Halton Healthcare Services Corporation

Financial Statements

For the year ended March 31, 2018

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Contents

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Independent Auditor's Report

To the Members of Halton Healthcare Services Corporation

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Halton Healthcare Services Corporation as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
June 21, 2018

Halton Healthcare Services Corporation
Statement of Financial Position

(expressed in thousands)

As at March 31,	2018	2017
ASSETS		
Current Assets		
Cash	**$ 30,161**	$ 20,350
Restricted cash (note 4)	**75,368**	202,433
Accounts receivable (note 2)	**13,354**	11,585
Due from Related Parties (note 3)	**675**	579
Current portion of long-term receivable (note 5b,c)	**11,642**	11,366
Inventories	**1,905**	2,683
Prepaid expenses	**3,102**	2,234
	136,207	251,230
Long-term receivable (note 5b,c)	**739,818**	734,403
Capital assets (note 5a)	**1,695,677**	1,707,008
	$ 2,571,702	$ 2,692,641
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities (note 6)	**$ 59,966**	$ 48,331
Current portion of obligations under capital leases (note 7)	**298**	296
Current portion of long-term debt (note 13)	**2,025**	17,000
Current portion of long-term payable (note 5b,c)	**11,994**	114,703
	74,283	180,330
Obligations under capital leases (note 7)	**617**	915
Deferred grants (note 12b)	**1,628,616**	1,623,376
Long-term debt (note 13)	**87,975**	90,000
Long-term payable (note 5b,c)	**739,818**	766,453
Interest rate swaps (note 13)	**19,954**	25,969
Post-retirement and employment benefits (note 8)	**11,042**	10,210
	2,562,305	2,697,253
Commitments and contingencies (note 5b and 10)		
Net assets	**29,351**	21,357
Accumulated remeasurement losses	**(19,954)**	(25,969)
	$ 2,571,702	$ 2,692,641

On behalf of the Board of Directors:

Chair

Treasurer

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

Halton Healthcare Services Corporation
Statement of Changes in Net Assets
(expressed in thousands)

For the year ended		
Balance, March 31, 2016	**$**	**19,938**
Excess of revenues over expenses		**1,419**
Balance, March 31, 2017	**$**	**21,357**
Excess of revenues over expenses		**1,705**
Contribution for the purchase of a non-depreciable capital asset (Note 5a)		**6,289**
Balance, March 31, 2018	**$**	**29,351**

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

Halton Healthcare Services Corporation
Statement of Accumulated Remeasurement Losses
(expressed in thousands)

For the year ended March 31,		**2018**		2017
Accumulated remeasurement losses, beginning of year	**$**	**(25,969)**	$	(33,415)
Unrealized gains attributable to derivative interest rate swaps		**6,015**		7,446
Amounts reclassified to the statement of operations		**-**		-
Net remeasurement gains for the year		**6,015**		7,446
Accumulated remeasurement losses, end of the year	**$**	**(19,954)**	$	(25,969)

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

Halton Healthcare Services Corporation
Statement of Operations
(expressed in thousands)

For the year ended March 31,		2018		2017
Revenues				
Ministry of Health and Long-term Care	$	**346,010**	$	317,888
Interest income		**1,121**		768
Other operational income		**71,201**		65,542
Deferred grant amortization		**20,102**		15,966
		438,434		400,164
Expenses				
Salaries, wages and benefits		**296,618**		279,507
Supplies and other expenses (note 13)		**77,984**		66,244
Medical and surgical supplies		**22,765**		21,189
Drugs		**11,286**		10,835
Equipment amortization		**25,630**		19,319
		434,283		397,094
Excess of revenues over expenses before building interest and amortization		**4,151**		3,070
Building interest and amortization, net (note 12a)		**(2,446)**		(1,651)
Excess of revenues over expenses	$	**1,705**	$	1,419

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

Halton Healthcare Services Corporation
Statement of Cash Flows

(expressed in thousands)

For the year ended March 31,		**2018**		2017
Cash flows from operating activities				
Excess of revenues over expenses	**$**	**1,705**	$	1,419
Adjustment for items not affecting cash:				
Amortization of capital assets		**70,444**		57,666
Loss (gain) on disposal of capital assets		**19**		(28)
Amortization of deferred grants		**(62,469)**		(52,662)
Post-retirement and employment benefits		**832**		852
Changes in non-cash working capital items:				
Accounts receivable		**(1,769)**		675
Due from Related Parties		**(96)**		(105)
Inventories		**778**		(281)
Prepaid expenses		**(868)**		(1,117)
Accounts payable and accrued liabilities		**11,635**		(639)
		20,211		5,780
Cash flows used in investing activities				
Purchase of capital assets		**(59,143)**		(26,177)
Proceeds on disposal of capital assets		**11**		28
Decrease (increase) in long-term receivable		**(5,691)**		114,722
Decrease (increase) in restricted cash		**127,065**		(116,016)
		62,242		(27,443)
Cash flows from financing activities				
Repayments of obligations under capital leases		**(296)**		(261)
Decrease in long-term debt		**(17,000)**		-
Decrease in long-term payable, net		**(129,344)**		(13,628)
Increase in deferred grants		**67,709**		41,444
Contribution received for a non-depreciable capital asset (Note 5a)		**6,289**		-
		(72,642)		27,555
Increase in cash, during the year		**9,811**		5,892
Cash, beginning of year		**20,350**		14,458
Cash, end of year	**$**	**30,161**	$	20,350

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

1. Nature of the Operations and Summary of Significant Accounting Policies

Nature and Purpose of Organization

Halton Healthcare Services Corporation ("HHSC") is a non-profit organization incorporated without share capital under the laws of Ontario. HHSC is a registered charity and, as such, is exempt from income taxes under the Income Tax Act (Canada).

HHSC was created on August 1, 1998 as a result of the amalgamation of the Oakville-Trafalgar Memorial Hospital Association and the Milton District Hospital. On January 2, 2006, the operations of the Georgetown Hospital were transferred to HHSC. HHSC is principally involved in providing health care services to the Towns of Halton Hills, Milton and Oakville and their surrounding communities.

The mission of HHSC is to provide quality, compassionate care and services to meet the diverse needs of the population in a timely and effective manner. HHS will constantly seek innovations to improve its ability to deliver care and services and to be a leader in working towards a healthier community.

Basis of Accounting and Presentation

These financial statements include the assets, liabilities and activities of HHSC. They have been prepared by management in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public Sector Accounting Board (“PSAB for Government NPOs”).

The Oakville Hospital Volunteer Association, Milton District Hospital Auxiliary, Georgetown Hospital Volunteer Association, Oakville Hospital Foundation, Milton District Hospital Foundation, The Georgetown Hospital Foundation and Halton Healthcare LTC Inc. are separate entities whose financial information is reported separately from HHSC.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances and investments in money market instruments with maturities less than three months.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the average cost basis. Inventory consists of medical and general supplies used in HHSC’s operations and not for resale purposes.

1. Nature of the Operations and Summary of Significant Accounting Policies (continued)

Capital Assets

Purchased capital assets are recorded at cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution. Repair and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to HHSCs' ability to provide services, its carrying amount is written down to its residual value.

Capital projects in process are amortized when they are substantially complete and ready for productive use.

Capital assets are amortized on a straight-line basis using the following annual rates, as provided by the Ministry of Health and Long-Term Care guidelines:

Land improvement	-	10 years
Buildings	-	10 to 50 years
Building service equipment	-	10 to 20 years
Major equipment	-	3 to 10 years

Post-retirement and Employment Benefits

HHSC provides defined retirement and employment benefits and compensated absences to certain employee groups. These benefits include pension, health and dental, vesting sick leave and non-vesting sick leave. HHSC has adopted the following policies with respect to the accounting for these employee benefits.

(i) The costs of post-retirement future benefits are actuarially determined using management's best estimated of health care costs, disability recovery rates and discount rates. Adjustments to these costs arise from changes in estimates and experience gains and losses are amortized to income over the estimated average remaining service life of the employee groups on a straight line basis. Plan amendments, including past service costs are recognized as an expense in the period of the plan amendment.

(ii) The costs of the multi-employer defined benefit pension are the employer's contributions due to the plan in the year.

(iii) The cost of vesting and non-vesting sick leave benefits are actuarially determined using management's best estimate of salary escalation, employees' use of entitlement and discount rates. Adjustments to these costs arising from changes in actuarial assumption and/or experience are recognized over the estimated average remaining service life of the employees.

(iv) The discount used in the determination of the above-mentioned liabilities is determined as the yield on the Province of Ontario bonds plus 50% of the spread between AA corporate bond yields and Province of Ontario bonds.

Compensated Absences

Compensation expense is accrued for all employees as entitlement to these payments is earned, in accordance with HHSC's benefit plans for vacation, and sick leave.

1. Nature of the Operations and Summary of Significant Accounting Policies (continued)

Revenue Recognition

HHSC follows the deferral method of accounting for contributions which include donations and government grants.

Under the Health Insurance Act and Regulations thereto, HHSC is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care ("Ministry"), and the Local Health Integration Network ("LHIN"). HHSC has entered into a Hospital Service Accountability Agreement (the "H-SAA") for fiscal 2018 with the Ministry and LHIN that sets out the rights and obligations of the parties to the H-SAA in respect of funding provided to HHSC by the Ministry/LHIN. The H-SAA also sets out the performance standards and obligations of HHSC that establish acceptable results for HHSC's performance in a number of areas. Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. These financial statements reflect agreed arrangements approved by the Ministry/LHIN with respect to the year ended March 31, 2018.

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.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Revenue from the Provincial Insurance Plans, preferred accommodation and marketed services is recognized when the goods are sold or the service is provided.

Amortization of buildings is not funded by the LHIN and accordingly the amortization of buildings has been reflected as an undernoted item in the statement of operations with the corresponding realization of revenue for deferred contributions.

Parking revenues are recognized when the service is provided.

Financial Instruments

HHS is party to an interest rate swap agreement that manages the exposure to market risks from changing interest rates. At March 31, 2018, $90,000 (2017 - $107,000) has been advanced under this interest rate swap. HHSC's

1. Nature of the Operations and Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

policy is not to utilize derivative financial instruments for trading or speculative purposes.

HHSC classifies its financial instruments as either fair value or amortized cost. HHSC's accounting policy for each category is as follows:

Fair value

This category is comprised of cash and cash equivalents, restricted cash, investments and derivative instruments. They are initially measured at cost and subsequently carried at fair value with changes in fair value recognized in the statement of re-measurement gains and losses until they are realized, when they are transferred to the statement of operations. Transaction costs related to financial instruments in the fair value category are expensed as incurred.

When a decline in fair value is determined to be other than temporary, the amount of the loss is removed from accumulated re-measurement gains and losses and recognized in the statement of operations. On sale, the amount held in accumulated re-measurement gains and losses associated with that instrument is removed from net assets and recognized in the statement of operations.

Amortized Cost

This category includes accounts receivable, long-term receivable, due from related parties, accounts payable and accrued liabilities, long-term payable, and capital lease obligations. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets, except financial contributions, which are recognized at fair value.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

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

Use of Estimates

The preparation of financial statements in accordance with PSAB for Government NPOs 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 revenues and expenses during the reporting period. Accounts receivable and employee future benefits are reported based on

1. Nature of the Operations and Summary of Significant Accounting Policies (continued)

Use of Estimates (continued)

amounts expected to be recovered or incurred and reflect an appropriate allowance for unrecoverable amounts based on management's estimates. Percentage of completion of capital projects in process are based on the cumulative draws as at the year-end, over the total budgeted draws. Amortization of capital assets is based on the estimates of useful service life. Actual results could differ from management's best estimates as additional information becomes available in the future.

Contributed Services

A substantial number of volunteers contribute a significant amount of their time each year to HHSC. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

(expressed in thousands)

2. Accounts Receivable

		2018		2017
Ministry of Health and Long-term Care	$	2,172	$	1,068
Patients, net of allowance		8,514		8,011
Harmonized Sales Tax (HST)		1,830		1,971
Other		838		535
	$	13,354	$	11,585

3. Related Party Balances

		2018		2017
a) Due from Related Parties				
Oakville Hospital Foundation	$	348	$	377
Milton District Hospital Foundation		86		103
The Georgetown Hospital Foundation		61		99
Oakville Hospital Volunteer Association		180		-
	$	675	$	579

b) As part of restricted cash and investment, HHSC holds funds for investment purposes on behalf of the Oakville Hospital Volunteer Association (the "VA") in the amount of $44 (2017 - $43). Also see Note 14.

4. Restricted Cash

Restricted cash represents funds earmarked for capital projects and other operating grants.

5. Capital Assets

a)

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 31,396	$ -	$ 31,396	$ -
Land improvement	3,355	2,602	3,141	2,491
Buildings	1,681,861	132,839	1,370,683	91,695
Building service equipment	16,748	10,624	12,349	8,485
Major equipment	232,842	124,874	211,285	109,546
Capital projects in process	414	-	290,371	-
	$ 1,966,616	$ 270,939	$ 1,919,225	$ 212,217
Net book value		$ 1,695,677		$ 1,707,008

(expressed in thousands)

5. Capital Assets (continued)

Capital projects in process reflect monies expended on assets not yet in use including the planning and design phase of the Georgetown Hospital expansion and the Milton District Hospital expansion.

Included within the cost of land is a parcel of land that was contributed to HHSC by Ontario Realty Corporation ("ORC") on November 22, 2007, to accommodate a public hospital on this land or part thereof. HHSC received $35,000 from the Town of Milton in April 2017. $6,289 has been allocated for the land purchased for the Milton District Hospital Expansion and has been reflected as a direct increase in net assets.

b) New Oakville Trafalgar Memorial Hospital

In July 2011, HHSC entered into a project agreement with a third party construction company, Hospital Infrastructure Partners Partnership ("HIP"), to design, build, finance, and maintain (for a 30-year term) the Oakville hospital project. Long-term receivable related to the Oakville hospital project is $601,591 (2017 - $610,593).

The balance of the amount due to HIP of $610,843 (2017 - $619,150) is related to the construction of the buildings and bears interest of 6.64% and is funded by the MOHLTC. The payments over the next five years and thereafter are as follows:

	Debt	Interest	Operating Costs	Life Cycle
2019	$ 8,835	$ 37,868	$ 12,738	$ 1,855
2020	9,398	37,306	12,974	3,112
2021	9,996	36,708	13,270	5,232
2022	10,631	36,071	13,270	2,433
2023	11,308	35,395	13,768	5,471
Thereafter	560,675	482,369	384,565	252,689
	$ 610,843	$ 665,717	$ 450,585	$ 270,792

The debt, operating and maintenance services are repayable in blended average monthly instalments of $5,974 and matures on July 31, 2045. Part of the agreement with HIP requires that it provide certain operating and maintenance services. The total cost of these services is $335,000 over the term of the agreement. In addition, HHSC is committed to making total payments of approximately $42,000 related to life cycle maintenance over the term of the agreement. These payments are to be substantially funded by the MOHLTC and included in revenue from the MOHLTC.

c) Milton District Hospital

On March 30, 2015, HHSC entered into a project agreement with a third party construction company, Plenary Health Milton LP ("Plenary"), to design, build, finance, and maintain the Milton hospital redevelopment project. Long-term receivable related to the Milton hospital project is $138,227 (2017 - $123,810).

The balance of the amount due to Plenary of $138,615 (2017 - $141,225) is related to the construction of the buildings and bears interest of 4.47% and is funded by the MOHLTC. The payments over the next five years and thereafter are as follows:

	Debt	Interest	Operating Costs	Life Cycle
2019	$ 2,936	$ 5,583	$ 2,747	$ 43
2020	3,031	5,487	2,796	98
2021	3,130	5,389	2,845	153
2022	3,232	5,287	2,895	348
2023	3,337	5,182	2,947	656
Thereafter	122,949	82,216	89,547	57,692
	$ 138,615	$ 109,144	$ 103,777	$ 58,990

(expressed in thousands)

5. Capital Assets (continued)

The debt, operating and maintenance services are repayable in blended average monthly instalments of $1,168 and matures on April 1, 2047. Part of the agreement with Plenary requires that it provide certain operating and maintenance services. The total cost of these services is $83,000 over the term of the agreement. In addition, HHSC is committed to making total payments of approximately $8,210 related to life cycle maintenance over the term of the agreement. These payments are to be substantially funded by the MOHLTC and included in revenue from the MOHLTC.

6. Accounts Payable and Accrued Liabilities

	2018	2017
Ministry of Health and Long-term Care	**$ 10,546**	$ 3,859
Trade	**27,757**	24,122
Government remittances	**3,488**	3,268
Wages, benefits and other accruals	**18,175**	17,082
	$ 59,966	$ 48,331

7. Obligations under Capital Leases

	2018	2017
Current portion of obligations under capital leases	**$ 298**	$ 296
Long-term portion of obligations under capital leases	**617**	915
	$ 915	$ 1,211

Principal repayments over the next three years are as follows:

2019	**$ 298**
2020	**301**
2021	**316**
	$ 915

The effective average rate of capital leases is 5.4% (2017 - 5.4%) with an average term to maturity of three years.

8. Post-retirement and Employment Benefits

Pension

Substantially all of the employees of HHSC are members of the Hospitals of Ontario Pension Plan (the "Plan"), which is a multi-employer, final average earnings, contributory pension plan. The Plan is accounted for as a defined contribution plan. During the year, employer contributions made by HHSC to the Plan amounted to $16,120 (2017 - $14,963). HHSC contributes to the Plan at the rate of 126% (2017 - 126%) of the employee contributions. These amounts are included in salaries, wages and benefits in the Statement of Operations. The most recent actuarial valuation of the Plan, at December 31, 2016, indicates the Plan is 122% (2017 - 122%) funded.

Non-Pension

HHSC provides extended health care, dental and life insurance benefits to employees. At March 31, 2018, HHSCs' accrued benefit liability, related to post-retirement benefit plan is estimated to be $11,042 (2017 - $10,210). The most recent actuarial valuation of the plan was performed at March 31, 2016.

(expressed in thousands)

8. Post-retirement and Employment Benefits (continued)

The significant actuarial assumptions adopted in estimating HHSCs' accrued benefit obligations are as follows:

Discount rate	3.2% (2017 - 3.3%)
Dental benefits cost escalation	3% (2017 - 3%) per annum
Medical benefits cost escalation	Initial trend of 6.25%; decreasing by 0.25% per annum to an ultimate rate of 4.5%

Included in salaries, wages and employee benefits in the Statement of Operations is an expense of $1,014 (2017 - $980) regarding non-pension future employee benefits.

9. Financial Instrument Classification

The following table provides cost and fair value information of financial instruments by category. The maximum exposure to credit risk would be the carrying value as shown below.

	Fair Value	Amortized Cost
Cash	$ 30,161	$ -
Accounts receivable	-	13,354
Long-term receivable	-	751,460
Due from Related Parties	-	675
Restricted cash	75,368	-
Accounts payable and accrued liabilities	-	(59,966)
Long-term debt	-	(90,000)
Long-term payable	-	(751,812)
Derivative	(19,954)	-

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 using the last bid price;

- 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).

	Level 1	Level 2	Level 3	Total
Cash	**$ 30,161**	**$ -**	**$ -**	**$ 30,161**
Restricted cash	**75,368**	**-**	**-**	**75,368**
Interest rate swaps	**-**	**-**	**19,954**	**19,954**
Total	**$ 105,529**	**$ -**	**$ 19,954**	**$ 125,483**

There were no transfers between Level 1 and Level 2 for the years ended March 31, 2018. There were also no transfers in or out of Level 3 during the year.

(expressed in thousands)

10. Commitments and contingencies

a) Outstanding commitments for leased equipment and service contracts for the next four years are as follows:

2019	$	**5,016**
2020		**1,506**
2021		**1,506**
2022		**36**
	$	**8,064**

b) The nature of HHSC activities is such that there is usually litigation pending or in prospect at any time. With respect to claims and possible claims at March 31, 2018, management believes HHSC has valid defences and/or appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material adverse effect on HHSC's financial position and results of operations.

11. Financial Instrument Risk Management

Credit risk

Credit risk is the risk of financial loss to HHSC if a debtor fails to make payments of interest and principal when due. HHSC is exposed to this risk relating to its cash and cash equivalents, long-term receivables, due from Foundations and accounts receivable. HHSC holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation.

HHSC's investment policy operates within the constraints of the investment guidelines issued by the Ministry in relation to the funding agreements, and puts limits on the investment portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure.

Accounts receivable are primarily due from the Ministry/LHIN. Credit risk is mitigated by the financial solvency of the provincial government and highly diversified nature of the patient population.

HHSC measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on HHSC's historical experience regarding collections. The amounts outstanding at year end were as follows;

			Past Due			
	Total	**Current**	**30-60 days**	**61-90 days**	**91-120 days**	**121 plus**
Ministry / LHIN	$ 2,172	$ 2,172	$ -	$ -	$ -	$ -
Patients	12,854	6,605	1,366	639	608	3,636
Other	2,668	2,668	-	-	-	-
Gross receviables	17,694	11,445	1,366	639	608	3,636
Less: impairment allowance	(4,340)	(278)	(272)	(240)	(263)	(3,287)
Net receivables	$ 13,354	$ 11,167	$ 1,094	$ 399	$ 345	$ 349

The amounts greater than 90 days owing from patients that have not had a corresponding impairment allowance setup against them are collectible based on HHSC's past experience. Management has reviewed the individual balances and based on the credit quality of the debtors and their past history of payment have determined that the balances are collectible.

(expressed in thousands)

11. Financial Instrument Risk Management (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk and equity risk. HHSC is not exposed to significant currency or equity risk as it doesn't hold any equity or foreign instruments.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cashed flows of financial instruments because of changes in market interest rates. HHSC is exposed to this risk through its interest bearing investments. The risk on interest bearing investments is mitigated by the fact that HHSC holds only guaranteed investment certificates. The risk over interest bearing debt is mitigated by the use of interest rate swaps to fix the interest rate on the debt over a period of the obligation.

Liquidity risk

Liquidity risk is the risk that HHSC will not be able to meet all cash outflow obligations as they come due. HHSC mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining investments that may be converted to cash in the near term if unexpected cash outflows arise. Accounts payable and accrued liabilities are due within the next 6 months. Further information regarding debt payment terms can be found in notes 7, 13, 5b, and 5c.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure risk.

12. Deferred Grants

a) In the Statement of Operations, building amortization is net of amortization of building deferred grants as follows:

Building		**2018**		2017
Amortization	**$**	**44,814**	$	38,347
Building grant amortization		**(42,368)**		(36,696)
	$	**2,446**	$	1,651

Interest on long-term obligations related to building		**2018**		2017
Interest on long-term obligations	**$**	**38,574**	$	38,574
Government contribution for interest on long-term obligations		**(38,574)**		(38,574)
	$	**-**	$	-

b) In the Statement of Financial Position, deferred grants are net of accumulated amortization as follows:

Grants				
Ministry of Health and Long-Term Care	**$**	**1,562,049**	$	1,536,261
Regional Municipality of Halton		**18,571**		18,571
Town of Oakville		**128,873**		128,873
Town of Milton (Note 5a)		**28,711**		-
Capital donations		**191,718**		178,508
		1,929,922		1,862,213
Accumulated Amortization				
Building		**177,776**		135,409
Equipment		**123,530**		103,428
		301,306		238,837
Balance, end of year	**$**	**1,628,616**	$	1,623,376

(expressed in thousands)

13. Credit Facility

Long Term Debt		**2018**		2017
A committed non-revolving term credit facility ("Facility 2")	**$**	**90,000**	$	90,000
A committed revolving credit facility ("Facility 3")		**-**		17,000
		90,000		107,000
Less: Current Portion		**2,025**		17,000
	$	**87,975**	$	90,000

Interest expense of $4,572 (2017 - $4,868) related to Facility 2 and 3 has been reflected in supplies and other expenses on the statement of operations.

HHSC has two $5,000 demand operating lines of credit, which bear interest at prime minus 0.5% and prime plus 0.5%. As at March 31, 2018, $Nil (2017 - $Nil) had been drawn against these facilities.

HHSC holds a treasury risk management facility ("Facility 4") up to $35,000 to cover the hedge risk in connection with the swaps related to Facility 2 and 3.

Facility 2 loan was utilized to provide local share plan contributions related to the redevelopment projects. It is a $90,000 loan, requiring interest only payments until May 2018, bearing interest at 28 to 35 day Bankers' Acceptances, then repayable in blended monthly payments of approximately $520, maturing in April 2043.

Derivative Liability

HHSC entered into an interest rate swap contract with its bank in order to hedge its variability in future interest payments relating to its Facility 2 loan. This swap effectively locked in the interest rate on the long-term debt at 4.72%.

Fair value as at March 31, 2018 of this interest rate swap is $19,954 (2017 - $25,808) and is reflected as a liability on the statement of financial position.

Facility 3 loan was utilized to provide bridge financing of the local share plan contributions related to the redevelopment projects. It is a $17,000 loan with a maximum principal amount of $48,000, requiring interest only payments. The amount was fully paid in July 2017 with the facility cancelled in April 2018.

Derivative Liability

HHSC entered into an interest rate swap contract with its bank in order to hedge its variability in future interest payments relating to its Facility 3 loan. This swap effectively locked in the interest rate on the long-term debt at 3.24%.

Fair value as at March 31, 2018 of this interest rate swap is $Nil (2017 - $161) as the swap contract was terminated in July 2017 upon repayment of the loan.

14. Related Parties

HHSC is related to the Oakville Hospital Volunteer Association (the "Oakville VA"), Milton District Hospital Auxiliary (the "Milton Auxiliary") and Georgetown Hospital Volunteer Association (the 'Georgetown VA"). The Oakville VA, Milton Auxiliary and Georgetown VA are registered charities under the Income Tax Act. In accordance with their by-laws, all resources of the Oakville VA, Milton Auxiliary and Georgetown VA must be provided to or used for the benefit of HHSC' Oakville, Milton and Georgetown sites.

In conjunction with two other hospitals, effective March 29, 2009, HHSC became a member of West GTA Healthcare Shared Services Corporation, operating as Shared Services West (SSW). SSW is a non-profit corporation, administered by a board which includes representation from each of the three member hospitals. On behalf of SSW, HHSC provided a guarantee of nineteen percent of a $2,500 credit facility. As at March 31, 2018, the outstanding balance on this credit facility was $nil (2017 - $nil).

(expressed in thousands)

14. Related Parties (continued)

The Foundations are independent corporations incorporated without share capital which have their own Board of Directors and are registered charities under the Income Tax Act. The Foundations receive and maintain funds for charitable purposes for the use of operations, renovations, maintenance and equipment of the HHSC community hospitals.

The Georgetown Hospital Foundation

At March 31, 2018, HHSC has a receivable from the Foundation of $61 (2017 - $99). As at March 31, 2018, the Foundation had total fund balances of approximately $1,668 (2017 - $1,349). Total funds received from the Foundation for fiscal 2018 amounts to $263 (2017 – $490).

Oakville Hospital Foundation

At March 31, 2018, HHSC had a receivable from the Foundation of $348 (2017 - $377). As at March 31, 2018, the Foundation had total fund balances of approximately $21,903 (2017 - $21,469). Total funds received from the Foundation for fiscal 2018 amounts to $8,456 (2017 – $8,968).

Milton Hospital Foundation

At March 31, 2018, HHSC has a receivable from the Foundation of $86 (2017 - $103). As at March 31, 2018, the Foundation had total fund balances of approximately $2,714 (2017 - $2,072). Total funds received from the Foundation for fiscal 2018 amounts to $4,006 (2017 – $13,115).

15. Halton Healthcare LTC Inc.

HHSC is related to Halton Healthcare LTC Inc. ("LTC") as a result of common board members. LTC provides residence and long-term care. LTC, a non-share capital charitable organization, is incorporated under the Canada Corporations Act, is a non-profit organization, and is exempt from income tax under the Income Tax Act.

HHSC was awarded an opportunity by the Ministry of Health and Long-Term Care to develop and operate a 128 bed long-term care facility on its lands. HHSC assigned its rights to develop and manage the facility to LTC. In an agreement commencing April 18, 2002, HHSC agreed to lease a parcel of its land to BPC Long-Term Care Facilities (Oakville) Inc. ("BPC Oakville") for a 40-year term. BPC Oakville agreed to sublease that parcel to LTC. The facility opened in October 2003.

LTC has not been consolidated in HHSC's financial statements. A financial summary of the non-consolidated entity for the current and previous year is as follows:

	2018	2017
Financial position:		
Total assets	**$ 11,148**	$ 11,404
Total liabilities	**15,491**	15,940
Net deficiency	**$ (4,343)**	$ (4,536)
Results of operations:		
Total revenues	**$ 9,191**	$ 9,110
Total expenses	**8,997**	8,937
Excess of revenues over expenses	**$ 194**	$ 173