

Financial statements of

Grand River Hospital Corporation

Year ended March 31, 2020
(Expressed in Thousands of Dollars)

Grand River Hospital Corporation

Financial statements
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Grand River Hospital Corporation

Opinion

We have audited the financial statements of Grand River Hospital Corporation ("the Hospital"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of remeasurement gains and losses for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our report.

We are independent of the Hospital in accordance with the applicable independence standards, and we have fulfilled our other ethical responsibilities in accordance with these standards.

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



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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Hospital's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Hospital or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Hospital's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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- Obtain an understanding of internal control relevant to the audit 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 Hospital's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Hospital to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

July 23, 2020

Grand River Hospital Corporation

Statement of Financial Position
(Expressed in Thousands of Dollars)

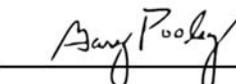
As at March 31, 2020, with comparative information for 2019

	Notes	2020	2019
Assets			
Current Assets			
Cash		\$ 15,184	\$ -
Accounts receivable	2	33,064	26,161
Inventories		6,524	4,287
Prepaid expenses		8,121	6,775
Total Current Assets		62,893	37,223
Long-Term Assets			
Capital assets	3	207,928	203,174
Accrued pension benefit assets	4	44,180	41,827
Total Long-Term Assets		252,108	245,001
Total Assets		\$ 315,001	\$ 282,224
Liabilities and Net Assets			
Current liabilities			
Operating line	5	\$ -	\$ 7,687
Accounts payable and accrued liabilities		58,018	41,356
Accrued salary, wages and benefit liabilities		21,829	20,817
Deferred contributions	6	2,926	3,284
Total Current Liabilities		82,773	73,144
Long-Term Liabilities			
Accrued other benefits obligation	4	13,464	13,342
Deferred capital contributions	6	138,300	150,935
Long-term debt	7	35,657	-
Fair value of interest-rate swap	7	6,504	2,170
Total Long-Term Liabilities		193,925	166,447
Total Liabilities		276,698	239,591
Net Assets			
Internally restricted - capital assets	8	28,583	46,638
Unrestricted surplus/(deficit)		16,224	(1,835)
Accumulated remeasurement losses		(6,504)	(2,170)
Total Net Assets		38,303	42,633
Commitments and contingencies	4 and 10		
Subsequent event	14		
Total Liabilities and Net Assets		\$ 315,001	\$ 282,224

See the accompanying notes to the financial statements.

On behalf of the Board:

 Director

 Director

Grand River Hospital Corporation

Statement of Operations
(Expressed in Thousands of Dollars)

Year ended March 31, 2020, with comparative information for 2019

	Notes	2020	2019
Revenue			
Ontario Ministry of Health ("MOH") Operating		\$ 334,659	\$ 321,538
Billable patient services		30,555	28,170
Recoveries from external sources		36,857	28,021
Other		7,500	6,145
Amortization of deferred capital contributions related to equipment	6	7,048	7,705
Total revenue		416,619	391,579
Expenses			
Salaries, wages, benefits and purchased services	9	249,524	244,387
Medical staff remuneration		27,772	27,286
Non-salary		125,104	110,409
Amortization of equipment		11,821	10,593
Total expenses		414,221	392,675
Excess (deficiency) of revenue over expenses for MOH purposes			
		2,398	(1,096)
Amortization of buildings and building improvements		(10,447)	(11,981)
Amortization of deferred capital contributions related to buildings and building improvements	6	8,053	8,823
Excess (deficiency) of revenue over expenses			
		\$ 4	\$ (4,254)

See the accompanying notes to the financial statements.

Grand River Hospital Corporation

Statement of Changes in Net Assets
(Expressed in Thousands of Dollars)

Year ended March 31, 2020, with comparative information for 2019

	Internally restricted - capital assets	Unrestricted	Total 2020	Total 2019
Balance, beginning of year	\$ 46,638	\$ (1,835)	\$ 44,803	\$ 49,057
Excess (deficiency) of revenue over expenses	(7,167)	7,171	4	(4,254)
Purchase of capital assets	27,235	(27,235)	-	-
Contributions received for capital purposes (note 6)	(2,466)	2,466	-	-
Long-term debt funding capital assets (note 7)	(35,657)	35,657	-	-
Balance, end of year	\$ 28,583	\$ 16,224	\$ 44,807	\$ 44,803

See the accompanying notes to the financial statements.

Grand River Hospital Corporation

Statement of Remeasurement Gains and Losses
(Expressed in Thousands of Dollars)

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Accumulated remeasurement losses, beginning of year	\$ (2,170)	\$ -
Unrealized losses attributable to derivative (interest rate swap)	(4,334)	(2,170)
Accumulated remeasurement losses, end of year	\$ (6,504)	\$ (2,170)

See the accompanying notes to the financial statements.

Grand River Hospital Corporation

Statement of Cash Flows
(Expressed in Thousands of Dollars)

Year ended March 31, 2020, with comparative information for 2019

	Notes	2020	2019
Cash provided by (used in)			
Operations			
Excess (deficiency) of revenue over expenses	\$	4	\$ (4,254)
Employer cash contributions to the KWH pension plan	4(c)	(8,703)	(7,185)
Employer cash contributions to other defined benefit plans	4(c)	(284)	(259)
Items not involving cash			
Amortization of equipment		11,821	10,593
Amortization of buildings and building improvements		10,447	11,981
Amortization of deferred contributions related to equipment		(7,048)	(7,705)
Amortization of deferred contributions related to building and building improvements		(8,053)	(8,823)
Defined benefit expense	4(c)	6,756	6,372
Change in non-cash operating working capital	11	3,680	6,374
Cash provided by operating activities		8,620	7,094
Investing Activities			
Purchase and construction of capital assets, net of disposals		(27,235)	(30,587)
Cash used in investing activities		(27,235)	(30,587)
Financing Activities			
Contributions received for capital purposes		5,829	11,917
Advance of long-term debt, including accrued interest		35,657	-
Repayment of operating line		(7,687)	7,687
Cash provided by financing activities		33,799	19,604
Increase (decrease) in cash		15,184	(3,889)
Cash, beginning of year		-	3,889
Cash, end of year	\$	15,184	\$ -

See the accompanying notes to the financial statements.

Grand River Hospital Corporation

Notes to Financial Statements
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

Grand River Hospital Corporation (the "Hospital") is a regional provider of community hospital services. The Hospital provides its services primarily through the Kitchener-Waterloo campus and the Freeport campus. The Hospital is assigned to the Waterloo Wellington Local Health Integration Network. The Hospital is incorporated under the Corporations Act (Ontario) without share capital and is a registered charity under the Income Tax Act (Canada) and is exempt from income taxes.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with the Chartered Professional Accountants of Canada Handbook - Public Sector Accounting Standards (the "standards") including the 4200 standards for government not-for-profit organizations.

(a) Basis of presentation:

These financial statements present only the accounts of the Hospital as a separately managed entity. They do not include the accounts of the following related, but separate entities:

Grand River Hospital Volunteer Association

Grand River Hospital Foundation

The financial information of these entities is reported separately from the Hospital.

(b) Basis of funding:

The Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by both the Ministry of Health (the "MOH") and the Waterloo Wellington Local Health Integration Network ("LHIN"). The Hospital 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 Hospital. Any excess of revenue over expenses with respect to base funding during a fiscal year is not required to be returned. However, if the Hospital does not meet its performance standards or obligations under the H-SAA, the LHIN has the right to adjust funding received by the Hospital. The Hospital accrues for known amounts to be recovered.

Grand River Hospital Corporation

Notes to Financial Statements
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(c) Revenue recognition:

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

Under the Health Insurance Act and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by MOH. 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.

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

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

Revenue from the MOH, preferred accommodation, as well as income from parking and other ancillary operations, are recognized when the goods are sold or the service is provided.

(d) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years. The infectious coronavirus ("COVID-19") pandemic has added to the Hospital's measurement uncertainty primarily due to a reduction in available information with which to make significant assumptions related to critical estimates as compared to those estimates reported at March 31, 2019. Significant items subject to such estimates and assumptions include the carrying amount of accrued pension benefit, capital assets, accounts payable and accrued liabilities, accrued other benefit obligation, interest rate swap, and valuation allowances for receivables.

Pension and other employee future benefits liabilities, are subject to measurement uncertainty because actual results may differ significantly from the Hospital's best long-term estimate of expected results – for example, the difference between actual results and actuarial assumptions regarding return on investment of pension fund assets and health care cost trend rates for retiree benefits may be significant.

Actual results could differ from those estimates.

Grand River Hospital Corporation

Notes to Financial Statements (cont'd)
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(e) Inventories:

Inventories are valued at lower of cost and net realizable value.

Provision has been made for any obsolete or unusable inventory on hand.

(f) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization is not taken on assets under construction until they are placed in use.

The Hospital records amortization of its capital assets on a straight-line basis over the estimated useful lives of the assets at the following annual rates:

Buildings and building improvements	2% to 20%
Furniture and equipment	5% to 20%
PRISM Hospital information system	15 years

(g) Contributed services:

Volunteers contribute numerous hours to assist the Hospital in carrying out certain charitable aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and is not reflected in these financial statements.

Grand River Hospital Corporation

Notes to Financial Statements
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

1. Significant accounting policies (continued):

h) Employee benefits plans:

The Hospital accrues its obligations under employee benefit plans as the employees render the services necessary to earn the pension and post-retirement benefits. The Hospital has the following accounting policies:

(i) Defined benefit plans:

The Hospital has defined benefit pension plans covering substantially all employees and a supplemental pension plan for a specific group of employees. The benefits are based on years of service and the employee's final average earnings. The cost of this program is being funded currently.

The Hospital provides a defined benefit plan covering health and dental care benefits upon early retirement. Early retirees, who are in receipt of pension benefits, may also elect to receive health and dental benefits under the plan until the age of 65. The cost of health and dental benefits related to employees' current service is charged to income annually.

The cost of pensions and post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, expected health and dental costs and retirement ages of employees.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees.

The average remaining service period of the active employees covered by the pension plan is 12 years (2019 - 12 years). The average remaining service period of the active employees covered by the other retirement benefits plan is 12.7 years (2019 - 12.7 years).

Past service costs from plan amendments or plan initiations are recognized immediately in the period the plan amendments occur.

(ii) Multi-employer plan:

Defined contribution plan accounting (where contributions are expensed as incurred) is applied to the multi-employer defined benefit Healthcare of Ontario Pension Plan ("HOOPP") for which the Hospital does not have the necessary information to apply defined benefit plan accounting.

Grand River Hospital Corporation

Notes to Financial Statements
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(i) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

The related interest rate swaps are recorded at fair value. The fair value of the interest rate swap is has been determined using Level 3 of the fair value hierarchy. The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Long-term debt is recorded at cost.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 - Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Grand River Hospital Corporation

Notes to Financial Statements (cont'd)
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

2. Accounts receivable:

	Operating		Capital		2020	2019
MOH	\$	1,235	\$	2,981	\$ 4,216	\$ 8,132
Cancer Care Ontario		3,852		1,206	5,058	3,143
Grand River Hospital Foundation		2,207		2,735	4,942	4,455
Patient		8,739		-	8,739	6,721
Other		11,559		258	11,817	4,879
		27,592		7,180	34,772	27,330
Less allowance for doubtful accounts		1,708		-	1,708	1,169
Total accounts receivable	\$	25,884	\$	7,180	\$ 33,064	\$ 26,161

3. Capital assets:

	Cost		Accumulated Amortization		2020 Net book Value	2019 Net book value
Land	\$	809	\$	-	\$ 809	\$ 809
Buildings and related service equipment and improvements		304,435		198,039	106,396	113,727
Furniture and equipment		146,724		108,404	38,320	38,660
PRISM Hospital information software		53,010		1,671	51,339	-
Assets under construction		11,064		-	11,064	49,978
Total capital assets	\$	516,042	\$	308,114	\$ 207,928	\$ 203,174

Certain land and buildings designated for Hospital purposes are leased to the Hospital, at a nominal charge, by The Corporation of The City of Kitchener and The Corporation of The City of Waterloo.

During the year, the Hospital capitalized interest of \$288 (2019 - \$nil) related to the long-term debt secured for the PRISM Hospital information software.

Grand River Hospital Corporation

Notes to Financial Statements (cont'd)
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

4. Pension and other defined benefit plans:

Substantially all of the employees of the Kitchener-Waterloo site are members of the KWH pension plan, a defined benefit registered pension plan, and a small group also participate in an unfunded supplemental pension plan, both of which are final average earnings programs. The Hospital measures its accrued benefit obligations for the KWH pension plan for accounting purposes based on the most recent actuarial valuation as at November 1, 2018, with a measurement date of December 31, 2019, together with a projection of these results to March 31, 2020. The Hospital measures its accrued benefit obligations for the other benefit plans for accounting purposes based on the most recent actuarial valuation as at April 1, 2017, with a measurement date of December 31, 2019, together with a projection of these results to March 31, 2020.

Substantially all of the employees of the Freeport site are eligible to be members of HOOPP, which is a multi-employer, defined benefit, final pay, contributory plan. As HOOPP's assets and liabilities are not segmented by participating employer, the Hospital accounts for its HOOPP obligation on a cash basis (as a defined contribution plan). The most recent actuarial valuation of the plan at December 31, 2019 indicated that the plan is fully funded.

(a) The significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligation and benefit costs are as follows:

	2020	2019
Accrued benefit obligation at end of year:		
Rate of compensation increase	2.50%	3.00%
Discount rate (pension benefits)	5.75%	6.00%
Discount rate (other benefits)	2.94%	3.61%
Benefit costs for fiscal year:		
Expected long-term rate of return on plan assets	5.75%	6.00%
Discount rate (pension benefits)	6.00%	6.25%
Discount rate (other benefits)	3.61%	3.43%
Healthcare costs (other benefits)	5.00%	5.00%
Dental costs (other benefits)	4.50%	4.50%
Rate of compensation increase	2.50%	3.00%

Grand River Hospital Corporation

Notes to Financial Statements (cont'd)
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

4. Pension and other defined benefit plans (continued):

(b) The KWH pension plan consists of the following assets:

	2020	2019
Cash and short-term investments	1%	100%
Pooled bonds	36%	-%
Pooled equities	63%	-%
	100%	100%

(c) The information, relating to the Hospital's defined benefit plans:

	2020		2019	
	Pension plan	Pension plan	Other benefit Plans	Other benefit plans
Current service costs, net of employees' contributions	\$ 10,258	\$ 9,485	\$ 554	\$ 541
Interest cost	29,687	28,810	293	273
Less – expected return on plan assets	(32,825)	(32,633)	-	-
Amortization of net actuarial (gain) loss	(770)	341	(441)	(445)
Benefit plan expense	6,350	6,003	406	369
Cash paid for employer contributions	(8,703)	(7,185)	(284)	(259)
	\$ (2,353)	\$ (1,182)	\$ 122	\$ 110

Grand River Hospital Corporation

Notes to Financial Statements
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

4. Pension and other defined benefit plans (continued):

(c) The information, relating to the Hospital's defined benefit plans (continued):

	2020		2019	
	Pension plan	Pension plan	Other benefit Plans	Other benefit plans
Accrued benefit obligation, beginning of year	\$ (496,496)	\$ (463,216)	\$ (7,822)	\$ (7,658)
Current service costs, inclusive of employee contributions	(17,328)	(16,486)	(554)	(541)
Interest cost	(29,687)	(28,810)	(293)	(273)
Less – benefits paid	25,013	21,870	278	255
Actuarial gain (loss)	(16,836)	(9,854)	(341)	395
Accrued benefit obligation, balance, end of year	\$ (535,334)	\$ (496,496)	\$ (8,732)	\$ (7,822)
Plan assets fair value, beginning of year	548,844	523,948	-	-
Expected return on plan assets	32,825	32,633	-	-
Employer contributions (included in salaries, wages and benefits)	8,177	9,246	278	255
Employee contributions	7,770	7,701	-	-
Less benefits paid	(25,013)	(21,870)	(278)	(255)
Actual plan expenses	(1,696)	(3,120)	-	-
Experience gain (loss)	(4,423)	306	-	-
Plan assets fair value, end of year	\$ 566,484	\$ 548,844	\$ -	\$ -
Funded status plan surplus (deficit)	\$ 31,150	\$ 52,348	\$ (8,732)	\$ (7,822)
Unamortized net actuarial gain	10,661	(12,364)	(4,803)	(5,585)
Employer contributions after measurement date	2,369	1,843	71	65
Accrued defined benefit plan assets (obligation)	\$ 44,180	\$ 41,827	\$ (13,464)	\$ (13,342)

Grand River Hospital Corporation

Notes to Financial Statements
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

4. Pension and other defined benefit plans (continued):

In 2018, the Hospital and HOOPP agreed, in principle, to move forward with a possible merger of the KWH pension plan into HOOPP under a Merger Agreement. The Merger Agreement subsequently was terminated on May 10, 2019. As part of the Merger Agreement, the parties agreed to lock-in the price to transfer as at May 10, 2018. As of that date, HOOPP controlled the investment of the assets and the Hospital was required to maintain its fund in 100% cash and cash equivalents. As a result a Term Sheet was entered into by the Hospital, HOOPP and Northern Trust Company, Canada (Trustee of the KWH pension plan). The Term Sheet states if the proposed merger of the KWH pension plan into HOOPP does not proceed the total return on each of the KWH pension plan's portfolio and the HOOPP portfolio earned during the Return Exchange Period (May 10, 2018 to the date the Merger Agreement was terminated) will be calculated. The total return will be calculated by HOOPP and expressed as a percentage ("Total Return Percentage").

If the Total Return Percentage of the HOOPP portfolio exceeds the Total Return Percentage of the KWH pension plan's portfolio, then HOOPP shall make a payment to the KWH pension plan equal to the difference between the Total Return Percentages of the two plans multiplied by the value of the KWH pension plan's portfolio as at May 10, 2018 ("Reference Price"). If the Total Return Percentage of the KWH pension plan's portfolio exceeds the Total Return Percentage of the HOOPP portfolio, the KWH pension plan shall make a payment to HOOPP equal to difference between the Total Return Percentage of the two plans multiplied by the Reference Price. This exchange of returns effectively means the KWH pension plan's assets are invested in HOOPP's portfolio beginning on May 10, 2018.

As a result of not proceeding with the merger, the exchange of returns outlined in the Term Sheet applies. The Hospital is continuing to pursue remedies offered under the provisions of the Term Sheet. Any proceeds from the Term Sheet have not been accounted for in these financial statements and will be recorded when the proceeds are remitted to the KWH Plan.

(d) Multi-employer defined benefit plan expense:

	2020	2019
Cash paid for contributions to HOOPP	\$ 6,967	\$ 6,926

5. Operating line:

The Hospital has an operating line available to a maximum of \$25,000 at bank's prime rate minus 0.85% and is unsecured. At year end \$nil (2019 - \$7,687) was drawn on the operating line.

Grand River Hospital Corporation

Notes to Financial Statements (cont'd)
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

6. Deferred contributions:

Deferred contributions include unspent restricted grants for education and research of \$1,838 (2019 - \$1,621) and unspent restricted grants for the Grand River Regional Cancer Centre in the amount of \$931 (2019 - \$1,533). The changes in the deferred contributions balance are as follows:

		2020		2019
Balance, beginning of year	\$	3,284	\$	3,578
Contributions received during the year		499		309
Less amounts recognized as revenue during the year		(857)		(603)
Balance, end of year	\$	2,926	\$	3,284

The changes for the year in the deferred capital contributions balance are as follows:

	Note	2020		2019
Balance, beginning of year	\$	150,935	\$	155,768
Contributions from:				
Grand River Hospital Foundation	13	3,222		7,118
Ontario Ministry of Health		1,259		4,015
Cancer Care Ontario		1,575		979
Other capital contributions (transfers to recoveries from external sources in the statement of operations)		(3,590)		(417)
		2,466		11,695
Less:				
Amortization of deferred capital contributions related to equipment		(7,048)		(7,705)
Amortization of deferred capital contributions related to buildings and building improvements		(8,053)		(8,823)
Balance, end of year	\$	138,300	\$	150,935

Grand River Hospital Corporation

Notes to Financial Statements (cont'd)
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

7. Long-term debt:

	2020	2019
Bankers' acceptance, unsecured, interest only payments commencing May 1, 2021 through to May 1, 2024 with quarterly blended payments of principal and interest of \$749 thereafter, and the final payment due May 1, 2039. Interest has been fixed at 3.43% (including stamping fee of 0.56%) using an interest rate swap. The balance includes accrued interest of \$657.	\$ 35,657	-

Future principal payments and accrued interest required for long-term debt are as follows:

2021-2024	\$ 657
2025	1,357
2026	1,865
2027	1,929
2028	1,996
Thereafter	27,853
	<u>\$ 35,657</u>

The Hospital has entered into an interest rate swap agreement to manage the volatility of interest rates. The maturity date of the interest rate swap is the same as the maturity date of the associated long-term debt.

Interest of \$369 relating to long-term has been included in non-payroll expenses on the statement of operations and interest of \$288 is included in capital assets.

The fair value of the interest rate swap at March 31, 2020 is in a net unfavorable position of \$6,504 (2019 - unfavourable \$2,170) which is recorded on the statement of financial position. The current year impact of the change in fair value of the interest rate swap is an increase in the accumulated measurement losses of \$4,334.

The fair value of the interest rate swap is has been determined using Level 3 of the fair value hierarchy. The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Grand River Hospital Corporation

Notes to Financial Statements (cont'd)
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

8. Internally restricted - capital assets:

Net assets invested in capital assets are calculated as follows:

	2020	2019
Capital assets	\$ 207,928	\$ 203,174
Amounts financed by:		
Deferred capital contributions	(138,300)	(150,935)
Accounts payable and accrued liabilities		
Long-term debt	(5,388)	(5,601)
	(35,657)	-
Total internally restricted – capital assets	\$ 28,583	\$ 46,638

The Board of Directors has internally restricted \$28,583 of net assets to fund capital assets (2019 - \$46,638).

9. Salaries, wages and benefits:

The Hospital is working with Ontario Health and the MOH on the development and implementation of a Hospital Improvement Plan (“HIP”). Over the next two years’ the HIP will require restructuring of the Hospital’s operations. Costs associated with the restructuring or HIP include a severance provision of \$883 (2019 - \$1,566) which is recorded in salaries, wages and benefits. Future years restructuring costs for consulting, training, arbitration and severance have not been determined.

10. Commitments and contingencies:

(a) Service commitments:

Specific medical equipment and other support services are outsourced under agreements that expire in future years. An outsourcing agreement is in place for ongoing supply chain services covering contract management, and procurement of medical, surgical and other supplies. The payments that cover the operating components under the terms of these agreements are as follows:

2021	\$ 14,309
2022	12,282
2023	8,606
2024	7,797
2025	7,449
Total	\$ 50,443

Grand River Hospital Corporation

Notes to Financial Statements
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Year ended March 31, 2020

10. Commitments and contingencies (continued):

(b) Contingencies:

The nature of the Hospital's activities is such that there may be litigation pending or in process at any time. With respect to claims at March 31, 2020, management believes that the Hospital has valid defenses and appropriate insurance coverage in place. In the event claims are successful, management believes that such claims are not expected to have a material effect on the Hospital's financial position.

On July 1, 1987, a group of health care organizations ("subscribers"), which the Hospital was party of, formed Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces and territories where it is licensed. Subscribers pay annual premiums which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No assessments have been made to March 31, 2020.

(c) Lease commitments:

In September 2018, the Hospital signed a lease to rent space in a separate building for the employees displaced from the planned development of the parking facilities. This lease has a 10 year term and includes annual lease commitments for the next five years as follows:

2021	\$	615
2022		623
2023		631
2024		640
2025		648
Total	\$	3,157

Grand River Hospital Corporation

Notes to Financial Statements
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Year ended March 31, 2020

11. Net change in non-cash operating working capital balances:

	2020	2019
Accounts receivable not applicable to capital assets	\$ (10,266)	\$ (773)
Inventories	(2,237)	(49)
Prepaid expenses	(1,346)	(1,982)
Accounts payable and accrued liabilities not applicable to capital assets	16,875	7,024
Accrued salary, wages and benefit liabilities	1,012	2,448
Deferred contributions not applicable to capital assets	(358)	(294)
Total change in non-cash operating working capital	\$ 3,680	\$ 6,374

12. Financial risks:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to the accounts receivable and cash.

Accounts receivable is subject to measurement uncertainty due to the Hospital's exposure to credit risk of individual patients. Due to the COVID-19 pandemic, additional measurement uncertainty exists around the collectability of patient receivables. The uncertainty is caused by collection delays and the increase in the rate of doubtful accounts from patient account receivable is due to the economic slowdown in Ontario brought on by emergency measures to combat the spread of COVID-19.

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2020 is the carrying value of these assets.

As at March 31, 2020, \$1,102 (2019 - \$1,043) of patient accounts receivable were past due.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the income statement. Subsequent recoveries of impairment losses related to accounts receivable are credited to the statement of operations. The balance of the allowance for doubtful accounts at March 31, 2020 is \$1,708 (2019 - \$1,169).

Grand River Hospital Corporation

Notes to Financial Statements
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

12. Financial risks (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Hospital manages its liquidity risk by monitoring its operating requirements and having financing available. The Hospital prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 60 days of receipt of an invoice.

The contractual maturities of long-term debt and interest rate swaps are disclosed in note 7.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Hospital to cash flow interest rate risk. The Hospital is exposed to this risk through its interest bearing long-term debt, interest rate swap and the valuation of pension and other defined benefit plans.

The Hospital mitigates interest rate risk on its future financing through a derivative financial instrument (interest rate swaps) that exchanges the variable rate inherent in the debt for a fixed rate (see note 7). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the debt.

13. Related party transactions:

(a) Grand River Hospital Foundation:

The Grand River Hospital Foundation (the "Foundation") is an independent organization which raises funds to finance the purchase of capital assets, as well as research and education, as directed by the Foundation's donors, for the Hospital. Although the Foundation is a separate entity and disburses funds at the discretion of its own Board of Governors, one of the Foundation Board members is a member of the Hospital. The accounts of the Foundation are not included in these financial statements.

During the year, the Foundation donated \$3,222 (2019 - \$7,118) to the Hospital to fund capital projects which is recognized in deferred capital contributions. The Foundation has funded programs and COVID-19 expenses of \$1,899 (2019 - \$492) which is included in recoveries from external sources on the statement of operations. At March 31, 2020, there is \$4,942 (2019 - \$4,455) due from the Foundation to the Hospital. At March 31, 2020, the Foundation had net assets of \$17,666 (2019 - \$16,833).

Grand River Hospital Corporation

Notes to Financial Statements (cont'd)
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

13. Related party transactions (continued):

(b) Grand River Hospital Volunteer Association:

The Grand River Hospital Volunteer Association (the "Volunteer Association") is an independent organization, which raises funds and contributes these funds to the Foundation, which in turn contributes the funds to the Hospital for the purpose mentioned above. The accounts of the Volunteer Association are not included in these financial statements.

(c) Grand River Regional Cancer Centre:

The Hospital operates an Integrated Cancer Program ("ICP") with Cancer Care Ontario ("CCO"). Under the ICP, CCO as paymaster for the MOH, provided operating funding of \$39,557 restricted for cancer services, to cover the Hospital for ambulatory, hotel and corporate costs for the year ended March 31, 2020 (2019 - \$34,024). MOH funding for inpatient oncology services remains as part of the Hospital's global funding.

14. Subsequent event:

On March 11, 2020, the World Health Organization declared the Coronavirus COVID-19 (COVID-19) outbreak a pandemic. This has resulted in significant financial, market and societal impacts in Canada and around the world.

From the declaration of the pandemic to the date of approval of these financial statements, the Hospital implemented the following actions in relation to the COVID-19 pandemic:

- The closure of certain facilities to the general public, with temporary facilities opened to deal with screening and testing activities;
- Revisions to the delivery of a number of services in order to create capacity for pandemic response and limit the potential for transmission within the Hospital, including the cancellation of elective surgeries and the transfer of alternative level of care patients to other facilities; and
- The implementation of working from home requirements for certain Hospital employees.

As a result of these actions, the Hospital experienced decreases in operating revenues and increases in operating costs.

a) Current year transactions:

For the year ended March 31, 2020, the MOH has allowed Ontario Hospitals to redirect unused amounts from certain funded programs towards COVID-19 related expenses. In the year, the Hospital incurred staffing and supply costs related to those unused amounts and redirected those costs towards our COVID-19 response. The Hospital is currently in discussions with the MOH on COVID-19 eligible costs and cannot reasonably estimate which portion of its COVID-19 related costs that it will receive additional COVID-19 funding for. Therefore, for additional COVID-19 related expenses incurred of \$1,353, the Hospital has recognized \$1,353 in revenue from the Foundation COVID-19 donation. These amounts have been recorded in revenue and expenses in the statement of operations.

Grand River Hospital Corporation

Notes to Financial Statements (cont'd)
(Expressed in Thousands of Dollars)

Year ended March 31, 2020

14. Subsequent event (continued):

b) Subsequent events related to COVID-19:

As a result of these measures, the Hospital continues to experience decreases in operating revenues and increases in operating costs in the subsequent period. The Ministry has allowed the Hospital to redirect revenue from certain funded programs towards COVID-related costs incurred during the year ended March 31, 2020, and has also committed to providing additional funding for COVID-related operating and capital costs in the subsequent period.

The ultimate duration and magnitude of the COVID-19 pandemic's impact on the Hospital's operations and financial position is not known at this time. At this time these factors present uncertainty over future cash flows, may cause changes to the assets or liabilities and may have an impact on future operations. An estimate of the financial effect is not practicable at this time.

c) Impact of COVID-19 on financial risks:

The COVID-19 pandemic has impacted the financial risks of the Hospital as follows:

i) Credit risk:

Credit risk has increased due to the greater uncertainty surrounding the collectability of accounts receivable from non-Canadian government entities, including individuals, businesses and foreign entities because of the economic slowdown and changes in operations caused by COVID-19. The Hospital is mitigating this risk by closely monitoring these receivables and by entering transactions with credit-worthy counterparties. The Hospital has updated its allowance for doubtful accounts to include considerations related to COVID-19.

ii) Liquidity risk:

The ability of the Hospital to meet their cash flow requirements in the short term has been impacted by several factors including delays in cash collections on receivables, and the loss of revenue associated with elective surgeries, parking revenue and other forms of patient revenue. The Hospital is continuously monitoring their cash flow in order to maintain its liquidity moving forward.

iii) Market risk:

Market risk has increased due to significant volatility in financial markets.

The Hospital's interest rate risk on its debt and SWAP instrument has increased due to significant and sudden decreases in interest rates, resulting in a significant decrease in the fair value of the interest rate SWAP derivative. The Hospital has no plans to exit the SWAP agreement prior to the end of the term.