Financial Statements of

HAMILTON HEALTH SCIENCES CORPORATION

And Independent Auditors' Report thereon

Year ended March 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Hamilton Health Sciences Corporation

Opinion

We have audited the financial statements of Hamilton Health Sciences Corporation (the "Entity"), 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 Entity as at March 31, 2020, and its results of operations, changes in net assets, remeasurement gains and losses 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 auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibility 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 the 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 Entity'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 Entity'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 Entity 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.
- 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

Hamilton, Canada
June 18, 2020

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Financial Position
(In $000's)

March 31, 2020, with comparative figures for 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 153,935	$ 156,162
Restricted cash and cash equivalents (note 2)	57,967	54,663
Short-term investments (note 3)	20,212	17,381
Accounts receivable (note 4)	132,300	115,645
Inventories	19,062	16,000
Prepaid expenses and deposits	13,047	10,756
	396,523	370,607
Portfolio investments (note 5)	71,060	81,145
Other non-current assets	6,013	6,792
Capital assets, net (note 7)	845,486	840,096
	$1,319,082	$1,298,640
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 227,232	$ 197,735
Deferred revenue	940	1,713
Current portion of obligations under capital leases (note 8)	1,457	2,736
Current portion of long-term debt (note 9)	3,688	5,337
	233,317	207,521
Obligations under capital leases (note 8)	2,183	3,620
Long-term debt (note 9)	258,007	261,494
Post-retirement benefits (note 10 (b))	65,076	63,246
Other long-term liabilities	5,357	4,923
Derivative liabilities (note 9)	7,243	6,438
Deferred capital contributions (note 11)	652,145	636,309
Deferred research contributions (note 12)	62,709	75,216
	1,286,037	1,258,767
Net assets (deficit):		
Unrestricted	(191,326)	(201,712)
Invested in capital assets (note 13 (a))	139,007	150,179
Board designated	91,131	90,585
	38,812	39,052
Accumulated remeasurement (losses) gains	(5,767)	821
Commitments and contingencies (notes 8, 16, 17(e))		
Subsequent event (note 20)		
	$1,319,082	$1,298,640

See accompanying notes to financial statements.

On behalf of the Board:

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Dave Lazzarato
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Dave Lazzarato, Director

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Charles Criminisi, Director

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Operations
(In $000's)

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

	2020	2019
Revenue:		
Local Health Integration Network ("LHIN")	$1,205,129	$1,151,552
Ontario Health Insurance Plan	41,618	39,559
Other ministries	46,675	51,378
Patient and third party payers	25,549	28,064
Investment income (note 6)	5,235	586
Amortization of deferred capital contributions (note 11)	40,779	38,719
Ancillary and other recoveries	99,534	101,835
Research (note 12)	139,477	150,036
	1,603,996	1,561,729
Expenses:		
Salaries and employee benefits	891,387	863,269
Medical staff remuneration	83,985	83,380
Medical and surgical supplies	75,378	72,496
Drugs	142,530	116,490
Facilities	22,560	26,156
Amortization of capital assets	62,487	62,634
Other expenses	186,716	183,928
Research (note 12)	122,267	136,558
	1,587,310	1,544,911
Excess of revenues over expenses before designated transfer of assets	16,686	16,818
Designated transfer of assets (note 17(c))	16,926	10,648
(Deficiency) excess of revenues over expenses	$ (240)	$ 6,170

See accompanying notes to financial statements.

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Changes in Net Assets
(In $000's)

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

	Unrestricted	Invested in capital assets (note 13)	Board designated	Total 2020	Total 2019
Net assets (deficit) beginning of year	$ (201,712)	$ 150,179	$ 90,585	$ 39,052	$ 32,882
(Deficiency) excess of revenues over expenses for the year	23,658	(23,898)	–	(240)	6,170
Transfer to Board designated	(636)	–	636	–	–
Transfer from Board designated	90	–	(90)	–	–
Net change in invested in capital assets (note 13(b))	(12,726)	12,726	–	–	–
Net assets (deficit) end of year	$ (191,326)	$ 139,007	$ 91,131	$ 38,812	$ 39,052

See accompanying notes to financial statements.

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Remeasurement Gains and Losses
(In $000's)

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

	2020	2019
Accumulated remeasurement gains, beginning of year	$ 821	$ 799
Unrealized gains (losses) attributable to:		
Derivatives	(805)	98
Portfolio investments	(3,885)	2,968
Foreign exchange	1,857	491
	(2,833)	3,557
Unrealized (gains) losses reclassified to deferred contributions:		
Portfolio investments	335	1,345
Foreign exchange	(58)	(44)
	277	1,301
Realized (gains) losses reclassified to statement of operations:		
Portfolio investments	(4,142)	(4,960)
Foreign exchange	110	124
	(4,032)	(4,836)
Net remeasurement (losses) gains for the year	(6,588)	22
Accumulated remeasurement (losses) gains, end of year	$ (5,767)	$ 821

See accompanying notes to financial statements.

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Cash Flows
(In $000's)

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

	2020	2019
Cash provided by (used in):		
Operating activities:		
(Deficiency) excess of revenues over expenses for the year	$ (240)	$ 6,170
Items not involving cash:		
Amortization of capital assets	66,215	66,352
Amortization of deferred capital contributions	(42,317)	(40,265)
Non-pension post-retirement benefits expense	6,518	4,972
Gain on disposal of deferred capital	(3,020)	(2,028)
Loss on disposal of capital assets	5,022	7,209
Net gain on portfolio investments	(1,898)	(3,044)
	30,280	39,366
Net change in non-cash working capital balances related to operations (note 14)	(3,707)	(10,973)
Increase (decrease) in other long-term liabilities	434	(2,460)
Non-pension post-retirement funding contributions	(4,688)	(3,703)
Net change in deferred research contributions	(12,507)	(13,501)
	9,812	8,729
Capital activities:		
Purchase of capital assets	(65,788)	(48,730)
Investing activities:		
Decrease in other non-current assets	779	1,802
Purchase of investments	(38,718)	(33,722)
Proceeds on sale of investments	42,087	39,551
Increase in restricted cash and cash equivalents (net)	(3,304)	(5,898)
	844	1,733
Financing activities:		
Contributions received for capital purposes	60,757	31,157
Proceeds received on long-term debt	–	212,804
Repayment of long-term debt (net)	(5,136)	(6,556)
Payment of obligations under capital leases	(2,716)	(3,973)
	52,905	233,432
Net (decrease) increase in cash and cash equivalents during the year	(2,227)	195,164
Cash and cash equivalents (bank indebtedness), beginning of year	156,162	(39,002)
Cash and cash equivalents, end of year	$ 153,935	$ 156,162
Supplemental information:		
Interest paid	$ 6,427	$ 3,447
Non-cash transactions:		
Purchase of capital assets included in accounts payable and accrued liabilities	15,649	5,226
Disposal of capital assets included in other long-term liabilities	–	(2,749)

See accompanying notes to financial statements.

Hamilton Health Sciences Corporation (the “Hospital”) is a family of five unique hospitals and five specialized facilities, serving more than 2.3 million residents of Hamilton, Central South and Central West Ontario. The Hospital is an academic health science organization incorporated without share capital under the Corporations Act (Ontario) and is a registered charity under the Income Tax Act (Canada) and as such is exempt from income taxes.

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards (“PSAS”), including standards that apply to government not-for-profit organizations.

These financial statements include the assets, liabilities and activities of the Hospital. The financial statements do not include the activities of Hamilton Health Sciences Foundation (the “Foundation”), Hamilton Health Sciences Volunteer Association (the “Volunteer Association”), Hamilton Health Sciences Research Institute (“HHSRI”), West Lincoln Memorial Hospital Foundation (the “WLMH Foundation”) and West Lincoln Memorial Auxiliary (the “Auxiliary”), which are non-controlled not-for-profit entities (notes 17(a), (b), (c) and (d)), or the activities of Bay Area Health Trust (“BAHT”), which is a non-controlled for-profit entity (note 17(e)).

A summary of the significant accounting policies is as follows:

(a) Revenue recognition:

The Hospital operates under a Hospital Service Accountability Agreement (the “H-SAA”) with the Hamilton Niagara Haldimand Brant Local Health Integration Network (the “LHIN”). The H-SAA sets out the funding provided to the Hospital together with performance standards and obligations of the Hospital that establish acceptable results for the Hospital’s performance. Effective April 1, 2018, the Hospital entered into an amending agreement extending the H-SAA to March 31, 2020. Since year end, the Hospital entered into a further amending agreement extending the H-SAA to June 30, 2020.

If the Hospital does not meet certain performance standards or obligations, the LHIN has the right to adjust certain funding streams received by the Hospital. Given that the LHIN is not required to communicate funding adjustments until after the submission of year-end data, the amount of revenue recognized in these financial statements represents management’s estimates of amounts earned during the year.

The Hospital follows the deferral method of accounting for contributions. 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 are recognized as revenue in the year in which the related expenses are recognized.

1. Significant accounting policies (continued):

(a) Revenue recognition (continued):

Capital contributions received for the purpose of acquiring amortizable capital assets are deferred and amortized on the same basis and over the same period as the related capital assets.

Grants for sponsored research and other externally restricted contributions are recorded as deferred contributions and recognized as revenue in the periods in which the related expenses are incurred. In circumstances where all contractual obligations are satisfied, excess funding may be retained by the Hospital at the completion of a research project.

Investment income is recognized as revenue when earned except where contractually obligated to accrue interest to a deferred capital project or research study.

Revenue from other services is recognized when an arrangement is in place, services are provided or goods are sold and collection is reasonably assured.

(b) Inventories:

Inventories are valued at the lower of average cost and replacement value.

(c) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at fair value at the date of donation. Amortization is provided on a straight-line basis over the estimated useful life of the related capital asset. The amortization periods are as follows:

	Estimated useful life
Building and building improvements	20 to 40 years
Equipment	5 to 20 years

Building renovations and alterations that restore original operating conditions are expensed in the year incurred. Building improvements that reduce original operating costs or increase original capacity are capitalized as building improvements. Construction-in-progress is transferred to the appropriate asset category once the particular project is complete and amortization commences when the assets are ready for use.

1. Significant accounting policies (continued):

(d) Impairment of long-lived assets:

Long-lived assets, including capital assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the asset's carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, it is considered impaired. An impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Hospital uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

(e) Equipment under capital leases:

Equipment leases that effectively transfer substantially all of the risks and rewards of ownership to the Hospital as lessee are capitalized at the present value of the minimum payments, excluding executor costs, under the lease with a corresponding liability for the related lease obligations. The discount rate used to determine the present value of the lease payment is the lower of the Hospital's rate of incremental borrowing or the interest rate implicit in the lease. Charges to expenses are made for amortization on the equipment and interest on the lease obligations.

(f) Employee future benefit plans:

- Multi-employer plan:

  Employees of the Hospital 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. In accordance with PSAS, the plan is accounted for as a defined contribution plan as there is insufficient information to apply defined benefit plan accounting.

1. Significant accounting policies (continued):

(f) Employee future benefit plans (continued):

- Post-retirement benefit obligations:

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

  Certain employees of the Hospital are entitled to receive other post-employment benefits. The cost of these benefits is 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 Hospital's long-term cost of borrowing consistent with the specific rates of interest and periods committed to by the Hospital on amounts borrowed. The Hospital estimated its long-term cost of borrowing by referencing the rate of return on provincial government bonds with an additional risk premium specific to the Hospital for varying durations based on the cash flows expected from the post-retirement benefit obligations. Past service costs relating to plan amendments are expensed when incurred. Actuarial gains and losses are amortized over the remaining service periods of the employees. The average remaining service period of active employees is 14 years.

(g) 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 of portfolio investments that are unrestricted or Board designated are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. Unrealized changes in fair value of portfolio investments related to externally restricted research are recorded in deferred research contributions.

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.

1. Significant accounting policies (continued):

(g) Financial instruments (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and 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.

There are three levels of fair value measurement to classify and 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.

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.

(h) Board designated net assets:

Board designated net assets include unrestricted donations and bequests as well as certain fund surpluses designated for specific purposes by the Board of Directors.

(i) Contributed services and materials:

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 as such is not reflected in these financial statements. Contributed materials by volunteers are also not recognized in these financial statements.

(All amounts are expressed in thousands of dollars)

1. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of the 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 date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the measurement of accrued liabilities, carrying amount of capital assets and obligations related to post-retirement benefits. Actual results could differ from those estimates.

2. Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments. These items are highly liquid, subject to insignificant risk of changes in value and have a short-term maturity of three months or less, and include Canadian, US and Euro currencies.

A portion of the cash and cash equivalents are restricted for the following purposes:

	2020	2019
Internally and externally designated trusts and research operations	$ 43,496	$ 28,835
Construction facilities	13,663	4,644
Strategic Reserve Fund	756	21,122
Patient trust accounts	52	62
	$ 57,967	$ 54,663

Restricted cash and cash equivalents earn interest at an average rate of 0.73% (2019 – 2.06%).

(All amounts are expressed in thousands of dollars)

3. Short-term investments:

Short-term investments consist of guaranteed investment certificates, deposit notes, government and corporate bonds, and other fixed term securities with remaining maturities of less than one year.

These investments are recorded at fair value of $20,212 (2019 - $17,381) as at March 31, 2020, with a cost of $20,100 (2019 - $17,260).

These investments are held for the following purposes:

	2020	2019
Internally and externally designated trusts and research operations	$ 19,608	$ 17,281
Strategic Reserve Fund	604	100
	$ 20,212	$ 17,381

These investments earn interest at an average rate of 3.34% (2019 – 3.63%).

4. Accounts receivable:

	2020	2019
LHIN	$ 51,086	$ 37,113
Ontario Health Insurance Plan	4,566	6,492
Patient	4,178	6,639
BAHT (note 17 (e))	638	816
Foundation, Volunteer Association, WLMH Foundation and Auxiliary (notes 17(a), (b), and (d))	6,069	5,282
Research	29,874	26,349
Other	35,889	32,954
	$ 132,300	$ 115,645

(All amounts are expressed in thousands of dollars)

5. Portfolio investments:

	2020 Cost	2020 Fair value	2019 Cost	2019 Fair value
Fixed income:				
Canadian	$ 16,752	$ 18,334	$ 32,497	$ 34,149
International	9,111	9,673	7,810	7,984
Preferred shares:				
Canadian	1,170	926	2,337	2,331
Equities:				
Canadian	20,950	19,535	17,130	20,293
International	22,896	22,592	13,173	16,388
	$ 70,879	$ 71,060	$ 72,947	$ 81,145

Fixed income investments have a weighted average term of 5.03 years (2019 – 4.07 years) to maturity and have an average yield of 3.43% (2019 - 3.58%) as at March 31, 2020.

These investments are held for the following purposes:

	2020	2019
Internally and externally designated trusts and research operations	$ 50,203	$ 78,557
Strategic Reserve Fund	20,857	2,588
	$ 71,060	$ 81,145

6. Investment income:

Investment income is classified as follows on the statement of operations:

	2020	2019
Research	$ 7,091	$ 8,847
Investment income:		
Commitments and internally and externally designated trusts	22	33
Strategic Reserve Fund	448	31
Capital Acquisition Fund	4,271	620
Hospital operations	494	(98)
	5,235	586
	$ 12,326	$ 9,433

(All amounts are expressed in thousands of dollars)

6. Investment income (continued):

Investment income is comprised of the following:

		2020		2019
Interest and dividend income	$	8,360	$	4,565
Net realized gains		4,142		4,960
Less: investments fees		(176)		(92)
	$	12,326	$	9,433

7. Capital assets:

Capital assets consist of the following:

March 31, 2020		Cost		Accumulated amortization		Net book value
Land	$	3,434	$	–	$	3,434
Building and building improvements		1,019,609		312,072		707,537
Equipment		453,847		361,774		92,073
Construction-in-progress		42,442		–		42,442
	$	1,519,332	$	673,846	$	845,486

March 31, 2019		Cost		Accumulated amortization		Net book value
Land	$	3,408	$	–	$	3,408
Building and building improvements		996,915		275,510		721,405
Equipment		430,141		334,854		95,287
Construction-in-progress		19,996		–		19,996
	$	1,450,460	$	610,364	$	840,096

Included in capital assets are assets under capital leases at a cost of $14,713 (2019 - $16,931) and accumulated amortization of $7,361 (2019 - $10,871).

Included in equipment are assets not yet being amortized at a cost of $7,770 (2019 - $14,489).

Capital assets with a cost of $7,755 (2019 - $68,964) were disposed of in fiscal 2020 at a net loss of $2,002 (2019 - $5,181) which is included in other expenses in the statement of operations.

During the year $416 (2019 - $106) of capital assets were donated to the Hospital.

7. Capital assets (continued):

Construction-in-progress consists primarily of the Juravinski Stem Cell Transplant Expansion, West Lincoln Memorial Health and Safety Infrastructure Upgrade, Hamilton General Hybrid Operating Room projects and McMaster University Medical Centre (“McMaster”) Inpatient Renovations to Wards 3C, 3Y and 3Z.

8. Lease commitments:

(a) Managed Equipment Service Agreement:

The Hospital entered into a 15-year Managed Equipment Services Agreement (“MESA”) on December 20, 2019 with Siemens Healthcare Limited (“Siemens”) to provide the Hospital, effective April 1, 2020, with comprehensive financing, maintenance, support, and procurement for a variety of diagnostic equipment in exchange for a blended annual service payment. The MESA is governed by various committees composed of representatives from the Hospital and Siemens.

As equipment is acquired under the MESA it is accounted for as a capital lease at the time of delivery. Under the MESA, a non-revolving cash facility is made available to the Hospital for the purpose of financing turnkey work required prior to the installation of equipment acquired under the MESA. The total amount available under the facility is $48,000 and is to be drawn through 15 installments based on the expected installation dates of the associated equipment. As of March 31, 2020 $nil was drawn. The facility bears interest at a rate of 4.10%.

Services such as procurement, maintenance, and support provided under the MESA are expensed as incurred in the statement of operations. Due to differences in the timing of activities and payments under the MESA, the Hospital may record a deferred liability or prepaid deposit asset on the statement of financial position.

Future commitments under the MESA will change over time to reflect the changing requirements of the Hospital. Future payments are based on a detailed schedule of services and equipment which is subject to review and revision on an annual basis and include an annual adjustment to reflect inflationary indexes. The extent of future payments are also impacted by variable elements associated with performance targets.

(All amounts are expressed in thousands of dollars)

8. Lease commitments (continued):

(a) Managed Equipment Service Agreement (continued):

Expected future payments under the MESA consist of the following:

	Capital lease	Turnkey financing	Operating commitments	Annual service payments
2021	$ 1,763	$ 3,317	$ 4,248	$ 14,493
2022	2,596	3,317	5,878	14,717
2023	3,219	3,317	6,134	14,945
2024	3,880	3,317	6,231	15,177
2025	4,821	3,317	6,856	15,414
Thereafter	103,258	33,168	76,184	200,075
	119,537	49,753	105,531	274,821
Less: amounts representing interest	(17,875)	(2,397)	–	(20,272)
	$ 101,662	$ 47,356	$ 105,531	$ 254,549

As at March 31, 2020, no amounts relating to the MESA have been recognized in the financial statements.

(b) Other lease commitments:

The Hospital has entered into various arrangements for the leasing of administrative office space, cloud-based services, and computer and medical equipment. The weighted average effective interest rate of the capital leases is 3.12% (2019 – 3.01%).

The future minimum annual payments consist of the following:

	Capital leases	Operating leases
2021	$ 1,569	$ 2,524
2022	1,515	1,847
2023	702	1,644
2024	–	1,644
2025	–	1,644
Thereafter	–	9,611
Total minimum lease payments	3,786	18,914
Less: amounts representing interest	146	
Obligations under capital leases	3,640	
Less: current portion	1,457	
	$ 2,183	

(All amounts are expressed in thousands of dollars)

9. Long-term debt:

		2020		2019
Capital loan payable by August 1, 2025 in monthly principal and interest instalments of $58 at 4.65% per annum (a)	$	3,308	$	3,833
Capital loan payable by April 15, 2029 in quarterly principal and interest instalments of $397 at 5.255% per annum (b)		11,646		12,587
Capital loan payable by September 17, 2029 in quarterly principal and interest instalments of $150 at 4.33% per annum (c)		4,306		4,629
Capital loan payable by April 15, 2029 in quarterly principal and interest instalments of $596 at 5.255% per annum (d)		17,206		18,597
Capital loan payable by October 15, 2019 in monthly principal and interest instalments of $261 at 1.42% (e)		–		1,834
Capital loan payable by October 4, 2023 in monthly principal and interest instalments of $31 at 3.00% (f)		1,224		1,547
Capital loan payable by March 23, 2023, interest-only for 5 years at BA rate of interest (g)		25,000		25,000
Series A senior unsecured debentures due January 17, 2059 with semi-annual interest payments of $3,683 at 3.68% (h)		200,000		200,000
		262,690		268,027
Less: current portion		3,688		5,337
Less: financing fees		995		1,196
	$	258,007	$	261,494

a) On July 15, 2005, the Hospital entered into a $9,000, 20-year financing arrangement for the purpose of financing the construction, acquisition, and development costs of parking equipment and improvements of the parking facilities at the Hamilton General Hospital (“General”) and Juravinski Hospital (“Juravinski”) sites. On a monthly basis, the Hospital is required to deposit the net profit, as defined, from the parking operations of the General and Juravinski sites into a net profit account held at the bank. At all times, the Hospital must maintain a minimum balance in the net profit account equal to the greater of $400 or the total of the next scheduled payment of principal and interest. At March 31, 2020, the balance in the net profit account is greater than the minimum required balance and is included in restricted cash and cash equivalents on the statement of financial position.

As security, the bank has a first ranking specific assignment of all rights, title, and interest in and to all net profit and any other revenue and income arising from the General and Juravinski parking improvements from time to time but expressly excluding payments for monthly parking permits of employees of the Hospital; and a first ranking security agreement in respect of the net profit account. Under the terms of the financing agreement, the Hospital is required to comply with certain loan covenants and at year-end the Hospital was in compliance with these covenants.

9. Long-term debt (continued):

The Hospital has in place an interest rate swap agreement ("Swap Agreement"), which will expire on August 1, 2025, that fixes the interest rate at 4.65%, plus stamping fees of 0.45%. The fair value of the Swap Agreement is based on amounts quoted by the Hospital's bank to realize favourable contracts or settle unfavourable contracts, taking into account interest rates at March 31, 2020. The fair value of the Swap Agreement at March 31, 2020 is ($354) (2019 - ($346)).

b) On September 26, 2007, the Hospital entered into a $19,500, 20-year financing arrangement for the purpose of financing construction costs related to energy retrofit contracts at the Chedoke, Juravinski, and General sites. The Hospital has a Swap Agreement in place that fixes the interest rate at 5.255%, plus stamping fees of 0.25%. The fair value of the Swap Agreement at March 31, 2020 is ($2,481) (2019 - ($2,218)).

c) On January 22, 2009, the Hospital entered into a $6,900, 20-year financing arrangement for the purpose of financing the related construction costs for the central utility plant upgrade at the Juravinski site. The Hospital has a Swap Agreement in place that fixes the interest rate at 4.33%, plus stamping fees of 1.80%. The fair value of the Swap Agreement at March 31, 2020 is ($748) (2019 - ($602)).

d) On September 26, 2007, the Hospital entered into an amended $25,000 financing agreement for the purpose of financing construction costs related to energy retrofit contracts at the McMaster site. In fiscal 2011, an additional $3,000 was drawn on the facility and the energy enhancement interim construction loan was then converted into a 20-year term loan. The Hospital has a Swap Agreement in place that fixes the interest rate at 5.255%, plus stamping fees of 0.25%. The fair value of the Swap Agreement at March 31, 2020 is ($3,660) (2019 - ($3,275)).

e) On October 31, 2014, the Hospital entered into a $15,000, five-year financing agreement for the purpose of financing capital acquisitions. The Hospital has a Swap Agreement in place that fixes the interest rate at 1.42%, plus stamping fee of 0.25%. The fair value of the Swap Agreement at March 31, 2020 is $nil (2019 - $3). This was fully repaid in the fiscal year ending March 31, 2020.

f) On September 25, 2017 the Hospital entered into a $2,043, six-year financing agreement for the purpose of financing capital acquisitions at McMaster, General, Juravinski and West Lincoln Memorial Hospital ("WLMH") sites.

(All amounts are expressed in thousands of dollars)

9. Long-term debt (continued):

g) On March 23, 2018, the Hospital entered into an $11,000, five-year interest only revolving capital loan for the purpose of financing capital acquisitions. On October 31, 2018 and again on January 22, 2019 an additional $7,000 was drawn on the facility. As of March 31, 2020, the $25,000 facility has been fully drawn, however $4,114 (2019 - $9,018) has not yet been spent. The loan consists of monthly renewals through 30-day Banker's Acceptances with a current rate of interest of 1.66%. Prior to the end of the five-year period, the Hospital and the Lender may choose to arrange for a mutually agreeable repayment schedule. However, until such time in which refinancing takes place, the loan is considered due on demand at the end of the five-year commitment period.

h) On January 17, 2019, the Hospital issued a $200,000 Series A senior unsecured debenture at par value for the purpose of financing capital investments. Total financing costs of $1,196 were paid out of proceeds on issuance. The debenture bears interest at 3.68%, payable semi-annually on July 17 and January 17, with the principal to be repaid in full on January 17, 2059. As at March 31, 2020, $23,800 of proceeds from the debenture have been invested with external investments managers as a Board designated Strategic Reserve Fund. As at March 31, 2020, $7,076 (2019 - $nil) of the debenture proceeds have been spent.

The future minimum annual debt principal repayments over the next five years and thereafter are as follows:

2021	$ 3,688
2022	3,887
2023	29,101
2024	4,131
2025	4,163
Thereafter	217,720
	$ 262,690

10. Employee future benefit plans:

(a) Multi-employer plan:

The Hospital's contributions to HOOPP during the year amounted to $59,218 (2019 - $57,305) and are included in salaries and employee benefits expense. The most recent actuarial valuation of HOOPP as at December 31, 2019 indicates the plan has a 19% surplus in disclosed actuarial assets and is fully funded on a solvency basis.

(All amounts are expressed in thousands of dollars)

10. Employee future benefit plans (continued):

(b) Post-retirement benefits:

The Hospital's non-pension post-retirement benefit plans comprise medical, dental and life insurance coverage for certain groups of employees who have retired from the Hospital and are between the ages of 55 and 65. The post-retirement benefit obligations are calculated based on the latest actuarial valuation performed on March 31, 2019, extrapolated to March 31, 2020.

The sick leave benefit plan for employees was previously amended such that the future accumulation of sick leave credits was discontinued; however, employees are entitled to cash payments on a portion of their accumulated sick bank entitlements on termination of employment. As at March 31, 2020, the sick leave obligation amounted to $2,741 (2019 - $3,099).

The post-retirement benefits as at March 31 includes the following components:

	2020	2019
Accrued benefit obligation	$ 76,211	$ 77,299
Unamortized actuarial losses	(11,135)	(14,053)
Post-retirement benefit liability	$ 65,076	$ 63,246

	2020	2019
Post-retirement benefit liability, beginning of year	$ 63,246	$ 61,977
Current service cost	3,227	2,741
Interest cost	2,267	2,077
Amortization of actuarial losses	1,024	154
	69,764	66,949
Non-pension post-retirement funding contributions	(4,688)	(3,703)
Post-retirement benefit liability, end of year	$ 65,076	$ 63,246

The significant actuarial assumptions utilized in measuring the Hospital's accrued benefit obligations for the non-pension post-retirement benefit plans are as follows:

	2020	2019
Discount rate	3.10%	2.90%
Expected annual increase in dental care costs*	3.00%	3.00%
Expected annual increase in health care costs*	5.25%	5.25%

*These rates are determined based on the McMaster Model of Long-Term Care Cost Trends in Canada, and are expected to converge to an ultimate rate of 3.57% in 2040.

(All amounts are expressed in thousands of dollars)

11. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The changes in the deferred capital contributions balance are as follows:

		2020		2019
Balance, beginning of year	$	636,309	$	647,445
Add contributions for capital purposes:				
Ministry of Health & Long-Term Care ("MOHLTC") & LHIN		35,829		11,319
Foundations and Volunteer Association		16,807		11,979
Other		8,537		7,859
		697,482		678,602
Less: Amortization		42,317		40,265
Disposals of related capital assets		3,020		2,028
Balance, end of year	$	652,145	$	636,309

Included in the above balance are contributions of $14,958 (2019 - $11,757) received but not yet utilized to purchase capital assets. Amortization is comprised of $40,779 (2019 - $38,719) from hospital operations and $1,538 (2019 - $1,546) from research operations. Included in the above additions are $416 (2019 - $106) of capital assets that were donated to the Hospital.

12. Deferred research contributions:

Deferred research contributions represent unspent externally restricted grants for research. The changes in the deferred research contributions balance are as follows:

		2020		2019
Balance, beginning of year	$	75,216	$	88,717
Externally restricted contributions received		68,295		87,375
Less: amount recognized as revenue during the year		(80,525)		(99,575)
Net change in fair value on invested unspent deferred research balances		(277)		(1,301)
Balance, end of year	$	62,709	$	75,216

(All amounts are expressed in thousands of dollars)

12. Deferred research contributions (continued):

Research revenues and expenses are calculated as follows:

		2020		2019
Research revenues:				
Investment income	$	7,091	$	8,847
Amortization of deferred capital contributions		1,538		1,546
Research and other revenues		130,848		139,643
	$	139,477	$	150,036
Research expenses:				
Salaries and employee benefits	$	48,913	$	46,345
Medical staff remuneration		2,171		2,986
Medical and surgical supplies		68		16
Drugs		2,215		1,702
Facilities		2,280		556
Amortization of capital assets		3,728		3,718
Other research expenses		62,892		81,235
	$	122,267	$	136,558

Other research revenues of $130,848 (2019 - $139,643) consist of externally restricted research grants and donations recognized in income during the year of $80,525 (2019 - $99,575) and $50,323 (2019 - $40,068) from research administered accounts, internally restricted by the Hospital's Board of Directors.

13. Net assets invested in capital assets:

(a) Net assets invested in capital assets are calculated as follows:

		2020		2019
Capital assets – net	$	845,486	$	840,096
Less amounts funded by:				
Deferred capital contributions spent (note 11)		(637,187)		(624,552)
Obligations under capital leases (note 8(b))		(3,640)		(6,356)
Long-term debt spent (note 9)		(65,652)		(59,009)
	$	139,007	$	150,179

(All amounts are expressed in thousands of dollars)

13. Net assets invested in capital assets (continued):

(b) Net change in invested in capital assets is calculated as follows:

	2020	2019
Amortization of capital assets	$ (66,215)	$ (66,352)
Amortization of deferred capital contributions	42,317	40,265
	(23,898)	(26,087)
Purchase of capital assets - net	71,605	38,564
Amounts funded by deferred capital contributions, net	(54,952)	(25,020)
Decrease in obligations under capital leases	2,716	3,973
Amounts funded by long-term debt	(6,643)	1,574
	12,726	19,091
	$ (11,172)	$ (6,996)

14. Statement of cash flows:

The net change in non-cash working capital balances related to operations consists of the following:

	2020	2019
Accounts receivable	$ (16,655)	$ (17,461)
Inventories	(3,062)	(1,181)
Prepaid expenses and deposits	(2,291)	(1,685)
Accounts payable and accrued liabilities	19,074	9,224
Deferred revenue	(773)	130
	$ (3,707)	$ (10,973)

15. Operating line of credit:

As at March 31, 2020, the Hospital has available a $75,000 (2019 - $75,000) unsecured demand operating line of credit, of which $nil (2019 - $nil) was drawn. This primary facility bears interest at the prime rate less 0.80%.

As at March 31, 2020, the Hospital has available a $40,000 (2019 - $nil) unsecured demand operating line of credit, of which $nil (2019 - $nil) was drawn. This secondary facility bears interest at the prime rate less 0.75%.

As at March 31, 2020, the prime interest rate is 2.45% (2019 – 3.95%) and the Hospital is compliant with its lending covenants.

16. Commitments and contingencies:

a) The nature of the Hospital’s activities is such that there is usually litigation pending or in progress at any time. With respect to claims as at March 31, 2020, it is management’s position that the Hospital has valid defenses and appropriate insurance coverage in place, such that there would be no material effect on the financial statements as a result of these claims. In the unlikely event any claims are successful, such claims are not expected to have a material effect on the Hospital’s financial position.

b) The Hospital participates in the Healthcare Insurance Reciprocal of Canada, a pooling of the public liability insurance risks of its hospital members. All members of the pool pay premiums that are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the year in which they were members. No losses have been assessed as at March 31, 2020.

c) The Hospital is currently in the planning stages of the multi-phased Our Healthy Future (“OHF”) initiative. The LHIN has endorsed the Hospital’s vision for its programs and services over the next 20 years as outlined in the OHF initiative. This long-range vision is the first in a multi-step capital planning process to renew the hospital facilities and model of care.

   During fiscal 2020, the LHIN approved a one-time capital planning grant of up to $1,765 for the development of a Stage Two Functional Program related to the redevelopment of the WLMH site.

   While the endorsement from the LHIN is an important milestone in the planning process to evolve the Hospital’s model of care and facilities, it does not mean that the proposed redevelopment projects have been approved.

d) The Hospital has committed to an infrastructure upgrade project at the WLMH site. Costs are projected to be $11,879 (2019 - $9,315) with a maximum grant of $10,495 (2019 - $8,479). The project is currently in progress, with expected completion in January 2021.

e) The Hospital has committed to the Stem Cell Transplant Expansion Project at the Juravinski site. Costs are projected to be $28,560 with a maximum grant of $25,166. The project is currently in progress, with expected completion in July 2021.

f) The total capital expenditure commitments for the projects described in (c), (d) and (e) above and other minor projects outstanding as at March 31, 2020 are estimated to be $40,495 (2019 - $36,759).

g) As at March 31, 2020, the Hospital has outstanding letters of credit of $3,440 (2019 - $3,440) related to various construction and renovation projects.

h) The Hospital is in the process of developing pay equity plans with certain employee groups. It is not possible at this time to make an estimate of the amount that may be payable to these labour groups and accordingly no provision has been made in the financial statements.

17. Related party transactions:

a) The Foundation is an independent organization that raises funds and holds resources solely for the benefit of the Hospital. The Foundation is incorporated without share capital under the laws of the Province of Ontario and is a charitable organization registered under the Income Tax Act. The Hospital is considered to be affiliated with the Foundation due to common directors on the boards. All amounts received from the Foundation are restricted in use by the Foundation and accordingly are accounted for by the Hospital as externally restricted contributions. The Foundation contributed $14,674 during fiscal 2020 (2019 - $9,981) for capital and $1,561 (2019 - $1,303) for research. Included in the Hospital's assets as at March 31, 2020 is $4,218 (2019 - $2,703) in accounts receivable from the Foundation.

b) The Volunteer Association is an independent organization that raises funds and holds resources for the benefit of the Hospital. In November 2011, the Hospital entered into a ten-year lease agreement with the Volunteer Association to manage the Hospital's parking operations. The Volunteer Association pays rent in-kind to the Hospital as an annual irrevocable gift, which is restricted for capital projects. All amounts received from the Volunteer Association are restricted and accordingly are accounted for as externally restricted contributions. The Volunteer Association contributed $13,452 (2019 - $12,959) during the year for capital and non-capital expenses. Included in the Hospital's assets as at March 31, 2020 is $1,620 (2019 - $2,530) in accounts receivable from the Volunteer Association.

c) HHSRI solicits, receives, manages, and distributes funds in respect of the advancement of health science research and education and the improvement of patient care in support of legislated and strategic priorities of the Hospital. HHSRI is a corporation without share capital under the laws of Canada and is a registered charity under the Income Tax Act. The Hospital is considered to be affiliated with and has significant influence over HHSRI as the Chief Executive Officer ("CEO") of the Hospital is also the CEO and a board member of HHSRI. The Hospital provides executive management, finance, and administrative services to HHSRI under a Management Services Agreement. During fiscal 2020, HHSRI paid the Hospital $386 (2019 - $381) for services under the Management Services Agreement and HHSRI contributed $12,769 (2019 - $14,187) to the Hospital for research. Included in the Hospital's assets at March 31, 2020 is $3,926 (2019 - $5,264) in accounts receivable from HHSRI. During fiscal 2020, the Hospital authorized a designated gift of $16,926 to HHSRI (2019 - $10,648). As of March 31, 2020 the balance was recorded in accounts payable and accrued liabilities.

d) The WLMH Foundation and the Auxiliary are both independent organizations. The WLMH Foundation receives and maintains funds for charitable purposes which it donates to the Hospital for the use of operations, renovations, maintenance, and equipment. The Auxiliary raises money to assist the Hospital in the acquisition of medical equipment and to assist the programs. The WLMH Foundation contributed $356 (2019 - $57) during the year for capital and non-capital expenses. The Auxiliary contributed $71 (2019 - $140) during the year for capital and non-capital expenses. Included in the Hospital's assets as at March 31, 2020 is $230 (2019 - $49) in accounts receivable from the WLMH Foundation and $1 (2019 - $nil) from the Auxiliary.

(All amounts are expressed in thousands of dollars)

17. Related party transactions (continued):

e) BAHT is a for-profit commercial entity dedicated to developing business opportunities harnessing private sector experience, energy, and entrepreneurship to benefit the community by supporting profitable business development in the health-care sector. The beneficiaries of BAHT are the Hospital, the Foundation, and McMaster University. Transactions with BAHT are considered to be in the normal course of operations and are recorded at the exchange amount.

Included in the Hospital's assets as at March 31, 2020 is $638 (2019 - $816) in accounts receivable of which $631 (2019 - $808) is interest bearing at a rate of prime less 0.20%. Included in the Hospital's accounts payable is $243 (2019 - $274). In the current year, the Hospital earned investment income of $23 (2019 - $26), received a beneficiary distribution of $nil (2019 - $250), and paid $12,225 (2019 - $9,522) of non-salary expenses to BAHT. The Hospital has guaranteed a portion of BAHT's financing and as at December 31, 2019, $40,905 (December 31, 2018 - $42,753) was outstanding.

The Hospital has an operating lease agreement with BAHT, which includes the management of three cogeneration facilities, each located at Hospital sites. The agreement states the Hospital is responsible for all variable costs required to operate and maintain the equipment of each facility.

18. Financial instruments and risk management:

(a) Financial instruments:

The Hospital's financial instruments consist of cash and cash equivalents, restricted cash and cash equivalents, short-term investments, portfolio investments, accounts receivable, accounts payable and accrued liabilities, long-term debt, obligations under capital leases, and derivative liabilities.

(b) Fair value measurement:

The following table illustrates the classification of the Hospital's financial instruments, including derivative financial instruments, measured at fair value on a recurring basis within the fair value hierarchy:

2020	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 153,935	$ -	$ -	$ 153,935
Restricted cash and cash equivalents	57,967	-	-	57,967
Short-term investments	20,212	-	-	20,212
Portfolio investments	71,060	-	-	71,060
Derivative liabilities	-	(7,243)	-	(7,243)
	$ 303,174	$ (7,243)	$ -	$ 295,931

(All amounts are expressed in thousands of dollars)

18. Financial instruments and risk management (continued):

(b) Fair value measurement (continued):

2019	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 156,162	$ -	$ -	$ 156,162
Restricted cash and cash equivalents	54,663	-	-	54,663
Short-term investments	17,381	-	-	17,381
Portfolio investments	81,145	-	-	81,145
Derivative liabilities	-	(6,438)	-	(6,438)
	$ 309,351	$ (6,438)	$ -	$ 302,913

(c) Risk management:

The Hospital is exposed to a variety of financial risks, including market risk, credit risk, and liquidity risk. The Hospital's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Hospital's financial performance. The Hospital is exposed to market risk with regards to its short-term investments, portfolio investments, and floating rate debt, which are regularly monitored.

(i) Market risk:

The Hospital is exposed to market risk through the fluctuation of financial instrument fair values due to changes in market prices. The significant market risks to which the Hospital is exposed are interest rate, currency, and other price risks.

(a) Interest rate risk:

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument fluctuates because of changes in market interest rates. The Hospital is exposed to interest rate risk on its investments and long-term debt. Of these risks, the Hospital's principal exposure is that increases in the floating interest rates on its debt, if unmitigated, could lead to decreases in cash flow and excess interest cost. The Hospital has effectively fixed its interest rate on the majority of its floating rate long-term debt by entering into various interest rate swaps.

The Hospital currently employs interest rate swaps to convert its variable interest rate on $36,466 of its floating rate loan facilities to a fixed interest rate (note 9). Interest rate swaps are employed in order to reduce variability in future interest cash flows. The swaps are measured at fair value until the swap is settled and the change in fair value is recorded in the statement of remeasurement gains and losses.

18. Financial instruments and risk management (continued):

(c) Risk management (continued):

(i) Market risk (continued):

(b) Currency risk:

Currency risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates will affect the Hospital’s future cash flows or the fair value of its financial instruments. The Hospital’s exposure to foreign currency exchange risk is on the cash and cash equivalents, restricted cash and cash equivalents, short-term investments, portfolio investments and other non-current assets which includes cash, securities and notes receivable denominated in US dollars and euros. As at March 31, 2020, the total amount of cash, securities and other non-current assets denominated in a foreign currency was $38,013 (2019 - $31,228).

The Hospital’s estimate of the effect on net assets as at March 31, 2020 due to a 1.0% increase or decrease in the exchange rates, with all other variables held constant, would approximately amount to an increase or decrease of $380 (2019 - $312).

(c) Other price risk:

Other price risk refers to the risk the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from risks noted above). The Hospital is exposed to other price risk through its portfolio investments.

As at March 31, 2020, the Hospital’s total exposure to other price risk is $71,060 (2019 - $81,145). The Hospital’s estimate on the effect of net assets as at March 31, 2020 due to a 1.0% increase or decrease in the fair value of long-term investments, with all other variables held constant, would approximately amount to an increase or decrease of $711 (2019 - $811). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(All amounts are expressed in thousands of dollars)

18. Financial instruments and risk management (continued):

(c) Risk management (continued):

(i) Market risk (continued):

(d) Sensitivity analysis:

The sensitivity analysis included in this note should be used with caution as the changes are hypothetical and are not predictive of future performance. The above sensitivities are calculated with reference to year-end balances and will change due to fluctuations in the balances in the future. In addition, for the purpose of the sensitivity analysis, the effect of a variation in a particular assumption on the fair value of the financial instruments was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may magnify or counteract the effect on the fair value of the financial instrument.

(ii) Credit risk:

The Hospital is exposed to credit risk in the event of non-payment by patients for uninsured services and services provided to non-resident patients. The risk is common to hospitals as they may be required to provide care for patients regardless of their ability to pay for services provided.

As at March 31, 2020, the following accounts receivable were past due but not impaired:

	30 days	60 days	90 days	Over 120 days
Accounts receivable	$ 15,530	$ 5,443	$ 5,095	$ 11,465

The Hospital is also exposed to credit risk through its portfolio investments in high quality bonds and equity securities and loans receivable. Management considers the credit risk to be low as the Hospital only places its investments with reputable and financially stable organizations and the portfolio is monitored by the Investment Committee.

(All amounts are expressed in thousands of dollars)

18. Financial instruments and risk management (continued):

(c) Risk management (continued):

(iii) Liquidity risk:

Liquidity risk results from the Hospital's potential inability to meet its obligations associated with financial liabilities as they come due. The Hospital monitors its operations and cash flows to ensure the current and future obligations will be met. In order to satisfy its known short and long-term cash obligations, the Hospital entered into an agreement for working capital relief funding from the LHIN to receive a maximum of $80,000 in new funding over a 10-year period ending March 31, 2027. This funding will be used to assist the Hospital to address its adjusted working funds deficit. The terms and conditions require the Hospital to first use the funding to permanently reduce the annual cash advance. Without access to these additional funding arrangements, the Hospital would need to maintain its cash advance from the LHIN in order to continue to meet its obligations.

The table below is a maturity analysis of the Hospital's financial liabilities:

	Up to 6 months	More than 6 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	$ 227,232	$ -	$ -	$ -	$ 227,232
Obligations under capital leases	740	717	2,183	-	3,640
Long-term debt	1,824	1,864	41,282	216,725	261,695
Other long-term liabilities	-	622	1,871	2,864	5,357
Derivative liabilities	-	-	-	7,243	7,243
	$ 229,796	$ 3,203	$ 45,336	$ 226,832	$ 505,167

19. Funding agreements:

The Hospital entered into funding agreements with various parties which require the disclosure of the revenues and expenditures for the respective program as follows:

a) Clinical Education Program:

During the year, the Clinical Education Program incurred expenses of $81,248 (2019 - $79,184) and received $82,158 (2019 - $80,180) from the MOHLTC. As applicable, the surplus in funding is owed to the MOHLTC, and, as such, a payable of $910 (2019 - $996) has been included in accounts payable and accrued liabilities.

(All amounts are expressed in thousands of dollars)

19. Funding agreements (continued):

b) Diabetes Education Program:

During the year, the Diabetes Education Program incurred expenses of $1,006 (2019 - $951) and received $874 (2019 - $874) from the LHIN.

	2020	2019
Revenue	$ 874	$ 874
Expenses:		
Salaries and benefits	991	938
General operating expenditures	15	13
Total expenses	$ 1,006	$ 951

c) Emergency Department Physician Program:

During the year, the Emergency Department Physician Program at the WLMH site incurred expenses of $1,964 (2019 - $1,890) and received $1,964 (2019 - $1,890) in funding.

	2020	2019
Revenues:		
MOHLTC	$ 1,434	$ 1,358
APP premium payments	500	484
Medical trainee programs	2	4
OHIP and 3rd party	28	44
	$ 1,964	$ 1,890

(All amounts are expressed in thousands of dollars)

19. Funding agreements (continued):

c) Emergency Department Physician Program (continued):

		2020		2019
Expenses:				
Physician:				
Participating physicians' services	$	1,394	$	1,326
APP premium payments		500		484
Non-participating physicians' services		36		35
Mentorship program		-		11
		1,930		1,856
Administration:				
Medical director		6		6
Billing administration		28		28
		34		34
	$	1,964	$	1,890

20. Coronavirus COVID-19 pandemic:

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 screening and assessment areas established in other facilities;
- Revisions to the delivery of a number of services in order to create capacity for pandemic response and support the containment of the virus within the Hospital; and
- The implementation of remote work arrangements for certain hospital employees.

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

20. Coronavirus COVID-19 pandemic (continued):

a) Subsequent events:

The Ministry has committed to providing funding to Ontario hospitals to support eligible, incremental expenses related to the COVID-19 response. An estimate of the financial effect of this funding is not practicable at the date of the approval of these financial statements.

b) Impact of COVID-19 on financial risks:

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

(i) Market risk:

Market risk has increased due to significant volatility in financial markets as discussed below:

(a) Interest rate risk:

The Hospital's interest rate risk on its debt and swap instruments has increased due to significant and sudden decreases in interest rates, resulting in an increase in the unrealized loss on the interest rate swap agreements. The Hospital has no plans to exit the swap agreements prior to the end of the term.

(b) Currency risk:

The Hospital's investments in foreign currency instruments have heightened risk due to significant fluctuations in currency markets and the uncertainty in market valuations for currencies due to the pandemic.

(c) Other price risk:

Other price risk has increased due to greater uncertainty in the valuation of financial assets arising from volatility in equity markets.

The Hospital is continually monitoring the impact of market volatility on its financial instruments and will adjust investment strategies as required to reduce the risk on the Hospital's operations and financial position.

20. Coronavirus COVID-19 pandemic (continued):

b) Impact of COVID-19 on financial risks (continued):

(ii) Liquidity risk:

The ability of the Hospital to meet cash flow requirements in the short term has been impacted by several factors including loss of revenue due to reduced services and significant unplanned purchases of capital and supplies. The Hospital is continuously monitoring cash flow in order to maintain its liquidity moving forward.

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. These impacts could include a decline in future cash flows, changes to the value of assets and liabilities, and the use of accumulated net assets to sustain operations. An estimate of the financial effect of the pandemic on the Hospital is not practicable at this time.

21. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.