

North York General Hospital

Financial Statements
March 31, 2016



May 26, 2016

Independent Auditor's Report

To the Members of North York General Hospital

We have audited the accompanying financial statements of North York General Hospital, which comprise the statement of financial position as at March 31, 2016 and the statements of operations, changes in net assets, remeasurement gains and losses and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

*PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 363 8215*



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of North York General Hospital as at March 31, 2016 and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

North York General Hospital

Statement of Financial Position

As at March 31, 2016

(in thousands of dollars)

	2016 \$	2015 \$
Assets		
Current assets		
Cash and cash equivalents	48,540	41,674
Accounts receivable and prepaid expenses (note 4)	24,235	24,294
Inventories	2,584	2,496
	<u>75,359</u>	<u>68,464</u>
Capital assets (note 5)	153,561	144,939
Long-term investments (note 6)	28,071	27,790
	<u>256,991</u>	<u>241,193</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	56,663	54,183
Deferred revenue (note 9)	6,443	6,301
Unspent capital contributions (note 8)	28,871	13,556
Long-term debt (note 7)	661	621
	<u>92,638</u>	<u>74,661</u>
Long-term debt (note 7)	10,860	11,521
Derivative liabilities (note 7)	3,885	4,003
Employee future benefits (note 10)	10,001	9,582
Deferred capital contributions (note 8)	79,438	81,980
	<u>196,822</u>	<u>181,747</u>
Net Assets		
Invested in capital assets (note 3)	62,602	50,817
Unrestricted	1,839	12,517
Accumulated remeasurement losses	(4,272)	(3,888)
	<u>60,169</u>	<u>59,446</u>
	<u>256,991</u>	<u>241,193</u>
Commitments and contingencies (note 15)		

Approved by the Board

Carmen Rossiter

Treasurer

[Signature]

Chairman

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

North York General Hospital

Statement of Operations

For the year ended March 31, 2016

(in thousands of dollars)

	2016 \$	2015 \$
Revenue		
Ministry of Health and Long-Term Care and Local Health Integration Network	298,869	295,695
Patient services	37,778	37,460
Ancillary operations	29,617	27,902
Amortization of deferred capital contributions - equipment and software	2,547	3,153
	<u>368,811</u>	<u>364,210</u>
Expenses		
Salaries and wages	171,383	167,007
Employee benefits (note 10)	48,726	49,242
Medical staff	37,230	37,560
Building and equipment maintenance	25,003	24,476
Drugs	20,309	18,084
Medical and surgical supplies	18,109	17,260
Other supplies and expenses	36,733	35,794
Amortization of equipment and software	7,894	9,017
	<u>365,387</u>	<u>358,440</u>
Excess of revenue over expenses before the undernoted	<u>3,424</u>	<u>5,770</u>
Amortization of deferred capital contributions - building and parking facilities	3,403	3,374
Amortization of building and parking facilities	<u>(5,720)</u>	<u>(5,696)</u>
	<u>(2,317)</u>	<u>(2,322)</u>
Excess of revenue over expenses for the year	<u>1,107</u>	<u>3,448</u>

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

North York General Hospital

Statement of Changes in Net Assets

For the year ended March 31, 2016

(in thousands of dollars)

			2016	2015
	Invested in capital assets \$ (note 3)	Unrestricted \$	Total \$	Total \$
Balance - Beginning of year	50,817	12,517	63,334	59,886
Excess of revenue over expenses (expenses over revenue) for the year	(7,664)	8,771	1,107	3,448
Invested in capital assets (note 3)	19,449	(19,449)	-	-
Balance - End of year	62,602	1,839	64,441	63,334

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

North York General Hospital
Statement of Remeasurement Gains and Losses
For the year ended March 31, 2016

(in thousands of dollars)

	2016 \$	2015 \$
Accumulated remeasurement losses - Beginning of year	(3,888)	(3,517)
Unrealized gains (losses) attributable to		
Derivatives	118	(717)
Investments	(502)	346
Net remeasurement losses for the year	(384)	(371)
Accumulated remeasurement losses - End of year	(4,272)	(3,888)

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

North York General Hospital

Statement of Cash Flows

For the year ended March 31, 2016

(in thousands of dollars)

	2016 \$	2015 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	1,107	3,448
Items not affecting cash		
Amortization of equipment and software	7,894	9,017
Amortization of building and parking facilities	5,720	5,696
Amortization of deferred capital contributions	(5,950)	(6,527)
Loss on disposal of capital assets	-	215
Employee future benefits expense	419	275
Changes in non-cash components of working capital (note 11)	2,593	5,263
	<u>11,783</u>	<u>17,387</u>
Financing activities		
Capital contributions received		
Ontario Ministry of Health and Long-Term Care	9,173	3,692
North York General Hospital Foundation and other	9,550	4,340
Repayment of long-term debt	(621)	(873)
	<u>18,102</u>	<u>7,159</u>
Investing activities		
Purchase of capital assets	(22,236)	(12,887)
Disposal of capital assets	-	2,170
Purchase of investment	(783)	(5,743)
Sale of investments	-	5,000
	<u>(23,019)</u>	<u>(11,460)</u>
Increase in cash and cash equivalents during the year	6,866	13,086
Cash and cash equivalents - Beginning of year	41,674	28,588
Cash and cash equivalents - End of year	<u>48,540</u>	<u>41,674</u>
Supplementary information		
Interest paid	767	809

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

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

1 Operations

North York General Hospital (the Hospital), including the IODE Children's Centre, is a three-site community teaching hospital, affiliated with the University of Toronto. The Hospital provides acute care, ambulatory and long-term care services to the community in north central Toronto and southern York Region.

The Hospital was incorporated in 1962, without share capital, under Part III of the Ontario Corporations Act. The Hospital is a registered charity as defined in the Income Tax Act (Canada) and, as such, is exempt from corporate income taxes.

These financial statements include the assets, liabilities and activities of the Hospital. These financial statements do not include the activities of the North York General Hospital Foundation (the Foundation) or the activities of the North York General Hospital Volunteer Services.

2 Summary of significant accounting policies

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

Revenue recognition

The Hospital follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable. Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Under the Health Insurance Act (Ontario) and the regulations thereunder, the Hospital is funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ontario Ministry of Health and Long-Term Care (MOHLTC)/Central Local Health Integration Network (CLHIN). Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of a period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in the subsequent period. These financial statements reflect management's best estimates of funding arrangements with the MOHLTC and the CLHIN. The Hospital has entered into an accountability agreement with the CLHIN, which requires the Hospital to meet certain financial and non-financial performance indicators.

All investment income is unrestricted and recognized as revenue when earned.

Amortization of building and parking facilities is not fully funded by the MOHLTC and accordingly the amortization of building and parking facilities has been reflected as an undernoted item in the statement of operations with the corresponding realization of revenue for deferred donations and grants.

Contributions received in the form of donations and grants for specific capital expenditures are initially deferred and recorded as deferred capital contributions. These deferred contributions are realized into revenue on the same basis as the amortization of the cost of the related capital assets.

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

Employee benefit plans

Substantially all of the employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan (HOOPP), which is a multi-employer, best five years average earnings and contributory pension plan; employees are entitled to certain post-employment benefits. Contributions made to HOOPP are expensed as funded, as the plan is accounted for as a defined contribution plan.

The Hospital provides certain health-care, dental, life insurance and other benefits for certain retired employees. The cost of post-employment benefits is determined using the accrued benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages of employees and health-care costs. The discount rate used to determine the accrued benefit obligation was determined by reference to the Hospital's cost of borrowing consistent with the specific rates of interest and periods committed to by the Hospital on amounts borrowed. The Hospital estimated its cost of borrowing by referencing the rate of return on provincial government bonds with an additional risk premium specific to the Hospital for varying durations based on cash flows expected from employee future benefit obligations. Actuarial gains and losses are amortized over the remaining service lives of the employees. Past-service costs relating to plan amendments are expensed when incurred.

Cash and cash equivalents

Cash and cash equivalents include cash and other liquid investments that are redeemable without penalty 30 days after purchase. Included in cash and cash equivalents is restricted cash of \$28,871 (2015 - \$13,556) pertaining to unspent capital contributions and \$6,443 (2015 - \$6,301) pertaining to deferred revenue.

Inventories

Inventories consist primarily of hospital supplies held for patient care and are recorded at the lower of cost and replacement cost. Outpatient pharmacy inventories, which are sold at prices that reflect fair value, are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method.

Capital assets

Capital assets are stated at cost, less accumulated amortization.

Contributed capital assets are recorded at fair value at the date of acquisition. Expenditures for new facilities, or expenditures that substantially increase the useful lives of existing capital assets, are capitalized. Renovation costs to maintain normal operating efficiency are expensed as incurred.

Amortization is provided for by the straight-line method over the estimated useful lives of the assets at rates as follows:

Parking facilities	4% - 10%
Buildings	2-1/2% - 20%
Equipment	5% - 20%
Software	33-1/3%

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

Projects-in-progress comprise direct construction and development costs. No amortization is recorded until construction is substantially complete and the assets are ready for use.

Contributed services

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

Joint ventures

Investment in joint ventures is accounted for using the modified equity method.

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Accounts requiring significant estimates include collectibility of accounts receivable, accrued liabilities, deferred revenue and employee future benefits.

The revenue recognized from the MOHLTC and the CLHIN 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 CLHIN for the year ended March 31, 2016. 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 CLHIN have the right to adjust funding received by the Hospital. Neither the MOHLTC nor the CLHIN 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 and CLHIN 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 Invested in capital assets

	2016 \$	2015 \$
Capital assets	153,561	144,939
Long-term debt	(11,521)	(12,142)
Deferred capital contributions expended	(79,438)	(81,980)
	<hr/> 62,602	<hr/> 50,817

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

The change in net assets invested in capital assets is determined as follows:

	2016 \$	2015 \$
Excess of revenue over expenses		
Amortization of deferred capital contributions		
Equipment and software	2,547	3,153
Building and parking facilities	3,403	3,374
	<u>5,950</u>	<u>6,527</u>
Amortization of capital assets		
Equipment and software	7,894	9,017
Building and parking facilities	5,720	5,696
	<u>13,614</u>	<u>14,713</u>
Excess of expenses over revenue	<u>(7,664)</u>	<u>(8,186)</u>
Net change in invested in capital assets		
Purchase of capital assets	22,236	12,887
Disposal of capital assets	-	(2,385)
Increase in deferred capital contributions	(18,723)	(8,032)
Change in unspent capital contributions received	15,315	4,342
Decrease in long-term debt	621	873
	<u>19,449</u>	<u>7,685</u>

4 Accounts receivable and prepaid expenses

	2016 \$	2015 \$
MOHLTC	4,980	8,151
Patient receivables	6,047	5,566
Cancer Care Ontario	2,524	1,676
North York General Hospital Foundation	229	227
Other	3,379	2,839
Prepaid expenses	7,654	6,494
	<u>24,813</u>	<u>24,953</u>
Less: Allowance for doubtful accounts	578	659
	<u>24,235</u>	<u>24,294</u>

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

5 Capital assets

	2016		
	Cost \$	Accumulated amortization \$	Net \$
Land	541	-	541
Parking facilities	25,933	11,627	14,306
Buildings	193,537	100,900	92,637
Equipment	155,798	136,301	19,497
Software	32,690	28,531	4,159
	408,499	277,359	131,140
Projects-in-progress	22,421	-	22,421
	430,920	277,359	153,561
	2015		
	Cost \$	Accumulated amortization \$	Net \$
Land	541	-	541
Parking facilities	25,933	10,635	15,298
Buildings	193,043	96,172	96,871
Equipment	152,177	130,330	21,847
Software	29,862	26,620	3,242
	401,556	263,757	137,799
Projects-in-progress	7,140	-	7,140
	408,696	263,757	144,939

During the year, assets with a cost of \$12 and accumulated amortization of \$12 were disposed of.

6 Long-term investments

The Hospital has invested cash committed to be spent on future construction and capital projects, with an investment management firm. These investments are held in short-term bond pooled funds at a fair value of \$27,542 (2015 - \$27,302).

Also included in long-term investments is the Hospital's investment in two joint ventures of \$529 (2015 - \$488) (note 12).

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

7 Long-term debt

Long-term debt consists of the following:

	2016 \$	2015 \$
Term loan bearing interest at 6.38%, repayable in blended monthly payments of \$17, maturing April 2021	901	1,047
Term loan, bearing interest at 5.97%, repayable in blended monthly payments of \$35, maturing October 2029	3,868	4,047
Term loan, bearing interest at 6.22%, repayable in blended monthly payments of \$61, maturing February 2030	6,752	7,048
	<hr/>	<hr/>
	11,521	12,142
Less: Current portion	661	621
	<hr/>	<hr/>
	10,860	11,521
	<hr/>	<hr/>

Principal repayments of long-term debt are as follows:

	\$
2017	661
2018	703
2019	748
2020	795
2021	846
Thereafter	7,768
	<hr/>
	11,521
	<hr/>

The Hospital fixed the interest rate on all of the term loans by entering into interest rate swap agreements. Interest swap contracts range from 5.97% to 6.38%, expiring between fiscal 2022 and fiscal 2030.

The Hospital is required to maintain certain financial performance covenants under its agreement with lenders, in the area of debt service coverage rates and annual capital expenditure amounts. The Hospital is in compliance with these covenants.

The Hospital has available an unsecured operating facility with a Canadian chartered bank in the amount of \$12,000. As at March 31, 2016, the Hospital had \$86 (2015 - \$86) in outstanding letters of credit drawn on this facility.

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

8 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.

	2016 \$	2015 \$
Balance - Beginning of year	95,536	94,031
Contributions received	18,723	8,032
Amortization	(5,950)	(6,527)
	<hr/>	<hr/>
Less: Unspent portion - included in current liabilities	108,309 28,871	95,536 13,556
	<hr/>	<hr/>
Balance - End of year	79,438	81,980

9 Deferred revenue

Deferred revenue represents the revenues collected but not earned as at March 31, 2016.

	2016 \$	2015 \$
Balance - Beginning of year	6,301	6,002
Revenue received	4,368	6,567
Revenue recognized	(4,226)	(6,268)
	<hr/>	<hr/>
Balance - End of year	6,443	6,301

10 Employee benefit plans

Healthcare of Ontario Pension Plan

Contributions made to the plan during the year by the Hospital amounted to \$14,613 (2015 - \$14,359). These amounts are included in the employee benefits expense in the statement of operations. Should there be a contribution deficiency in the plan, the Hospital may be required to make additional contributions to cover these deficiencies.

Other post-employment benefit plans

The Hospital offers various non-pension post-employment benefit plans to a number of its employees.

The Hospital is responsible for 50% to 75% of the cost of extended health-care, dental and semi-private accommodation and for 100% of the cost of group life insurance for some retirees.

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

Information about the Hospital's employee future benefits is as follows:

	2016 \$	2015 \$
Accrued benefit obligation - Beginning of year	10,852	9,226
Current service cost	500	411
Interest cost	333	375
Actuarial loss (gain)	(147)	1,349
	<hr/>	<hr/>
Benefits paid	11,538 (502)	11,361 (509)
	<hr/>	<hr/>
Accrued benefit obligation - End of year	11,036	10,852
	<hr/>	<hr/>
Opening unamortized actuarial experience gains (losses)	(1,270)	81
Actuarial experience losses (gains)	147	(1,349)
Amortization	88	(2)
	<hr/>	<hr/>
Ending unamortized actuarial experience losses	(1,035)	(1,270)
	<hr/>	<hr/>
Accrued benefit liability	10,001	9,582
	<hr/>	<hr/>

Employee contributions during the year were \$188 (2015 - \$194).

The most recent actuarial valuation of the obligation was performed as at March 31, 2016.

The significant actuarial assumptions utilized in measuring the Hospital's accrued benefit obligations for the non-pension post-retirement benefit plans are as follows:

- a discount rate to determine the accrued benefit obligations of 3.25% (2015 - 3%);
- dental costs increasing by 3% (2015 - 4%) per annum; and
- extended health-care costs and semi-private hospital coverage of 6.25% (2015 - 7.75%), decreasing by 0.25% per annum to an ultimate rate of 4.5% per annum in 2025 and thereafter.

11 Changes in non-cash components of working capital

	2016 \$	2015 \$
Accounts receivable and prepaid expenses	59	(2,459)
Inventories	(88)	(227)
Accounts payable and accrued liabilities	2,480	7,650
Deferred revenue	142	299
	<hr/>	<hr/>
	2,593	5,263
	<hr/>	<hr/>

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

12 Related party transactions

The Foundation was established to raise funds to support the Hospital and its programs and capital needs. The Foundation is incorporated without share capital under the laws of the Province of Ontario and is a charitable organization registered under the Income Tax Act (Canada). The Hospital is considered to have significant influence over the Foundation due to the common directors on the boards. The Foundation provided capital grants during 2016 of \$8,923 (2015 - \$3,481), which have been reflected as deferred capital contributions and also provided operational grants of \$1,094 (2015 - \$1,572), which have been recognized as revenue from ancillary operations. In addition, there is \$229 (2015 - \$227) receivable from the Foundation for reimbursement of costs incurred on its behalf.

In fiscal 2012, the Hospital entered into a ten-year lease agreement and a management services agreement with the Foundation to operate the Hospital's parking operations. The agreements were terminated in September 2014. Total revenue recognized in the year amounted to \$nil (2015 - \$3,005).

The Hospital is party to a shareholders' agreement in relation to the Hospital's investment in Shared Hospital Laboratory Inc. (SHLI). SHLI provides non-emergency laboratory services for which the Hospital paid \$1,242 (2015 - \$1,252).

The Hospital is party to a joint venture agreement with Proresp Inc. The joint venture, North York ProResp, provides home respiratory products and services to the community. Total revenue recognized in the year amounted to \$204 (2015 - \$164).

The Hospital is party to a joint venture agreement with 2359158 Ontario Inc. The joint venture, North York General Assessment and Wellness Centre provides independent medical examination services to insurance companies, employers, government organizations, and the WSIB. Total revenue recognized in the year amounted to \$154 (2015 - \$168).

13 Financial instruments and risk management

The Hospital's financial instruments consist of cash and cash equivalents, long-term investments, accounts receivable, accounts payable and accrued liabilities, long-term debt and derivative liabilities.

The Hospital's financial instruments are measured as follows:

Assets/Liabilities	Measurement category
Cash and cash equivalents	fair value
Long-term investments	fair value
Accounts receivable	amortized cost
Accounts payable and accrued liabilities	amortized cost
Long-term debt	amortized cost
Derivative liabilities	fair value

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

Derivatives

Interest rate swap agreements are used as part of the Hospital's program to manage the fixed and floating interest rate mix of the Hospital's total debt portfolio and related overall cost of borrowing. Interest to be paid or received under such swap contracts is recognized over the life of the contracts as adjustments to interest expense.

Fair value measurement

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

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

Long-term investments were measured as Level 1 financial instruments and the derivatives were measured as Level 2 financial instruments.

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses. On settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations. Interest and dividends attributable to financial instruments are reported in the statement of operations.

All financial assets, except derivatives and long-term investments, are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A writedown of a long-term investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

Risk management

The Hospital is exposed to a variety of financial risks, including market risk, interest rate risk, credit risk and liquidity risk. The Hospital's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Hospital's financial performance.

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

- **Market risk**

The Hospital is exposed to market risk through the fluctuation of financial instrument fair values due to changes in market prices. The significant market risk to which the Hospital is exposed is interest rate risk.

- **Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by the Hospital. The interest bearing long-term investments have a limited exposure to interest rate risk due to their nature. The Hospital entered into interest rate swap contracts to mitigate the interest rate risk on the long-term debt.

- **Credit risk**

The Hospital's principal financial assets are cash, accounts receivable and long-term investments, which are subject to credit risk. The carrying amounts of financial assets on the statement of financial position represent the Hospital's maximum credit exposure at the statement of financial position date.

The Hospital's credit risk is primarily attributable to its receivables. The amounts disclosed in the statement of financial position are net of an allowance for doubtful accounts, estimated by the management of the Hospital based on previous experience and its assessment of the current economic environment. The Hospital is exposed to credit risk in the event of non-payment by patients for non-insured services and services provided to non-resident patients. The risk is common to hospitals as they are required to provide care for patients regardless of their ability to pay for services provided.

As at March 31, 2016, the following accounts receivable were past due but not impaired:

	30 days \$	60 days \$	90 days \$	Over 120 days \$
Accounts receivable	4,206	228	195	1,165

The credit risk on cash and long-term investments is limited because the counterparties are chartered banks with high credit ratings assigned by national credit rating agencies.

- **Liquidity risk**

Liquidity risk is the risk the Hospital will not be able to meet its financial obligations when they come due. The Hospital manages its liquidity risk by forecasting cash flows from operations and anticipating investing and financing activities and maintaining credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements.

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

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

	2016				
	Up to 6 months \$	More than 6 months up to 1 year \$	More than 1 year up to 5 years \$	More than 5 years \$	Total \$
Accounts payable and accrued liabilities	56,663	-	-	-	56,663
Long-term debt	694	692	5,517	10,163	17,066
	<u>57,357</u>	<u>692</u>	<u>5,517</u>	<u>10,163</u>	<u>73,729</u>

14 Shared services - Plexxus

The Hospital is a member of Plexxus, a not-for-profit shared services organization whose mandate is to provide supply chain services to member organizations. The objectives of Plexxus are to maximize supply chain savings that will be reinvested in direct patient care.

15 Commitments and contingencies

- a) Due to the nature of its operations, the Hospital is periodically subject to lawsuits in which the Hospital is a defendant, as well as grievances filed by its various unions. In the opinion of management, the ultimate resolution of any current lawsuits and/or grievances would not have a material effect on the Hospital's financial position or results of operations.
- b) Healthcare Insurance Reciprocal of Canada (HIROC) was formed in 1987 as an insurance reciprocal pursuant to the Insurance Act of Ontario. HIROC is licensed in Ontario, Manitoba, Saskatchewan, Alberta, Nova Scotia, Prince Edward Island, British Columbia, Northwest Territories, Yukon, Nunavut, and Newfoundland and Labrador. It facilitates the exchange of reciprocal contracts of insurance among its subscribers, which are not-for-profit Canadian health-care organizations including the Hospital. 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, 2016.

In fiscal 2015, the Hospital entered into an agreement with HIROC whereby HIROC continues to provide indemnity insurance to the Hospital; however, the cost of investigating and defending any litigation claim, previously included in the insurance premium, will be borne by the Hospital. Under the agreement, the Hospital provides deposits to HIROC Management Limited, which acts as an agent to pay legal expenses on behalf of the Hospital.

Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income, less the obligation for claims reserves and expenses and operating expenses. Each subscriber that has an excess of premiums plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses, may be

North York General Hospital

Notes to Financial Statements

March 31, 2016

(in thousands of dollars)

entitled to receive distributions of its share of the unappropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There is no distribution receivable from HIROC as at March 31, 2016.

- c) The Hospital has entered into a multi-year maintenance contract with GE Medical Systems Canada that expires between March 31, 2017 and May 31, 2019. Maintenance payments are due approximately as follows:

	\$
2017	382
2018	378
2019	390
2020	65
	<hr/>
	1,215
	<hr/>

- d) The Hospital has an operating lease agreement with payments due approximately as follows:

	\$
2017	1,562
2018	1,598
2019	1,632
	<hr/>
	4,792
	<hr/>