Lakeridge Health

Financial Statements
March 31, 2017

June 16, 2017

Independent Auditor's Report

To the Members of the Resources Committee of the Board of Trustees Lakeridge Health

We have audited the accompanying financial statements of Lakeridge Health, which comprise the statement of financial position as at March 31, 2017 and the statement of operations, remeasurement gains and losses, changes in net assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

PricewaterhouseCoopers LLP
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Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Lakeridge Health as at March 31, 2017 and the results of its operations, its remeasurement gains and losses, and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Lakeridge Health

Statement of Financial Position

As at March 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Assets		
Current assets		
Cash (note 4)	115,144	99,741
Short-term investments (note 5)	50,000	50,000
Accounts receivable (note 6)	18,610	17,408
Inventories	4,124	3,649
Prepaid expenses	3,692	2,840
	191,570	173,638
Restricted funds - energy retrofit (note 4)	51	916
Other long-term assets (note 7)	1,579	1,575
Capital assets (note 8)	551,619	460,398
	744,819	636,527
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	92,537	80,978
Deferred capital contributions - capital advances (note 9)	10,568	8,789
Deferred research contributions	5,357	5,044
Deferred contributions – other	6,376	5,862
Current portion of long-term debt (note 10)	2,432	3,019
	117,270	103,692
Long-term debt (note 10)	41,117	43,562
Employee future benefit liability (note 11)	18,537	13,875
Other long-term liabilities (notes 12 and 18)	4,081	4,763
Deferred capital contributions (note 9)	408,545	343,629
	589,550	509,521
Net Assets	153,706	126,245
Accumulated remeasurement gains	1,563	761
	155,269	127,006
	744,819	636,527

Approved on Behalf of the Board of Directors

Valentine Lovekin
Chair
Board of Trustees
Director

Matthew Anderson
President & CEO
Director

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

Jim Clapp
Treasurer

Lakeridge Health

Statement of Operations

For the year ended March 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Revenue		
Ministry of Health and Long-Term Care	433,629	397,660
Patient services	32,049	27,287
Other ancillary revenue and recoveries	32,333	28,346
Specifically funded programs	18,298	18,591
Research grants	1,878	1,559
Amortization of deferred capital contributions - equipment	5,348	4,953
	523,535	478,396
Expenses		
Compensation and benefits	345,374	312,278
Supplies and other	63,517	56,250
Drugs	33,190	31,951
Medical and surgical supplies	28,178	20,278
Specifically funded programs	18,250	18,793
Amortization of equipment	10,135	8,488
	498,644	448,038
Excess of revenue over expenses before building amortization, interest expense and integration	24,891	30,358
Net building amortization and interest		
Amortization of deferred capital contributions - buildings	13,840	12,321
Amortization of buildings	(17,722)	(16,286)
Interest on long-term debt	(1,936)	(2,095)
Excess of revenue over expenses before net effect of integration	19,073	24,298
Net effect of integration (note 3)	8,388	-
Excess of revenue over expenses for the year	27,461	24,298

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

Lakeridge Health

Statement of Remeasurement Gains

For the year ended March 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Accumulated remeasurement gains - Beginning of year	761	555
Unrealized gains attributable to derivative liability	802	206
Accumulated remeasurement gains - End of year	1,563	761

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

Lakeridge Health

Statement of Changes in Net Assets

For the year ended March 31, 2017

(in thousands of dollars)

	2017				2016
	Invested in capital assets **$** (note 13)	**Internally restricted** **$** (note 14)	**Unrestricted** **$**	**Total** **$**	**Total** **$**
Net assets - Beginning of year	70,188	238	55,819	126,245	101,947
Net effect of integration	19,394	-	(11,006)	8,388	-
Excess of revenue over expenses before amortization and net effect of integration (note 3)	-	-	27,742	27,742	31,798
Amortization of capital assets	(27,857)	-	-	(27,857)	(24,774)
Amortization of deferred capital contributions	19,188	-	-	19,188	17,274
	80,913	238	72,555	153,706	126,245
Purchase of capital assets, net of disposals (note 8)	25,721	-	(25,721)	-	-
Amounts funded from deferred contributions and restricted funds, less repayments of long-term debt	(7,109)	-	7,109	-	-
Net assets - End of year	99,525	238	53,943	153,706	126,245

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

Lakeridge Health

Statement of Cash Flows

For the year ended March 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	27,461	24,298
Add (deduct): Non-cash items		
Net effect of integration, net of cash (note 3)	(3,023)	-
Amortization of capital assets (note 8)	27,857	24,774
Amortization of deferred capital contributions (note 9)	(19,188)	(17,274)
Employee future benefit expense (note 11)	1,772	1,632
	34,879	33,430
Net change in non-cash operating items (note 15)	(2,476)	(10,631)
Employee future benefits paid (note 11)	(948)	(780)
	31,455	22,019
Capital activities		
Purchase of capital assets (note 8)	(25,721)	(41,156)
Financing activities		
Repayment of long-term debt and equipment financing	(3,032)	(3,048)
Other long-term liabilities	(84)	35
Capital contributions (note 9)		
Short-term	4,416	(2,506)
Long-term	7,504	20,532
Net change in restricted cash	865	3,790
	9,669	18,803
Investing activities		
Purchase of short-term investments	-	(50,000)
Increase (decrease) in cash during the year	15,403	(50,334)
Cash - Beginning of year	99,741	150,075
Cash - End of year (note 4)	115,144	99,741
Supplemental information		
Interest paid (note 10)	2,585	2,857

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

(in thousands of dollars)

1 The Corporation

Lakeridge Health (the Hospital) was formed on July 31, 1998 by amalgamation under subsection 113(3) of the Corporations Act of Ontario and is a registered charity under the Income Tax Act (Canada). The Hospital is an amalgamation of Oshawa General Hospital, Memorial Hospital Bowmanville, North Durham Hospital Corporation and Whitby General Hospital.

Under the Health Insurance Act and the regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care (MoHLTC). The board of trustees recognizes the Hospital's ongoing dependency on the MoHLTC as the primary funding source for the Hospital's operating activities.

As provided under the Local Health System Integration Act, 2006, effective April 1, 2007, the MoHLTC assigned to the Central East Local Health Integration Network (CELHIN) all of its rights, duties and obligations under its 2007/08 Hospital Accountability Agreement with the Hospital. This assignment is aligned with the MoHLTC's transformation agenda and will enable the CELHIN to take on full responsibility for planning, funding and integrating health services in the CELHIN area, which includes the Hospital.

2 Summary of significant accounting policies

Management has prepared these financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations, using the deferral method of reporting restricted contributions. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Accounts requiring significant estimates include accounts receivable, capital assets, accrued liabilities, deferred revenue and employee future benefits.

Revenue recognition

Under the Health Insurance Act and Regulations thereto, the Hospital is primarily funded by the Province of Ontario. Operating grants are recorded as revenue in the year to which they relate.

To the extent that MoHLTC or CELHIN funding has been received with the stipulated requirement that the Hospital provides specific services, and these services have not yet been provided, the funding is deferred until such time as the services are performed and the monies spent. In the event that the services are not performed in accordance with the funding requirements, the funds received in excess of monies spent could be recovered by the MoHLTC or by the CELHIN.

Operating contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Capital contributions externally 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 of the related capital assets.

(in thousands of dollars)

Revenue from other agencies, patients, special programs and other sources is recognized when the service is provided.

Adoption of new accounting policy

Effective April 1, 2015, the Hospital adopted public sector accounting standard 3430, Restructuring Transactions (PS 3430). This accounting standard defines restructuring transactions and provides guidance with respect to the accounting and reporting for these transactions. The Hospital accounted for the integration with RVHS under this new accounting standard. In accordance with PS 3430, the Hospital recorded the net assets of APH at the carrying value of RVHS on the date of transfer with the net increase in net assets recognized in the statement of operations for the year ended March 31, 2017 (note 3).

Classification of financial instruments

All financial instruments reported on the statement of financial position of the Hospital are measured as follows:

Financial instrument	Measurement
Cash	amortized cost
Short-term investments	amortized cost
Accounts receivable	amortized cost
Restricted funds - energy retrofit	amortized cost
Accounts payable and accrued liabilities	amortized cost
Long-term debt	amortized cost
Derivative liability	fair value

The Hospital initially recognizes financial instruments at fair value and subsequently measures them at amortized cost using the effective interest rate method, less any impairment losses on financial assets, except for the derivative liability. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Inventories

Inventories are valued at the lower of cost and replacement cost, with cost being determined on a first-in, first-out basis.

Capital assets

Capital assets are recorded at acquisition cost. Amortization is provided on a straight-line basis and is based on the estimated useful service lives of the assets as follows:

Land improvements	10 - 20 years
Buildings and building service equipment	5 - 50 years
Furniture and equipment	3 - 15 years

(in thousands of dollars)

On completion, costs in construction-in-progress are reclassified to the appropriate capital asset account and amortization is commenced when the asset is operational.

Employee future benefits

The Hospital accrues its obligations 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 are recognized in the year that the plan amendments occur. Actuarial gains or losses are amortized over the average remaining service period of the active employees.

The Hospital is an employer member of the Healthcare of Ontario Pension Plan (the plan), which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for the plan because insufficient information is available to apply defined benefit plan accounting principles.

3 Integration with Ajax-Pickering Hospital

On November 30, 2016, the Hospital entered into an integration and transfer agreement with Rouge Valley Health System (RVHS), ordered by the Minister of Health and Long-Term Care, to transfer all agreed on assets, liabilities, employees, professional staff and undertakings of RVHS related exclusively to the services, programs and operations delivered by RVHS at its Ajax-Pickering Hospital site (APH).

In accordance with PS 3430, the Hospital recorded the net assets of APH at the carrying value of RVHS on the date of transfer with the net increase in net assets recognized in the statement of operations for the year ended March 31, 2017.

As at the date of transfer, the Hospital acquired the following assets and liabilities:

	$
Cash	5,365
Accounts receivable	4,159
Inventories	471
Prepaid expenses	1,007
	11,002
Capital assets	93,357
Total assets	104,359
Accounts payable and accrued liabilities	17,958

(in thousands of dollars)

Other long-term liabilities	204
Employee future benefit liability	3,846
Deferred capital contributions	73,963
Total liabilities	95,971
Net effect of integration	8,388

As at the date of transfer, the net assets of APH were as follows:

Invested in Capital Assets	
Capital Assets	93,357
Less: amounts funded by deferred capital contributions	(73,963)
	19,394
Unrestricted	(11,006)
Net Assets	8,388

The following summarizes the activity of the acquired operations for the four-month period post-integration to March 31, 2017, which is included in the statement of operations:

	$
Revenues	
MoHLTC	33,653
Patient services	4,283
Other ancillary revenue and recoveries	1,386
Specifically funded programs	659
Amortization of deferred capital contributions - equipment	176
	40,157
Expenses	
Compensation and benefits	27,228
Supplies and other	2,350
Drugs	960
Medical and surgical supplies	7,513
Specifically funded programs	603
Amortization of equipment	718
	39,372

(in thousands of dollars)

Excess of revenue over expenses before building amortization and interest expense	785
Amortization of deferred capital contributions - buildings	1,065
Amortization of buildings	(1,343)
Interest on long-term debt	(3)
Excess of revenue over expenses for the year	504

4 Cash

	2017 $	2016 $
Cash - operations	115,144	99,741
Restricted funds - energy retrofit	51	916
	115,195	100,657

In fiscal 2012 - 2013, the Hospital entered into an agreement to retrofit certain energy systems. Under the agreement, $17,710 (note 10) was borrowed and held in trust to finance the project expenditures. As at March 31, 2017, $51 (2016 - $916) remained in trust.

5 Short-term investments

In January 2016, the Hospital purchased a two-year redeemable guaranteed investment certificate (GIC) with an effective interest rate of 1.7%. Interest is paid annually on the anniversary date.

6 Accounts receivable

	2017 $	2016 $
MoHLTC	395	564
Insurers and patients	9,404	11,519
Foundations	3,784	2,644
Other	6,574	4,008
	20,157	18,735
Provision for uncollectible accounts	(1,547)	(1,327)
	18,610	17,408

(in thousands of dollars)

7 Other long-term assets

	2017 $	2016 $
Healthcare Insurance Reciprocal of Canada (HIROC) deposits (note 18)	966	655
Other	613	920
	1,579	1,575

8 Capital assets

	Cost - Beginning of year $	Additions/ transfers $	Cost - End of year $	Accumulated amortization - Beginning of year $	Amortization expense /transfers $	Accumulated amortization - End of year $	2017 Net $	2016 Net $
Land and land improvements	7,300	3,426	10,726	4,130	60	4,190	6,536	3,170
Buildings and building service equipment	569,689	135,984	705,673	186,234	58,816	245,050	460,623	383,455
Furniture and equipment	208,948	65,074	274,022	155,366	54,467	209,833	64,189	53,582
Construction-in-progress	20,191	80	20,271	-	-	-	20,271	20,191
	806,128	204,564	1,010,692	345,730	113,343	459,073	551,619	460,398

The additions/transfers and the amortization expense/transfers include a net $93,357 (cost - $178,843 and accumulated amortization - $85,486) due to the net effect of integration (note 3).

(in thousands of dollars)

9 Deferred capital contributions

The current portion of deferred contributions represents the unspent amount of externally restricted contributions received for specific purposes and interest earned on these funds. Included in this balance are monies received from the MoHLTC and other funding agencies, which are either available for future use or subject to a settlement process with the funding agency.

Short-term

	2017 $	2016 $
Contributions received for capital purposes - current year		
MoHLTC - redevelopment	2,945	3,420
Foundation – redevelopment	1,471	-
Transfer to long-term	(2,637)	(5,926)
Net increase (decrease) for the year	1,779	(2,506)
Balance - Beginning of year	8,789	11,295
Balance - End of year	10,568	8,789

Long-term

	2017 $	2016 $
Contributions received for capital purposes - current year		
Foundations – redevelopment	2,000	-
Foundations – other	(198)	2,520
Other	5,702	12,086
Transfer from short-term	2,637	5,926
Net increase for the year before integration	10,141	20,532
Net effect of integration (note 3)	73,963	-
Less: Amortization	(19,188)	(17,274)
Net increase for the year	64,916	3,258
Balance - Beginning of year	343,629	340,371
Balance - End of year	408,545	343,629

(in thousands of dollars)

10 Long-term debt

	2017 $	2016 $
Loan bearing interest at 8.40%, acquired for construction of parking garage, guaranteed by Lakeridge Health Foundation, repayable in blended monthly payments of $96, paid in full as at December 31, 2016	-	838
Loan for the purpose of financing the construction of a Central Utilities Plant at one of the Hospital's facilities, bearing interest at a floating rate based on bankers' acceptance rate of 1.20% during the year; effective October 1, 2004, an interest rate swap in the amount of $15,050 was initiated and was renegotiated to $17,500 that modified the floating interest rate on the loan to a fixed rate of 5.99% (note 12)	11,426	12,219
Fixed rate loan of $7,013 bearing interest at 2.5%, to finance approved capital redevelopment projects, repayable in monthly payments based on a 15-year amortization	2,585	3,119
Fixed rate loan of $12,500 bearing interest at 5.58%, acquired for expansion of the north parking garage at the Oshawa site, repayable based on a 25-year amortization with interest only payments for the first 5 years; principal payments commenced in January 2013	10,866	11,286
Fixed rate loan of $17,710 bearing interest at 5.25%, acquired for the retrofit of energy systems at the Hospital, repayable based on a 19-year term with the first payment scheduled to begin in January 2015. The hospital has a letter of credit amounting to $1,786 (2016 - $1,786)	18,672	19,119
	43,549	46,581
Less: Amounts due within one year	(2,432)	(3,019)
	41,117	43,562

Interest expense on long-term debt was $1,936 (2016 - $2,095). Interest paid during the year amounted to $2,585 (2016 - $2,857).

Principal repayments due in each of the next five years and thereafter on long-term debt are as follows:

	$
2018	2,432
2019	2,617
2020	2,812
2021	3,072
2022	2,574
Thereafter	30,042
	43,549

(in thousands of dollars)

11 Employee future benefits

The Hospital provides certain post-employment benefits to some of its employees. The most recent actuarial valuation for the Hospital, excluding APH, was performed on April 1, 2015, and for APH was performed on November 30, 2016.

Information about the Hospital's employee future benefits obligations, in aggregate, is as follows:

	2017 **$**	**2016** **$**
Employee future benefit liability		
Balance - Beginning of year	14,750	13,898
Net effect of integration (note 3)	3,846	
Employer current service cost	1,072	1,004
Amortization of actuarial losses	119	137
Interest cost	581	491
Benefits paid	(948)	(780)
Balance - End of year	19,420	14,750
Short-term portion included in accrued liabilities	883	875
Long-term portion	18,537	13,875
	19,420	14,750
Reconciliation of accrued benefit obligation		
Accrued benefit obligation	20,928	15,944
Unamortized experience losses	(1,508)	(1,194)
	19,420	14,750

The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit obligations are as follows:

	2017 Lakeridge Health, excluding APH	**2017 APH Only**	**2016**
Discount rate to determine accrued benefit obligation	3.25%	3.00%	3.25%
Dental cost increases	3.00%	3.00%	3.00%
Extended health-care cost escalations, decreasing by 0.25% per annum to an ultimate rate of 4.50% in 2020 and thereafter	6.75%	6.25%	6.75%
Expected average remaining service life of employees	15	14	15

(in thousands of dollars)

12 Other long-term liabilities

	2017 $	2016 $
Fair value adjustment in respect of derivative liability	2,699	3,501
HIROC liability (note 18)	932	342
Other	298	920
	4,081	4,763

Derivative liability

The Hospital has a credit facility for the financing of construction of a central utilities plant at one of the Hospital's facilities in the amount of $17,500. The Hospital entered into an interest rate swap agreement to modify the floating rate of interest on the loan from a bankers' acceptance rate of 1.20% to a fixed rate of 5.99%. The start date of this interest rate swap was October 1, 2004, with a maturity date of May 1, 2027. The notional value of the derivative financial instrument was initially $15,050 but was renegotiated to $17,500. The fair value of the interest rate swap as at March 31, 2017 is $2,699 (2016 - $3,501). The change in fair value during the year of $802 (2016 - $206) is recorded in the statement of remeasurement gains.

13 Net assets invested in capital assets

	2017 $	2016 $
Capital assets (note 8)	551,619	460,398
Less: Amounts funded by		
Deferred capital contributions (note 9)	(408,545)	(343,629)
Long-term debt (note 10)	(43,549)	(46,581)
	99,525	70,188

14 Internally restricted

The Hospital has restricted $170 (2016 - $170) for major capital refurbishment of the parking garage.

The Hospital has also restricted $68 (2016 - $68) for the replacement of specialized cancer related equipment at the McLaughlin Durham Regional Cancer Centre.

(in thousands of dollars)

15 Net change in non-cash operating items

	2017 $	2016 $
Decrease (increase) in assets		
Accounts receivable	2,957	(3,554)
Inventories	(4)	432
Prepaid expenses	155	(902)
Other long-term assets	(4)	(348)
	3,104	(4,372)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(6,407)	(6,995)
Deferred research contributions	313	653
Deferred contributions - other	514	83
	(5,580)	(6,259)
	(2,476)	(10,631)

16 Lease commitments

The Hospital is committed under operating leases for various facilities until 2035. Minimum payments due in each of the next five remaining years of the leases are as follows:

	$
2018	1,294
2019	1,224
2020	742
2021	216
2022	200
	3,676

17 Pension plan

Substantially all of the employees of the Hospital are members of the plan, which is a multi-employer final average pay contributory pension plan. Employer contributions made to the plan during the year by the Hospital amount to $20,724 (2016 - $18,590) and are recorded as compensation and benefits. The most recent actuarial valuation of the plan as at December 31, 2016 disclosed total going concern pension obligations of $54,461 in respect of service accrued to December 31, 2016 and a smoothed value of net assets of $66,421 determined at the same date.

(in thousands of dollars)

18 Contingent liabilities and guarantees

- Due to the nature of its operations, the Hospital is periodically subject to lawsuits in which the Hospital is a defendant, as well as grievances filed by its various unions. In the opinion of management, the resolution of any current lawsuits and/or grievances would not have a material effect on the financial position or results of operations.

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

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

    - In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisers and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

  The nature of these indemnification agreements prevents the Hospital from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability that stems from the unpredictability of future events and the coverage offered to counterparties. Historically, the Hospital has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the statement of financial position with respect to these agreements.

- The Hospital is a member in HIROC and therefore has an economic interest in HIROC. HIROC is a pooling of the public liability insurance risks of its members, which are Canadian not-for-profit health-care organizations. All members of the HIROC pool pay annual premiums, which are actuarially determined. All members are subjects 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 years ended March 31, 2017 and March 31, 2016.

  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 obligations for claims reserves and expenses and operating expenses.

(in thousands of dollars)

In 2015, the Hospital entered into an agreement with HIROC whereby HIROC continues to provide indemnity insurance to the Hospital; however, the cost of investing and defending any litigation claims, previously included in the insurance premium, will be borne by the Hospital.

Under this agreement, the Hospital provides deposits to HIROC Management Limited (HML), which acts as an agent to pay legal expenses on behalf of the Hospital. For the year ended March 31, 2017, the Hospital has recorded legal expenses of $607 (2016 - $713) based on the assessment of the actuary engaged by HML, which have been included in the statement of operations. As at March 31, 2017, the deposit balance was $1,546 (2016 - $890), of which $966 (2016 - $655) is not expected to be used within one year and is therefore disclosed as a long-term asset (note 7), and the total liability was estimated to be $1,198 (2016 - $645), of which $932 (2016 - $342) is not expected to be paid within one year and is therefore disclosed as a long-term liability (note 12).

19 Risk management

Credit risk

Credit risk relates to the potential that one party to a financial instrument will fail to discharge an obligation, thus resulting in the other party incurring a financial loss. The Hospital is exposed to credit risk on its accounts receivable. Within the insurers and patients accounts receivable balance, 86% (2016 - 82%) represents receivables that have been outstanding for less than 60 days.

Interest rate risk

Interest rate risk relates to the potential for financial loss caused by fluctuations in the fair value or future cash flows of financial instruments because of changes in market interest rates.

The long-term debt generally bears interest at fixed rates, except for the loan for the purpose of financing the construction of a central utilities plant. The Hospital mitigates interest rate risk on the loan through a derivative financial instrument that exchanges the variable rate inherent in the long-term debt for a fixed rate (note 12). Therefore, fluctuations in market interest rates would not impact future cash flows of the Hospital.

Liquidity risk

Liquidity risk is the possible risk of not being able to meet financial obligations when due. The Hospital manages its liquidity risk by forecasting cash flows from operations and anticipating capital, investing and financing requirements.

(in thousands of dollars)

	2017				
	Up to 6 months $	**More than 6 months and up to 1 year $**	**More than 1 year and up to 5 years $**	**More than 5 years $**	**Total $**
Accounts payable and accrued liabilities	79,897	12,640	-	-	92,537
Long-term debt	1,190	1,242	11,075	30,042	43,549
Other long-term liabilities	-	-	4,081	-	4,081
	81,087	13,882	15,156	30,042	140,167

	2016				
	Up to 6 months $	**More than 6 months and up to 1 year $**	**More than 1 year and up to 5 years $**	**More than 5 years $**	**Total $**
Accounts payable and accrued liabilities	72,309	8,669	-	-	80,978
Long-term debt	1,621	1,398	10,725	32,837	46,581
Other long-term liabilities	-	-	4,763	-	4,763
	73,930	10,067	15,488	32,837	132,322

20 Related party transactions

Foundations

The Hospital is related to the Ajax-Pickering Hospital Foundation, the Lakeridge Health Foundation (formerly The Oshawa Hospital Foundation and Lakeridge Health Whitby Foundation), the Memorial Hospital Foundation - Bowmanville, and the Port Perry Hospital Foundation (the foundations). The foundations raise funds to support projects of the Hospital.

The Hospital does not exercise control or significant influence over the foundations; consequently, these financial statements do not include assets, liabilities and activities of the foundations.

(in thousands of dollars)

Amounts receivable from the foundations related to capital are as follows:

	2017 $	2016 $
Ajax-Pickering Hospital Foundation	2	-
Lakeridge Health Foundation	1,497	1,140
The Memorial Hospital Foundation - Bowmanville	273	1,460
Port Perry Hospital Foundation	2,012	44
	3,784	2,644

Shared services

The Hospital is a member of Plexxus, a not-for-profit shared service organization with 11 hospital owner/members (of which the Hospital is one). Funded by the members, the objective of Plexxus is to work collaboratively with stakeholders to deliver cost efficient services.