Financial statements of

Grand River Hospital Corporation

And Independent Auditors' Report thereon

Year ended March 31, 2019
(Expressed in Thousands of Dollars)

Grand River Hospital Corporation

Financial statements
(Expressed in Thousands of Dollars)

Year ended March 31, 2019

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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, 2019
- 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, 2019, 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.

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.

- 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
May 28, 2019

Grand River Hospital Corporation

Statement of Financial Position
(Expressed in Thousands of Dollars)

As at March 31, 2019, with comparative information for 2018

	Notes	2019	2018
Assets			
Current Assets			
Cash		$ -	$ 3,889
Accounts receivable	**2**	26,161	25,610
Inventories		4,287	4,238
Prepaid expenses		6,775	4,793
Total Current Assets		**37,223**	**38,530**
Long-Term Assets			
Capital assets	**3**	203,174	194,364
Accrued pension benefit assets	**4**	41,827	40,645
Total Long-Term Assets		**245,001**	**235,009**
Total Assets		**$ 282,224**	**$ 273,539**
Liabilities and Net Assets			
Current liabilities			
Operating line	**5**	$ 7,687	$ -
Accounts payable and accrued liabilities		41,356	33,535
Accrued salary, wages and benefit liabilities		20,817	18,369
Deferred contributions	**6**	3,284	3,578
Total Current Liabilities		**73,144**	**55,482**
Long-Term Liabilities			
Accrued other benefits obligation	**4**	13,342	13,232
Deferred capital contributions	**6**	150,935	155,768
Fair value of interest-rate swap	**5**	2,170	-
Total Long-Term Liabilities		**166,447**	**169,000**
Net Assets			
Internally restricted - capital assets	**7**	46,638	33,792
Unrestricted (deficit)		(1,835)	15,265
Accumulated remeasurement gains (losses)		(2,170)	-
Total Net Assets		42,633	49,057
Commitments and contingencies	**4 and 9**		
Subsequent events	**4 and 13**		
Total Liabilities and Net Assets		**$ 282,224**	**$ 273,539**

See the accompanying notes to the financial statements.

On behalf of the Board:

J. C. Deganis Director

______________________ Director

Grand River Hospital Corporation

Statement of Operations
(Expressed in Thousands of Dollars)

Year ended March 31, 2019, with comparative information for 2018

	Notes		2019		2018
Revenue					
Ontario Ministry of Health and Long-Term Care ("MOHLTC") Operating		$	321,538	$	312,479
Billable patient services			28,170		26,167
Recoveries from external sources			28,021		26,400
Other			6,145		7,070
Amortization of deferred capital contributions related to equipment	**6**		7,705		6,940
Total revenue			**391,579**		**379,056**
Expenses					
Salaries, wages, benefits and purchased services	**8**		244,387		240,213
Medical staff remuneration			27,286		27,039
Non-salary			110,409		102,543
Amortization of equipment			10,593		9,932
Total expenses			**392,675**		**379,727**
Deficiency of revenue over expenses for MOHLTC purposes			**(1,096)**		**(671)**
Amortization of buildings and building improvements			(11,981)		(12,321)
Amortization of deferred capital contributions related to buildings and building improvements	**6**		8,823		9,617
Deficiency of revenue over expenses		**$**	**(4,254)**	**$**	**(3,375)**

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, 2019, with comparative information for 2018

	Internally restricted - capital assets	Unrestricted	Total 2019	Total 2018
Balance, beginning of year	$ 33,792	$ 15,265	$ 49,057	$ 52,432
Excess (deficiency) of revenue over expenses	(6,046)	1,792	(4,254)	(3,375)
Purchase of capital assets	30,587	(30,587)	-	-
Contributions received for capital purposes	(11,695)	11,695	-	-
Balance, end of year	**$ 46,638**	**$ (1,835)**	**$ 44,803**	**$ 49,057**

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, 2019, with comparative information for 2018

	2019	2018
Accumulated remeasurement gains (losses), beginning of year	$ -	$ -
Unrealized gains (losses) attributable to derivative (interest rate swap)	(2,170)	-
Accumulated remeasurement gains (losses), end of year	**$ (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, 2019, with comparative information for 2018

	Notes	2019	2018
Cash provided by (used in)			
Operations			
Deficiency of revenue over expenses		$ (4,254)	$ (3,375)
Employer cash contributions to the KWH pension plan	**4(b)**	(7,185)	(11,329)
Employer cash contributions to other defined benefit plans	**4(b)**	(259)	(207)
Items not involving cash			
Amortization of equipment		10,593	9,932
Amortization of buildings and building improvements		11,981	12,321
Amortization of deferred contributions related to equipment		(7,705)	(6,940)
Amortization of deferred contributions related to building and building improvements		(8,823)	(9,617)
Defined benefit expense		6,372	7,940
Change in non-cash operating working capital	**10**	6,374	(2,825)
Cash provided by (used in) operating activities		**7,094**	**(4,100)**
Investing Activities			
Purchase and construction of capital assets, net of disposals		(30,587)	(31,308)
Cash used in investing activities		**(30,587)**	**(31,308)**
Financing Activities			
Contributions received for capital purposes		11,917	14,947
Advance of operating line		7,687	-
Cash provided by financing activities		**19,604**	**14,947**
Decrease in cash		**(3,889)**	**(20,461)**
Cash, beginning of year		3,889	24,350
Cash, end of year		**$ -**	**$ 3,889**

See the accompanying notes to the financial statements.

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 and Long-Term Care (the "MOHLTC") 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. As of March 31, 2019 the Hospital was not in compliance with the balanced budget provisions of the H-SAA, as a result the Hospital has advanced discussions to address the variance and confirm MOHLTC support for the Hospital's improvement plan.

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 MOHLTC. 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 MOHLTC, preferred accommodation, as well as income from parking and other ancillary operations, is 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. 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, and valuation allowances for receivables. Actual results could differ from those estimates.

(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 life of the asset at the following annual rates:

1. **Significant accounting policies (continued):**

(f) Capital assets (continued):

Buildings and building improvements	2% to 20%
Furniture and equipment	5% to 20%
Computer hardware	5 years
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.

(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.

1. Significant accounting policies (continued):

(h) Employee benefits plans (continued):

(i) Defined benefit plans (continued):

The average remaining service period of the active employees covered by the pension plan is 12 years (2018 - 12.4 years). The average remaining service period of the active employees covered by the other retirement benefits plan is 12.7 years (2018 - 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.

(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.

(Expressed in Thousands of Dollars)

1. Significant accounting policies (continued):

(i) Financial instruments (continued):

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.

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.

2. Accounts receivable:

	Operating	Capital	2019	2018
MOHLTC	$ 2,179	$ 5,953	$ 8,132	$ 3,792
Cancer Care Ontario	2,552	591	3,143	1,253
Grand River Hospital Foundation	456	3,999	4,455	8,429
Patient	6,721	-	6,721	6,388
Other	4,879	-	4,879	6,834
	16,787	10,543	27,330	26,696
Less allowance for doubtful accounts	1,169	-	1,169	1,086
Total accounts receivable	**$ 15,618**	**$ 10,543**	**$ 26,161**	**$ 25,610**

(Expressed in Thousands of Dollars)

3. Capital assets:

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Land	$ 809	$ -	$ 809	$ 809
Buildings and related service equipment and improvements	301,319	187,592	113,727	120,799
Furniture and equipment	138,776	100,116	38,660	45,289
Assets under construction	49,978	-	49,978	27,467
Total capital assets	**$ 490,882**	**$ 287,708**	**$ 203,174**	**$ 194,364**

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.

Assets under construction includes $36,450 (2018 - $18,995) related to PRISM, the Hospital's new information system and hardware.

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 February 1, 2018, with a measurement date of December 31, 2018, together with a projection of these results to March 31, 2019. 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, 2018, together with a projection of these results to March 31, 2019.

(Expressed in Thousands of Dollars)

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

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, 2018 indicated that the plan is fully funded.

The expense for the Hospital's benefit plans are included in the statement of operations and are as follows:

(a) Multi-employer defined benefit plan:

		2019		**2018**
Cash paid for contributions to HOOPP	$	6,926	$	6,717

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

		2019		**2018**		**2019**		**2018**
		Pension plan		Pension plan		Other benefit Plans		Other benefit plans
Current service costs, net of employees' contributions	$	9,485	$	9,114	$	541	$	1,154
Interest cost		28,810		27,541		273		507
Less – expected return on plan assets		(32,633)		(30,197)		-		-
Amortization of net actuarial (gain) loss		341		(289)		(445)		110
Benefit plan expense		**6,003**		**6,169**		**369**		**1,771**
Cash paid for employer contributions		(7,185)		(11,329)		(259)		(207)
	$	**(1,182)**	**$**	**(5,160)**	**$**	**110**	**$**	**1,564**

(Expressed in Thousands of Dollars)

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

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

	2019	2018	2019	2018
	Pension plan	Pension plan	Other benefit plans	Other benefit plans
Accrued benefit obligation, beginning of year	$ (463,216)	$ (443,008)	$ (7,658)	$ (13,277)
Current service costs, inclusive of employee contributions	(16,486)	(15,701)	(541)	(1,154)
Interest cost	(28,810)	(27,541)	(273)	(507)
Less – benefits paid	21,870	20,355	255	242
Actuarial gain (loss)	(9,854)	2,679	395	7,038
Accrued benefit obligation, balance, end of year	**$ (496,496)**	**$ (463,216)**	**$ (7,822)**	**$ (7,658)**
Plan assets fair value, beginning of year	523,948	484,527	-	-
Expected return on plan assets	32,633	30,197	-	-
Employer contributions (included in salaries, wages and benefits)	9,246	9,328	255	242
Employee contributions	7,701	7,287		
Less benefits paid	(21,870)	(20,355)	(255)	(242)
Actual plan expenses	(3,120)	(722)	-	-
Experience gain	306	13,686	-	-
Plan assets fair value, end of year	**$ 548,844**	**$ 523,948**	**$ -**	**$ -**
Funded status plan surplus (deficit)	**$ 52,348**	**$ 60,732**	**$ (7,822)**	**$ (7,658)**
Unamortized net actuarial gain	(12,364)	(23,991)	(5,585)	(5,635)
Employer contributions after measurement date	1,843	3,904	65	61
Accrued defined benefit plan assets (obligation)	**$ 41,827**	**$ 40,645**	**$ (13,342)**	**$ (13,232)**

(Expressed in Thousands of Dollars)

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

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

	2019	2018
Accrued benefit obligation at end of year:		
Rate of compensation increase	3.00%	3.00%
Discount rate (pension benefits)	6.00%	6.25%
Discount rate (other benefits)	3.61%	3.43%
Benefit costs for fiscal year:		
Expected long-term rate of return on plan assets	6.00%	6.25%
Discount rate (pension benefits)	6.25%	6.25%
Discount rate (other benefits)	3.43%	3.61%
Healthcare costs (other benefits), 5.50% in 2018 5.0% in 2019	5.00%	5.50%
Dental costs (other benefits)	4.50%	4.50%
Rate of compensation increase	3.00%	3.25%

The KWH pension plan consists of the following assets:

	2019	2018
Cash and short-term investments	100%	0%
Pooled bonds	0%	39%
Pooled equities	0%	61%
	100%	100%

On May 8, 2018, the Hospital and HOOPP agreed, in principle, to move forward with a possible merger of the KWH pension plan into HOOPP. The investment target asset mix policy was amended to 100% cash and cash equivalents in anticipation of the possible merger of the KWH pension plan into HOOPP. As of January 31, 2018 the KWH pension plan has 100% of its investments in cash and cash equivalents.

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 controls the investment of the assets and the Hospital is required to maintain its fund in 100% cash and cash equivalents. The Hospital was also required to enter into a Term Sheet with HOOPP and Northern Trust Company, Canada (Trustee of the KWH pension plan). Pursuant to the Term Sheet 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").

(Expressed in Thousands of Dollars)

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

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.

On April 30, 2019, the Board of Directors of the Hospital decided not to proceed with the proposed merger of the KWH pension plan into HOOPP. As a result, the exchange of returns outlined in the Term Sheet, described above, will apply.

5. Operating line:

The Hospital has an operating line available to a maximum of $25,000 at bank's prime minus 0.85% and is unsecured.

In September 2018, the Hospital secured additional bank financing through bankers' acceptances of $40,000 to assist with the financing of PRISM, the Hospital's new information system and hardware. No amounts were drawn on the bankers' acceptances at year end.

The Hospital has entered into an interest rate swap agreement on January 31, 2019 to manage the volatility of interest rates and fix the interest rate at 3.43% on financing of $40,000. The fair value of the interest rate swap at March 31, 2019 is in a net unfavorable position of $2,170 which is recorded on the statement of financial position and the statement of remeasurement gains and losses.

6. Deferred contributions:

Deferred contributions include unspent restricted grants for education and research of $1,621 (2018 - $1,582) and unspent restricted grants for the Grand River Regional Cancer Centre in the amount of $1,533 (2018 - $1,861). The changes in the deferred contributions balance are as follows:

		2019		**2018**
Balance, beginning of year	$	3,578	$	2,929
Contributions received during the year		309		2,127
Less amounts recognized as revenue during the year		(603)		(1,433)
Transfers from deferred capital contributions		-		(45)
Balance, end of year	**$**	**3,284**	**$**	**3,578**

(Expressed in Thousands of Dollars)

6. Deferred contributions (continued):

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

	Note	2019	2018
Balance, beginning of year		$ 155,768	$ 152,270
Contributions from:			
Grand River Hospital Foundation	**12**	7,118	13,447
Ontario Ministry of Health and Long-Term Care		4,015	4,784
Cancer Care Ontario		979	1,367
Other capital contributions (net of disposals and transfers to deferred revenue)		(417)	457
		11,695	20,055
Less:			
Amortization of deferred capital contributions related to equipment		(7,705)	(6,940)
Amortization of deferred capital contributions related to buildings and building improvements		(8,823)	(9,617)
Balance, end of year		**$ 150,935**	**$ 155,768**

7. Internally restricted - capital assets:

Net assets invested in capital assets are calculated as follows:

	2019	2018
Capital assets	$ 203,174	$ 194,364
Amounts financed by:		
Deferred capital contributions	(150,935)	(155,768)
Accounts payable and accrued liabilities	(5,601)	(4,804)
Total internally restricted – capital assets	**$ 46,638**	**$ 33,792**

The Board of Directors has internally restricted $46,638 of net assets to fund capital assets (2018 - $33,792).

(Expressed in Thousands of Dollars)

8. Salaries, wages and benefits:

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

9. Commitment 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:

2020	$ 7,989
2021	3,402
2022	1,888
2023	845
2024	383
Total	**$ 14,507**

9. Commitment 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, 2019, 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, 2019.

(c) Letter of credit:

The Hospital issued a standby letter of credit through its financial institution to provide a guarantee to the KWH pension plan for $5,423, with an annual renewal clause up to March 31, 2020.

(d) Capital and operating commitments:

The Hospital has entered into several contracts relating to the new Hospital information system implementation. The commitments are $27,149 as at March 31, 2019. This project is being funded by the Grand River Hospital Foundation, debt serviced by Hospital operations and the Ministry grants.

(e) Lease commitments:

September 2018, the Hospital signed a lease to rent space in a separate building for the planned employees displaced from the planned development of the parking facilities. This lease has a 10 year term and includes annual lease commitments of $600.

(Expressed in Thousands of Dollars)

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

		2019		2018
Accounts receivable not applicable to capital assets	$	(773)	$	(679)
Inventories		(49)		61
Prepaid expenses		(1,982)		241
Accounts payable and accrued liabilities not applicable to capital assets		7,024		(4,311)
Accrued salary, wages and benefit liabilities		2,448		1,214
Deferred contributions not applicable to capital assets		(294)		649
Total change in non-cash operating working capital	**$**	**6,374**	**$**	**(2,825)**

11. 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, cash and long-term investments.

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, 2019 is the carrying value of these assets.

As at March 31, 2019, $1,043 (2018 - $1,067) of 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 income statement. The balance of the allowance for doubtful accounts at March 31, 2019 is $1,169 (2018 - $1,086).

11. 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.

(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 to its interest bearing its operating line.

As at March 31, 2019, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the estimated impact of the interest rate swap would approximate $22.

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 5). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the debt.

12. 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 $7,118 (2018 - $13,447) to the Hospital to fund capital projects and $492 (2018 - $1,577) for programs. At March 31, 2019, there is $4,455 (2018 - $8,429) due from the Foundation to the Hospital. At March 31, 2019, the Foundation had net assets of $16,833 (2018 - $21,296).

12. 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 MOHLTC, provided operating funding of $34,024 restricted for cancer services, to cover the Hospital for ambulatory, hotel and corporate costs for the year ended March 31, 2019 (2018 - $32,979). MOHLTC funding for inpatient oncology services remains as part of the Hospital's global funding.

13. Subsequent events:

a) KWH Pension Plan:

On April 30, 2019, the Board of Directors of the Hospital decided not to proceed with the proposed merger of the KWH pension plan into HOOPP. As a result, the exchange of returns outlined in the Term Sheet, as described in Note 4, will apply.

b) Financing:

Subsequent to year end, the Hospital drew $20,000 under its bankers' acceptance arrangement.