Financial statements of
Niagara Health System

March 31, 2018

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Independent Auditor's Report

To the Board of Directors of
Niagara Health System

We have audited the accompanying financial statements of Niagara Health System, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, remeasurement losses, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Niagara Health System as at March 31, 2018, and the results of its operations, remeasurement losses, changes in its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
May 29, 2018

Niagara Health System
Statement of operations
year ended March 31, 2018

	Notes	2018	2017
		$	$
Revenue			
Ministry of Health and Long-Term Care (MOHLTC) and Local Health Integration Network (LHIN)			
Base allocation		**403,566,374**	372,583,523
One-time funding, specialized programs		**7,821,779**	12,423,257
Other		**12,146,028**	14,507,344
Cancer Care Ontario		**54,805,874**	49,965,176
		478,340,055	449,479,300
Patient revenue from other payers		**37,917,169**	36,476,592
Differential and co-payments		**3,645,072**	3,693,051
Recoveries and miscellaneous		**14,368,716**	14,004,755
Amortization of grants and donations - equipment		**13,277,896**	13,812,832
		547,548,908	517,466,530
Expenses			
Compensation - salaries and wages		**254,079,553**	243,528,178
Benefit contributions for employees		**70,870,505**	68,782,790
Employee future benefits	12	**2,875,543**	2,765,784
Medical staff remuneration		**37,891,430**	37,943,795
Supplies and other expenses		**75,717,552**	71,087,956
Medical and surgical supplies		**33,363,311**	32,030,854
Drugs and medical gases		**30,753,847**	25,733,541
Bad debts		**560,130**	579,595
Interest on short-term borrowings		**585,030**	392,052
Interest on capital lease obligations		**60,092**	73,761
Amortization of equipment and software licenses		**17,776,038**	18,947,163
Equipment rentals and leases		**3,326,199**	3,212,776
		527,859,230	505,078,245
Surplus from operations before other votes and other funds		**19,689,678**	12,388,285
Deficit from other votes and other funds	18	**(1,314,895)**	(1,399,686)
Surplus before net capital expenditures		**18,374,783**	10,988,599
Net capital expenditures - building and land improvements	19	**(5,520,281)**	(2,534,223)
Surplus for the year		**12,854,502**	8,454,376

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

Niagara Health System
Statement of remeasurement losses
year ended March 31, 2018

	Notes	**2018**	2017
		$	$
Accumulated remeasurement losses at beginning of year		**(617,110)**	(926,462)
Unrealized gains attributable to derivative	10	**315,560**	309,352
Accumulated remeasurement losses at end of year		**(301,550)**	(617,110)

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

Niagara Health System
Statement of changes in net assets
year ended March 31, 2018

	Investment in land, buildings and equipment (Note 14)	**Endowments and trusts (Note 15)**	**Externally restricted (Note 16)**	**Internally restricted (Note 17)**	**Unrestricted**	**2018**
	$	**$**	**$**	**$**	**$**	**$**
Balance, beginning of the year	**34,022,961**	**3,527,594**	**72,413**	**93,379**	**(139,138,111)**	**(101,421,764)**
Net surplus (deficit) for the year	**(7,800,753)**	**-**	**-**	**-**	**20,655,255**	**12,854,502**
Investment in capital assets	**5,261,916**	**-**	**-**	**-**	**(5,261,916)**	**-**
Reallocation of interest earned on restricted funds	**-**	**-**	**177**	**4,356**	**(4,533)**	**-**
Balance, end of year	**31,484,124**	**3,527,594**	**72,590**	**97,735**	**(123,749,305)**	**(88,567,262)**

	Investment in land, buildings and equipment (Note 14)	Endowments and trusts (Note 15)	Externally restricted (Note 16)	Internally restricted (Note 17)	Unrestricted	2017
	$	$	$	$	$	$
Balance, beginning of the year	31,346,009	3,527,594	72,371	89,553	(144,911,667)	(109,876,140)
Net surplus (deficit) for the year	(7,422,009)	-	-	-	15,876,385	8,454,376
Investment in capital assets	10,098,961	-	-	-	(10,098,961)	-
Reallocation of interest earned on restricted funds	-	-	42	3,826	(3,868)	-
Balance, end of year	34,022,961	3,527,594	72,413	93,379	(139,138,111)	(101,421,764)

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

Niagara Health System
Statement of financial position
as at March 31, 2018

	Notes	2018	2017
		$	$
Assets			
Current assets			
Cash		47,236	47,172
Receivables	3	17,437,590	18,543,503
Current portion of contributions receivable	4	22,518,823	22,453,357
Land and buildings held for sale	26	1,873,373	-
Inventories		5,175,840	4,793,995
Prepaid expenses and other assets		4,151,081	4,857,762
Patient trust funds		11,050	10,843
		51,214,993	50,706,632
Land, buildings and equipment	5	793,752,755	826,585,683
Contributions receivable	4	149,892,129	155,596,168
Cash and investments restricted for capital	6	67,515,108	61,312,290
Endowments and trust funds	7	3,527,594	3,527,594
		1,065,902,579	1,097,728,367
Liabilities			
Current liabilities			
Short-term borrowings	8	8,769,081	18,573,826
Payables and accruals		99,136,599	106,868,848
Patient trust accounts		11,050	10,843
Unearned revenues		11,792,447	10,647,290
Current portion of obligations under capital leases	9	475,724	495,806
Current portion of long-term debt	11	3,275,304	3,120,327
Current portion of employee future benefits	12	2,432,600	2,374,200
Current portion of deferred capital contributions	13	29,735,916	35,107,227
		155,628,721	177,198,367
Obligations under capital leases	9	1,935,328	2,411,052
Long-term debt	11	205,325,060	208,604,922
Derivative liability	10	264,889	580,449
Employee future benefits	12	31,257,200	29,836,250
Deferred capital contributions	13	760,360,193	781,136,201
		1,154,771,391	1,199,767,241
Commitments and contingencies	20, 21		
Net deficiency		(88,567,262)	(101,421,764)
Accumulated remeasurement losses		(301,550)	(617,110)
		1,065,902,579	1,097,728,367

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

John McDonald ________ Chair of the Board

Ken Kawall ________ Treasurer

Niagara Health System
Statement of cash flows
year ended March 31, 2018

	Notes	2018	2017
		$	$
Operating activities			
Net surplus		**12,854,502**	8,454,376
Items not affecting cash			
Amortization of land improvements, buildings and equipment		**42,567,915**	43,550,950
Amortization of deferred capital contributions	13	**(36,680,445)**	(36,390,866)
Loss on disposal of land, buildings and equipment	14	**39,910**	261,925
Change in non-cash activities			
Receivables		**1,105,913**	(4,627,558)
Inventories		**(381,845)**	(350,254)
Other current receivable		**-**	1,700,000
Prepaid expenses and other assets		**706,681**	800,466
Payables, accruals and patient trust accounts		**(7,732,249)**	12,331,982
Employee future benefits		**1,479,350**	986,927
Unearned revenues		**1,145,157**	1,637,399
		15,104,889	28,355,347
Investing activity			
Investments (including endowments and trust funds)		**(6,202,818)**	(10,633,770)
Capital activities			
Additions to land, buildings and equipment		**(12,750,557)**	(15,469,975)
Proceeds from sale of land, buildings and equipment		**1,102,287**	7,864
		(11,648,270)	(15,462,111)
Financing activities			
Decrease in contributions receivable		**5,638,573**	5,866,617
Decrease in short-term borrowings		**(9,804,745)**	(18,229,945)
Decrease in obligations under capital lease		**(495,806)**	(486,754)
Decrease in long term debt		**(3,124,885)**	(3,726,441)
Deferred capital contributions		**10,533,126**	14,316,657
		2,746,263	(2,259,866)
Net change in cash		**64**	(400)
Cash, beginning of year		**47,172**	47,572
Cash, end of year		**47,236**	47,172
Supplemental cash flow information			
Interest income received		**471,665**	445,739
Interest expense paid - operating		**1,062,602**	844,977
Interest expense paid - capital		**17,584,099**	17,812,692

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

1. Nature of operations

Created at the direction of the province of Ontario's Health Services Restructuring Commission in March 2000, the Niagara Health System ("NHS" or the "Hospital") is comprised of six sites serving approximately 447,900 residents across the 12 municipalities making up the Regional Municipality of Niagara.

Sites are as follows: Greater Niagara General Site in Niagara Falls, Welland Hospital Site, Douglas Memorial Site in Fort Erie, Niagara-on-the-Lake Site, Port Colborne Site and the St. Catharines Site.

The Hospital operated 756 Acute care, Complex Continuing care, and Mental Health beds as well as 115 Long Term Care beds and 78 Addiction Treatment beds during the year. A wide range of inpatient and outpatient clinics and services are provided across the six sites. The NHS has approximately 5,000 employees, over 600 physicians and over 850 volunteers.

The Hospital is incorporated under the laws of Ontario as a corporation without share capital and is a registered charity under the Income Tax Act. Continued operations are dependent upon the receipt of funding from the Ministry of Health and Long-Term Care ("MOHLTC") through the Hamilton Niagara Haldimand Brant Local Health Integration Network ("HNHBLHIN").

2. Significant accounting policies

The financial statements have been prepared by management in accordance with Canadian Public sector accounting standards for government not-for-profit organization, including the 4200 series of standards, and reflect the following significant accounting policies:

Funding

Under the Health Insurance Act and the regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the MOHLTC and HNHBLHIN. These financial statements reflect agreed funding arrangements approved by the HNHBLHIN and MOHLTC with respect to the year ended March 31, 2018.

To the extent which MOHLTC or HNHBLHIN funding has been received with the stipulated requirement that the Hospital provide specific services, the funding is recognized as revenue when the specific services have been performed. In the event that the revenue recognition criteria have not been met, the amounts would be deferred until such time as the services are performed with the monies spent. In the event that the services are not performed in accordance with the funding requirements, the funds received in excess of monies spent could be recovered by the MOHLTC or HNHBLHIN.

Revenue recognition

The financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenue is recorded when earned and expenses are recorded when incurred.

The Hospital follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

2. Significant accounting policies (continued)

Revenue recognition (continued)

Provincial equipment and building grants received are deferred and amortized on a straight-line basis at a rate corresponding with the amortization rate for the related equipment or building purchased. Donations received for the purpose of purchasing capital assets are deferred and amortized on a straight-line basis at a rate corresponding with the amortization rate for the related equipment or building purchased.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Revenue from other services is recognized when services are provided or goods are sold.

Inventories

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

Land, buildings and equipment

Land, buildings and equipment are recorded at cost. Amortization is provided on a straight-line basis over the assets' estimated useful lives. The amortization periods are as follows:

Land improvements	3 to 20 years
Buildings	15 to 50 years
Building Service Equipment	5 to 25 years
Leasehold improvements	2 to 15 years
Equipment	2 to 20 years

Construction-in-progress comprises construction, development costs and interest capitalized during the construction period. Upon completion, costs in construction-in-progress are reclassified to the appropriate capital asset account and amortization commences when the asset is operational.

Leased equipment

Equipment taken on lease with terms which transfer substantially all of the benefits and risks of ownership to the Hospital are accounted for as "capital leases", as though an asset has been purchased and a liability incurred. The assets are amortized on a straight line basis at rates ranging from 4% - 20% per annum commencing in the month of purchase. All other items of equipment held on lease are accounted for as operating leases.

Capital Lease obligations are recorded at the present value of the minimum lease payments. The discount rate used to determine the present value of the lease payments is the lower of the Hospital's rate of incremental borrowing or the interest rate implicit in the lease. Note 9 provides a schedule of repayments and amount of interest on the leases.

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 final average pay contributory pension plan. For HOOPP, the Hospital uses defined contribution plan accounting as required by Canadian public sector accounting standards. Should there be a contribution deficiency in the plan the Hospital may be required to make additional contributions the cover these deficiencies.

Past service costs arising from a plan amendment are recognized in the period of the plan amendment.

2. Significant accounting policies (continued)

Employee future benefits

The Hospital pays certain benefits of its retired employees including life insurance, health benefits, dental benefits and deluxe travel benefits. The post-retirement costs are recognized in the period in which the employees rendered their services to the Hospital.

The actuarial determination of the accrued benefit obligations were determined using the projected benefit method pro-rated on service.

Experience gains and losses in a year are combined with the unamortized balance of gains or losses from prior years. The Hospital amortizes these accrued benefit obligations into future years' expenses over the average remaining service life to retirement.

Contributed services

The Hospital is dependent on the voluntary services of many individuals. Since these services are not normally purchased by the Hospital and because of the difficulty in estimating their fair market value, these services are not recorded in these financial statements.

Classification of financial instruments

All financial instruments reported on the Statement of Financial Position of the Hospital are measured as follows:

Cash	Amortized cost
Receivables	Amortized cost
Cash and investments restricted for capital	Amortized cost
Endowment and trust funds	Amortized cost
Short-term receivable	Amortized cost
Contributions receivable	Amortized cost
Short-term bank borrowings	Amortized cost
Payables and accruals	Amortized cost
Long-term debt	Amortized cost
Derivative liability	Fair value

Financial instruments measured at amortized cost are initially recognized at fair value, and subsequently 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.

Writedowns 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 or recovery. Financial assets are then written down to net recoverable value with the writedown being recognized in the statement of operations.

2. Significant accounting policies (continued)

Use of estimates

The preparation of these financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of useful lives for amortization of capital assets, estimates of accounts receivable collectability and allowance for doubtful accounts, payables and accruals, revenue recognition, unearned revenue and the estimation of future employee benefits. Actual results could differ from management's best estimates as additional information becomes available in the future. These estimates and assumptions are reviewed periodically and as adjustments become necessary they are reported in earnings in the periods in which they are known.

The revenue recognized from the MOHLTC and the HNHBLHIN 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 the HNHBLHIN for the year ended March 31, 2018. 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 the HNHBLHIN have the right to adjust funding received by the Hospital. Neither the MOHLTC nor the HNHBLHIN are required to communicate certain funding adjustments until after submission of year end data. Since this data is not submitted until after the completion of the financial statements, the amount of the MOHLTC/HNHBLHIN 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. Receivables

	2018	2017
	$	$
Ministry of Health and Long-Term Care, LHIN, and Cancer Care Ontario	**6,651,766**	7,384,325
Insurers and patients	**7,858,463**	6,736,557
Foundation	**335,949**	154,585
Other	**3,640,488**	5,115,983
	18,486,666	19,391,450
Allowance for doubtful receivables	**(1,049,076)**	(847,947)
	17,437,590	18,543,503

4. Contributions receivable

	2018	2017
	$	$
Ministry of Health and Long-Term care	**158,020,972**	160,349,140
Other receivables - St. Catharines Site	**14,389,980**	17,700,385
	172,410,952	178,049,525
Less: current portion of contributions receivable	**22,518,823**	22,453,357
	149,892,129	155,596,168

On March 27, 2009, the Hospital entered into an agreement to design, build, finance and property manage the St. Catharines site. Construction was completed in March 2013.

As part of the Project Funding Agreement, the Ministry has committed to fund a portion of the capital and financing cost of the site. The Hospital has recognized the unpaid MOHLTC funding commitment for the St. Catharines site construction project as a contribution receivable with a corresponding deferred capital contribution.

The local share of the cost of the building and related finance cost will be funded through a combination of municipal, foundation and other contributions. The Hospital has contractual commitments from various area municipalities for certain amounts to be received over the term of the financing period. These contributions have been set up as a receivable with a corresponding deferred contribution.

The contribution receivable was originally set up at its fair value and is subsequently measured at amortized cost using the effective interest rate method.

5. Land, buildings and equipment

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land	**6,099,817**	**-**	**6,099,817**	6,116,530
Land improvements	**2,484,259**	**1,262,108**	**1,222,151**	1,145,293
Buildings	**148,416,999**	**79,951,261**	**68,465,738**	70,848,850
Leasehold improvements	**3,980,590**	**1,445,212**	**2,535,378**	2,835,421
Equipment	**205,854,491**	**157,229,647**	**48,624,844**	57,099,576
Building and buildling service equipment St. Catharines site	**756,779,448**	**97,795,244**	**658,984,204**	680,348,407
Construction-in-progress	**7,438,339**	**-**	**7,438,339**	7,405,032
	1,131,053,943	**337,683,472**	**793,370,471**	825,799,109
Equipment under capital lease	**18,308,926**	**17,926,642**	**382,284**	786,574
	1,149,362,869	**355,610,114**	**793,752,755**	826,585,683

6. Cash and investments restricted for capital

Cash and investments restricted for capital are represented by the following:

	2018		2017	
	Cost	**Amortized cost**	Cost	Amortized cost
	$	**$**	$	$
Government and other Bonds, 1.2% to 2.89%, maturing from Aug 2018 to Jun 2022	**4,080,558**	**4,008,485**	4,021,667	3,972,465
Real Estate Investment Trusts	**26,030**	**25,429**	-	-
Blue Chip Canadian and US Equities	**1,246,896**	**1,305,210**	-	-
Money Market Fund	**2,312,443**	**2,312,443**	3,598,244	3,598,244
GICs, 1.00%, maturing Feb 2019	**30,133**	**30,133**	30,133	30,133
Total investment vehicles	**7,696,060**	**7,681,700**	7,650,044	7,600,842
Add: Restricted construction payment treasury accounts, interest prime less 1.75% (1.7% interest rate)	**57,567,496**	**57,567,496**	50,376,389	50,376,389
Add: accrued interest	**-**	**14,360**	-	49,202
Total investment vehicles for capital purposes	**65,263,556**	**65,263,556**	58,026,433	58,026,433
Other investments				
Restricted cash	**2,251,552**	**2,251,552**	3,285,857	3,285,857
Total cash and investments restricted for capital	**67,515,108**	**67,515,108**	61,312,290	61,312,290

Investments are tracked to support restricted funds which have been received by the Hospital in advance of the expenditures required under the terms of each commitment. The Hospital has borrowed from the internally restricted investments to offset the need for additional bank borrowings to fund current operations. Interest is credited on these funds at a rate similar to the rate that would have been charged by the bank. Borrowings are from restricted funds other than those for capital building purposes.

	Balance, beginning of the year	**Additions (transfers) during year**	**Donations**	**Interest**	**Balance, end of year**
	$	**$**	**$**	**$**	**$**
Restricted investments					
NHS	**2,672,467**	**(431,953)**	**-**	**53,200**	**2,293,714**
Capital - MOHLTC Capital, SuperBuild and Niagara Health Local Share	**58,639,823**	**5,900,652**	**-**	**680,919**	**65,221,394**
	61,312,290	**5,468,699**	**-**	**734,119**	**67,515,108**

6. Cash and investments restricted for capital (continued)

The Niagara Health System (NHS) restricted investments represent contributions received for capital projects, equipment and operations and funds internally restricted by the previous Boards of Directors of the founding hospitals for capital projects and equipment specific to the site.

The Hospital received capital grants under the SuperBuild Growth Fund for capital projects directed by the Health Services Restructuring Commission (HSRC). In establishing the grant, the MOHLTC focused solely on the new construction component of HSRC directions. Use of the grant is restricted to capital initiatives that are consistent with implementing the functional program which is approved in writing by the MOHLTC for addressing HSRC directions.

Also, the hospital received capital grants from the MOHLTC to fund their cost-share commitment for approved capital projects. The unspent SuperBuild and MOHLTC capital grants have been invested and the interest income has been added to the original grants.

7. Endowments and trust funds

Endowments and trust funds are represented by the following:

		2018		2017
	Cost	**Amortized cost**	Cost	Amortized cost
	$	**$**	$	$
Mutual funds	**333,150**	**333,150**	338,427	338,427
Cash - treasury accounts	**3,194,444**	**3,194,444**	3,189,167	3,189,167
Total cash and investments for endowments and trusts	**3,527,594**	**3,527,594**	3,527,594	3,527,594

8. Short-term borrowings

As at March 31, 2018, the Hospital has a $30,000,000 (2017 - $30,000,000) unsecured demand operating line of credit. The line of credit bears interest at prime rate plus 1%. As at March 31, 2018 the short term borrowings are $4,976,998 (2017 - $14,425,009) against this facility. The hospital has not entered into a short-term bridge financing facility this year (2017 - $nil).

9. Obligations under capital leases

Future minimum payments under capital leases, by year end in aggregate, consist of the following at March 31, 2018:

	$
Fiscal year ending:	
2019	524,650
2020	524,650
2021	508,586
2022	486,097
2023	480,186
2024 and thereafter	20,740
Total minimum lease payments	2,544,909
Less: Amount representing interest at rates 1.2% - 4.9%	(133,857)
Balance of obligation	2,411,052
Current portion of obligations	475,724
Long-term portion of obligations	1,935,328

The debt obligation is secured by the specific equipment under capital lease.

10. Derivative liability

The hospital has a credit facility for the financing of construction costs related to an energy retrofit project in the amount of $11.9 million. The hospital entered into an interest rate swap agreement to modify the floating rate of interest on the loan from Bankers Acceptance rates ranging from 1.355% to 2.08% (2017 - 1.376% to 1.45%) during the year, to a fixed rate of 4.35%. The start date of this interest rate swap was September 3, 2013 with a maturity date of September 3, 2023. The notional value of the derivative financial instruments is $11,000,000 and amortized monthly during the term of the interest rate swap. The fair value of the interest rate swap at March 31, 2018 is $264,889 (2017 - $580,449). The change in fair value during the year of $315,560 is recorded in the Statement of remeasurement losses.

11. Long-term debt

	2018	2017
	$	$
Energy Retro-fit Swap facility - borrowings at an interest rate of prime plus 4.35%, payable over the next 5 years	**6,050,000**	7,150,000
St. Catharines Site mortgage - borrowings at an interest rate of 9.1%, payable over the next 25 years in monthly payments, which escalate based on consumer price index	**202,550,364**	204,575,249
	208,600,364	211,725,249
Less: current portion	**3,275,304**	3,120,327
Long-term debt	**205,325,060**	208,604,922

11. Long-term debt (continued)

Energy retro-fit

The Hospital has a revolving credit facility for major expenditures for equipment and construction related to hospital redevelopment projects, subject to specified conditions, of $15,000,000 bearing interest at prime plus 0.5%. Funds advanced on the credit facility are payable in monthly or quarterly payments with a maximum term of 10 years at the borrowers option.

On July 20, 2011 the Hospital entered into a financing agreement for the purposes of financing construction costs related to an energy retrofit project at 6 sites of the Niagara Health System.

As at March 31, 2013, funds were advanced on the revolving credit facility against the Energy Retrofit project with interest to be capitalized during the construction drawdown period and has since been converted to a swap loan. The balance against this facility, as at March 31, 2018, was an amount of $6,050,000 (2017 -$7,150,000).

St. Catharines site

The Hospital entered into an alternate financing and procurement project under PIR's ReNew Ontario Infrastructure investment plan with Plenary Health Niagara LP to Design, Build, Finance and Maintain (DBFM) the health care complex in St. Catharines. The facility was substantially completed on November 26, 2012. Under the terms of the Project Agreement, payments will be made by the Hospital for principal and interest costs. Payments have comprised construction progress payments, payment at substantial completion and mortgage payments. As at March 31, 2018 $202.6 million (2017 - $204.6 million) of principal has been recorded as a long-term obligation for these mortgage payments and will be paid over a 30-year period with payments having commenced after the substantial completion date.

Total long-term debt repayments

The principal repayments required in the next five fiscal years are as follows:

	$
2019	3,275,304
2020	3,540,796
2021	3,777,802
2022	4,036,504
2023	4,318,945
2024 and thereafter	189,651,013
	208,600,364

12. Employee future benefits

The Hospital pays certain benefits of its retired employees including life insurance, health benefits, dental benefits and deluxe travel benefits. These post-retirement benefits are recognized in the period in which the employees rendered their services to the Hospital.

12. Employee future benefits (continued)

The Hospital measures its accrued benefits obligations for accounting purposes at December 31st each year. The most recent actuarial valuation of the benefit plans was March 31, 2018. Information about the defined benefit plan is as follows:

	2018	2017
	$	$
Accrued benefit obligation, end of the year	**33,431,500**	33,464,250
Less: experience (gains) loss	**(258,300)**	1,253,800
Accrued benefit liability, end of the year	**33,689,800**	32,210,450
Current portion	**2,432,600**	2,374,200
Long-term portion	**31,257,200**	29,836,250
	33,689,800	32,210,450

Movement in the accrued benefit obligation is as follows:

	2018	2017
	$	$
Accrued benefit obligation, beginning of the year	**33,464,250**	32,740,223
Accrual for service	**1,310,843**	1,133,484
Interest on accrued benefits	**1,397,900**	1,369,400
Benefits paid for the year	**(2,741,493)**	(1,778,857)
Accrued benefit obligation, end of the year	**33,431,500**	33,464,250

Included in the statement of operations is an amount of $2,875,543 (2017 - $2,765,784) regarding employees future benefits. This amount is comprised of:

	2018	2017
	$	$
Plan expense		
Current service cost	**1,310,843**	1,133,484
Interest cost	**1,397,900**	1,369,400
Amortization of actuarial loss	**166,800**	262,900
	2,875,543	2,765,784

The average remaining service period to full eligibility is 13 years (2017 - 11 years).

The main actuarial assumptions employed for the valuation are as follows:

Interest (discount rate)

The obligations as at March 31, 2018 of the present value of future liabilities was determined using 4.35% (2017 - 4.35%). The expense for the year then ended were determined using a discount rate of 4.35% (2017 - 4.35%).

12. Employee future benefits (continued)

Medical costs

Medical costs were assumed to increase to a rate of 6% (2017 - 7%) in 2018 decreasing by 0.25% (2017 - 0.25%) increments per annum to an ultimate rate of 4.5% (2017 - 4.75%) in 2020 and thereafter.

Dental costs

Dental costs were assumed to increase at 2.75% (2017 - 3.75%) per annum.

13. Deferred capital contributions

Deferred capital contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2018	2017
	$	$
Balance, beginning of year	**816,243,428**	838,317,637
Contributions received and interest earned during the year	**10,533,126**	14,316,657
Amortization	**(36,680,445)**	(36,390,866)
	790,096,109	816,243,428
Less: Current portion of deferred contributions	**(29,735,916)**	(35,107,227)
Balance, end of year	**760,360,193**	781,136,201

14. Investment in land, buildings, equipment

Investment in land, buildings and equipment

	2018	2017
	$	$
Investments	**66,427,942**	60,263,288
Land, buildings and equipment	**793,752,755**	826,585,683
Contributions receivable	**172,410,952**	178,049,525
Deferred capital contributions	**(790,096,109)**	(816,243,428)
Long-term debt	**(208,600,364)**	(211,725,249)
Obligations under capital leases	**(2,411,052)**	(2,906,858)
Investments in land, buildings and equipment	**31,484,124**	34,022,961

14. Investment in land, buildings, equipment (continued)

Changes in net assets invested in land, buildings and equipment is calculated as follows:

	2018	2017
	$	$
Amortization of land improvements, buildings and equipment	(42,567,915)	(43,550,950)
Amortization of deferred contributions	36,680,445	36,390,866
Loss on disposal of equipment	(39,910)	(261,925)
Land and buildings held for sale	(1,873,373)	-
Net deficit for the year	(7,800,753)	(7,422,009)
Net land, buildings and equipment additions	12,750,557	15,469,975
Proceeds on sale on assets	(1,102,287)	(7,864)
Contributions receivable	(5,638,573)	(5,866,617)
Net increase in deferred contributions	(10,533,126)	(14,316,657)
Obligations under capital leases	495,806	486,754
Repayment of long term debt debt	3,124,885	3,726,441
Increase in cash and investments	6,164,654	10,606,929
Investment in land, buildings and equipment	5,261,916	10,098,961
Net change in investments in land, buildings and equipment	(2,538,837)	2,676,952

15. Endowments and trust funds

	2018	2017
	$	$
Summary of endowments by site		
Niagara Health System	3,527,594	3,527,594

All of the assets restricted for endowment or trusts purposes are subject to externally imposed restrictions that the principal be maintained intact. The interest earned on the funds is restricted for expenditures that meet the stipulations of the donation.

16. Externally restricted funds

	2018	2017
	$	$
Opening balance	72,413	72,371
Interest	177	42
	72,590	72,413

16. Externally restricted funds (continued)

The Hospital has $72,590 (2017 - $72,413) in externally restricted funds. Externally restricted funds represent donations which have been restricted by the donor for a specific expenditure or type of expenditure. The Board has the discretion to spend the funds in accordance with the stipulations of the donations.

17. Internally restricted funds

	2018	2017
	$	$
Other votes		
Revenue	**93,379**	89,553
Expense	**4,356**	3,826
	97,735	93,379

The internally restricted net assets represent contributions received for capital projects and funds internally restricted by the previous Board of Directors of the founding hospitals for capital projects and equipment specific to the site.

18. Other votes and other funds

Other votes represent funding received for specific programs/services from the Ministry of Health and Long-Term Care, approved by a separate vote of the provincial legislature. Other Fund types are funding received from other sources than the Ministry of Health and Long Term Care. Funding for other votes and fund types are not included in the hospital's global funding.

	2018	2017
	$	$
Other votes		
Revenue	**8,444,577**	8,348,071
Expense	**8,645,344**	8,539,605
	(200,767)	(191,534)
Other fund types		
Endowment and trust interest income - net	**34,151**	31,563
Extended Care Unit and Interim Long Term Care loss	**(1,148,279)**	(1,239,715)
	(1,114,128)	(1,208,152)
	(1,314,895)	(1,399,686)

19. Net capital expenditures – building and land improvements

	2018	2017
	$	$
Amortization of building and land improvements	(24,646,652)	(24,504,551)
Amortization of deferred grants	22,442,682	22,304,402
Donation and grant revenue	13,511	13,501
Donation and Grant revenue - Capital Mortgage Interest for St. Catharines Health Complex	17,299,839	17,465,117
Capital Mortgage Interest for St. Catharines Health Complex	(17,299,839)	(17,465,117)
Capital Expense	(3,329,822)	(347,575)
	(5,520,281)	(2,534,223)

20. Commitments

Operating leases

The Hospital is committed to payments under operating leases for certain equipment and facilities in the total amount of $3,942,177. Annual payments are as follows:

	$
2019	1,317,594
2020	1,137,782
2021	854,495
2022	513,723
2023	118,583
	3,942,177

St. Catharines site health-care complex

The Hospital entered into financial arrangements with Plenary Health Niagara to design, build, finance and maintain the health-care complex in St. Catharines on March 27, 2009. Over the 25-year period, payment commitments related to facilities and lifecycle maintenance are expected to be as follows:

	$
2019	7,655,552
2020	8,497,580
2021	8,094,082
2022	8,274,161
2023	8,871,950
2024 and thereafter	297,979,047
	339,372,372

20. Commitments

St. Catharines site health-care complex (continued)

These payments related to facilities maintenance and lifecycle costs will be indexed over the term of the agreement to provide for changes in certain operating costs. The Hospital has entered into an agreement with the MOHLTC to share in these costs based on MOHLTC funding policy.

See Note 4 for further details regarding the hospital complex.

21. Contingent liabilities

As at March 31, 2018, there were a number of claims outstanding, none of which exceeded the insurance coverage of the Hospital. The nature of Hospital activities is such that there is usually litigation pending or in prospect at any time. With respect to claims and possible claims, management believes the Hospital has valid defences and/or appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have material adverse effect on Hospital's financial position and results of operations.

The Hospital participates in the Healthcare Insurance Reciprocal of Canada (“HIROC”), a registered Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces of Ontario, Manitoba, Saskatchewan and Newfoundland. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No such assessments have been made to March 31, 2018.

In the normal course of business, the Hospital has entered into agreements that meet the definition of a guarantee. The Hospital's primary guarantees are as follows:

a) Indemnity has been provided to all directors and officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased director's and officers' liability insurance to mitigate the costs of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Hospital. The maximum amount of any potential future payment cannot be reasonably estimated.

b) In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a results of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Hospital from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, if any, which stems from the unpredictability of future events and the unlimited coverage offered to the counterparties. Accruals recorded are based on management's best estimate given the most current information available.

22. Pension plan

Substantially all of the employees of the Niagara Health System are members of the Hospitals of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Plan members will receive benefits, terminating on death, based on the defined benefit formula which is calculated using the best five consecutive years of earnings and number of years of contributory service in the Plan.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing plan assets in trust and through the Plan investments policy. The plan is currently funded at 122%.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with contributions by employees of 6.9% of the first $55,900 of salary and 9.2% thereafter, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for the employer contributions to the Plan to remain a constant percentage of employee's contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to $21,567,146 (2017 - $20,456,815) and are included in the statement of operations.

23. Financial instruments and risk management

Establishing fair value

The carrying value of cash, receivables, long-term receivable, cash and investments restricted for capital, payables and accruals, obligations under capital leases and bank borrowings approximates their fair value because of the relatively short period to maturity of the instruments. The fair value of long-term debt is not materially different from their carrying values as it bears interest at variable rates and has financing conditions similar to those currently available to the Hospital.

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

23. Financial instruments and risk management (continued)

Fair value hierarchy (continued)

The table below analyzes financial instruments carried at fair value, by valuation method, for financial instruments where fair value is disclosed in the financial statements.

				March 31, 2018
	Fair value measurement using			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Derivative liability	-	264,889	-	264,889

The Hospital manages its exposure to the risks associated with financial instruments that have the potential to affect its operating and financial performance in accordance with its Risk Management Policy. The objective of the policy is to reduce the volatility in cash flow and earnings. The Board monitors compliance with the risk management policies and reviews risk management policies and procedures on an annual basis.

The Hospital has exposure to the following risks associated with its financial instruments.

Credit risk

Cash and investments restricted for capital

Credit risk associated with cash and investments restricted for capital is minimized substantially by ensuring these assets are invested in financial obligations of: governments; major financial institutions that have been accorded investment grade ratings by a primary rating agency; and/or other creditworthy parties. An ongoing review is performed to evaluate changes in the status of the issuers authorized for investment under the Hospital's investment policy.

Accounts receivable

Credit risk associated with accounts receivable is minimized due to the nature of the Hospital's funding from the Province of Ontario. For other accounts receivable, the Hospital maintains allowances for potential credit losses, and any such losses to date have been within management's expectations.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the credit quality of the parties extended credit, as well as the large number of smaller customers.

The Hospital must make estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information and reasons for the accounts being past due are all considered in the determination of when to allow for past due accounts; the same factors are considered when determining whether to write off amounts charged to the allowance account against the amounts receivable.

Liquidity risk

Liquidity risk is the risk that the Hospital will not be able to meet a demand for cash or fund its obligations as they come due.

Liquidity risk also includes the risk of the Hospital not being able to liquidate assets in a timely manner at a reasonable price.

23. Financial instruments and risk management (continued)

Liquidity risk (continued)

The Hospital meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and financing activities and holding assets that can be readily converted into cash. The Hospital has a short term unsecured bank financing facility in place should it be required to meet temporary fluctuations in cash requirements as well as funding arrangements in place with the MOHLTC and HNHBLHIN as described in Note 8.

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in the market interest rates. The interest rate exposure of the Hospital arises from its interest bearing assets and its pension and other post-retirement benefit obligations. The Hospital also has short term and long-term borrowings subject to interest rate risk. The primary objective of the Hospital with respect to its investments in fixed income investments is to ensure the security of principal amounts invested and provide for a high degree of liquidity, while achieving a satisfactory investment return.

The Hospital manages the interest rate risk exposure of its fixed income investments by using a laddered portfolio with varying terms to maturity. The laddered structure of maturities helps to enhance the average portfolio yield while reducing the sensitivity of the portfolio to the impact of interest rate fluctuations. At March 31, 2018, the Hospital had $7,696,060 (2017 - $7,650,044) of investments exposed to interest rate risk.

The Hospital is exposed to interest rate risk since changes in interest rates may impact the Hospital's borrowing costs. Floating rate debt exposes the Hospital to fluctuations in short-term interest rates. At March 31, 2018, the Hospital had $4,976,998 (2017 - $14,425,009) of short-term borrowings subject to variable interest rate. The risk is mitigated for part of the year as provincial funding is advanced.

24. Related parties and shared services

Related parties

In 2018 the Hospital was associated with the following Foundations and Auxiliaries: Niagara Health Foundation (formerly One Foundation for Niagara Health System), Niagara-on-the-Lake Healthcare Foundation (formerly Niagara-on-the-Lake Hospital Foundation), St. Catharines General Hospital Auxiliary, Greater Niagara General Hospital Auxiliary, Douglas Memorial Hospital Auxiliary, Port Colborne General Hospital Auxiliary and Welland Hospital Auxiliary.

The Foundations and Auxiliaries are independent organizations that raise funds and hold in part resources for the benefit of the Hospital sites. All amounts received from the Foundations and Auxiliaries are deferred and recognized into income as the money is spent for its intended purpose. The Foundations and Auxiliaries contributed $2,442,385 during fiscal 2018 (2017 - $2,916,519). Included in the Hospital's assets as at March 31, 2018 is $4,619,118 (2017 - $4,616,027) in accounts receivable from the Foundations and Auxiliaries.

24. Related parties and shared services

Shared services

The Hospital is a member of Mohawk Medbuy Corporation ("Mohawk" - formerly Mohawk Shared Services Inc.). Mohawk is a not-for-profit organization which provides centralized Laundry Services, Diagnostic Imaging Repository Services, Employee Assistance Program Services, Supply Chain Services, Capital Procurement Services and Accounts Payable Services to its members and participants in the Hamilton-Niagara and surrounding areas. Mohawk is incorporated without share capital under the laws of the Province of Ontario and is exempt from income taxes under the Income Tax Act. Member hospitals share in paying the operating costs for the corporation. The Hospital's share of operating costs in 2018 was $1,988,467 (2017 - $1,824,475) reflected in expenses on the Statement of Operations. Included in the hospital's liabilities at March 31, 2018 is $70,548 in accounts payable to Mohawk (2017 - $Nil).

25. Funding agreements

The Hospital entered into funding agreements with various parties which require the disclosure of the revenues and expenditures for the respective program.

a) *LHIN Diabetes Funding*

	2018	2017
	$	$
Adult program		
Revenue	**470,112**	470,112
Expenses		
Salaries and benefits	**451,915**	438,879
Supplies and other expenses	**36,213**	34,757
Travel / transportation	**1,661**	1,453
	489,789	475,089
Program deficit	**(19,677)**	(4,977)

	2018	2017
	$	$
Pediatric program		
Revenue	**43,335**	43,335
Expenses		
Salaries and benefits	**45,795**	46,587
Supplies - Insulin Pump Program	**5,702**	5,678
	51,497	52,265
Program deficit	**(8,162)**	(8,930)

25. Funding agreements (continued)

b) Global Diabetes Funding

	2018	2017
	$	$
Adult program		
Revenue	**1,194,728**	1,194,728
Expenses		
Salaries and benefits	**1,189,477**	1,127,286
Supplies and other expenses	**25,983**	6,054
	1,215,460	1,133,340
Program deficit	**(20,732)**	61,388

	2018	2017
	$	$
Pediatric program		
Revenue	**124,311**	124,311
Expenses		
Salaries and benefits	**131,450**	136,393
Program deficit	**(7,139)**	(12,082)

c) Ministry of Children and Youth Services

	2018	2017
	$	$
Preschool Speech and Language Program		
Revenue	**414,711**	-
Expenses - unionized		
Salaries and wages	**345,107**	-
Benefit contribution for employees	**79,314**	-
	424,421	-
Program deficit	**(9,710)**	-

26. Sale of Niagara-on-the-Lake Site properties

On March 24, 2017, the Niagara Health System entered into a Purchase Agreement to sell the Niagara-on-the-Lake Site properties with the Corporation of the Town of Niagara-On-The Lake. The Ministry of Health and Long-Term Care approved the sale of the property on April 6, 2018. The expected final closing date of sale is September 20, 2018. A deposit of $100,000 was received in trust following the signing date of the contract, and the balance of approximately $3,400,000 to be received on the expected closing date.

27. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.