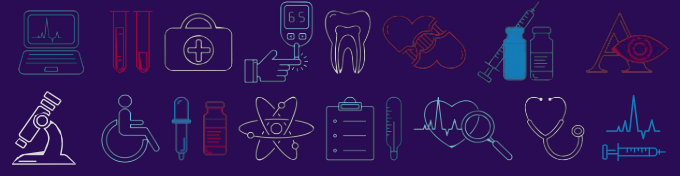




Audited Financial Statements

For the year ended March 31, 2020



KINGSTON HEALTH SCIENCES CENTRE

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Year ended March 31, 2020

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INDEPENDENT AUDITORS'S REPORT

To the Board of Directors of Kingston Health Sciences Centre

Opinion

We have audited the financial statements of the Kingston Health Sciences Centre ("the Centre"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of revenues and expenses for the year then ended
- the statement of remeasurement losses for the year then ended
- the statement of changes in net assets 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 Kingston Health Sciences Centre as at March 31, 2020, and its results of operations, its remeasurement gains and losses, its changes in net assets 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 Centre in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in the Centre's annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Centre's annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

Those charged with governance are responsible for overseeing the Centre'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 Centre'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 Centre'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 Centre 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.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

June 25, 2020

KINGSTON HEALTH SCIENCES CENTRE
Statement of Financial Position

As at March 31, 2020
(in thousands of dollars)

| | 2020 | 2019 |
|---|---------|---------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash | 43,545 | 58,808 |
| Restricted cash | 114,156 | 109,663 |
| Accounts receivable | 21,110 | 18,314 |
| Due from Ministry of Health, Cancer Care Ontario and South East Local Health Integration Network | 5,827 | 3,858 |
| Inventories | 9,392 | 7,159 |
| Other current assets | 9,531 | 7,956 |
| | 203,561 | 205,758 |
| Other investments (note 3) | 643 | 844 |
| Investments in joint ventures (note 4) | 3,536 | 3,512 |
| Capital assets, net (note 5) | 255,786 | 263,393 |
| | 463,526 | 473,507 |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 50,234 | 49,694 |
| Accrued compensation | 42,518 | 39,058 |
| Note payable – KGH Auxiliary (note 15(c)) | 465 | 265 |
| Agency obligations (note 7) | 2,859 | 3,748 |
| Current portion of long-term debt (note 8) | 1,500 | 1,454 |
| | 97,576 | 94,219 |
| Long-term debt (note 8) | 5,018 | 5,473 |
| Employee future benefits (note 9) | 36,267 | 35,048 |
| Interest rate swaps (note 8) | 262 | 203 |
| Deferred contributions (notes 10, 11, and 12) | 217,030 | 235,215 |
| Net assets | | |
| Invested in capital assets (note 6) | 43,862 | 34,390 |
| Internally restricted | 29,000 | 26,000 |
| Unrestricted | 34,677 | 43,072 |
| | 107,539 | 103,462 |
| Accumulated remeasurement losses | (166) | (113) |
| | 103,373 | 103,349 |
| Commitments (note 13) | | |
| Contingencies (notes 16 and 17) | | |
| | 463,526 | 473,507 |

See accompanying notes.

On behalf of the Board:



Member



Member

KINGSTON HEALTH SCIENCES CENTRE
Statement of Revenues and Expenses

For the year ended March 31, 2020
(in thousands of dollars)

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$ | \$ |
| Revenues | | |
| Ministry of Health, Cancer Care Ontario and South East Local Health Integration Network | 464,907 | 455,115 |
| Other patient services | 38,283 | 37,204 |
| Clinical education, other votes and programs | 74,288 | 69,354 |
| Ancillary services | 4,633 | 4,712 |
| Recoveries and other | 27,206 | 23,526 |
| Amortization of deferred capital contributions-major equipment | 6,790 | 6,555 |
| Total revenues | 616,107 | 596,466 |
| Expenses | | |
| Salaries and benefits | 427,257 | 408,671 |
| Patient care supplies and services | 98,842 | 94,157 |
| Utilities | 6,175 | 6,384 |
| General | 63,686 | 59,408 |
| Amortization of major equipment | 14,837 | 14,157 |
| Total expenses | 610,797 | 582,777 |
| Surplus of revenues over expenses before building and land improvements amortization | 5,310 | 13,689 |
| Amortization of deferred capital contributions – building and land improvements | 19,438 | 19,410 |
| Amortization of building and land improvements | (20,671) | (20,636) |
| Surplus of revenues over expenses | 4,077 | 12,463 |

See accompanying notes.

KINGSTON HEALTH SCIENCES CENTRE
Statement of Changes in Net Assets

For the year ended March 31, 2020
(in thousands of dollars)

| | Unrestricted | Internally Restricted | Invested in Capital Assets | 2020 \$ | 2019 \$ |
|---|--------------|--------------------------|----------------------------------|------------|------------|
| Balance, beginning of year | 43,072 | 26,000 | 34,390 | 103,462 | 90,999 |
| Surplus (deficit) of revenues over expenses (note 6) | 13,357 | | (9,280) | 4,077 | 12,463 |
| Appropriated for capital projects | (3,000) | 3,000 | | | - |
| Net change in investment in capital assets (note 6) | (18,752) | | 18,752 | | - |
| Balance, end of year | 34,677 | 29,000 | 43,862 | 107,539 | 103,462 |

See accompanying notes.

KINGSTON HEALTH SCIENCES CENTRE
Statement of Cash Flows

For the year ended March 31, 2020
(in thousands of dollars)

| | 2020 | 2019 |
|---|-------------|-------------|
| | \$ | \$ |
| Operating activities | | |
| Surplus of revenues over expenses | 4,077 | 12,463 |
| Add (deduct) non-cash items | | |
| Amortization of capital assets | 35,508 | 34,793 |
| Amortization of deferred capital contributions | (26,228) | (25,965) |
| Change in fair value of other investments | 3 | 10 |
| Change in non-cash working capital balances (note 14) | (5,459) | (3,443) |
| Increase in employee future benefits | 1,219 | 1,070 |
| Increase (decrease) in deferred contributions | (1,954) | 1,481 |
| | 7,166 | 20,409 |
| Capital activities | | |
| Purchase of capital assets | (27,901) | (26,227) |
| Receipt of deferred capital contributions | 9,997 | 13,604 |
| | (17,904) | (12,623) |
| Financing activities | | |
| Proceeds from long-term debt | 1,045 | - |
| Repayment of long-term debt | (1,454) | (1,425) |
| Note payable – KGH Auxiliary | 200 | (285) |
| | (209) | (1,710) |
| Investing activities | | |
| Sale of investments, net | 201 | 355 |
| Increase in investment in Joint Ventures | (24) | - |
| | 177 | 355 |
| <hr/> | | |
| Increase (decrease) in cash during the year | (10,770) | 6,431 |
| Cash, beginning of year | 168,471 | 162,040 |
| Cash, end of year | 157,701 | 168,471 |
| <hr/> | | |
| Cash, end of year is represented by: | | |
| Cash | 43,545 | 58,808 |
| Restricted cash | 114,156 | 109,663 |
| | 157,701 | 168,471 |

See accompanying notes.

KINGSTON HEALTH SCIENCES CENTRE
Statement of Remeasurement Losses

For the year ended March 31, 2020
(in thousands of dollars)

| | 2020 | 2019 |
|--|-------------|-------------|
| | \$ | \$ |
| Accumulated remeasurement losses beginning of the year | (113) | (83) |
| Unrealized gains (losses) attributable to | (113) | (83) |
| Realized loss | 2 | 1 |
| Designated fair value | 3 | 10 |
| Interest rate swaps | (58) | (41) |
| Net remeasurement losses for the year | (53) | (30) |
| Accumulated remeasurement losses, end of the year | (166) | (113) |

See accompanying notes.

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2020
(in thousands of dollars)

1. Nature of Operations

Kingston Health Sciences Centre (the Hospital) is a legal entity that represents the integration of the operations of Kingston General Hospital (KGH) and Hotel Dieu Hospital (HDH) effective April 1, 2017.

Respectful of the history and legacies of each hospital site, the Hospital provides compassionate, patient and family-centred care by partnering with patients, embracing education and supporting research. KHSC serves a catchment of almost 500,000 people through the two hospital sites and several regional affiliated and community locations.

The Hospital is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

2. Summary of Significant Accounting Policies

The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations. The more significant accounting policies are summarized as follows:

Ministry of Health, Cancer Care Ontario and South East Local Health Integration Network Funding

Kingston Health Sciences Centre is funded primarily by the Province of Ontario. These financial statements reflect agreed funding arrangements approved by the Ministry of Health, Cancer Care Ontario and the South East Local Health Integration Network with respect to the year ended March 31, 2020.

Revenue Recognition

Kingston Health Sciences Centre 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. Contributions received for capital assets are deferred and amortized into revenue over the same term and on the same basis as the related capital assets.

Realized and unrealized investment income is recorded in deferred contributions to the extent there are external restrictions on the related investments. Unrestricted investment income is recognized as revenue when earned on the Statement of Revenues and Expenses.

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. Operating grants are recorded as revenue in the period to which they relate.

Revenue from all other sources is recognized when goods are sold or the service is provided.

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.

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2020
(in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

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 Revenues and Expenses.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

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 Revenues and Expenses 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 Revenues and Expenses.

Long-term debt is recorded at cost. Interest rate swaps are recorded at fair value.

The Public Sector Accounting 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.

Capital Assets

Purchased capital assets are recorded at original cost. The original cost does not reflect replacement cost or market value upon liquidation. Contributed capital assets are recorded at fair value at the date of contribution. Assets acquired under capital leases are amortized over the estimated life of the assets or over the lease term, as appropriate. Repairs and maintenance costs are expensed.

Betterments, which extend the estimated life of an asset, are capitalized. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rates:

| | |
|--|----------|
| Land improvements | 4% - 10% |
| Buildings and building service equipment | 2% - 15% |
| Major equipment | 5% - 33% |

Costs of work in progress are capitalized. Amortization is not recognized until project completion.

Contributed Services

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2020
(in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

Inventories

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

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the year. Amounts subject to estimates include post-retirement benefit obligations and the carrying value of capital assets. Actual results could differ from those estimates.

Investments in Joint Ventures

The Hospital accounts for its investments in joint ventures using the equity method of accounting whereby the investments are carried at cost and adjusted for any contributions or withdrawals. Its share of the net earnings or losses of the joint ventures are reported in the Hospital's Statement of Revenues and Expenses.

Employee Benefit Plans

(a) Multi-Employer Pension Plan

Substantially all of the employees of the Hospital are members of the Healthcare of Ontario Pension Plan (the "Plan"), which is a defined benefit multi-employer pension plan.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for the employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The Plan's 2019 Annual Report indicates that the plan is fully funded by 119%.

(b) Accrued Post-Employment Benefits

Kingston Health Sciences Centre accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs.

Actuarial gains (losses) arise from changes in actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees.

The average remaining service period to retirement of employees covered by the employee benefit plan is 13-14 years (2019 – 13-14 years).

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

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2020
(in thousands of dollars)

3. Other Investments

| | Level | 2020 \$ | 2019 \$ |
|--|-------|------------|------------|
| Equity shares (cost \$Nil) | 2 | 97 | 97 |
| Corporate bonds (cost \$550; 2019 - \$754) | 2 | 546 | 747 |
| | | 643 | 844 |

Corporate bonds earn interest at rates of 2.58% to 3.79% (2019 – 2.58% to 3.79%).

4. Investments in Joint Ventures

(a) Investment in Queen’s University and Kingston Health Sciences Centre Parking Commission

Kingston Health Sciences Centre has a long-term agreement, as equal partner with Queen’s University at Kingston, for the operations of the Queen’s University and Kingston Health Sciences Centre Parking Commission (the “Commission”). The principal business activities include the operation of an underground parking garage. Kingston Health Sciences Centre’s share of the Commissions’ excess of revenue over expense for 2020 amounts to \$528 (2019: \$655) and has been included in the Statement of Revenues and Expenses.

(b) Investment in Queen’s University and Kingston Health Sciences Centre Cogeneration Facility

Kingston Health Sciences Centre participates in a joint venture with Queen’s University at Kingston for the operation of a cogeneration facility governed by a Management Board consisting of representatives of Queen’s University at Kingston and the Hospital. The purpose of the facility is to produce electricity and steam. The Hospital’s net capital investment in the joint venture is \$3,536 (2019: \$3,512). Kingston Health Sciences Centre’s proportionate share of the joint venture is 40% and Queen’s University at Kingston’s proportionate share is 60%. Kingston Health Sciences Centre’s share of the facility’s excess of expense over revenue is \$872 (2019: \$255) and has been included in the Statement of Revenues and Expenses.

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2020
(in thousands of dollars)

5. Capital Assets

Capital assets consist of the following:

| | 2020 | 2019 |
|--|----------------|----------------|
| | \$ | \$ |
| Land & land improvements | 1,640 | 1,640 |
| Buildings & building service equipment | 454,872 | 444,671 |
| Major equipment | 303,846 | 283,158 |
| Work in progress | 19,989 | 22,977 |
| | <u>780,347</u> | <u>752,446</u> |
| Less accumulated amortization | | |
| Land & land improvements | 916 | 904 |
| Buildings & building service equipment | 269,900 | 249,240 |
| Major equipment | 253,745 | 238,909 |
| | <u>524,561</u> | <u>489,053</u> |
| Net capital assets | <u>255,786</u> | <u>263,393</u> |

At March 31, the Hospital's outstanding purchase orders related to work in progress and major equipment purchases were approximately \$5,754 (2019: \$6,463). An additional \$30,049 (2019: \$22,769) of expenditures are estimated to complete the approved capital projects. These funds are included in restricted cash.

During the year, the Hospital received approval from the Ministry of Health to complete Stage 3, Preliminary Design Development for the Redevelopment of the KGH Site. This Redevelopment project will include the construction of a multi-tower building for the new Emergency Department, Operating Rooms, Clinical Labs, Neonatal Intensive Care Unit, Labour and Delivery, additional inpatient units, as well as a new Information Technology Data Centre. A Planning, Design and Compliance (PDC) Consultant has been engaged to assist with completing the Stage 3 documentation which will be submitted to the Ministry of Health in order to obtain approval to move to the next stage of the Ministry Capital Approval Process.

6. Invested in Capital Assets

Net assets invested in capital assets are calculated as follows:

| | 2020 | 2019 |
|---|---------------|---------------|
| | \$ | \$ |
| Capital assets balance, end of the year | 255,786 | 263,393 |
| Amounts financed by: | | |
| Deferred contributions | (205,406) | (222,076) |
| Long-term debt | (6,518) | (6,927) |
| | <u>43,862</u> | <u>34,390</u> |

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2020
(in thousands of dollars)

6. Invested in Capital Assets (continued)

The change in net assets invested in capital assets is as follows:

| | 2020 | 2019 |
|--|----------|----------|
| | \$ | \$ |
| Excess of expenses over revenues | | |
| Amortization of deferred contributions related to capital assets | 26,228 | 25,965 |
| Amortization of capital assets | (35,508) | (34,793) |
| | (9,280) | (8,828) |

| | 2020 | 2019 |
|-----------------------------|---------|----------|
| | \$ | \$ |
| Purchase of capital assets | 27,901 | 26,227 |
| Amounts funded by: | | |
| Deferred contributions | (9,558) | (11,459) |
| Long-Term Debt | (1,045) | - |
| Repayment of long-term debt | 1,454 | 1,425 |
| | 18,752 | 16,193 |

7. Agency Obligations

Kingston Health Sciences Centre acts as an agent, which holds resources and makes disbursements on behalf of various unrelated individuals and groups. The Hospital has no discretion over such agency transactions. Resources received in connection with such agency transactions are reported as liabilities not revenue and subsequent distributions are reported as decreases to this liability.

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2020
(in thousands of dollars)

8. Long-Term Debt

| | 2020 \$ | 2019 \$ |
|--|------------|------------|
| Bank term loan with interest at 2.85%, payable in monthly installments of \$10 on account of principal and interest, due September 2020 | 59 | 174 |
| Bank term loan with interest at 2.85%, payable in monthly installments of \$47 on account of principal and interest, due September 2020 | 281 | 830 |
| Bank term loan with floating interest, payable in monthly installments of \$64 on account of principal and interest, due February 2022 (a) | 3,581 | 4,182 |
| Bank term loan with floating interest, payable in monthly installments of \$20 on account of principal and interest, due June 2027 (b) | 1,552 | 1,741 |
| Term loan with interest at 2.82%, payable in monthly installments of \$30 on account of principal and interest, due March 2023. | 1,045 | - |
| | 6,518 | 6,927 |
| Less current portion of long-term debt | (1,500) | (1,454) |
| | 5,018 | 5,473 |

The Hospital has entered into interest rate swap agreements to manage the volatility of interest rates. The maturity dates of the interest rate swaps are the same as the maturity dates of the associated long-term debt.

The fair value of the interest rate swaps at March 31, 2020 is (\$262) (2019 - (\$203)) which is recorded on the Statement of Financial Position. The current year impact of the change in fair value of the interest rate swaps is \$58 (2019 - \$41) on the Statement of Remeasurement Gains and Losses.

The fair value of the interest rate swaps 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.

- (a) The outstanding loan amount is subject to an interest rate swap agreement on an original notional principal of \$7,800 with the banker whereby the Hospital receives a floating interest rate while paying a fixed rate of 4.14%.
- (b) The outstanding loan amount is subject to an interest rate swap agreement on an original notional principal of \$1,894 with the banker whereby the Hospital receives a floating interest rate while paying a fixed rate of 3.4%.
- (c) The principal repayments due on long-term debt for each of the four years subsequent to March 31, 2020 and thereafter are as follows:
2021 - \$1,500; 2022 - \$3,504; 2023 - \$567; 2024- \$215; 2025 - \$222; and thereafter - \$510.
- (d) Interest on long-term debt in the amount of \$236 (2019: \$292) is included in general expense in the Statement of Revenues and Expenses.

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2020
(in thousands of dollars)

9. Post-Employment Benefits

Pension Plan

Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to \$24,296 (2019: \$23,578) and are included in salaries and benefits on the Statement of Revenues and Expenses.

Non-Pension Plans

Kingston Health Sciences Centre's post-employment benefit plans are comprised of medical, dental and life insurance coverage. The measurement date used to determine the accrued benefit obligation is March 31, 2020. The most recent actuarial valuation of the non-pension post-employment benefits plans for accounting purposes was as of April 1, 2018 and extrapolated to March 31, 2020.

Information about the non-pension post-employment benefit plans is as follows:

| | 2020 \$ | 2019 \$ |
|------------------------------|------------|------------|
| Accrued benefit obligation | 37,999 | 37,941 |
| Unamortized actuarial losses | (1,039) | (2,147) |
| Accrued compensation | (693) | (746) |
| Employee future benefits | 36,267 | 35,048 |

The expense for the year related to these plans is \$3,383 (2019: \$3,173) and employer contributions for these plans is \$2,217 (2019: \$2,153).

The significant actuarial assumptions adopted in measuring the accrued benefit obligation and the expense for the post-employment benefit plans is as follows:

- Discount rate for calculation of net benefit costs of 2.9% (2019 – 3.2%).
- Discount rate to determine accrued benefit obligation for disclosure at end of period 3.1% (2019 – 2.9%).
- Dental and extended health costs in 2020 are based on actual rates. Dental cost increases are assumed to be 2.75% per annum thereafter. Extended health care costs are assumed to be 6% in 2020 decreasing by 0.25% per annum to an ultimate rate of 4.5% per annum.

10. Deferred Contributions Related to Operations

Deferred contributions related to operations represent grants provided for specific operating purposes that have not yet been actualized. These grants have not been taken into revenue.

| | 2020 \$ | 2019 \$ |
|------------------------------------|------------|------------|
| Balance, beginning of year | 7,971 | 6,488 |
| Additional contributions received | 164 | 3,863 |
| Less amounts recognized to revenue | (2,110) | (2,380) |
| | 6,025 | 7,971 |

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For the year ended March 31, 2020
(in thousands of dollars)

11. Deferred Contributions Related to Capital Assets

Deferred contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets.

Externally restricted contributions and investment income related to special capital funding are included in deferred contributions related to capital assets.

| | 2020 | 2019 |
|-----------------------------------|----------------|----------------|
| | \$ | \$ |
| Balance, beginning of year | 227,140 | 239,501 |
| Additional contributions received | 9,997 | 13,604 |
| Less amounts amortized to revenue | (26,228) | (25,965) |
| | 210,909 | 227,140 |

The balance of unamortized capital contributions related to capital assets consists of the following:

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$ | \$ |
| Unamortized capital contributions used to purchase assets | 205,406 | 222,076 |
| Unspent contributions | 5,503 | 5,064 |
| | 210,909 | 227,140 |

12. Deferred Contributions Related to Externally Restricted Funds

Deferred contributions related to externally restricted funds represent grants, donations and other revenue provided for specific restricted purposes that have not yet been actualized. These grants, donations and other revenues have not been taken into revenue.

| | 2020 | 2019 |
|-----------------------------------|-------------|-------------|
| | \$ | \$ |
| Balance, beginning of year | 104 | 106 |
| Additional contributions received | 152 | 163 |
| Less amounts amortized to revenue | (160) | (165) |
| | 96 | 104 |

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For the year ended March 31, 2020
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13. Commitments

Lease Commitments

Kingston Health Sciences Centre is committed under certain operating lease agreements to minimum lease payments as follows:

| | 2020 |
|-------------------------------------|--------------|
| | \$ |
| Year ending March 31, | |
| 2021 | 2,215 |
| 2022 | 1,920 |
| 2023 | 1,528 |
| 2024 | 1,097 |
| 2025 | 331 |
| Total minimum lease payments | 7,091 |

14. Net Change in Non-Cash Working Capital Balances Related to Operations

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

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$ | \$ |
| Accounts receivable | (2,793) | (1,856) |
| Due from Ministry of Health, Cancer Care Ontario and South East Local Health Integration Network | (1,969) | 2,205 |
| Inventories | (2,233) | 8 |
| Other current assets | (1,575) | (957) |
| Accounts payable and accrued liabilities | 540 | (5,339) |
| Accrued compensation | 3,460 | 2,135 |
| Agency obligations | (889) | 361 |
| Net decrease | (5,459) | (3,443) |

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15. Related Entities

This section addresses disclosure requirements regarding the Hospital's relationships with related entities.

(a) University Hospitals Kingston Foundation

Kingston Health Sciences Centre has an economic interest in the University Hospitals Kingston Foundation (UHKF). The primary purpose of UHKF is to act as a single fundraiser for Kingston Health Sciences Centre and Providence Care Centre (together, the "Kingston Hospitals") in order to maximize fundraising revenues and program efficiency to raise funds by way of public appeal for the benefit of the Kingston Hospitals. As outlined in the Operating Agreement between the Kingston Hospitals and UHKF, the Board of Directors of UHKF will determine the amount of unrestricted funds that are available for distribution to the Kingston Hospitals, and will determine in collaboration with the Chief Executive Officers of the Kingston Hospitals or their designates how these funds will be distributed among the Kingston Hospitals.

During the year, University Hospitals Kingston Foundation provided Kingston Health Sciences Centre \$1,523 (2019: \$5,826) to fund capital redevelopment, equipment purchases, research and special program costs.

(b) Kingston Health Sciences Centre Volunteer Services to Hotel Dieu Hospital Site ("Volunteer Services")

Kingston Health Sciences Centre has an economic interest in Kingston Health Sciences Centre Volunteer Services to Hotel Dieu Hospital Site. Volunteer Services' mission is to support the HDH Hospital site by donating time and talents to enhance the lives of those in need. All donations from Volunteer Services are directed to the Hospital through the University Hospitals Kingston Foundation.

(c) Kingston General Hospital Auxiliary

Kingston Health Sciences Centre has an economic interest in Kingston General Hospital Auxiliary. Kingston General Hospital Auxiliary promotes and extends the interests of the Kingston Health Sciences Centre throughout the city and surrounding counties. It provides volunteer auxiliary services as requested by Kingston Health Sciences Centre administration through liaison with the Director of Volunteers and the President of the organization.

Kingston General Hospital Auxiliary also raises funds for the Kingston General Hospital site to be allocated to special gifts in a manner satisfactory to the administration of Kingston Health Sciences Centre and in harmony with the planning of the community.

During the year, Kingston General Hospital Auxiliary granted \$468 (2019: \$755) to the Hospital to fund equipment purchases and special program costs. Kingston Health Sciences Centre issued a note payable to Kingston General Hospital Auxiliary for \$465 (2019: \$265) which is payable on demand.

(d) Kingston Regional Hospital Laundry Incorporated

Kingston Health Sciences Centre has significant influence in Kingston Regional Hospital Laundry Incorporated (KRHL). KRHL, a Corporation incorporated under the laws of the Province of Ontario, provides laundry services, linen replacement, uniforms, dry cleaning and other related laundry services to hospitals in the Southeast region. During the year, Kingston Health Sciences Centre paid \$2,341 (2019: \$2,336) to KRHL. These costs are included in general expenses on the Statement of Revenues and Expenses.

KINGSTON HEALTH SCIENCES CENTRE
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For the year ended March 31, 2020
(in thousands of dollars)

15. Related Entities (continued)

(e) Shared Support Services South Eastern Ontario

The Hospital is a member of Shared Support Services South Eastern Ontario ("3SO"), a non-profit corporation. 3SO manages the services and provides procurement oversight on the part of the six member hospitals of the South East Local Health Integration Network. Each of the member hospitals is a voting member of 3SO. Therefore, the Hospital has an economic interest, but not control, over 3SO.

The assets, liabilities, net assets and results of operation of the 3SO are not included in the financial statements. During the year, the Hospital paid \$3,000 (2019: \$3,187) to 3SO for governance/operating costs. These costs are included in general expenses on the Statement of Revenues and Expenses.

The Hospital has provided a limited guarantee to a maximum of 61.33% of a \$1,000 line of credit secured by 3SO, representing the Hospital's proportionate share of \$613. As at March 31, 2020, 3SO has drawn \$nil (2019: \$nil) on this line of credit, of which \$nil (2019: \$nil) is guaranteed by the Hospital.

The Hospital signed a ten year commitment in June 2008 that was subsequently renewed for an additional one year, followed by an additional five year term in April 2019.

(f) Hotel Dieu Hospital Kingston Research Institute (HDHkRI) and Kingston General Health Research Institute (KGHRI)

The Hospital carries on its research mission through HDHkRI and KGHRI, both federally incorporated not-for-profit corporations. Funding for the research institutes is provided by a variety of external sources including Governments, charitable organizations, private industry and the Hospital. As a result of having representation on the Board of Directors of the research institutes, the Hospital exercises significant influence, but no control over these institutes. During the year, the Hospital provided \$507 (2019 - \$580) of funding for research administrative support.

(g) Religious Hospitallers of Saint Joseph of the Hotel Dieu of Kingston

The Religious Hospitallers of Saint Joseph of the Hotel Dieu of Kingston ("RHSJ") is a registered charity and is incorporated under the Corporations Act of Ontario. RHSJ leases certain building assets at no charge for KHSC to operate health services activity.

16. Liability Insurance

On July 1, 1987, a group of health care organizations formed the 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. Subscribers pay annual premiums that are actuarially determined. Subscribers are subject to assessment for losses, if any, experienced by the pool for the years in which they were a subscriber. No assessments have been made to March 31, 2020.

Since its inception in 1987 HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income less the obligation for claims reserves and expenses and operating expenses. Each subscriber which has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There is no distributions receivable from HIROC as of March 31, 2020 (2019 -\$NIL).

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17. Contingencies

Kingston Health Sciences Centre activities are such that there are usually claims pending or in progress at any time. With respect to claims at March 31, 2020, management believes that reasonable provisions have been made in the accounts.

18. Clinical Education Program

During the year, the Hospital's Clinical Education Program incurred expenses of \$39,011 (2019: \$37,885) and received \$38,905 (2019: \$38,227) in funding from the Ministry of Health. Under the terms of the arrangement, the surplus of this funding of \$NIL (2019: \$341) will be returned to the Ministry of Health, and as such a payable has been recorded. A request to fund the 2020 deficit of \$106 is under review by the Ministry of Health and will be recorded as revenue when received.

19. Financial Risks and Concentration of Credit Risk

(a) Credit Risk

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to accounts receivable and other 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, 2020 is the carrying value of these assets.

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 Statement of Revenues and Expenses. Subsequent recoveries of impairment losses related to accounts receivable are credited to the Statement of Revenues and Expenses. The balance of the allowance for doubtful accounts at March 31, 2020 is \$1,416 (2019: \$1,227).

As at March 31, 2020, \$1,879 (2019: \$1,120) of accounts receivable were past due, but not impaired.

The Hospital follows an investment policy approved by the Board of Directors. The maximum exposure to credit risk on the Hospital's other investments at March 31, 2020 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2019.

(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. 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 30 days of receipt of an invoice.

The contractual maturities of long-term debt, and interest rate swaps are disclosed in Note 8.

There have been no significant changes to the liquidity risk exposure from 2019.

KINGSTON HEALTH SCIENCES CENTRE
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For the year ended March 31, 2020
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19. Financial Risks and Concentration of Credit Risk (continued)

(c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates will affect the Hospital's income or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing return on investment.

- 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.

As at March 31, 2020, 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 on the market value of bonds would approximate (\$6) and \$6 respectively.

The Hospital mitigates interest rate risk on certain of its term debt through derivative financial instruments (interest rate swaps) that exchange the variable rate inherent in the term debt for a fixed rate (see Note 8). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the term debt.

The Hospital's investments are disclosed in Note 3.

There has been no change to the interest rate risk exposure from 2019.

20. Impact of COVID-19

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact. At the time of approval of these financial statements, the Hospital has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic:

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

As a result of these measures, the Hospital continues to experience decreases in operating revenues and increase in operating costs in the subsequent period.

The Ministry has allowed the Hospital to redirect revenue from certain funded activities towards incremental COVID-related costs incurred during the year ended March 31, 2020.

As per Ministry direction, the Hospital has submitted an incremental expense claim in the amount of \$693 for operating costs and \$341 related to COVID-capital expenditures for the year-ended March 31, 2020. The revenue associated with these expenditures will be realized by the Hospital when the Ministry of Health confirms acceptance of the expense submission.

KINGSTON HEALTH SCIENCES CENTRE
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20. Impact of COVID-19 (continued)

At this time these factors present uncertainty over future cash flows, may cause significant changes to assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practical at this time.