



Financial Statements

Thunder Bay Regional Health Sciences Centre

March 31, 2018

Thunder Bay Regional Health Sciences Centre

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Thunder Bay Regional Health Sciences Centre ['TBRHSC'] are the responsibility of management and have been approved by the Board of Directors [the 'Board'].

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The preparation of the financial statements necessarily involves management's judgement and estimates of the expected outcomes of current events and transactions with appropriate consideration to materiality.

TBRHSC maintains systems of internal accounting and financial controls. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, accurate, and that assets are properly accounted for and safeguarded.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee [the 'Committee']. The Committee meets with management and the external auditors to review any significant accounting and auditing matters, to discuss the results of audit examinations, and to review the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements.

The financial statements have been audited by Grant Thornton LLP, the external auditors, in accordance with Canadian generally accepted auditing standards.



Jean Bartkowiak MHSc, CHE
President & CEO



Peter Myllymaa CPA, CA
Executive Vice President,
Corporate Services and Operations

Independent Auditor's Report

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To the Members of Thunder Bay Regional Health Sciences Centre

We have audited the accompanying financial statements of Thunder Bay Regional Health Sciences Centre, which comprise the statement of financial position as at March 31, 2018 and the statements of operations, re-measurement gains and losses, change in net assets (debt), and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Thunder Bay Regional Health Sciences Centre as at March 31, 2018, and the results of its operations, re-measurement gains and losses, change in net assets (debt), and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Grant Thornton LLP

Thunder Bay, Canada
May 31, 2018

Chartered Professional Accountants
Licensed Public Accountants

Thunder Bay Regional Health Sciences Centre

STATEMENT OF FINANCIAL POSITION

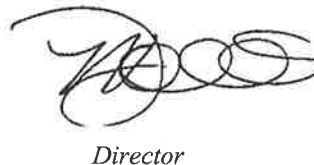
As at	March 31 2018	March 31 2017
[In thousands of dollars]	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	10,378	4,444
Investments – current [note 2]	3,782	3,686
Investments – restricted [note 2]	3,303	—
Accounts receivable [note 3]	11,943	10,614
Due from related entities [note 4]	2,241	3,973
Mortgages receivable – current [note 5]	737	417
Inventory of supplies	2,304	2,038
Prepaid expenses	3,397	3,953
	38,085	29,125
Investments – long-term [note 2]	2,132	2,115
Investments – restricted [note 2]	—	3,277
Mortgages receivable – long-term [note 5]	17,868	18,605
Capital assets, net [note 6]	208,829	217,500
	266,914	270,622
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities [note 7]	46,314	41,704
Debt – current [note 8]	1,854	1,000
Deferred revenue [note 9]	3,068	3,495
	51,236	46,199
Debt – long-term [note 8]	33,267	35,013
Deferred capital contributions [note 10]	163,246	173,948
Employee future benefits [note 11]	10,575	10,369
	258,324	265,529
NET ASSETS (DEBT)		
Investment in capital assets [note 12]	32,941	30,343
Internally restricted for equipment replacement [note 13]	18,870	18,870
Unrestricted, used for operating purposes	(42,827)	(42,813)
Internally restricted for operating purposes [note 14]	—	378
Accumulated re-measurements losses	(394)	(1,685)
	8,590	5,093
	266,914	270,622

Commitments and contingencies [note 20]

See accompanying notes

On behalf of the Board:


Director


Director

Thunder Bay Regional Health Sciences Centre

STATEMENT OF OPERATIONS

Year ended March 31

	Budget	2018	2017
[In thousands of dollars]	\$	\$	\$
	<i>[note 23]</i>		
REVENUE			
Ontario Ministry of Health and Long-Term Care/ North West Local Health Integration Network	254,354	275,339	257,692
Patient services	27,746	28,706	27,994
Community Mental Health services <i>[note 15]</i>	4,838	4,935	4,877
Investment income	320	348	260
Amortization of deferred capital contributions <i>[note 10]</i>	15,602	16,024	15,597
Other revenue	17,577	19,764	21,861
Other funded programs <i>[note 16]</i>	1,591	2,754	2,816
	322,028	347,870	331,097
EXPENSES			
Amortization			
Equipment, furnishings and computer system	9,920	9,802	9,474
Buildings and building service equipment	12,213	12,582	12,344
Drugs	13,720	16,866	14,975
Community Mental Health services <i>[note 15]</i>	4,838	4,935	4,877
Employee benefits	42,825	44,174	42,344
Medical and surgical supplies	22,677	24,367	22,434
Medical staff remuneration	26,320	28,280	27,153
Other funded programs <i>[note 16]</i>	1,591	2,754	2,825
Salaries and wages	156,532	161,446	154,092
Supplies and other	37,289	40,458	41,029
	327,925	345,664	331,547
Excess (deficiency) of revenue over expenses for year	(5,897)	2,206	(450)

See accompanying notes

Thunder Bay Regional Health Sciences Centre

STATEMENT OF RE-MEASUREMENT GAINS AND LOSSES

Year ended March 31

	2018	2017
[In thousands of dollars]	\$	\$
Accumulated re-measurement losses, beginning of year	(1,685)	(3,304)
Unrealized gains (losses) attributable to:		
Foreign exchange	(68)	(101)
Portfolio investments	(15)	174
Derivatives	1,374	1,546
Net re-measurement gains for the year	1,291	1,619
Accumulated re-measurement losses, end of year	(394)	(1,685)

See accompanying notes

Thunder Bay Regional Health Sciences Centre

STATEMENT OF CHANGE IN NET ASSETS (DEBT)

Year ended March 31

[In thousands of dollars]

	2018					2017	
	Investment in capital \$	Internally restricted for equipment replacement \$	Internally restricted for operating purposes \$	Unrestricted, used for operating purposes \$	Accumulated re- measurement gains (losses) \$	Total \$	Total \$
	<i>[note 12]</i>	<i>[note 13]</i>	<i>[note 14]</i>				
Net assets (debt) at beginning of year	30,343	18,870	378	(42,813)	(1,685)	5,093	3,924
Excess (deficiency) of revenue over expenses for year	(6,203)	—	—	8,409	—	2,206	(450)
Net re-measurement gains for the year	—	—	—	—	1,291	1,291	1,619
Internally restricted for operating purposes	—	—	(378)	378	—	—	—
Net change in investment in capital	8,801	—	—	(8,801)	—	—	—
Net assets (debt) at end of year	32,941	18,870	—	(42,827)	(394)	8,590	5,093

See accompanying notes

Thunder Bay Regional Health Sciences Centre

STATEMENT OF CASH FLOWS

Year ended March 31

	2018	2017
[In thousands of dollars]	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for year	2,206	(450)
Add charges (deduct credits) to earnings not involving a current payment (receipt) of cash		
Amortization of capital assets in operations	22,384	21,818
Amortization of capital assets in other funded	694	769
Amortization of deferred capital contributions in operations	(16,024)	(15,597)
Amortization of deferred capital contributions in other funded	(436)	(564)
Gain on disposal of capital assets and grants	(415)	(573)
Employee future benefits <i>[note 11]</i>	206	231
Changes in non-cash operational balances <i>[note 17]</i>	4,876	9,465
Proportionate share of income <i>[note 2]</i>	(17)	(16)
Cash provided by operating activities	13,474	15,083
CAPITAL ACTIVITIES		
Additions to capital assets	(14,578)	(11,553)
Proceeds on sale of capital assets	522	—
Funding for capital assets	5,822	4,213
Cash used in capital activities	(8,234)	(7,340)
INVESTMENT ACTIVITIES		
Purchase of investments	(122)	(279)
Unrealized gains on derivatives and financial investments arising during the year	1,291	1,619
Net change in mortgages receivable and long-term debt	(475)	(2,055)
Cash provided by (used in) investment activities	694	(715)
Increase in cash and cash equivalents during year	5,934	7,028
Cash and cash equivalents (bank indebtedness), beginning of year	4,444	(2,584)
Cash and cash equivalents, end of year	10,378	4,444

See accompanying notes

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

GENERAL

Thunder Bay Regional Health Sciences Centre (“TBRHSC”) is incorporated under the laws of Ontario as a corporation without share capital. Its principal activity is to provide specialized and general hospital-based health care to the people of Thunder Bay and Northwestern Ontario. TBRHSC is a registered charity under the Income Tax Act.

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements 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 (PS 4200 – 4270) for government not-for-profit organizations as issued by the Public Sector Accounting Board (PSAB).

[a] Revenue recognition

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

Under the Health Insurance Act and Regulations thereto, TBRHSC is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ontario Ministry of Health and Long-Term Care [the “MOHLTC”] and the North West Local Health Integration Network [the “LHIN”]. 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 funding approved by the MOHLTC and the LHIN with respect to the year ended March 31, 2018.

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

Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions received 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 property, plant and equipment.

[b] 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, contributed services are not recognized in the financial statements.

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

[c] Inventory

Inventory of general, medical and surgical supplies is valued at the lower of average cost and replacement value, whereas drugs and medical gases are carried at the lower of cost and replacement value on a first-in, first-out basis.

[d] Investments

[i] Short-term investments

Short-term investments are recorded at market value.

[ii] Long-term investments

Long-term investments in shares of corporations over which TBRHSC does not exercise significant influence are recorded at market value. If no quoted market price is available, long-term investments are recorded at cost.

Long-term investments in which TBRHSC has the ability to exercise significant influence over the investee are recorded using the modified equity method. This method of accounting recognizes a proportionate share of the income or loss of the investee to reflect the same result on the statement of operations as if the investee's operations were consolidated.

[e] Derivatives

TBRHSC has entered into interest rate swap agreements as an economic hedge to manage the volatility to interest rates relating to its debt. Derivatives are initially recorded at fair value and are revalued at each financial statement date using fair value. The change in fair value of the swaps is recorded in the statement of re-measurement gains and losses.

[f] Financial instruments

TBRHSC designates its cash and short-term, highly liquid, readily convertible, investments that are subject to an insignificant risk of change value and generally have a maturity of three months or less as cash and cash equivalents for the purpose of meeting short-term cash commitments rather than for investing.

Investments are measured at fair value if reasonably determinable through a quoted market price, or alternatively at cost in the absence of a quoted market price.

Unrealized gains and losses from changes in the fair value are recognized in the statement of re-measurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of re-measurement gains and losses and recognized in the statement of operations.

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

Accounts receivable, amounts due from related entities and mortgages receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and long-term debt are classified as other financial liabilities and are measured at amortized cost.

All financial assets are tested annually for impairment. Where a decline in value is determined to be other than temporary, impairment losses are recorded in the statement of operations. A write-down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

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

- Level 1 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).

The fair values of short-term and restricted investments are determined using Level 1 inputs and the fair value of the derivatives are determined using Level 2 inputs.

[g] Exchange translation

A portion of TBRHSC's activities are transacted in U.S. dollars. Transactions denominated in U.S. dollars are translated to Canadian dollars by applying average exchange rates in effect during the month in which the transaction occurred. At year-end, monetary assets and liabilities denominated in U.S. dollars are translated using the exchange rate at that date. Any resulting exchange gains and losses are included in the statement of operations in the current year.

[h] Capital assets including capital leases

Capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Assets acquired under capital leases are capitalized and amortized over the estimated life of the assets or over the lease term, as appropriate. Repairs and maintenance costs are charged to expense. The cost of renovations to TBRHSC buildings, which significantly increase useful life and capacity, are capitalized. Betterments which extend the estimated life of an asset are capitalized. When capital assets no longer contribute to TBRHSC's ability to provide services, its carrying amount is written-down to its net realizable value.

Construction in progress is stated at cost, which comprises all direct and indirect costs of construction. Construction in progress is transferred to land improvements, buildings and building service equipment and amortization of the asset commences when construction is complete and the facility is put into use or the asset is available for productive use.

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

Capital assets are amortized on a straight-line basis using the Canadian Institute for Health Information's Guidelines for Management Information Systems in Canadian Health Service Organizations published annual rates, in effect at the time of acquisition. The annual rates in use by TBRHSC are as follows:

Land improvements, buildings and building service equipment	2.5% - 20%
Equipment, furnishings and computer system	5% - 33.3%

[i] Compensated absences

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

[j] Employee benefit plans

TBRHSC accrues its obligation for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs.

Adjustments arising from plan amendments, including past service costs, are recognized during the period of plan amendment.

TBRHSC is an employer member of the Healthcare of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. TBRHSC has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. TBRHSC records as pension expense the current service cost, amortization of past service costs and interest costs related to the future employer contributions to the Plan for past employee service.

[k] Management's estimates

The preparation of financial statements, in conformity with Public Sector Accounting Standards for Government Not-for-Profit Organizations, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are determined using a consistent approach year over year. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent; however, actual results could differ from those estimates.

The most significant estimate in these financial statements include allowance for doubtful accounts receivable, amortization of capital assets, actuarial estimate of employee future benefits and fair value of derivatives.

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

2. INVESTMENTS

Investments are comprised of short-term, long-term and restricted investments carried at fair value as follows:

Short-term investments

	2018	2017
	\$	\$
Short-term deposits	2,711	2,681
Marketable securities	1,071	1,005
	3,782	3,686

Fair value measurements for the short-term investments and marketable securities are those derived from quoted prices in active markets.

The short-term deposits have interest rates between 0.85% and 1.4% and a maturity date of August 2018.

Marketable securities consist of equity instruments in publicly traded companies.

Restricted investments

	2018	2017
	\$	\$
Mortgage fund investments – short-term	3,303	—
Mortgage fund investments – long-term	—	3,277
	3,303	3,277

TBRHSC borrowed \$14,000 to provide financing to 2359031 Ontario Inc. for the Health Services Building construction and first mortgage. Amounts not yet required for construction and/or mortgage repayment are required to be invested in short-term and long-term investments carried at fair value.

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

Long-term investments

Fair value measurement for the long-term investments are those derived from inputs other than quoted process.

	2018	2017
	\$	\$
1561265 Ontario Limited	632	615
MDNA Life Sciences Inc.	—	—
2359031 Ontario Inc.	1,500	1,500
	2,132	2,115

- [a] The investment in 1561265 Ontario Limited is valued using the modified equity method and represents TBRHSC's original investment in the corporation and its proportionate share of earnings accrued to March 31, 2018. 1561265 Ontario Limited owns and operates the Medical Centre located on TBRHSC's property. During the year, TBRHSC recognized income of \$17 [2017 – \$16] related to its proportionate share of earnings from operations to March 31, 2018. Rental expense paid by TBRHSC to 1561265 Ontario Limited for office space leased during the year amounted to \$1,398 [2017 – \$1,345]. The amount receivable from 1561265 Ontario Limited for the land leased and interest accrued during the year amounted to \$225 [2017 – \$224].
- [b] TBRHSC entered into an agreement with Mitomics Inc., whereby in previous years, research space and certain equipment was provided by TBRHSC in exchange for shares. Due to a receivership of Mitomics Inc., TBRHSC has received shares of MDNA Life Sciences Inc. in settlement of amounts owing. Due to the start-up nature of this company, shares received have been valued at a nominal amount.
- [c] The investment in 2359031 Ontario Inc. is valued using the modified equity method. The \$1,500 represents an equity investment to 2359031 Ontario Inc. for the construction phase of the project. 2359031 Ontario Inc. owns and operates the Health Services Building located on TBRHSC's property. The investee earned no profit or loss from commencement of operations to March 31, 2018. Therefore, no change in investment has been recorded. Rental expense paid by TBRHSC to 2359031 Ontario Inc. for office space leased during the year amounted to \$894 [2017 – \$886]. Interest accrued during the year amounted to \$120 [2017 – \$120] and the amount receivable from 2359031 Ontario Inc. is \$427 [2017 - \$307].

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2018	2017
	\$	\$
Ontario Ministry of Health and Long-Term Care / North West Local Health Integration Network receivable	2,664	1,170
Accrued interest receivable	43	37
Other non-patient accounts receivable	5,702	5,425
Patient accounts receivable	1,997	2,367
Provincial Insurance Plan	1,951	2,029
	12,357	11,028
Less allowance for doubtful accounts	(414)	(414)
	11,943	10,614

4. RELATED ENTITIES

Amounts due from related entities consist of the following:

	2018	2017
	\$	\$
Northwest Health Alliance	998	502
Thunder Bay Regional Health Sciences Foundation	620	2,343
Thunder Bay Regional Health Research Institute	623	1,128
	2,241	3,973

Northwest Health Alliance ["NWA"] is incorporated as a not-for-profit organization without share capital under the Corporations Act (Ontario) and was established by twelve hospitals in Northwestern Ontario. The NWA oversees the management, implementation and distribution of shared information services and technology to enhance the provision of health care. The net assets and results from operations of NWA are not included in these financial statements. During the current fiscal year, NWA paid TBRHSC \$3,603 [2017 – \$3,690] for products and services less \$714 [2017 - \$849] paid to NWA for services including picture archiving and communication.

Thunder Bay Regional Health Sciences Foundation ["TBRHSF"] is incorporated as a not-for-profit corporation without share capital under the Corporations Act (Ontario) and is governed by an independent Board of Directors. Its principal activity is the raising of capital and research funds for TBRHSC and regional health and research facilities. The net assets and results from operations of TBRHSF are not included in these financial statements. During the current fiscal year, TBRHSF paid TBRHSC \$5,604 [2017 – \$4,521] for capital funding and reimbursement of other expenses less \$3,032 [2017 – \$2,999] paid to TBRHSF for parking facilities.

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

Thunder Bay Regional Health Research Institute ["TBRHRI"] is incorporated as a not-for-profit corporation without share capital under the Corporations Act (Ontario) and is governed by an independent board of directors. It conducts research activities in cooperation with TBRHSC and the private sector. The net assets and results from operations of TBRHRI are not included in these financial statements. During the current fiscal year, TBRHRI paid TBRHSC \$612 [2017 – \$609] for the use of research space and for administrative and other services less \$2,417 [2017 – \$2,183] paid to TBRHRI for research activities.

5. MORTGAGES RECEIVABLE

	2018 \$	2017 \$
Receivable with monthly payments of principal and interest commencing June 2018. For the first five years of the term, payments will be interest only. The loan is secured by first mortgage over the leasehold interest and limited guarantees from the shareholders of 2359031 Ontario Inc. The monthly payment commencing with the payment due on July 1, 2018 shall be determined based on a twenty-year amortization of the principal balance up to \$14,000 outstanding on June 13, 2018. The interest rate is 3.85%.	12,087	12,087
Receivable monthly in payments of \$55 with principal and interest, ending July 1, 2030, secured by a mortgage of lease and limited guarantees from the shareholders of 1561265 Ontario Limited. The interest rate is 3.60%.	6,518	6,935
	18,605	19,022
Less current portion	(737)	(417)
	17,868	18,605
Principal receivable payments required for the next five years are as follows:		
		\$
2019		737
2020		869
2021		902
2022		936
2023		971
Thereafter		14,190
		18,605

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

6. CAPITAL ASSETS

Details of year-end capital assets balances are as follows:

	2018		2017	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Land	1,421	—	1,421	—
Land Improvements, buildings and building service equipment	296,185	150,819	293,312	138,196
Construction in progress	23,752	—	19,427	—
Equipment, furnishings and computer system	203,635	165,345	197,594	156,058
	524,993	316,164	511,754	294,254
Capital assets, net	208,829		217,500	

Construction in progress pertains to building improvements and related service equipment not yet completed during the year or available for productive use.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018 \$	2017 \$
Accounts payable and accrued liabilities	22,643	19,797
Accrued salaries and wages	23,671	21,907
	46,314	41,704

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

8. DEBT

	2018 \$	2017 \$
Loan payable with interest only for five years and principal repayment to commence June 2018 ending May 2038, secured by assignment of term deposits and credit balances. The interest rate is 3.33% and interest paid in the year was \$466 [2017 – \$466].	14,000	14,000
Loan payable with interest only until April 2015 and principal repayment to commence June 2015 ending May 2030 secured by assignment of term deposits and credit balances. The interest rate is 3.04%, total payments in the year amounted to \$637 [2017 – \$637], and included interest payments of \$204 [2017 – \$217].	6,473	6,906
Loan payable monthly in payments of \$20 principal and interest, ending October 2034, secured by an assignment of term deposits, credit balances and share pledge agreement. The interest rate is 3.54%. Total payments in the year amounted to \$237 [2017 – \$237], and included interest payments of \$107 [2017 – \$112].	2,975	3,105
Loan payable monthly in payments of \$15 principal and interest, ending October 2036, secured by an assignment of term deposits, credit balances and share pledge agreement. The interest rate is 3.62%. Total payments in the year amounted to \$176 [2017 – \$126], and included interest payments of \$88 [2017 – \$90].	2,376	2,464
Loan payable monthly in principal payments of \$11 plus interest ending October 2036, secured by an assignment of term deposits, credit balances and share pledge agreement. The interest rate is prime less 0.75%. Total payments in the year amounted to \$130 [2017 – \$104], and included interest payments of \$43 [2017 – \$39].	1,805	1,935
Loan payable monthly in principal payments of \$32 plus interest ending September 2036, secured by assignment of term deposits, credit balances and share pledge agreement. The interest rate is 2.99%. Total payments in the year amounted to \$386 [2017 – \$250], and included interest payments of \$167 [2017 – \$143].	5,486	5,705
Capital leases ending February 2023, payable in minimum monthly payments of \$30.	1,482	—
	34,597	34,115
Less current portion	(1,854)	(1,000)
Add fair value adjustment of derivatives	524	1,898
	33,267	35,013

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

Principal payments required for the next five years assuming refinancing at similar terms are as follows:

	\$
2019	1,854
2020	1,923
2021	1,970
2022	2,018
2023	1,722
Thereafter	25,110
	<hr/> 34,597 <hr/>

In June 2013, TBRHSC entered into two interest rate swaps.

The loan of a notional amount of \$14,000 is through an interest rate swap agreement which effectively fixes the underlying banker's acceptance rate applicable to this loan at 3.33%. The maturity date of the interest rate swap is May 31, 2038. The lender has an early termination option to settle the interest rate swap on May 29, 2033.

The loan of a notional amount of \$7,700 is through an interest rate swap agreement which effectively fixes the underlying banker's acceptance rate applicable to this loan at 3.04%. The maturity date of the interest rate swap is May 31, 2030.

In October 2014, TBRHSC entered into two additional interest rate swaps.

The loan of a notional amount of \$3,400 is through an interest rate swap agreement which effectively fixes the underlying banker's acceptance rate applicable to this loan at 3.54%. The maturity date of the interest rate swap is October 10, 2034.

The loan of a notional amount of \$2,500 is through an interest rate swap agreement which effectively fixes the underlying banker's acceptance rate applicable to this loan at 3.62%. The maturity date of the interest rate swap is October 7, 2036.

In September 2016, TBRHSC entered into another interest rate swap.

The loan of a notional amount of \$5,812 is through an interest rate swap agreement which effectively fixes the underlying banker's acceptance rate applicable to this loan at 2.99%. The maturity date of the interest rate swap is September 30, 2036.

The fair value of the interest rate swap agreement is estimated based on amounts determined by the counterparty. As at March 31, 2018, the interest rate swap agreements were in a net unfavorable position representing an asset of (\$524) [2017 - (\$1,898)] and have been recognized in the statement of financial position.

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

9. DEFERRED REVENUE

	2018	2017
	\$	\$
Grants, operating, education and research	2,968	3,325
Information systems project funding	78	145
Other	22	25
	3,068	3,495

10. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of property, plant and equipment. The amortization of deferred capital contributions is recorded as revenue in the statement of operations.

	2018	2017
	\$	\$
Balance, beginning of year	173,948	186,612
Additional contributions allocated to capital assets	5,758	3,497
	179,706	190,109
Less amounts amortized to revenue in operations	(16,024)	(15,597)
Less amounts amortized to revenue in other funded	(436)	(564)
	163,246	173,948

Represented by

	2018	2017
	\$	\$
Deferred capital contributions for equipment, furnishings and computer system	35,058	33,993
Deferred capital contributions for buildings and building service equipment	126,916	138,149
Deferred capital contributions to be allocated	1,272	1,806
	163,246	173,948

Thunder Bay Regional Health Sciences Centre

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March 31, 2018

11. EMPLOYEE FUTURE BENEFITS

TBRHSC provides extended health care, dental and life insurance benefits to substantially all full-time employees. All employee groups are entitled to continue to receive certain benefits upon early retirement until they reach age 65 or 70, dependant on the group affiliation. Some groups are responsible for paying 100% of the premium, others on the same cost share basis as employees under age 65 and two groups have introduced a 50% split cost for those employees retiring on or after age 57.

The following table outlines the Centre's employee future benefits liability.

	2018	2017
	\$	\$
Accrued employee future benefit obligations	8,904	8,071
Unamortized actuarial gains (losses)	1,671	2,298
Employee future benefits liability	10,575	10,369

The most recent actuarial estimate provided was effective March 31, 2016. The accrued benefit obligation shown as of March 31, 2018 is based on an extrapolation of the valuation provided for March 31, 2016.

The significant actuarial assumptions adopted in estimating TBRHSC's accrued benefit obligation are as follows:

Discount rate	3.76%
Dental benefits cost escalation	4.0%
Medical benefits cost escalation - extended health care	8.0% decreasing by 0.25% per year to an ultimate of 5%.

Included in employee benefits on the statement of operations is an amount of \$206 [2017 – \$231] regarding employee future benefits. The amount is comprised of:

	2018	2017
	\$	\$
Current year benefit cost	485	467
Amortization of actuarial gains (losses)	(198)	(198)
Interest on accrued obligation	315	299
	602	568
Less benefit payments	(396)	(337)
	206	231

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

12. INVESTMENT IN CAPITAL ASSETS

[a] Investment in capital assets is calculated as follows:

	2018	2017
	\$	\$
Capital assets	208,829	217,500
Amounts financed by deferred contributions	(163,246)	(173,948)
Amounts financed by long-term debt	(12,642)	(13,209)
	32,941	30,343

[b] Change in net assets invested in capital is calculated as follows:

	2018	2017
	\$	\$
Shortfall of revenue over expenses		
Amortization of deferred capital contributions	16,460	16,161
Amortization of property, plant and equipment	(23,078)	(22,587)
Gain on disposal of capital assets and grants	415	573
	(6,203)	(5,853)

[c] Net change in investment in capital:

	2018	2017
	\$	\$
Purchase of property, plant and equipment, net of financing	14,578	11,553
Proceeds on sale of property, plant and equipment	(522)	—
Funding for property, plant and equipment, allocated	(5,822)	(4,213)
Repayment of long-term debt	567	491
	8,801	7,831

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

13. NET ASSETS – INTERNALLY RESTRICTED FOR EQUIPMENT REPLACEMENT

As part of the negotiated Post Construction Operating Plan, TBRHSC received base funding for increased equipment amortization. The intent of the funding was to establish a reserve over a seven-year period to assist in the future replacement of equipment.

At year-end, the following fund balances had been designated:

	2018	2017
	\$	\$
Balance, beginning of year	18,870	18,870
Designated during the year	—	—
	18,870	18,870

14. NET ASSETS - INTERNALLY RESTRICTED FOR OPERATING PURPOSES

Internally restricted net assets are not available for use by TBRHSC for any purpose other than that identified by the Board of Directors. In 2017, \$320 was established as an internally restricted net asset for use towards the operation of ten medical short-stay unit beds until mid-May 2017 and \$58 for use towards the coordination of the Regional Orthopaedics Program. During the year, \$378 [2017 - \$265] had been expended.

At year-end, the following fund balances had been designated:

	2018	2017
	\$	\$
Balance, beginning of year	378	265
Designated during the year	—	378
Expended during the year	(378)	(265)
	—	378

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

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March 31, 2018

15. COMMUNITY MENTAL HEALTH SERVICES

Community Mental Health Services are fully funded by the Ontario Ministry of Health and Long-term Care/North West Local Health Integration Network by designated funding envelopes and Urgent Care Clinic restricted net assets.

	Budget	2018	2017
	\$	\$	\$
	<i>[note 23]</i>		
REVENUE			
Ontario Ministry of Health and Long-Term Care / North West Local Health Integration Network	4,835	4,930	4,799
Amortization of deferred capital contributions <i>[note 10]</i>	3	3	3
Other revenue	—	2	75
	4,838	4,935	4,877
EXPENSES			
Amortization			
Equipment, furnishings and computer system	3	4	4
Employee benefits	766	865	854
Medical and surgical supplies	1	1	2
Medical staff remuneration	561	552	464
Salaries and wages	3,400	3,152	3,101
Supplies and other	107	361	452
	4,838	4,935	4,877
Excess of revenue over expenses for year	—	—	—

There were no capital expenditures in the year.

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

16. OTHER FUNDED PROGRAMS

Other funded programs consist of services that are fully funded by the Ontario Ministry of Health and Long-term Care/North West Local Health Integration Network by designated funding envelopes and other activities, such as research, that are fully funded by other sources.

	Budget	2018	2017
	\$	\$	\$
	<i>[note 23]</i>		
REVENUE			
Ontario Ministry of Health and Long-Term Care / North West Local Health Integration Network	1,575	1,673	1,587
Amortization of deferred capital contributions <i>[note 10]</i>	16	433	561
Other revenue	—	648	668
	1,591	2,754	2,816
EXPENSES			
Amortization			
Equipment, furnishings and computer system	18	690	765
Drugs	2	1	2
Employee benefits	180	237	231
Medical and surgical supplies	6	8	5
Medical staff remuneration	263	291	251
Salaries and wages	814	1,130	1,115
Supplies and other	308	397	456
	1,591	2,754	2,825
Excess (deficiency) of revenue over expenses for year	—	—	(9)

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

17. STATEMENT OF CASH FLOWS

The net change in non-cash operational balances related to operations is represented by the following:

	2018	2017
	\$	\$
Accounts receivable	(1,329)	5,515
Due from related entities	1,732	1,625
Inventory of supplies	(266)	143
Prepaid expenses	556	(1,305)
Accounts payable and accrued liabilities	4,610	1,706
Deferred revenue	(427)	1,781
	4,876	9,465

18. PENSION PLAN

Substantially all of the employees of TBRHSC are members of the Healthcare 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 based on the length-of-service and on the average of annualized earnings during the five consecutive years prior to retirement, termination or death, which provide the highest average earnings.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with contributions by employees, 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 employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are to be funded proportionately by the employees and the employer. The most recent actuarial valuation of the Plan as at December 31, 2017 indicates the Plan is 122% funded. The majority of employees of TBRHSC are members of Healthcare of Ontario Pension Plan. Contributions to the Plan made during the year by TBRHSC on behalf of its employees amounted to \$14,086 [2017 – \$13,404] and are included in the statement of operations.

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

19. ONTARIO MINISTRY OF HEALTH AND LONG -TERM CARE / NORTH WEST LOCAL HEALTH INTEGRATION NETWORK FUNDING

Revenue from the MOHLTC and the LHIN has been calculated in accordance with MOHLTC and LHIN policy and is subject to final approval by the MOHLTC and the LHIN. Adjustment to the accounting records is made at the time of final settlement.

TBRHSC has entered into accountability agreements that set out the rights and obligations of the parties in respect of funding provided to TBRHSC by the MOHLTC and the LHIN for the year ended March 31, 2018. Included with the accountability agreements, or subsequent funding letters, are the base or one-time volume that, if not achieved, will result in an adjustment to the funding received.

The availability of confirmed volumes lags the completion of the financial statements and hence the amount of the MOHLTC and LHIN volume 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 estimates of amounts that have been earned during the year.

20. COMMITMENTS AND CONTINGENCIES

- [a] The nature of TBRHSC's activities is such that there is usually litigation pending or in progress at any time. With respect to claims at March 31, 2018, management believes TBRHSC has valid defences and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on TBRHSC's financial position.
- [b] TBRHSC is also in the process of updating its pay equity agreements with one of its unions. Given the nature of the pay equity process, there is measurement uncertainty with respect to this issue. TBRHSC has made provision for the estimated impact of settling this liability, which is reflected as part of accounts payable and accrued liabilities on the statement of financial position. Any difference in the final settlement from that estimated will be recorded in the period in which the settlement becomes known.
- [c] Due to the nature of its operations, TBRHSC is periodically subject to grievances filed by its various unions. In the opinion of management, the resolution of any current grievances should not have a material effect on the financial position or results of operations.
- [d] Prior to August 1, 2012, TBRHSC participated in the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the public liability insurance risks of its hospital members. All members of the HIROC pool pay actuarially determined annual premiums. All members are subject to assessment for losses, if any, experienced by the pool for the years in which they were members. No assessments have been made for the year ended March 31, 2018.

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

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. Subscribers with an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses may be entitled to receive distributions of their share of the unappropriated surplus when distributions are declared by the Board of Directors of HIROC. There is no distributions receivable from HIROC as of March 31, 2018.

- [e] TBRHSC has committed to lease space in the Medical Centre and Health Services Building both located on TBRHSC property. The leases are for varying terms expiring in 2028. In addition, TBRHSC has lease commitments for vehicles and equipment. The following minimum payments are required over the term of the leases:

	\$
2019	1,680
2020	1,626
2021	1,492
2022	1,426
2023	1,392
Thereafter	3,397
	<u>11,013</u>

- [f] TBRHSC has a \$15,000 available Board approved operating credit facility with an option to increase up to \$18,000, subject to Board approval, of which no amount was borrowed at year-end. The interest rate of the facility is based on bank prime rate less 0.75%. At March 31, 2018, the effective rate was 2.7% [2017 - 1.95%].

- [g] TBRHSC has entered into a contract for the purchase of specified equipment and related leasehold improvement in the amount of \$4,255 [2017 – \$4,985] that had not been completed by March 31, 2018. TBRHSC has incurred an amount of \$4,021 [2017 – \$836] for equipment and leasehold improvement purchased under the contracts as at March 31, 2018. The full value of the equipment and leasehold improvement will be recorded on completion of the contracts and amortization will be calculated from the month the equipment is brought into service.

- [h] TBRHSC has entered a ten-year contract to lease parking facilities to the Thunder Bay Regional Health Sciences Foundation and manage the facilities in return for annual rent and management fees.

Thunder Bay Regional Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

[All amounts in thousands of dollars]

March 31, 2018

21. FINANCIAL INSTRUMENT RISK MANAGEMENT

TBRHSC's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, due from related entities, mortgages receivable, long-term investments not subject to significant influence, and accounts payable and accrued liabilities, and long-term debt. Unless otherwise noted, it is management's opinion that the TBRHSC is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Credit risk

Credit risk is the risk of financial loss to the TBRHSC if a debtor fails to make payments of interest and principal when due. TBRHSC is exposed to this risk relating to its cash and cash equivalents, investments, accounts receivable, due from related entities and mortgages receivable.

TBRHSC holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In event of default, the Canadian cash account and Guaranteed Investment Certificates and other term deposits with a date to maturity of less than five years are insured up to \$200 [2017 – \$200].

TBRHSC's investment policy restricts cash, cash equivalents and short-term funds to Canadian cash and fixed income funds. Bond investments may be in bonds issued or guaranteed by the Government of Canada or province thereof or Bank Act Schedule A listed bank or Canadian corporation investment grade or above with debt obligation of the issuer rated at least A by CBRS or A by DBRS. Investment in shares is restricted to preferred shares issued or guaranteed by a corporation, incorporated under the laws of Canada or a province, and shall be at investment grade P1 to P3 or above.

Accounts receivable are due from the MOHLTC's Ontario Healthcare Insurance Plan (OHIP), other regional healthcare organizations and associated organizations such as TBRHSC Foundation and patients. TBRHSC measures its exposure to credit risk based on how long the amounts have been outstanding. An allowance for doubtful accounts \$414 [2017 – \$414] is set up based on historical experience regarding collections.

Due from related entities is secured by expected cash flows from operating grants, research reserves and unexpended capital funds.

Mortgages receivable are secured by the cash flows from tenant leases in the Medical Centre and expected leases in the Health Services Building as well as a mortgage with respect to the buildings on Hospital property.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

Thunder Bay Regional Health Sciences Centre

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Currency risk

Currency risk relates to TBRHSC holding financial instruments in different currencies and converting non-Canadian values at points in time and adverse changes in foreign current rates may occur. TBRHSC holds a U.S. Currency bank account and U.S. investments.

Interest rate risk

Interest rate risk is the potential for financial loss in TBRHSC's fair value investments and mortgage payable because of changes in market interest rates. Currently, there is minimal interest rate risk as the majority of investments are held at fixed rates.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. TBRHSC's investment policy restricts operating investments in marketable securities or equity funds to a maximum 25% of book-cost.

Liquidity risk

Liquidity risk is the risk that TBRHSC will not be able to meet all cash outflow obligations as they come due. TBRHSC mitigates this risk by monitoring cash activities and expected outflows and maintaining investments that may be converted to cash in the near term.

22. CAPITAL MANAGEMENT

In managing capital, TBRHSC considers its capital to be its net assets. Its unrestricted net assets consist of amounts for future operations. The amounts invested in capital assets ensure the physical facility to provide services. The organization's objectives when managing its capital assets are to safeguard its ability to continue as a going concern so it can continue to provide services and to allow for future expansion. Annual budgets are developed and monitored to ensure the organization's capital is maintained to meet these objectives.

23. BUDGET AMOUNTS

The budget figures presented for comparative purposes are unaudited and are those approved by the Board.

24. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.