
Financial statements of Niagara Health System

March 31, 2019

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Independent Auditor's Report

To the Board of Directors of
Niagara Health System

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Niagara Health System (the "Hospital"), which comprise the statement of financial position as at March 31, 2019, and the statements of operations, remeasurement losses, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2019, and the results of its operations, its remeasurement losses, changes in its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards ("PSAS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Hospital in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PSAS, 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.

In preparing the financial statements, management is responsible for assessing the Hospital's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Hospital or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Hospital's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Hospital's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Hospital to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The image shows 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
May 28, 2019

Niagara Health System
Statement of operations

Year ended March 31, 2019

	Notes	2019 \$	2018 \$
Revenue			
Ministry of Health and Long-Term Care (MOHLTC) and Local Health Integration Network (LHIN)			
Base allocation		401,265,450	403,566,374
One-time funding, specialized programs		8,593,145	7,821,779
Other		11,362,063	12,146,028
Cancer Care Ontario		59,484,387	54,805,874
		480,705,045	478,340,055
Patient revenue from other payers		38,785,139	37,917,169
Differential and co-payments		3,122,946	3,645,072
Recoveries and miscellaneous		16,503,371	14,368,716
Amortization of grants and donations - equipment		8,228,193	13,277,896
		547,344,694	547,548,908
Expenses			
Compensation - salaries and wages		260,026,042	254,079,553
Benefit contributions for employees		73,743,226	70,870,505
Employee future benefits	12	2,067,457	2,875,543
Medical staff remuneration		38,721,982	37,891,430
Supplies and other expenses		75,926,846	75,717,552
Medical and surgical supplies		33,365,549	33,363,311
Drugs and medical gases		32,668,942	30,753,847
Bad debts		583,893	560,130
Interest on short-term borrowings		549,463	585,030
Interest on capital lease obligations		49,165	60,092
Amortization of equipment and software licenses		12,544,811	17,776,038
Equipment rentals and leases		3,575,634	3,326,199
		533,823,010	527,859,230
Surplus from operations before other votes and other funds		13,521,684	19,689,678
Deficit from other votes and other funds	18	(1,226,118)	(1,314,895)
Surplus before net capital expenditures		12,295,566	18,374,783
Net capital expenditures			
Building and land improvements	19	(3,441,930)	(5,520,281)
Gain on asset held for sale	26	1,626,627	—
Surplus for the year		10,480,263	12,854,502

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

Niagara Health System
Statement of remeasurement losses
Year ended March 31, 2019

	Notes	2019	2018
		\$	\$
Accumulated remeasurement losses at beginning of year		(301,550)	(617,110)
Unrealized gains attributable to derivative	10	46,033	315,560
Accumulated remeasurement losses at end of year		(255,517)	(301,550)

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

Niagara Health System
Statement of changes in net assets

Year ended March 31, 2019

	Investment in land, buildings and equipment \$	Endowments and trusts \$	Externally restricted \$	Internally restricted \$	Unrestricted \$	2019 \$
	(Note 14)	(Note 15)	(Note 16)	(Note 17)		
Balance, beginning of the year	31,484,124	3,527,594	72,590	97,735	(123,749,305)	(88,567,262)
Net surplus (deficit) for the year	(7,563,751)	—	—	—	18,044,014	10,480,263
Transfer of funds						
Additions to restricted funds	—	—	—	7,380,600	(7,380,600)	—
Investment in capital assets	10,258,710	—	—	—	(10,258,710)	—
Reallocation of interest earned on restricted funds	—	—	506	5,245	(5,751)	—
Balance, end of year	34,179,083	3,527,594	73,096	7,483,580	(123,350,352)	(78,086,999)

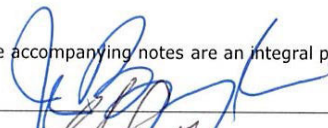
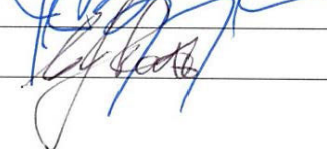
	Investment in land, buildings and equipment \$	Endowments and trusts \$	Externally restricted \$	Internally restricted \$	Unrestricted \$	2018 \$
	(Note 14)	(Note 15)	(Note 16)	(Note 17)		
Balance, beginning of the year	34,022,961	3,527,594	72,413	93,379	(139,138,111)	(101,421,764)
Net surplus (deficit) 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)

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

Niagara Health System
Statement of financial position
As at March 31, 2019

	Notes	2019 \$	2018 \$
			(Note 27)
Assets			
Current assets			
Cash		47,437	47,236
Receivables	3	20,701,649	18,879,738
Current portion of contributions receivable	4	23,996,409	22,518,823
Land and buildings held for sale	26	—	1,873,373
Inventories		5,226,620	5,175,840
Prepaid expenses and other assets		6,449,013	4,151,081
Patient trust funds		12,619	11,050
		56,433,747	52,657,141
Land, buildings and equipment	5	774,161,415	793,752,755
Contributions receivable	4	143,311,593	149,892,129
Cash and investments restricted for capital	6	81,798,421	67,515,108
Endowments and trust funds	7	3,527,594	3,527,594
		1,059,232,770	1,067,344,727
Liabilities			
Current liabilities			
Short-term borrowings	8	5,803,087	8,769,081
Payables and accruals		102,483,986	100,578,747
Patient trust accounts		12,619	11,050
Unearned revenues		14,359,834	11,792,447
Current portion of obligations under capital leases	9	487,042	475,724
Current portion of long-term debt	11	3,561,143	3,275,304
Current portion of employee future benefits	12	2,533,300	2,432,600
Current portion of deferred capital contributions	13	29,312,269	29,735,916
		158,553,280	157,070,869
Obligations under capital leases	9	1,448,286	1,935,328
Long-term debt	11	201,660,180	205,325,060
Derivative liability	10	218,856	264,889
Employee future benefits	12	31,606,870	31,257,200
Deferred capital contributions	13	744,087,814	760,360,193
		1,137,575,286	1,156,213,539
Commitments and contingencies	20, 21		
Net deficiency		(78,086,999)	(88,567,262)
Accumulated remeasurement losses		(255,517)	(301,550)
		1,059,232,770	1,067,344,727

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

 Chair of the Board
 Director

Niagara Health System
Statement of cash flows

Year ended March 31, 2019

	Notes	2019 \$	2018 \$
			(Note 27)
Operating activities			
Surplus for the year		10,480,263	12,854,502
Items not affecting cash			
Amortization of land improvements, buildings and equipment	14	37,902,082	42,567,915
Amortization of deferred capital contributions	13	(30,576,582)	(36,680,445)
Loss on disposal of land, buildings and equipment	14	238,251	39,910
Gain on land and building asset held for sale	26	(1,626,627)	—
Change in non-cash activities			
Receivables		(1,821,911)	(336,235)
Inventories		(50,780)	(381,845)
Prepaid expenses and other assets		(2,297,932)	706,681
Payables and accruals		1,905,239	(6,290,101)
Employee future benefits		450,370	1,479,350
Unearned revenues		2,567,387	1,145,157
Proceeds from land and building asset held for sale	26	3,500,000	—
		20,669,760	15,104,889
Investing activity			
Investments (including endowments and trust funds)		(14,283,313)	(6,202,818)
Capital activities			
Additions to land, buildings and equipment		(18,628,729)	(12,750,557)
Proceeds from sale of land, buildings and equipment	14	79,736	1,102,287
		(18,548,993)	(11,648,270)
Financing activities			
Decrease in contributions receivable		5,102,950	5,638,573
Decrease in short-term borrowings		(2,965,994)	(9,804,745)
Decrease in obligations under capital lease		(475,724)	(495,806)
Decrease in long term debt		(3,379,041)	(3,124,885)
Deferred capital contributions		13,880,556	10,533,126
		12,162,747	2,746,263
Net change in cash		201	64
Cash, beginning of year		47,236	47,172
Cash, end of year		47,437	47,236
Supplemental cash flow information			
Interest income received		597,487	471,665
Interest expense paid - operating		1,057,268	1,062,602
Interest expense paid - capital		17,354,609	17,584,099

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 now comprised of five 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, Port Colborne Site and the St. Catharines Site.

The Hospital operated 774 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 five 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, including the 4200 series of standards for government not-for-profit organizations, 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, 2019.

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.

2. Significant accounting policies (continued)

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 to cover these deficiencies.

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

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:

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.

2. Significant accounting policies (continued)

Classification of financial instruments (continued)

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

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, 2019. 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. Accounts receivables

	2019	2018
	\$	\$
Ministry of Health and Long-Term Care, LHIN, and Cancer Care Ontario	10,118,384	6,651,766
Insurers and patients	7,629,061	7,858,463
Foundation	1,460,901	335,949
Others	2,535,845	5,082,636
	21,744,191	19,928,814
Allowance for doubtful receivables	(1,042,542)	(1,049,076)
	20,701,649	18,879,738

Niagara Health System
Notes to the financial statements
Year ended March 31, 2019

4. Contributions receivable

	2019	2018
	\$	\$
Ministry of Health and Long-Term Care	155,287,930	158,020,972
Other receivables - St. Catharines site	12,020,072	14,389,980
	167,308,002	172,410,952
Less: current portion of long-term accounts receivables	23,996,409	22,518,823
	143,311,593	149,892,129

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

	Cost	Accumulated depreciation	2019 Net book value	2018 Net book value
	\$	\$	\$	\$
Land	6,506,855	—	6,506,855	6,099,817
Land improvements	5,010,186	2,304,799	2,705,387	1,222,151
Buildings	151,026,924	83,779,008	67,247,916	68,465,738
Leasehold improvements	3,980,590	1,726,921	2,253,669	2,535,378
Equipment	211,575,628	166,676,244	44,899,384	48,624,844
Building and building services equipment				
St. Catharines site	758,284,331	117,161,308	641,123,023	658,984,204
Construction-in-progress	9,252,771	—	9,252,771	7,438,339
	1,145,637,285	371,648,280	773,989,005	793,370,471
Equipment under capital lease	18,267,533	18,095,123	172,410	382,284
	1,163,904,818	389,743,403	774,161,415	793,752,755

Niagara Health System
Notes to the financial statements
Year ended March 31, 2019

6. Cash and investments restricted for capital

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

	Cost \$	2019 Amortized cost \$	Cost \$	2018 Amortized cost \$
Government and other bonds, 1.2% to 2.65%, maturing from Jun 2019 to June 2022	4,330,997	4,348,446	4,080,558	4,008,485
Real Estate Investments				
Trusts	14,538	21,850	26,030	25,429
Blue Chip Canadian and US equities	1,131,969	1,355,942	1,246,896	1,305,210
Money market fund	2,270,482	2,271,385	2,312,443	2,312,443
Short term investment certificate, 2.25% maturing Feb 2020	25,000,000	25,000,000	—	—
GICs, 1.45%, maturing Feb 2020	30,133	30,133	30,133	30,133
Total investment vehicles	32,778,119	33,027,756	7,696,060	7,681,700
Add: Restricted construction payment treasury accounts, interest prime less 1.75% (1.7% interest rate)	39,180,480	39,180,480	57,567,496	57,567,496
Add: unrealized (gain)/loss	—	(249,637)	—	14,360
Total investment vehicles for capital purposes	71,958,599	71,958,599	65,263,556	65,263,556
Other investments:				
Externally Restricted Cash	2,356,242	2,356,242	2,251,552	2,251,552
Internally Restricted Cash	7,483,580	7,483,580	—	—
Total cash and investment restricted for capital	81,798,421	81,798,421	67,515,108	67,515,108

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.

Niagara Health System
Notes to the financial statements
Year ended March 31, 2019

6. Cash and investments restricted for capital (continued)

	Beginning, Balance of the year \$	Addition (transfers) during year \$	Donations \$	Interest \$	Balance, end of year \$
Restricted investment					
NHS	2,293,714	7,307,864	—	95,078	9,696,656
Capital - MOHLTC Capital, Superbuild and Niagara Health Local Share	65,221,394	5,754,113	—	1,126,258	72,101,765
Total	67,515,108	13,061,977	—	1,221,336	81,798,421

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:

	Cost \$	2019 Amortized cost \$	Cost \$	2018 Amortized cost \$
Mutual funds	339,243	339,243	333,150	333,150
Cash - treasury accounts	3,188,351	3,188,351	3,194,444	3,194,444
Total cash and investments for endowments & trusts	3,527,594	3,527,594	3,527,594	3,527,594

8. Short-term borrowings

As at March 31, 2019, the Hospital has a \$70,000,000 (2018 - \$30,000,000) unsecured demand operating line of credit. The line of credit bears interest at prime rate minus 0.85% (2018 - prime rate plus 1%). As at March 31, 2019 the short term borrowings are \$nil (2018 - \$4,976,998) against this facility.

Short term borrowings on the statement of financial position consist of the Hospital's positive bank balance less restricted funds in the operating bank.

Niagara Health System
Notes to the financial statements
Year ended March 31, 2019

9. Obligations under capital leases

Future minimum payments under capital leases, by year end in aggregate, consist of the following at March 31, 2019:

	\$
Fiscal year ending:	
2020	524,650
2021	508,586
2022	486,097
2023	480,186
2024	<u>20,740</u>
Total minimum lease payments	2,020,259
Less: Amount representing interest at rates 1.2% - 4.9%	<u>(84,931)</u>
Balance of obligation	1,935,328
Current portion of obligations	<u>487,042</u>
Long-term portion of obligations	<u>1,448,286</u>

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 2.1325% to 2.8% (2018 - 1.355% to 2.08%) 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, 2019 is \$218,856 (2018 - \$264,889). The change in fair value during the year of \$46,033 (2018 - \$315,560) is recorded in the Statement of remeasurement losses.

11. Long-term debt

	2019 \$	2018 \$
Energy retrofit swap facility - borrowing at an interest rate of 4.35%, payable over the next 5 years	4,950,000	6,050,000
St. Catharines site mortgage - borrowings at an interest rate of 9.1%, payable over the next 24 years in monthly payments, which escalate based on consumer price index	200,271,323	202,550,364
	205,221,323	208,600,364
Less: current portion	3,561,143	3,275,304
Long term debt	201,660,180	205,325,060

11. Long-term debt (continued)

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

	<u>\$</u>
2020	3,561,143
2021	3,795,635
2022	4,054,693
2023	4,337,497
2024	4,096,284
2024 and thereafter	<u>185,376,071</u>
	<u>205,221,323</u>

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, 2019, was an amount of \$4,950,000 (2018 - \$6,050,000).

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, 2019 \$200.3 million (2018 - \$202.6 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.

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, 2019. Information about the defined benefit plan is as follows:

	2019	2018
	\$	\$
Accrued benefit obligation, end of year	37,276,770	33,431,500
Less: actuarial losses (gains)	3,136,600	(258,300)
Accrued benefit liability, end of year	34,140,170	33,689,800
Current portion	2,533,300	2,432,600
Long term portion	31,606,870	31,257,200
	34,140,170	33,689,800

Movement in the accrued benefit obligation is as follows:

	2019	2018
	\$	\$
Accrued benefit obligation, beginning of the year	33,431,500	33,464,250
Accrual for service	1,431,993	1,310,843
Interest on accrued benefits	1,369,600	1,397,900
Benefits paid for the year	(2,518,023)	(2,741,493)
Actuarial loss	3,561,700	—
Actual accrued benefit obligation, end of year	37,276,770	33,431,500

Included in the statement of operations is an amount of \$2,067,457 (2018 - \$2,875,543) regarding employees future benefits. This amount is comprised of:

	2019	2018
	\$	\$
Plan expense		
Current service cost	531,057	1,214,743
Interest cost	1,369,600	1,397,900
Amortization of actuarial loss	166,800	262,900
	2,067,457	2,875,543

The average remaining service period to full eligibility is 13 years (2018 - 13 years).

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

Interest (discount rate)

The obligations as at March 31, 2019 of the present value of future liabilities was determined using 3.18% (2018 - 4.35%). The expense for the year then ended were determined using a discount rate of 3.18% (2018 - 4.35%).

Niagara Health System
Notes to the financial statements
Year ended March 31, 2019

12. Employee future benefits (continued)

Medical costs

Medical costs were assumed to increase to a rate of 6% (2018 - 6%) in 2019 decreasing by 0.25% (2018 - 0.25%) increments per annum to an ultimate rate of 4.5% (2018 - 4.5%) in 2020 and thereafter.

Dental costs

Dental costs were assumed to increase at 2.75% (2018 - 2.75%) 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.

	2019	2018
	\$	\$
Balance, beginning of year	790,096,109	816,243,428
Contribution received & interest earned during the year	13,880,556	10,533,126
Amortization	(30,576,582)	(36,680,445)
	773,400,083	790,096,109
Less: current portion of deferred contributions	(29,312,269)	(29,735,916)
Balance, end of year	744,087,814	760,360,193

14. Investment in land, buildings, equipment

Investment in land, buildings and equipment

	2019	2018
	\$	\$
Investments	73,266,400	66,427,942
Land, buildings and equipment	774,161,415	793,752,755
Contributions receivable	167,308,002	172,410,952
Deferred capital contributions	(773,400,083)	(790,096,109)
Long term debt	(205,221,323)	(208,600,364)
Obligations under capital leases	(1,935,328)	(2,411,052)
Investments in land, buildings and equipment	34,179,083	31,484,124

Niagara Health System
Notes to the financial statements
Year ended March 31, 2019

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

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

	2019 \$	2018 \$
Amortization of land improvements, buildings and equipment	(37,902,082)	(42,567,915)
Amortization of deferred contributions	30,576,582	36,680,445
Loss on disposal of land, buildings and equipment	(238,251)	(39,910)
Land and buildings held for sale	—	(1,873,373)
Net deficit for the year	(7,563,751)	(7,800,753)
Net land, buildings and equipment additions	18,628,729	12,750,557
Proceeds on sale on assets	(79,736)	(1,102,287)
Contributions receivable	(5,102,950)	(5,638,573)
Net increase in deferred contributions	(13,880,556)	(10,533,126)
Obligations under capital leases	475,724	495,806
Repayment of long term debt	3,379,041	3,124,885
Increase in cash and investments	6,838,458	6,164,654
	10,258,710	5,261,916
Net change in investments in land, buildings and equipment	2,694,959	(2,538,837)

15. Endowments and trust funds

	2019 \$	2018 \$
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

	2019 \$	2018 \$
Niagara Health Systems		
Opening balance	72,590	72,413
Interest	506	177
	73,096	72,590

The Hospital has \$73,096 (2018 - \$72,590) 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.

Niagara Health System
Notes to the financial statements
Year ended March 31, 2019

17. Internally restricted funds

	2019	2018
	\$	\$
Opening balance	97,735	93,379
Interest allocated on funds	5,245	4,356
Transfers into the fund	7,380,600	—
	7,483,580	97,735

The internally restricted net assets represent funds internally restricted by the Board of Directors for capital purposes.

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.

	2019	2018
	\$	\$
Other votes:		
Revenue	8,798,542	8,444,577
Expenses	9,024,522	8,645,344
	(225,980)	(200,767)
Other fund types:		
Endowment and trust interest income - net	95,327	34,151
Extended care unit and interim long-term care loss	(1,095,465)	(1,148,279)
	(1,000,138)	(1,114,128)
Bundled care:		
Post acute revenues	1,344,358	—
Post acute expenses	(1,344,358)	—
	—	—
	(1,226,118)	(1,314,895)

Niagara Health System
Notes to the financial statements
Year ended March 31, 2019

19. Net capital expenditures

	2019	2018
	\$	\$
Amortization of building and land improvements	(25,211,371)	(24,646,652)
Amortization of deferred grants	22,228,529	22,442,682
Loss on disposal of asset	(228,736)	—
Donate and grant revenue	6,351	13,511
Donation and grant revenue - Capital mortgage interest for St. Catharines Health Complex	17,117,906	17,299,839
Capital mortgage interest for St. Catharines Health Complex	(17,117,906)	(17,299,839)
Capital expense	(236,703)	(3,329,822)
	(3,441,930)	(5,520,281)

20. Commitments

Operating leases

The Hospital is committed to payments under operating leases for certain equipment and facilities in the total amount of \$2,690,397. Annual payments are as follows:

	\$
2020	989,303
2021	813,189
2022	595,672
2023	258,764
2024	33,469
	<u>2,690,397</u>

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 24-year period, payment commitments related to facilities and lifecycle maintenance are expected to be as follows:

	\$
2020	8,578,836
2021	8,167,542
2022	8,350,933
2023	8,960,343
2024	9,103,223
2025 and thereafter	290,430,903
	<u>333,591,780</u>

20. Commitments (continued)

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, 2019, 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, 2019.

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 result 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 121%. 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 \$22,532,745 (2018 - \$21,567,146) and are included in the statement of operations. 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 \$57,400 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.

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, 2019			
	Fair value measurement using			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Derivative liability	—	218,856	—	218,856

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)

Credit risk (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, 2019, the Hospital had \$32,778,119 (2018 - \$7,696,060) 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, 2019, the Hospital had \$nil (2018 - \$4,976,998) 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 2019 the Hospital was associated with the following Foundations and Auxiliaries: Niagara Health 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 \$1,486,403 during fiscal 2019 (2018 - \$2,442,385). Included in the Hospital's assets as at March 31, 2019 is \$5,598,351 (2018 - \$4,619,118) in accounts receivable from the Foundations and Auxiliaries.

24. Related parties and shared services (continued)

Shared services

The Hospital is a member of Mohawk Medbuy Corporation ("Mohawk"). 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 2019 was \$2,036,952 (2018 - \$1,988,467) reflected in expenses on the Statement of Operations. Included in the hospital's liabilities at March 31, 2019 is \$nil (2018 - \$70,548) in accounts payable to Mohawk.

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

	2019	2018
	\$	\$
Audit program		
Revenue	470,112	470,112
Expenses		
Salaries and benefits	438,879	451,915
Supplies and other expenses	29,969	36,213
Travel/transportation	5,614	1,661
	474,462	489,789
Program deficit	(4,350)	(19,677)
	2019	2018
	\$	\$
Pediatric program		
Revenue	43,335	43,334
Expenses		
Salaries and benefits	47,830	45,795
Supplies and other expenses	5,756	5,702
	53,586	51,497
Program deficit	(10,251)	(8,163)

Niagara Health System
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25. Funding agreements (continued)

b) Global Diabetes Funding

	2019	2018
	\$	\$
Audit program		
Revenue	1,221,005	1,194,728
Expenses		
Salaries and benefits	1,277,988	1,189,477
Supplies and other expenses	27,311	25,983
	1,305,299	1,215,460
Program deficit	(84,294)	(20,732)

	2019	2018
	\$	\$
Pediatric program		
Revenue	146,572	124,311
Expenses		
Salaries and benefits	148,142	131,450
Program deficit	(1,570)	(7,139)

c) Niagara Children's Centre (2018 – Ministry of Children and Youth Services)

	2019	2018
	\$	\$
Preschool speech and language program		
Revenue	414,711	414,711
Expenses		
Salaries and wages	331,818	345,107
Benefit contribution for employees	83,627	79,314
	415,445	424,421
Program deficit	(734)	(9,710)

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

The Niagara-on-the-Lake Site properties were sold to the Corporation of the Town of Niagara-On-The-Lake on August 28, 2018 for \$3,500,000. The proceeds have been internally restricted for the local share of the South Niagara capital project and are included within the current year transfer to the internally restricted funds as reported in Note 17.

The reported gain on the sale is calculated as follows:

	2019	2018
	\$	\$
Proceeds from sale of land and building	3,500,000	—
Less: net book value of land and building	(1,873,373)	—
Net gain on sale	1,626,627	—

27. Comparative figures

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