

Brant Community Healthcare System

Financial Statements
March 31, 2017



June 15, 2017

Independent Auditor's Report

**To the Board of Directors of
Brant Community Healthcare System**

We have audited the accompanying financial statements of Brant Community Healthcare System, which comprise the statement of financial position as at March 31, 2017 and the statements of operations, 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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Brant Community Healthcare System as at March 31, 2017 and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

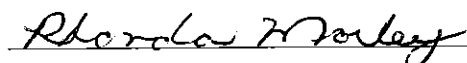
Brant Community Healthcare System

Statement of Financial Position

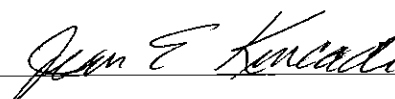
As at March 31, 2017

	2017 \$	2016 \$
Assets		
Current assets		
Cash	-	2,605,905
Accounts receivable (note 3)	5,420,334	7,136,943
Inventories	1,636,756	1,793,403
Due from Brant Community Healthcare System Foundation (note 4)	959,403	1,300,324
Other assets	996,083	1,021,284
	<u>9,012,576</u>	<u>13,857,859</u>
Property and equipment (note 5)	<u>88,318,012</u>	<u>94,128,310</u>
	<u>97,330,588</u>	<u>107,986,169</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	4,066,979	-
Accounts payable and accrued liabilities	15,551,249	22,099,599
Obligations under capital leases (note 7)	1,399,082	1,762,591
Deferred revenue	1,319,282	1,710,747
	<u>22,336,592</u>	<u>25,572,937</u>
Obligations under capital leases (note 7)	2,653,637	4,060,719
Employee future benefits (note 8)	4,472,400	4,448,400
Deferred contributions (note 9)	66,680,196	68,589,031
	<u>96,142,825</u>	<u>102,671,087</u>
Net Assets		
Restricted (note 1)	1,388,566	1,388,566
Unrestricted	<u>(200,803)</u>	<u>3,926,516</u>
	1,187,763	5,315,082
	<u>97,330,588</u>	<u>107,986,169</u>
Contingencies and commitments (note 10)		

Approved by the Board of Directors



Director



Director

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

Brant Community Healthcare System

Statement of Operations

For the year ended March 31, 2017

	2017 \$	2016 \$
Revenue		
Funding (note 13)	134,070,587	133,145,631
Preferred accommodation and chronic co-payment	1,154,877	1,351,054
Hospitalist program/CCU closed model - in-patient	3,847,040	3,782,529
Outpatient revenue - Ontario Hospital Insurance Plan	10,856,031	11,075,926
Emergency department - Alternate Funding Agreement	5,205,041	4,887,403
Other sources		
In-patient	550,271	448,662
Outpatient	1,317,836	1,304,419
Other revenue	7,000,881	8,410,018
Amortization of deferred contributions relating to equipment	978,011	1,371,403
	<u>164,980,575</u>	<u>165,777,045</u>
Expenses		
Salaries and wages	80,457,878	81,764,413
Employee benefits	22,965,921	24,322,410
Medical staff remuneration	25,171,811	24,285,638
Medical and surgical supplies	8,873,946	9,016,542
Drugs	5,312,127	5,696,975
Other supplies and expenses	21,052,183	21,498,989
Amortization of equipment and furnishings	4,108,777	4,299,553
	<u>167,942,643</u>	<u>170,884,520</u>
Deficiency of revenue over expenses before the following	(2,962,068)	(5,107,475)
Amortization of deferred contributions relating to buildings and building service equipment	3,424,453	3,275,737
Amortization of buildings and building service equipment	<u>(4,589,704)</u>	<u>(4,439,453)</u>
Deficiency of revenue over expenses for the year	<u>(4,127,319)</u>	<u>(6,271,191)</u>

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

Brant Community Healthcare System

Statement of Changes in Net Assets

For the year ended March 31, 2017

			2017	2016
	Restricted \$	Unrestricted \$	Total \$	Total \$
Balance - Beginning of year	1,388,566	3,926,516	5,315,082	11,586,273
Deficiency of revenue over expenses for the year	-	(4,127,319)	(4,127,319)	(6,271,191)
Balance - End of year	<u>1,388,566</u>	<u>(200,803)</u>	<u>1,187,763</u>	<u>5,315,082</u>

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

Brant Community Healthcare System

Statement of Cash Flows

For the year ended March 31, 2017

	2017 \$	2016 \$
Cash provided by (used in)		
Operating activities		
Deficiency of revenue over expenses for the year	(4,127,319)	(6,271,191)
Items not affecting cash		
Amortization of deferred contributions		
Equipment	(978,011)	(1,371,403)
Buildings and building service equipment	(3,424,453)	(3,275,737)
Amortization of property and equipment		
Equipment and furnishings	4,108,777	4,299,553
Buildings and building service equipment	4,589,704	4,439,453
Employee future benefits	24,000	1,314,200
Writeoff of deferred contribution relating to disposed assets	-	(62,524)
Loss on writeoff of property and equipment	-	62,609
Changes in non-cash working capital items relating to operations (note 11)	(4,700,437)	(2,146,855)
	<u>(4,507,739)</u>	<u>(3,011,895)</u>
Capital activities		
Purchase of property and equipment - net of non-cash items	(2,833,434)	(4,047,700)
Financing activities		
Long-term physician loans	-	12,917
Payment of obligations under capital leases and bank loans	(1,825,340)	(5,034,210)
Contributions received		
Donations from Brant Community Healthcare System Foundation	1,135,151	1,313,948
Donations from third parties	35,781	281,073
Net provincial capital grants	1,322,697	2,150,879
	<u>668,289</u>	<u>(1,275,393)</u>
Decrease in cash during the year	(6,672,884)	(8,334,988)
Cash - Beginning of year	2,605,905	10,940,893
(Bank indebtedness) cash - End of year	<u>(4,066,979)</u>	<u>2,605,905</u>
Supplementary disclosure for capital activities		
Property and equipment - leased	(54,749)	(5,419,498)
Increase in obligations under capital leases	54,749	5,419,498
Advances from bank loan for equipment purchase	-	859,572

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

Brant Community Healthcare System

Notes to Financial Statements

March 31, 2017

1 Nature of operations

Brant Community Healthcare System (the System) is incorporated without share capital under the laws of the Province of Ontario. The System is a registered charity under the Income Tax Act (Canada) and, accordingly, is exempt from income taxes, provided certain requirements are met.

The System embraces a culture of performance excellence through its True North Indicators: Patient First, A Great Place to Work and Using Resources Wisely. These indicators allow the System to continue living its mission of Providing Excellent Care to the Community through two sites, The Brantford General Hospital in Brantford and The Willett Hospital in Paris, Ontario.

Unrestricted net assets of The Willett Hospital in the amount of \$1,398,431 as of the date of amalgamation with The Brantford General Hospital on April 11, 2007 have been restricted by the Board of Directors specifically for Willett programs and projects. As at March 31, 2017, the restricted net assets amounted to \$1,388,566.

The System 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 Hamilton Niagara Haldimand Brant Local Health Integration Network (the LHIN) and Cancer Care Ontario. The System has entered into a Hospital Service Accountability Agreement (H-SAA) with the LHIN that sets out the obligations as well as the minimum performance standards that must be met by the System. Any excess of revenue over expenses with respect to base funding during a fiscal year is not required to be returned. However, if the System does not meet its performance standards or obligations under the H-SAA, the LHIN has the right to adjust funding received by the System. The System accrues for known clawback amounts; however, any other increases or decreases to funding not known until after year-end will be reflected in the accounts of the subsequent year.

For the year ended March 31, 2017, the System has achieved a current ratio of 0.43:1.00 (2016 - 0.58:1.00) relative to the 0.80 to 2.00 performance corridor outlined in the H-SAA. In addition for both fiscal 2017 and 2016, the System has not met the H-SAA obligation to achieve a minimum balanced operating margin, excluding net building amortization expense. As at the financial statement date, no funding reduction has been made by LHIN.

2 Summary of significant accounting policies

Basis of presentation

These financial statements include the accounts of the System, which includes The Brantford General and The Willett Hospital sites and have been prepared by management in accordance with Canadian public sector accounting standards (PSAS), including standards that apply to government not-for-profit organizations.

A summary of the significant accounting policies is as follows:

Revenue recognition

The System follows the deferral method of accounting for contributions, which include donations and government grants.

Brant Community Healthcare System

Notes to Financial Statements

March 31, 2017

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. Where a portion of a grant is repayable as a result of not meeting performance measurements, best estimates of the repayment amount are made and accrued at year-end.

Contributions restricted for the purchase of property and equipment are deferred and amortized to revenue over the same period as the related asset is amortized to expense.

All other revenues including those from the Ontario Health Insurance Plan, preferred accommodation and marketed services are recognized when the service is provided or the goods are sold.

Contributed materials and services

Contributed materials are recorded, when received, at their fair value. Volunteers contribute a significant amount of time each year. Due to the difficulty of determining the fair value, these contributed services are not recognized or disclosed in the financial statements.

Inventories

Inventories are valued at the lower of first-in, first-out cost and replacement value.

Property and equipment

Purchased property and equipment are stated at cost. Contributed property and equipment are recorded at fair value at the date of contribution. Incremental interest incurred during the construction of buildings is capitalized and included in cost. Amortization is provided annually on a straight-line basis using the following annual rates:

Land improvements	5% - 33%
Buildings and building service equipment	2% - 20%
Major equipment	4% - 33%
Equipment under capital leases	10% - 20%

The costs of renovations to hospital buildings, which significantly increase useful life or capacity, are capitalized as part of the cost of the related property and equipment. Renovation costs to adapt hospital buildings to change operating conditions or to maintain normal efficiency are expensed as incurred.

The System reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable and exceeds its fair value. The impairment loss, if any, is the excess of carrying value over fair value.

Brant Community Healthcare System

Notes to Financial Statements

March 31, 2017

Employee future benefits

- Multi-employer plan

Substantially all of the full-time employees of the System are eligible to be members of the Healthcare of Ontario Pension Plan (HOOPP), which is a multi-employer average of the best five years' pay contributory pension plan, and employees are entitled to certain post-employment benefits. HOOPP is accounted for as a defined contribution plan, whereby contributions are expensed when due.

- Other post-employment benefit plans

The System accrues its obligations under non-pension employee benefit plans as employees render services.

The System has adopted the following policies:

- Certain employees of the System are entitled to receive post-employment benefits. The costs of these benefits are determined using the accrued benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages of employees and health-care costs. The discount rate used to determine the accrued benefit obligation was determined by reference to the rate of return on provincial government bonds with an additional risk premium specific to the System for varying durations based on the cash flows expected from the post-employment benefit obligations.
- Past service from plan amendments is expensed when the amendment takes effect.
- The excess of the cumulative unamortized balance of the net actuarial gain (loss) is amortized over the average remaining service period of active employees. The average remaining service period of active employees is ten years.

Financial instruments

The System's financial instruments consist of cash, accounts receivable, due from Brant Community Healthcare System Foundation, accounts payable and accrued liabilities, bank loans payable and obligations under capital leases.

The System's financial instruments are measured as follows:

Assets/liabilities	Measurement
Cash	fair value
Accounts receivable	amortized cost
Due from Brant Community Healthcare System Foundation	amortized cost
Accounts payable and accrued liabilities	amortized cost
Bank loans payable	amortized cost
Obligations under capital leases	amortized cost

Brant Community Healthcare System

Notes to Financial Statements

March 31, 2017

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

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

Use of estimates

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3 Accounts receivable

	2017	2016
	\$	\$
Ministry of Health and Long-Term Care/Local Health Integration Network and Cancer Care Ontario	2,178,446	2,451,616
Insurers and patients	3,678,813	3,344,631
Other	1,474,140	2,863,740
Less: Allowance for doubtful accounts	(1,911,065)	(1,523,044)
	<u>5,420,334</u>	<u>7,136,943</u>

4 Due from Brant Community Healthcare System Foundation

The Brant Community Healthcare System Foundation (the Foundation) is incorporated under the laws of the Province of Ontario as a not-for-profit organization and is a registered charity under the Income Tax Act (Canada). As at March 31, 2017, the Foundation holds donations from the community in the amount of \$5,314,430 (2016 - \$4,818,641), which will be used for the benefit of the System to maintain and enhance capital infrastructure and to acquire capital equipment.

During the year, the Foundation transferred \$1,135,151 (2016 - \$1,313,948) of deferred contributions to the System in support of capital projects, which is included in deferred contributions, and \$146,372 (2016 - \$97,462) in support of equipment and education. During the year, net reimbursements from the Foundation to the System for operating costs incurred by the System on behalf of the Foundation totalled \$706,894 (2016 - \$1,079,367) and are recorded in due from Brant Community Healthcare System Foundation.

As at March 31, 2017, amounts due from Brant Community Healthcare System Foundation totalled \$959,403 (2016 - \$1,300,324).

Brant Community Healthcare System

Notes to Financial Statements

March 31, 2017

5 Property and equipment

	2017		
	Cost \$	Accumulated amortization \$	Net \$
Land	1,092,145	-	1,092,145
Land improvements	791,557	317,463	474,094
Buildings and building service equipment	127,643,843	54,593,659	73,050,184
Major equipment	24,520,141	16,314,539	8,205,602
Building renovations in progress	590,594	-	590,594
Equipment under capital leases	11,164,992	6,259,599	4,905,393
	<u>165,803,272</u>	<u>77,485,260</u>	<u>88,318,012</u>
	2016		
	Cost \$	Accumulated amortization \$	Net \$
Land	1,092,145	-	1,092,145
Land improvements	791,556	240,563	550,993
Buildings and building service equipment	126,953,909	51,313,367	75,640,542
Major equipment	27,451,953	17,879,576	9,572,377
Building renovations in progress	702,625	-	702,625
Equipment under capital leases	11,110,242	4,540,614	6,569,628
	<u>168,102,430</u>	<u>73,974,120</u>	<u>94,128,310</u>

During the year, the System wrote off assets in the amount of \$5,187,345 (2016 - \$8,965,019), of which \$5,187,345 (2016 - \$8,902,410) was amortized.

6 Bank indebtedness

The System has an available \$6,000,000 unsecured credit facility with the Bank of Nova Scotia, due on demand, bearing interest at the prime rate minus 0.5%. As at March 31, 2017 and 2016, no amount has been drawn against this facility.

The bank indebtedness as at March 31, 2017 consists of a book overdraft.

7 Obligations under capital leases

The System has a non-revolving bank loan in the amount of \$9,000,000 with the Bank of Nova Scotia, available for leases, repayable in 60 equal monthly instalments, bearing interest at negotiated rates ranging from the prime rate plus 0.5% and fixed rates of 2.7% to 3.55%. Leases are secured by the underlying equipment financed.

Brant Community Healthcare System

Notes to Financial Statements

March 31, 2017

The System has financed medical and information technology equipment by entering into capital leasing arrangements. The following is a schedule of the future minimum lease payments on the capital leases:

	\$
2018	1,500,399
2019	1,179,030
2020	1,234,288
2021	335,910
2022	-
	<hr/>
	4,249,627
Less	
Amount representing interest at 3.39%	35,721
Amount representing interest at 3.55%	3,251
Amount representing interest at 3.20%	2,811
Amount representing interest at 2.91%	331
Amount representing interest at 3.14%	30,989
Amount representing interest at 2.70%	12,697
Amount representing interest at 2.80%	30,247
Amount representing interest at 2.85%	12,335
Amount representing interest at 3.12%	68,526
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	196,908
Less: Current portion	<hr/>
	1,399,082
	<hr/>
	2,653,637

8 Pension plan and employee future benefits

Multi-employer plan

Contributions made during the year to HOOPP by the System amounted to \$6,881,484 (2016 - \$6,682,353). These amounts are included in employee benefits expense in the statement of operations.

Employee future benefits

Employees of the System are entitled to certain post-employment benefits such as medical, dental and life insurance coverage for certain employee groups who have retired from the System and are between the ages of 55 and 65.

Information about the System's post-employment benefits is calculated based on the latest actuarial valuation performed on March 31, 2016.

The following is a reconciliation of the funded status of the benefits plan to the amount recorded in the financial statements:

Brant Community Healthcare System

Notes to Financial Statements

March 31, 2017

	2017 \$	2016 \$
Accrued benefit obligation	5,097,200	5,189,000
Unamortized net actuarial loss	(624,800)	(740,600)
	<u>4,472,400</u>	<u>4,448,400</u>

The movement in the post-employment liability and components of post-employment benefits expense during the year is as follows:

	2017 \$	2016 \$
Employee future benefits liability, as at April 1	4,448,400	3,134,200
Current service cost	201,800	203,800
Remeasurement of liability related to prior year	-	1,194,000
Prior service cost	-	138,600
Recognition of unamortized net actuarial gains	-	(67,300)
Interest cost	168,200	162,000
Amortization of actuarial losses	86,600	98,400
	<u>456,600</u>	<u>1,729,500</u>
Pension and post-employment benefits expense	(432,600)	(415,300)
Benefits paid	<u>24,000</u>	<u>1,314,200</u>
	<u>4,472,400</u>	<u>4,448,400</u>
Employee future benefits liability, as at March 31		

The significant assumptions adopted in estimating the System's accrued benefit obligation for employee future benefits are as follows:

	2017	2016
Discount rate	3.25%	3.25%
Dental trend rates	3.00%	3.00%
Expected average remaining service life (years)	14	14
Extended health-care trend rates	6.00% decreasing by 0.25% per annum to 4.50%	6.25% decreasing by 0.25% per annum to 4.50%

9 Deferred contributions

	2017 \$	2016 \$
Contributions held for future expenditures	1,052,252	967,804
Property and equipment	65,627,944	67,621,227
	<u>66,680,196</u>	<u>68,589,031</u>

Brant Community Healthcare System

Notes to Financial Statements

March 31, 2017

Deferred contributions relating to future expenditures represent unspent externally restricted grants and donations for property and equipment purposes.

	2017 \$	2016 \$
Balance - Beginning of year	967,804	9,050,592
Contributions relating to property and equipment	703,487	884,997
Property and equipment expenditures	(619,039)	(8,967,785)
Balance - End of year	<u>1,052,252</u>	<u>967,804</u>

Deferred capital contributions relating to property and equipment represent the unamortized amount of donations and grants received and spent on the purchase of property and equipment. The amortization of deferred contributions is recorded as revenue in the statement of operations.

	2017 \$	2016 \$
Balance - Beginning of year	67,621,227	60,502,203
Funding for property and equipment	619,039	8,967,785
Net increase in contributions	1,790,142	2,798,379
Amounts amortized to revenue	(4,402,464)	(4,647,140)
Balance - End of year	<u>65,627,944</u>	<u>67,621,227</u>

10 Contingencies and commitments

The System has been named as a defendant in various lawsuits. Based on the opinion of legal counsel as to a realistic estimate of the merits of these actions and the System's potential liability, management believes that any liability resulting from these actions would be adequately covered by liability insurance.

In March 2017, the System entered into an agreement with an energy savings company to increase energy efficiency, including infrastructure renewal at The Brantford site, with a guaranteed minimum level of energy savings of \$11,432,974. Under this agreement, the System has committed \$13,080,000 to be financed, through a tri-party agreement, over a 22-year term.

11 Changes in non-cash working capital items relating to operations

	2017 \$	2016 \$
Accounts receivable	1,716,609	(1,495,225)
Inventories	156,647	55,176
Due from the Foundation	340,921	(86,627)
Other assets	25,201	6,075
Accounts payable and accrued liabilities	(6,548,350)	(686,467)
Deferred revenue	(391,465)	60,213
	<u>(4,700,437)</u>	<u>(2,146,855)</u>

Brant Community Healthcare System

Notes to Financial Statements

March 31, 2017

12 Risks arising from financial instruments and risk management

The System is exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. The System has adopted an integrated risk management framework. The framework provides a consistent methodology to manage risks across the System.

Market risk

The System is exposed to market risk through interest rate risk with regard to its bank loans payable, which are regularly monitored. As at March 31, 2017, the System's estimate of the exposure to interest rate risk and the effect on net assets is not material.

Credit risk

The majority of the System's accounts receivable are due from the MOHLTC or other government agencies. As at March 31, 2017, the System's exposure to credit risk in the event of non-payment by patients for non-insured services and for services provided to non-resident patients is not material.

Liquidity risk

Liquidity risk results from the System's potential inability to meet its obligations associated with the financial liabilities as they come due. The System manages its liquidity risk by forecasting cash flows from operations and anticipating investing and financing activities and maintaining credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements. At certain times of the year, the System is dependent on the continued availability of its credit facilities.

The table below is a maturity analysis of the System's financial liabilities as at March 31, 2017:

	Up to six months \$	More than six months up to one year \$	More than one year up to five years \$	More than five years \$	Total \$
Accounts payable and accrued liabilities	15,551,249	-	-	-	15,551,249
Capital lease obligations	784,681	614,401	2,653,637	-	4,052,719
Bank indebtedness	4,066,979	-	-	-	4,066,979
	<u>20,402,909</u>	<u>614,401</u>	<u>2,653,637</u>	<u>-</u>	<u>23,670,947</u>

Brant Community Healthcare System

Notes to Financial Statements

March 31, 2017

13 Funding revenue

	2017 \$	2016 \$
Local Health Integration Network - Hospital Sector	122,876,787	121,648,912
Local Health Integration Network - Multi Sector	2,254,607	2,206,387
Ministry of Health and Long-Term Care	3,553,326	3,682,460
Cancer Care Ontario	5,385,867	5,607,872
	<u>134,070,587</u>	<u>133,145,631</u>