contingencies and commitments</b> (note 11)		

Approved by the Board of Directors



Director



Director

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

# Markham Stouffville Hospital

## Statement of Changes in Net Assets

For the year ended March 31, 2015

				2015	2014
	Investment in capital assets \$ (note 12)	Internally restricted funds \$ (note 13)	Operating fund - unrestricted \$	Total \$	Total \$
<b>Balance - Beginning of year</b>	35,679,523	2,025,000	7,953,119	45,657,642	45,497,131
Excess of revenue over expenditures before the following items	-	-	9,808,761	9,808,761	3,912,517
Depreciation of capital assets	(19,901,740)	-	-	(19,901,740)	(16,299,893)
Amortization of deferred contributions	15,361,703	-	-	15,361,703	12,370,982
Gain on disposal of capital assets	421,341	-	-	421,341	176,905
	(4,118,696)	-	9,808,761	5,690,065	160,511
Purchase of capital assets	91,592,164	-	(91,592,164)	-	-
Proceeds on disposal of capital assets	(494,625)	-	494,625	-	-
Proceeds from long-term debt	7,506,962	-	(7,506,962)	-	-
Payment of long-term debt	(5,517,000)	-	5,517,000	-	-
Deferred contributions received in current year and spent	(87,384,614)	-	87,384,614	-	-
Deferred contributions received in prior year and spent	(6,834,835)	-	6,834,835	-	-
Interfund transfers	-	22,275	(22,275)	-	-
	(5,250,644)	22,275	10,918,434	5,690,065	160,511
<b>Balance - End of year</b>	30,428,879	2,047,275	18,871,553	51,347,707	45,657,642

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

# Markham Stouffville Hospital

## Statement of Operations

For the year ended March 31, 2015

	2015 \$	2014 \$
<b>Revenue</b>		
Patient income		
MOHLTC and LHIN	157,001,141	139,186,216
Other agencies and patients	25,773,987	23,761,154
Amortization of deferred contributions - equipment (note 9)	9,309,514	8,113,426
Investment income	376,096	297,329
Other income	11,644,501	12,478,616
Special programs (note 15(a))	8,956,096	9,200,893
	<u>213,061,335</u>	<u>193,037,634</u>
<b>Expenditures</b>		
Salaries and wages	93,868,600	86,463,922
Medical staff remuneration	17,335,313	16,039,449
Employee benefits	25,138,496	23,794,919
Medical and surgical supplies	9,133,171	8,149,894
Drugs	7,025,111	6,506,622
Other supplies and expenses	30,624,205	29,087,292
Depreciation of capital assets - equipment	10,810,842	9,497,375
Special programs (note 15(a))	8,910,246	9,251,644
	<u>202,845,984</u>	<u>188,791,117</u>
<b>Excess of revenue over expenditures before the undernoted items</b>	10,215,351	4,246,517
<b>Amortization of deferred contributions - buildings (note 9)</b>	6,052,189	4,257,556
<b>Depreciation of capital assets - buildings</b>	(9,090,898)	(6,802,518)
<b>Interest expense on medical office building and redevelopment</b>	(1,486,577)	(1,541,044)
	<u>5,690,065</u>	<u>160,511</u>
<b>Excess of revenue over expenditures for the year</b>		

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

**Markham Stouffville Hospital**  
Statement of Remeasurement Gains and Losses  
For the year ended March 31, 2015

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	2015 \$	2014 \$
<b>Accumulated remeasurement losses - Beginning of year</b>	(44,966)	(716,597)
Unrealized (losses) gains attributable to derivatives (note 8)	(1,758,726)	671,631
<b>Accumulated remeasurement losses - End of year</b>	<u>(1,803,692)</u>	<u>(44,966)</u>

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

# Markham Stouffville Hospital

## Statement of Cash Flows

For the year ended March 31, 2015

	2015 \$	2014 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenue over expenditures for the year	5,690,065	160,511
Items not affecting cash		
Depreciation of capital assets	19,901,740	16,299,893
Amortization of deferred contributions (note 9)	(15,361,703)	(12,370,982)
Employee future benefits expense (note 10)	315,900	316,000
Gain on disposal of capital assets	(421,341)	(176,905)
Employee future benefits paid	(117,100)	(129,800)
	<u>10,007,561</u>	<u>4,098,717</u>
Changes in non-cash working capital balances		
Due from MOHLTC and LHIN	10,830,052	(10,536,856)
Accounts receivable	(322,312)	5,187,383
Prepaid expenses and other long-term assets	(349,769)	31,770
Inventories	278,320	531,722
Accounts payable and accrued liabilities	(4,786,459)	10,760,519
Due to MOHLTC and LHIN	5,236,965	(326,565)
Deferred revenue	(97,289)	1,917,813
	<u>20,797,069</u>	<u>11,664,503</u>
<b>Financing activities</b>		
Proceeds from long-term debt	5,517,000	-
Repayment of long-term debt	(7,506,962)	(1,766,139)
Deferred grants and contributions received - ongoing programs	87,384,614	18,717,181
Transferred out from grants	(382,742)	-
	<u>85,011,910</u>	<u>16,951,042</u>
<b>Capital activities</b>		
Purchase of capital assets	(91,592,164)	(37,752,618)
Proceeds on disposal of capital assets	494,625	182,811
	<u>(91,097,539)</u>	<u>(37,569,807)</u>
<b>Investing activities</b>		
Investment in joint ventures	14,373	(45,230)
	<u>14,725,813</u>	<u>(8,999,492)</u>
<b>Change in cash during the year</b>	<u>14,725,813</u>	<u>(8,999,492)</u>
<b>Cash - Beginning of year</b>	<u>30,227,439</u>	<u>39,226,931</u>
<b>Cash - End of year</b>	<u>44,953,252</u>	<u>30,227,439</u>

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

# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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### 1 Operations

Markham Stouffville Hospital (the Hospital) is principally involved in providing hospital based health-care services to the southeast York Region and northwest Durham Region on two sites in Markham and Uxbridge. 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.

The Hospital is primarily funded by the Province of Ontario in accordance with the 2008-10 Hospital Service Accountability Agreement and its subsequent amending agreements up to March 31, 2015, between the Hospital and the Central Local Health Integration Network.

These financial statements include the assets, liabilities and activities of the Hospital. The financial statements do not include the activities of Markham Stouffville Hospital Foundation (MSH Foundation) and Uxbridge Cottage Hospital Foundation (UCH Foundation), which are non-controlled not-for-profit entities (note 14).

### 2 Summary of significant accounting policies

#### Basis of presentation

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards, including accounting standards that apply only to government not-for-profit organizations.

These financial statements reflect fund accounting and separately disclose the activities of the following funds maintained by the Hospital:

- Operating fund - activities related to day-to-day care provided by the Hospital.
- Internally restricted funds - these funds represent internally restricted funds designated by the Board of Directors (the Board). Investment income earned by these funds, which is recorded in the operating fund, is also considered Board designated. The funds currently comprise an education bursary fund, which holds funds set aside by the Board to provide employees with financial support for approved educational programs.
- Investment in capital assets - the resources the Hospital has invested in its capital assets.

#### 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.

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 Ontario Ministry of Health

# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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and Long-Term Care (MOHLTC)/Local Health Integration Network (LHIN). Operating grants are recorded as revenue in the year to which they relate. Grants approved but not received at the end of year are accrued. Where a portion of a grant relates to a future year or has not been spent in accordance with the terms of the grant, it is deferred and recognized in the subsequent year. These financial statements reflect management's best estimates of funding arrangements with MOHLTC and LHIN. The Hospital has entered into an accountability agreement with 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.

### **Cash**

Cash represents cash on hand and cash in the bank.

### **Joint ventures**

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.

### **Contributed materials and services**

A number of volunteers contribute a significant amount of 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.

### **Inventories**

Inventories consist primarily of hospital supplies held for patient care and are stated at the lower of cost and replacement value. Cost is determined primarily on a first-in, first-out basis.

### **Capital assets**

Capital assets are recorded at cost. Expenditures for new capital assets, or expenditures that 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.

# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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Depreciation is provided on a straight-line basis at annual rates based on the estimated useful lives of the assets:

Buildings	25 - 40 years
Parking facilities	5 - 10 years
Furniture and major equipment	5 - 20 years
Organizational and capitalized operating costs	3 - 40 years

Construction-in-progress is transferred to the appropriate asset category once the particular project is complete and the asset is ready for use. Depreciation will commence from that date on a straight-line basis over the expected useful life of the asset.

### Impairment of long-lived assets

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

### Deferred grants and contributions

Deferred grants and contributions represent the unamortized portion of grants and contributions that were provided for the purchase of capital assets and certain operating expenses. Deferred contributions are recognized as revenue in the year in which the related expenditures are incurred or amortized into revenue at a rate corresponding to the depreciation rate of the related capital assets purchased with the funding. Deferred grants are recognized as revenue when the related expenses are incurred.

### Pension plan

Substantially all of the employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan (HOOPP), which is a multi-employer best five consecutive year average pay defined benefit pension plan. Should there be a contribution deficiency in the plan, the Hospital may be required to make additional contributions to cover these deficiencies. Contributions made to HOOPP are expensed as funded, as the plan is accounted for as a defined contribution plan.

### Employee future benefits

The Hospital provides certain health-care, dental, life insurance and other benefits for certain retired employees. The cost of post-employment benefits is determined using the projected benefit method pro-rated on service and various assumptions. The discount rate used to determine the accrued benefit obligation was determined based on the Hospital's cost of borrowing consistent with the specific rates of interest and periods committed to by the Hospital, or amounts borrowed. The Hospital estimated its cost of borrowing by referencing the rate of return on provincial government bonds with an additional risk premium specific to the Hospital for varying durations based on cash flows expected from employee future benefit obligations. The actuarial gains and losses are amortized over the average remaining service period of active employees. Past service costs are expensed in the period of the plan amendment.

# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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### Financial instruments

Financial assets and liabilities are recognized when the Hospital becomes a party to the contractual provisions of the instrument. The Hospital's financial instruments consist of cash, accounts receivable, amounts due from/to MOHLTC and LHIN, accounts payable and accrued liabilities, long-term debt and derivatives.

The Hospital's financial instruments are measured as follows:

<b>Assets/liabilities</b>	<b>Measurement category</b>
Cash	fair value
Accounts receivable	amortized cost
Due from/to MOHLTC and LHIN	amortized cost
Accounts payable and accrued liabilities	amortized cost
Long-term debt	amortized cost
Derivatives	fair value

The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - market based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs for the assets or liabilities that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instruments being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

### Derivatives

The Hospital has entered into interest rate swap contracts with its bank in order to hedge its variability in future interest payments on its loans. The swaps are measured at fair value until the swaps are settled. The change in fair value of the swaps is recorded in the statement of remeasurement gains and losses.

The derivatives are measured using Level 2 inputs.

### 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 subject to significant estimates include accounts receivable, accrued liabilities, deferred revenue and employee future benefits.

# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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The revenue recognized from MOHLTC and 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 MOHLTC and LHIN. 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, MOHLTC and LHIN have the right to adjust funding received by the Hospital. Neither MOHLTC nor LHIN is 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 MOHLTC/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.

### 3 Cash

Cash comprises:

	2015 \$	2014 \$
Unrestricted cash	44,776,836	26,193,172
Restricted cash	-	3,786,703
Restricted cash for special programs (note 15(b))	176,416	247,564
	<u>44,953,252</u>	<u>30,227,439</u>

The Hospital has available an unsecured revolving line of credit with a limit of \$15,000,000 held at the TD Commercial Bank, which bears interest at a rate of prime less 0.75%. At March 31, 2015, \$nil (2014 - \$nil) had been drawn against this facility.

The Hospital's restricted cash of \$3,786,703 in the prior year related to grants received from the MOHLTC for facility redevelopment, which were not spent.

### 4 Investment in joint venture

The Hospital has a 50% interest in Markham Stouffville ProResp Inc. (ProResp), a supplier of home oxygen and other respiratory care products. Net investment loss of \$14,373 (2014 - \$45,230 income) has been included in the statement of operations. During the year, the Hospital provided respiratory therapy services to ProResp and charged \$19,890 (2014 - \$19,890) for its services. The Hospital provided management services in return for a management fee. Management fee income of \$86,000 (2014 - \$nil) has been included in the statement of operations.

# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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### 5 Other long-term assets

Other long-term assets comprise:

	2015 \$	2014 \$
Deposit with the Corporation of the City of Markham (a)	1,278,500	1,278,500
Prepayment to Markham District Energy (MDE) (b)	25,394,335	25,887,603
	<hr/>	<hr/>
	26,672,835	27,166,103
Less: Current portion (included in prepaid expenses)	513,774	493,268
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	26,159,061	26,672,835
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- a) On August 21, 2009, the Hospital deposited \$1,278,500 with the Corporation of the City of Markham in lieu of a letter of credit pursuant to the Markham Stouffville Hospital site plan control agreement dated December 4, 1987, and amended August 21, 2009. The deposit accrues interest at the prime rate less 1.75% and will be returned to the Hospital on satisfactory completion of the Markham site expansion project and related site works.
- b) On September 1, 2012, the Hospital entered into a 30-year Energy Services Agreement (ESA) with Markham District Energy (MDE) for the supply, sale and delivery of energy services to the Hospital. MDE is a non-related party. Under the terms of the ESA, the Hospital was required to provide an upfront contribution, which will reduce fixed capacity charges over the life of the ESA.

The total prepayment, including unrecoverable harmonized sales tax (HST), was \$26,628,661 and is amortized to other supplies and expenses on a monthly basis in accordance with a fixed capacity cost avoidance schedule provided by MDE.

### 6 Capital assets

	2015		
	Cost \$	Accumulated amortization \$	Net \$
Land	8,277,663	-	8,277,663
Buildings	382,087,948	60,254,346	321,833,602
Parking facilities	848,193	848,193	-
Furniture and major equipment	136,156,197	98,808,710	37,347,487
Organizational and capitalized operating costs	342,841	342,841	-
Construction-in-progress	2,601,177	-	2,601,177
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	530,314,019	160,254,090	370,059,929
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# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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	<b>2014</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Land	10,109,255	-	10,109,255
Buildings	260,954,685	51,400,027	209,554,658
Parking facilities	848,193	826,388	21,805
Furniture and major equipment	130,080,790	88,437,148	41,643,642
Organizational and capitalized operating costs	342,841	150,855	191,986
Construction-in-progress	36,921,443	-	36,921,443
	<u>439,257,207</u>	<u>140,814,418</u>	<u>298,442,789</u>

### Construction-in-progress

Construction-in-progress includes redevelopment costs related to implementing facility redevelopment of \$455,115 (2014 - \$35,133,881) and several other minor capital projects totalling \$2,146,062 (2014 - \$1,787,562).

### Facility redevelopment

In 2010, MOHLTC provided approval for the Hospital to enter into a Project Agreement with Health Partners Markham Ltd. (HPM), to build and finance a new 385,000 square foot expansion as well as a major renovation to the existing facility. HPM is a non-related party. Construction commenced in December 2010 and was completed in September 2014.

## 7 Deferred revenue

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Balance - Beginning of year	3,717,813	1,800,000
Transfer from deferred grants and contributions (note 9)	-	2,738,828
Amounts recognized as revenue	(97,289)	(821,015)
	<u>3,620,524</u>	<u>3,717,813</u>

# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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### 8 Long-term debt

Long-term debt consists of:

	2015 \$	2014 \$
Markham Professional Centre (MPC) loan bearing interest at 4.27%, repayable in blended monthly payments of \$43,313, maturing June 2014	-	5,831,319
MPC loan bearing interest at one-month bankers' acceptance plus 0.5%, repayable in blended monthly payments of approximately \$40,000, maturing June 2024	5,517,000	-
Health Services Building (HSB) loan #1 bearing interest at 4.32%, repayable in blended monthly payments of \$31,367, maturing October 2015	5,129,139	5,281,003
HSB loan #2 bearing interest at 5.48%, repayable in blended monthly payments of \$35,228, maturing October 2020	5,214,526	5,348,305
Facility redevelopment loan (a)	<u>22,084,000</u>	<u>23,474,000</u>
	37,944,665	39,934,627
Less: Current portion	<u>6,920,620</u>	<u>7,505,516</u>
	<u>31,024,045</u>	<u>32,429,111</u>

The MPC and HSB loans are secured by a general assignment of rents and certificates of insurance for the properties.

The following is a schedule of the required principal payments due under the debt agreements up to their maturity dates:

	\$
2016	6,920,620
2017	1,868,376
2018	1,948,714
2019	2,031,521
2020	2,120,823
Thereafter	<u>23,054,611</u>
	<u>37,944,665</u>

a) Facility redevelopment loan

This loan was utilized to provide local share contributions for capital asset purchases related to redevelopment (note 6). It is a \$25,000,000 loan, requiring monthly principal and interest repayments of approximately \$167,000, which bears interest at a rate equivalent to a one-month bankers' acceptance plus 0.55% and matures in November 2027.

# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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### Derivative liabilities

The Hospital has entered into an interest rate swap contract with its bank in order to hedge its variability in future interest payments relating to its facility redevelopment loan. This swap effectively locked in the interest rate on the long-term debt at 3.14%.

The notional amount represents the contract amounts to which interest rates are applied to calculate the cash flows to be exchanged. The notional amount of the Hospital's interest rate swaps as of March 31, 2015 is \$22,084,000 (2014 - \$23,474,000). The agreement matures on the same date the related loan matures.

The fair value of the interest rate swap was calculated using the discounted cash flow method. Fair value as of March 31, 2015 of this interest rate swap is \$1,426,615 (2014 - \$44,966) and is reflected as a liability on the statement of financial position.

The Hospital has entered into an interest rate swap contract on MPC loan 2 with its bank in order to hedge its variability in future interest payments relating to its facility redevelopment loan. This swap effectively locked in the interest rate on the long-term debt at 3.10%.

The notional amount represents the contract amounts to which interest rates are applied to calculate the cash flows to be exchanged. The notional amount of the Hospital's interest rate swap as of March 31, 2015 is \$5,517,000 (2014 - \$nil). The agreement matures on the same date the related loan matures.

The fair value of the interest rate swap was calculated using the discounted cash flow method. Fair value as of March 31, 2015 of this interest rate swap is \$377,077 (2014 - \$nil) and is reflected as a liability on the statement of financial position.

## 9 Deferred grants and contributions

Deferred grants and contributions related to capital assets represent the unamortized and unspent amounts of donations and grants received for prepaid expenses and the purchase of capital assets.

	2015 \$	2014 \$
Balance - Beginning of year	253,169,550	246,823,351
Amortized to revenue during the year	(15,361,703)	(12,370,982)
Amount received during the year	87,384,614	21,360,831
Investment income earned	-	95,178
Transferred out	(382,742)	(2,738,828)
	<hr/>	<hr/>
Balance - End of year	324,809,719	253,169,550
	<hr/>	<hr/>
Deferred grants and contributions comprise		
Grant received for long-term prepaid expense (note 5)	23,123,334	23,572,481
Grants and contributions for capital assets	301,686,385	229,597,069
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	324,809,719	253,169,550
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# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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### 10 Employee future benefits

#### Pension plan

Substantially all the employees of the Hospital are members of HOOPP. Contributions to HOOPP made during the year by the Hospital on behalf of its employees amounted to \$7,880,569 (2014 - \$7,387,032) and are included in employee benefits expense or special programs expense as appropriate in the statement of operations.

#### Other employee future benefits

Certain employees of the Hospital are entitled to certain post-employment benefits. The Hospital recognizes the present value of its obligation from these benefits as they are earned. The most recent actuarial valuation of the obligation was performed as at April 1, 2013.

Both pension plan and other employee future benefits are included in salaries and wages expense in the statement of operations.

The movement in the liability during the year is as follows:

	2015 \$	2014 \$
Accrued benefit obligation - Beginning of year	2,583,500	2,231,600
Remeasurement adjustment	-	312,100
Current service cost	164,000	165,200
Interest cost	107,600	99,200
Benefits paid	(117,100)	(129,800)
Amortization of net actuarial gains (losses)	317,600	(94,800)
	<hr/>	<hr/>
Accrued benefit obligation - End of year	3,055,600	2,583,500
Unamortized actuarial experience loss - net	(755,100)	(481,800)
	<hr/>	<hr/>
Accrued benefit liability - End of year	2,300,500	2,101,700
	<hr/>	<hr/>
	2015 \$	2014 \$
Employee future benefits expense		
Accrual for services	164,000	165,200
Interest on accrued benefits	107,600	99,200
Amortization of actuarial loss - net	44,300	51,600
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Net benefit expense	315,900	316,000
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# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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The significant actuarial assumptions adopted in measuring the Hospital's employee future benefit liability for pension and other post-retirement benefit plans are as follows:

	2015	2014
Discount rate for calculation of net benefit costs	3.25%	4.00%
Dental benefit cost escalation	4.00%	4.00%
Expected average remaining life to retirement	13 years	13 years
Extended health-care trend rates	See (a)	See (a)

- a) 7.25% decreasing by 0.25% per annum to an ultimate rate of 5.0%.

### 11 Contingencies and commitments

- a) From time to time, the Hospital 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 Hospital. Accordingly, no provision for loss has been made in these financial statements. In management's view, these claims should not have a material adverse effect on the financial position of the Hospital.
- b) The Hospital is a member of the Healthcare Insurance Reciprocal of Canada (HIROC) and therefore has an economic interest in HIROC. HIROC is a pooling of the public liability insurance risks of its hospital members. All members of the HIROC pool pay annual premiums, which are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for years in which they were members. No assessments have been made for the year ended March 31, 2015.

Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income, less the obligation for claims reserves and expenses and operating expenses.

- c) The Hospital is a member of the Central Ontario Healthcare Procurement Alliance, a not-for-profit shared service organization that facilitates contract management and purchasing and accounts payable transactions.

During the year, the Hospital paid \$972,401 (2014 - \$1,231,659) for membership fees and \$49,472 (2014 - \$74,208) relating to the Hospital's share of the member hospital loan.

### 12 Investment in capital assets

The fund balance invested in capital assets is calculated as follows:

	2015 \$	2014 \$
Capital assets (note 6)	370,059,929	298,442,789
Deferred grants for capital assets (note 9)	(301,686,385)	(229,597,069)
Unspent grants	-	6,768,430
Long-term debt (note 8)	(37,944,665)	(39,934,627)
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	30,428,879	35,679,523

# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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### 13 Internally restricted funds

Internally restricted funds consist of the Education Bursary Fund, which was established by the Board of Directors for the purpose of funding further education and professional development opportunities for Hospital staff. The fund utilizes only realized gains and interest earned above the initial allocation. During the year, investment income of \$22,275 (2014 - \$25,000) was recorded in the internally restricted fund.

### 14 Related party transactions

- a) The Hospital is related to the MSH Foundation and the UCH Foundation. Both foundations raise funds to support capital, education and other specific projects of the Hospital. Both foundations are incorporated without share capital under the laws of the Province of Ontario and are charitable organizations registered under the Income Tax Act (Canada). The Hospital is considered to have significant influence over both foundations due to the common directors on the boards. Consequently, these financial statements do not include the assets, liabilities, and activities of the foundations, which, although related to the Hospital, are not operated by it.
- b) During the year, the Hospital received from the MSH Foundation \$6,623,237 (2014 - \$6,090,000) for the purchase of capital assets, which is included in deferred grants and contributions for the year. Included in accounts receivable is \$126,092 (2014 - \$116,637) due from the MSH Foundation as a reimbursement of costs paid or payable on behalf of the MSH Foundation. The Hospital provides the MSH Foundation's premises on a rent free basis, the value of which has not been recorded in these financial statements. The Hospital also provides certain services to the MSH Foundation for a fee of \$35,000 per year, including payments for certain invoices and information technology systems support. Last year, the Hospital provided payroll processing and charged the MSH Foundation for employee costs in the amount of \$1,480,786. In turn, the MSH Foundation, in its ongoing fundraising activities, provides the Hospital with public relations services, the value of which has not been recorded in these financial statements. These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.
- c) During the year, the Hospital received \$1,209,350 (2014 - \$690,667) from the UCH Foundation for the purchase of capital assets, which is included in deferred grants and contributions. Of this amount, \$789,074 (2014 - \$340,205) was receivable at year-end, which is included in accounts receivable.

### 15 Special programs and other programs

- a) Special programs include programs funded by MOHLTC, the Ministry of Community, Family and Children's Services, the Regional Municipality of York and the University of Toronto.

# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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- b) Other programs are those programs where the Hospital acts as paymaster on behalf of MOHLTC or LHIN. These programs include Midwifery Services of Durham and other consultancy services. As the Hospital is the paymaster for these programs, no amounts are recorded on the statement of operations. Gross funding and payments related to these items are:

	2015 \$	2014 \$
Funding	2,257,884	2,197,934
Payments	(2,257,884)	(2,197,934)
	<u>-</u>	<u>-</u>

### 16 Risk management

The Hospital is exposed to a variety of financial risks, including interest rate risk, credit risk and liquidity 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.

#### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of its long-term debt. Some of the bank loans have fixed interest rates and therefore interest rate risk is mitigated. Two of the outstanding loans have a floating rate of interest; however, the Hospital has mitigated this risk by way of an interest rate swap, which effectively fixes the interest rate (note 8).

#### Credit risk

Credit risk arises from cash held with financial institutions, and credit exposures to customers on outstanding accounts receivable balances. The Hospital does not have any significant past due accounts receivable that are not provided for. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. Cash is held at a major financial institution that has a high credit rating assigned to it by international credit rating agencies minimizing any potential exposure to credit risk.

#### 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.

# Markham Stouffville Hospital

## Notes to Financial Statements

March 31, 2015

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

	<b>Up to 6 months \$</b>	<b>More than 6 months up to 1 year \$</b>	<b>More than 1 year up to 5 years \$</b>	<b>More than 5 years \$</b>	<b>Total \$</b>
Accounts payable and accrued liabilities	27,475,898	2,444,730	-	-	29,920,628
Long-term debt	964,393	5,956,227	7,969,435	23,054,610	37,944,665
Due to MOHLTC and LHIN	-	5,833,008	-	-	5,833,008

### 17 Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.