

Financial statements of

Markham Stouffville Hospital

March 31, 2017

Markham Stouffville Hospital

March 31, 2017

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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, 2017 and the statements of changes in net assets, operations, 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 controls 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 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 Markham Stouffville Hospital as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, changes in its nets assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

The statement of financial position as at March 31, 2016 and the statements of changes in net assets, operations, remeasurement gains and losses and cash flows for the year then ended were audited by another auditor who issued an unmodified opinion on June 20, 2016.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants
June 22, 2017

Markham Stouffville Hospital

Statement of financial position as at March 31, 2017

	2017	2016
	\$	\$
Assets		
Current assets		
Cash (Note 3)	41,224,410	42,009,621
Due from MOHLTC, LHIN and Cancer Care Ontario	728,126	703,854
Accounts receivable (Note 14(b))	9,270,365	10,561,844
Prepaid expenses (Note 5)	3,734,228	3,317,879
Inventories	456,872	457,241
	55,414,001	57,050,439
Investment in joint venture (Note 4)	77,483	77,483
Capital assets (Note 6)	341,820,873	354,204,452
Other long-term assets (Note 5)	25,066,550	25,623,928
	422,378,907	436,956,302
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	27,015,774	23,582,374
Long-term debt (Note 8)	486,714	1,868,376
Due to MOHLTC, LHIN and Cancer Care Ontario	9,528,627	4,525,506
Deferred revenue (Note 7)	3,620,524	3,620,524
	40,651,639	33,596,780
Long-term debt (Note 8)	9,326,953	29,155,669
Derivative liability (Note 8)	271,308	2,165,920
Deferred grants and contributions (Note 9)	308,094,100	314,673,144
Employee future benefits (Note 10)	2,858,300	2,630,300
	361,202,300	382,221,813
Net assets	61,447,915	56,900,409
Accumulated remeasurement losses	(271,308)	(2,165,920)
	61,176,607	54,734,489
	422,378,907	436,956,302

Approved by the Board of Directors



Director



Director

Markham Stouffville Hospital

Statement of changes in net assets year ended March 31, 2017

				2017	2016
	Investment in capital assets (Note 12)	Internally restricted funds (Note 13)	Operating fund - unrestricted	Total	Total
	\$	\$	\$	\$	\$
Balance, beginning of year	31,162,778	2,066,725	23,670,906	56,900,409	51,347,707
Excess of revenue over expenses before the following items	-	19,634	9,134,405	9,154,039	10,978,068
Depreciation of capital assets	(20,073,774)	-	-	(20,073,774)	(21,459,570)
Amortization of deferred contributions	15,467,241	-	-	15,467,241	16,034,367
Loss on disposal of capital assets	-	-	-	-	(163)
	(4,606,533)	19,634	9,134,405	4,547,506	5,552,702
Purchase of capital assets	7,690,195	-	(7,690,195)	-	-
Repayment of long-term debt	21,210,378	-	(21,210,378)	-	-
Deferred contributions received in current year and spent	(8,888,197)	-	8,888,197	-	-
Deferred contributions received in prior year and spent in the current year	(487,268)	-	487,268	-	-
	14,918,575	19,634	(10,390,703)	4,547,506	5,552,702
Balance, end of year	46,081,353	2,086,359	13,280,203	61,447,915	56,900,409

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

Markham Stouffville Hospital

Statement of operations year ended March 31, 2017

	2017	2016
	\$	\$
Revenue		
Patient income		
MOHLTC, LHIN and Cancer Care Ontario	179,013,893	172,896,745
Other agencies and patients	26,234,513	25,767,891
Amortization of deferred contributions - equipment (Note 9)	8,210,342	8,929,913
Investment income	379,140	353,716
Other income (Note 14)	16,792,502	14,823,611
Special programs (Note 15(a))	7,822,914	7,496,751
	238,453,304	230,268,627
Expenses		
Salaries and wages	106,112,994	102,186,878
Medical staff remuneration	18,909,632	17,852,428
Employee benefits	32,689,972	29,131,818
Medical and surgical supplies	10,927,281	10,134,710
Drugs	7,405,580	7,346,063
Other supplies and expenses	35,232,517	34,966,403
Depreciation of capital assets - equipment	10,018,451	10,458,710
Special programs (Note 15(a))	7,772,159	7,491,974
	229,068,586	219,568,984
Excess of revenue over expenses before the undernoted items	9,384,718	10,699,643
Amortization of deferred contributions - buildings (Note 9)	7,256,899	7,104,454
Depreciation of capital assets - buildings	(10,055,323)	(11,000,860)
Interest expense on medical office building and redevelopment	(2,038,788)	(1,250,535)
Excess of revenue over expenses for the year	4,547,506	5,552,702

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

Markham Stouffville Hospital

Statement of remeasurement gains and losses year ended March 31, 2017

	2017	2016
	\$	\$
Accumulated remeasurement losses, beginning of year	(2,165,920)	(1,803,692)
Settlement of derivatives during the year (Note 8)	1,124,898	-
Unrealized gains/(losses) attributable to derivatives during the year (Note 8)	769,714	(362,228)
Accumulated remeasurement losses, end of year	(271,308)	(2,165,920)

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

Markham Stouffville Hospital

Statement of cash flows year ended March 31, 2017

	2017	2016
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	4,547,506	5,552,702
Items not affecting cash		
Depreciation of capital assets	20,073,774	21,459,570
Amortization of deferred contributions (Note 9)	(15,467,241)	(16,034,367)
Employee future benefits expense (Note 10)	390,400	477,000
Loss on disposal of capital assets	-	163
Employee future benefits paid	(162,400)	(147,200)
	9,382,039	11,307,868
Changes in non-cash working capital balances		
Due from MOHLTC, LHIN and Cancer Care Ontario	(24,272)	(209,550)
Accounts receivable	1,291,479	(153,800)
Prepaid expenses	(416,349)	(179,164)
Inventories	369	28,722
Accounts payable and accrued liabilities	3,433,400	(6,338,254)
Due to MOHLTC, LHIN and Cancer Care Ontario	5,003,121	(1,307,502)
	18,669,787	3,148,320
Financing activities		
Repayment of long-term debt	(21,210,378)	(6,920,620)
Other long-term assets (Note 5)	557,378	535,133
Deferred grants and contributions received - ongoing programs	8,888,197	5,897,792
	(11,764,803)	(487,695)
Capital activities		
Purchase of capital assets	(7,690,195)	(5,614,484)
Proceeds on disposal of capital assets	-	10,228
	(7,690,195)	(5,604,256)
Change in cash during the year	(785,211)	(2,943,631)
Cash, beginning of year	42,009,621	44,953,252
Cash, end of year	41,224,410	42,009,621

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

Markham Stouffville Hospital

Notes to the financial statements

March 31, 2017

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 Hospital Service Accountability Agreement and its subsequent amending agreements up to March 31, 2017, between the Hospital and the Central Local Health Integration Network.

These financial statements include the assets, liabilities and activities of the Hospital. These financial statements do not include the activities of the Markham Stouffville Hospital Foundation (MSH Foundation) and Uxbridge Cottage Hospital Foundation (UCH Foundation), which are non-controlled charitable organizations (Note 14).

2. Summary of significant accounting policies

Basis of presentation

These 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 and Long-Term Care (the MOHLTC) and the 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 the MOHLTC and 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 depreciation of the cost of the related capital assets.

Markham Stouffville Hospital

Notes to the financial statements

March 31, 2017

2. Summary of significant accounting policies (continued)

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 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.

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	3-20 years

Projects-in-progress are transferred to the appropriate capital 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 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.

Markham Stouffville Hospital

Notes to the financial statements

March 31, 2017

2. Summary of significant accounting policies (continued)

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 actuarial cost method and various assumptions. The discount rate used to determine the accrued benefit obligation was determined based on the Ontario provincial yield curve and a spread. As at March 31, 2017, the spread is constant and equal to the difference between the Sick Kids bond and the Ontario Provincial yield curve (2016 – the spread is equal to 50% of the difference between Ontario provincial and AA corporate bonds). The actuarial gains and losses are amortized over the average remaining service period of active employees. Past service costs are expensed in the period of the plan amendment.

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 the MOHLTC and LHIN, accounts payable and accrued liabilities, long-term debt and derivatives.

The Hospital's financial instruments are measured as follows:

Financial instrument	Measurement
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
Derivative liability	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 at fair value using Level 2 inputs.

Use of estimates

In preparing the financial statements in accordance with Canadian public sector accounting standards, 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 the financial statements

March 31, 2017

2. Summary of significant accounting policies (continued)

Use of estimates (continued)

The revenue recognized from the 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 the 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, the MOHLTC and LHIN have the right to adjust funding received by the Hospital. Neither the 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 is comprised of the following:

	2017	2016
	\$	\$
Unrestricted cash	40,954,134	41,887,975
Restricted cash for other programs (Note 15(b))	270,276	121,646
	41,224,410	42,009,621

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%. As at March 31, 2017, \$Nil (2016 - \$Nil) had been drawn against this facility.

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 income of \$Nil (2016 - \$Nil) has been included in the statement of operations. During the year, the Hospital provided respiratory therapy services to ProResp and charged \$21,945 (2016 - \$21,945) for its services. The Hospital provided management services in return for a management fee. Management fee income of \$32,000 (2016 - \$62,000) has been included in the statement of operations.

5. Other long-term assets

Other long-term assets comprise:

	2017	2016
	\$	\$
Deposit with the Corporation of the City of Markham (a)	1,278,500	1,278,500
Prepayment to Markham District Energy (MDE) (b)	24,345,428	24,880,561
	25,623,928	26,159,061
Less: current portion (included in prepaid expenses)	557,378	535,133
	25,066,550	25,623,928

Markham Stouffville Hospital

Notes to the financial statements

March 31, 2017

5. Other long-term assets (continued)

- 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

			2017	2016
	Cost	Accumulated depreciation	Net book value	Net book value
	\$	\$	\$	\$
Land	8,277,662	-	8,277,662	8,277,662
Buildings	383,588,206	80,202,551	303,385,655	313,655,396
Parking facilities	848,193	848,193	-	-
Furniture and major equipment	144,497,013	119,149,728	25,347,285	30,474,248
Projects-in-progress	4,810,271	-	4,810,271	1,797,146
	542,021,345	200,200,472	341,820,873	354,204,452

During the year the Hospital wrote-off fully amortized capital assets of \$1,163,198 (2016 - \$Nil).

Projects-in-progress

Projects-in-progress includes costs for several IT projects related to system implementation and enhancing financial infrastructure totaling \$4,652,856 (2016 - \$1,573,535), along with redevelopment costs related to implementing facility development of \$157,415 (2016 - \$223,611).

7. Deferred revenue

	2017	2016
	\$	\$
Balance, beginning of year	3,620,524	3,620,524
Amounts recognized as revenue	-	-
Balance, end of year	3,620,524	3,620,524

Markham Stouffville Hospital

Notes to the financial statements

March 31, 2017

8. Long-term debt

Long-term debt consists of:

	2017	2016
	\$	\$
MPC loan bearing interest at one-month bankers' acceptance plus 0.5%, repayable in blended monthly payments of approximately \$40,000, maturing June 2024	4,888,000	5,208,000
HSB loan bearing interest at 5.48%, repayable in blended monthly payments of \$35,228, maturing October 2020	4,925,667	5,074,045
Facility redevelopment loan (a)	-	20,742,000
	9,813,667	31,024,045
Less: current portion	486,714	1,868,376
	9,326,953	29,155,669

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:

	\$
2017/18	486,714
2018/19	506,520
2019/20	527,823
2020/21	4,792,610
2021/22	376,000
2022/23	388,000
Thereafter	2,736,000
	9,813,667

a) Facility redevelopment loan

This facility redevelopment loan was utilized to provide local share contributions for capital asset purchases related to redevelopment. It was a \$25,000,000 loan, requiring monthly principal and interest repayments of approximately \$167,000, which bore interest at a rate equivalent to a one-month bankers' acceptance plus 0.55% and was scheduled to mature in November 2027. This loan was paid off in January 2017.

Derivative liabilities- facility redevelopment loan

The Hospital 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 fair value of this interest rate swap was a derivative liability of \$1,719,813 as at March 31, 2016. This swap contract was settled in January 2017 upon repayment of the facility redevelopment loan and the fair value of the derivative liability on settlement of \$1,124,898 was recognized in the statement of operations.

Markham Stouffville Hospital

Notes to the financial statements

March 31, 2017

8. Long-term debt (continued)

b) MPC and HSB loans

The Hospital entered into an interest rate swap contract on the MPC loan with its bank in order to hedge its variability in future interest payments relating to its MPC and HSB loans. 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 at March 31, 2017 is \$4,888,000 (2016 - \$5,208,000). 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 at March 31, 2017 of this interest rate swap is a derivative liability of \$271,308 (2016 - \$446,107) and is reflected as a derivative 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.

	2017	2016
	\$	\$
Balance, beginning of year	314,673,144	324,809,719
Amortized to revenue during the year	(15,467,241)	(16,034,367)
Amount received during the year	8,888,197	5,897,792
Balance, end of year	308,094,100	314,673,144
Deferred grants and contributions comprise		
Grant received for long-term prepaid expense (Note 5)	22,168,247	22,655,515
Grants and contributions for capital assets	285,925,853	292,017,629
	308,094,100	314,673,144

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 \$9,277,180 (2016 - \$8,611,862) 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 March 31, 2017.

Expenses relating to other employee future benefits are included in employee benefits expense in the statement of operations.

Markham Stouffville Hospital

Notes to the financial statements

March 31, 2017

10. Employee future benefits (continued)

Other employee future benefits (continued)

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

	2017	2016
	\$	\$
Accrued benefit obligation, beginning of year	3,316,700	3,055,600
Prior service costs	-	111,200
Current service cost	209,700	193,900
Interest cost	112,000	103,200
Benefits paid	(162,400)	(147,200)
Net actuarial gains	(398,700)	-
Accrued benefit obligation, end of year	3,077,300	3,316,700
Unamortized actuarial experience loss - net	(219,000)	(686,400)
Accrued benefit liability, end of year	2,858,300	2,630,300

	2017	2016
	\$	\$
Employee future benefits expense		
Accrual for services	209,700	193,900
Interest on accrued benefits	112,000	103,200
Prior service costs	-	111,200
Amortization of actuarial loss - net	68,700	68,700
Net benefit expense	390,400	477,000

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:

	2017	2016
Discount rate for calculation of net benefit costs	4.00%	3.25%
Dental benefit cost escalation	4.00%	4.00%
Expected average remaining life to retirement	13.6 years	13 years
Extended health-care trend rates	See (a)	See (b)

- a) Drugs: 7.0% per year in 2017 grading down over 20 years to an ultimate rate of 4.00% per year. Other Medical, Hospital: 4.00% per year. Vision: 0.00% per year.
- b) 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.

Markham Stouffville Hospital

Notes to the financial statements

March 31, 2017

11. Contingencies and commitments (continued)

- 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, 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.

- 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. The agreement was signed in March 2008 and expires in March 2018. Membership fees are established on an annual basis. During the year, the Hospital paid \$1,057,562 (2016 - \$982,114) for membership fees.

12. Investment in capital assets

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

	2017	2016
	\$	\$
Capital assets (Note 6)	341,820,873	354,204,452
Deferred grants for capital assets (Note 9)	(285,925,853)	(292,017,629)
Debt - Current & Long-Term (Note 8)	(9,813,667)	(31,024,045)
	46,081,353	31,162,778

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 \$19,634 (2016 - \$19,450) 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, but does not have control. As a result, 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.

Markham Stouffville Hospital

Notes to the financial statements

March 31, 2017

14. Related party transactions (continued)

- b) During the year, the Hospital received from the MSH Foundation \$4,252,453 (2016 - \$773,952) for the purchase of capital assets, which is included in deferred grants and contributions for the year. In addition, the Hospital received \$168,716 (2016 - \$148,424) of operating grants, which are included as revenue in the statement of operations. Included in accounts receivable is \$59,308 (2016 - \$15,800) 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. 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 \$639,478 (2016 - \$935,975) from the UCH Foundation for the purchase of capital assets, which is included in deferred grants and contributions. In addition, the Hospital received \$31,429 (2016 - \$33,853) of operating grants, which are included as revenue in the statement of operations. Included in accounts receivable is \$11,195 (2016 - \$6,646) due from the UCH Foundation as a reimbursement of costs paid or payable on behalf of the UCH Foundation.

15. Special programs and other programs

- a) Special programs include programs funded by the MOHLTC, the Ministry of Community, Family and Children's Services, the Regional Municipality of York and the University of Toronto.
- b) Other programs are those programs where the Hospital acts as paymaster on behalf of the 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:

	2017	2016
	\$	\$
Funding	2,663,691	2,254,458
Payments	(2,663,691)	(2,254,458)
	-	-

16. Risk management

Financial risks

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. One of the outstanding loans has 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).

Markham Stouffville Hospital

Notes to the financial statements

March 31, 2017

16. Risk management (continued)

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.

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

	Up to 6 months	More than 6 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	24,317,320	2,698,454	-	-	27,015,774
Long-term debt (principal and interest)	450,668	449,887	7,328,782	3,272,548	11,501,885
Due to MOHLTC and LHIN	-	9,528,627	-	-	9,528,627

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:

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March 31, 2017

16. Risk management (continued)

Fair value hierarchy (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:

				2017
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	41,224,410	-	-	41,224,410
Derivatives	-	(271,308)	-	(271,308)
	41,224,410	(271,308)	-	40,953,102

				2016
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	42,009,621	-	-	42,009,621
Derivatives	-	(2,165,920)	-	(2,165,920)
	42,009,621	(2,165,920)	-	39,843,701

17. Comparative figures

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