Financial Statements of

ST. MARY'S GENERAL HOSPITAL

And Independent Auditors' Report thereon

Year ended March 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the St. Joseph's Health System and
The Board of Trustees, St. Mary's General Hospital

Opinion

We have audited the financial statements of St. Mary's General Hospital (the Hospital), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations for the year then ended
- the statement of 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 Hospital as at March 31, 2020, and its results of operations, its remeasurement 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 Hospital 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 Hospital's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Hospital or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Hospital to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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
May 29, 2020

ST. MARY'S GENERAL HOSPITAL

Statement of Financial Position

March 31, 2020, with comparative information for 2019

		2020		2019
Assets				
Current assets:				
Cash (note 3)	$	16,410,395	$	16,709,501
Accounts receivable, net (note 4)		6,722,993		6,165,121
Inventories		1,150,659		871,158
Prepaid expenses		953,168		1,114,074
		25,237,215		24,859,854
Investments (note 5)		3,269,773		2,130,108
Capital assets (note 6)		114,714,801		105,337,765
	$	143,221,789	$	132,327,727
Liabilities, Deferred Contributions and Net Assets (Deficit)				
Current liabilities:				
Accounts payable and accrued liabilities (note 7)	$	37,910,611	$	30,772,111
Deferred revenue		1,970,196		441,818
Current portion of long-term debt (note 9)		1,511,543		948,677
		41,392,350		32,162,606
Employee future benefits (note 8)		5,293,400		5,123,400
Long-term debt (note 9)		25,955,018		17,508,498
Interest rate swaps market valuation (note 9)		3,458,944		1,657,397
		76,099,712		56,451,901
Deferred capital contributions (note 10)		73,752,367		76,694,940
Net assets (deficit):				
Invested in capital assets (note 11)		13,696,469		10,345,695
Unrestricted net assets		(16,867,815)		(9,507,412)
		(3,171,346)		838,283
Accumulated remeasurement loss		(3,458,944)		(1,657,397)
Contingencies (note 12)				
Subsequent event (note 15)				
	$	143,221,789	$	132,327,727

See accompanying notes to financial statements.

On behalf of the Board:

A Smith Trustee

Stanley Mahinyay Trustee

ST. MARY'S GENERAL HOSPITAL

Statement of Operations

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

	2020	2019
Revenue:		
Ontario Ministry of Health and other funding agencies	$ 148,234,519	$ 143,758,021
Preferred accommodation	791,376	178,146
Other patient revenue	14,559,127	14,489,209
Parking revenue	1,990,510	1,881,510
Donations and other revenue	3,999,137	3,574,727
Amortization of deferred capital contributions relating to equipment	3,145,709	3,708,084
	172,720,378	167,589,697
Operating expenses:		
Salaries, wages and employee benefits	124,479,915	118,038,340
Medical and surgical supplies	21,273,989	20,625,347
Drugs and medicines	3,654,355	4,134,692
Other supplies and expenses	22,666,078	22,486,796
Amortization of major equipment	4,252,608	3,665,052
	176,326,945	168,950,227
Deficiency of operating revenues over expenses prior to building amortization	(3,606,567)	(1,360,530)
Amortization of deferred contributions relating to buildings and building equipment	2,823,699	2,744,019
Amortization of buildings and building equipment	(3,372,808)	(3,207,595)
Loss on disposal of equipment	(45,694)	(1,421)
Donations from Foundation toward long-term debt (note 13)	667,499	674,511
Interest related to long-term liabilities	(475,758)	(200,742)
Deficiency of revenues over expenses	$ (4,009,629)	$ (1,351,758)

See accompanying notes to financial statements.

ST. MARY'S GENERAL HOSPITAL

Statement of Changes in Net Assets (Deficit)

Year ended March 31, 2020 with comparative information for 2019

March 31, 2020	Invested in capital assets	Unrestricted	Total
Balance, beginning of year	$ 10,345,695	$ (9,507,412)	$ 838,283
Deficiency of revenues over expenses	(1,359,663)	(2,649,966)	(4,009,629)
Net change in investment in capital assets	4,710,437	(4,710,437)	-
Balance, end of year	$ 13,696,469	$ (16,867,815)	$ (3,171,346)

March 31, 2019	Invested in capital assets	Unrestricted	Total
Balance, beginning of year	$ 17,309,109	$ (15,119,068)	$ 2,190,041
Deficiency of revenues over expenses	(421,965)	(929,793)	(1,351,758)
Net change in investment in capital assets	(6,541,449)	6,541,449	-
Balance, end of year	$ 10,345,695	$ (9,507,412)	$ 838,283

See accompanying notes to financial statements.

ST. MARY'S GENERAL HOSPITAL

Statement of Cash Flows

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

	2020	2019
Cash provided by (applied to):		
Operations:		
Deficiency of revenue over expenses	$ (4,009,629)	$ (1,351,758)
Items not involving cash:		
Amortization of capital assets	7,625,416	6,872,647
Amortization of deferred contributions related to capital assets	(5,969,408)	(6,452,103)
Loss on disposal of equipment	45,694	1,421
Change in employee future benefits obligation	170,000	195,000
	(2,137,927)	(734,793)
Changes in non-cash operating working capital:		
Accounts receivable	(557,872)	877,633
Inventories	(279,501)	203,140
Prepaid expenses	160,906	(83,460)
Accounts payable and accrued liabilities	7,138,500	2,211,394
Deferred revenue	1,528,378	268,711
	5,852,484	2,742,625
Capital:		
Purchase of capital assets	(17,048,146)	(11,766,541)
Contributions received related to capital assets	3,026,835	4,345,292
	(14,021,311)	(7,421,249)
Investing:		
Decrease in investments (net)	(1,139,665)	(25,514)
Financing:		
Proceeds from long-term debt	10,000,000	14,630,206
Repayment of long-term debt	(990,614)	(641,120)
	9,009,386	13,989,086
Increase (decrease) in cash	(299,106)	9,284,948
Cash, beginning of year	16,709,501	7,424,553
Cash, end of year	$ 16,410,395	$ 16,709,501
Supplemental cash flow information:		
Cash paid for interest	$ 1,017,346	$ 498,663
Cash received for interest	324,118	236,479

See accompanying notes to financial statements.

ST. MARY'S GENERAL HOSPITAL

Statement of Remeasurement Losses

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

		2020		2019
Accumulated remeasurement loss, beginning of the year	$	(1,657,397)	$	(235,933)
Unrealized loss attributable to:				
Derivative – interest rate swaps		(1,801,547)		(1,421,464)
Net remeasurement loss for the year		(1,801,547)		(1,421,464)
Accumulated remeasurement loss, end of the year	$	(3,458,944)	$	(1,657,397)

See accompanying notes to financial statements.

St. Mary's General Hospital, Kitchener, Ontario (the "Hospital") is an adult medical surgical hospital with a priority focus on cardiac, thoracic and senior friendly care. Founded by the Sisters of St. Joseph of Hamilton in 1924, we are guided by our Judeo-Christian values and Catholic traditions in the provision of health services within the Region of Waterloo.

The Hospital is a division of St. Joseph's Health System (the "System"). The System is incorporated under the laws of the Province of Ontario. Both the Hospital and the System are registered charitable organizations under the Income Tax Act (Canada).

These financial statements do not include the accounts of the other health care facilities which are part of the St. Joseph's Health System.

1. 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.

(a) Basis of presentation:

The financial statements present only the accounts of the Hospital as a separately managed entity and exclude any accounts of the System that are considered to be unrelated to the Hospital's operations. For those reasons, some users of these financial statements may require additional information from the System.

These financial statements do not include the accounts of the following related, but separate entities:

St. Mary's General Hospital Foundation

St. Mary's General Hospital Volunteer Association

(b) Inventories:

Inventories of supplies consist of drugs, medical, surgical and laboratory supplies. Medical, surgical and laboratory supplies are valued at the lower of cost on a first-in, first-out basis, and replacement cost. Drug inventory is valued on a weighted average basis.

(c) Investments:

Investments are primarily comprised of marketable securities and fixed income deposits. Marketable securities are carried at fair value while fixed income deposits are carried at cost. Unrestricted investment income is recognized as revenue during the period in which it is earned.

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

(d) Financial instruments:

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

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

Transaction costs incurred on the acquisition of financial instruments are 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.

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.

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

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

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.

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

(e) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution.

Incremental interest incurred during the acquisition, construction or production of capital assets is included in the cost of the capital asset. The interest capitalized is determined by applying the Hospital's average interest rate to the average amount of accumulated expenditures for the asset during the year.

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

	Rate
Buildings	2.5%
Building equipment	4%
Major equipment	5% - 33.3%

(f) Revenue recognition:

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

Under the Health Insurance Act and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health ("MOH") and the Ministry of Long-Term Care ("MOLTC"). Operating grants are recorded as revenue in the period to which they relate. These financial statements reflect agreed arrangements approved by the Ministry with respect to the year ended March 31, 2020.

Grants approved, but not received at the end of an accounting period, are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

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

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

Revenue from Ontario Health Insurance Plan ("OHIP"), preferred accommodation, as well as income from parking and other ancillary operations, is recognized when the goods are sold or the service is provided, if the amount to be received can be reasonably estimated and collection is reasonably assured.

1. Significant accounting policies (continued):

(g) Employee future benefits obligation:

(i) Multi-employer plan:

Substantially all of the employees of the Hospital are eligible to be members of Healthcare of Ontario Pension Plan ("HOOPP"), which is a multi-employer high five average pay contributory pension plan. As HOOPP's assets and liabilities are not segmented by participating employer, the Hospital accounts for its HOOPP obligation on a cash basis (as a defined contribution plan).

(ii) Defined benefit plan:

The Hospital accrues its obligations under employee defined benefit dental, life insurance and health care plans, and the related costs as the employees render the services necessary to earn the future benefits. The Hospital offers the plan to certain of its employees as described in (note 8).

- The cost of the accrued benefit obligations for retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of retirement ages and expected health care costs.
- Past service costs from plan amendments are recognized immediately in the period the plan amendments occur.
- Actuarial gains/losses on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains/losses are amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the post-retirement benefits plan is 12 years (2019 - 12 years).
- For those self-insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers' compensation and life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to these benefits are recognized immediately in the period they arise.

(h) Contributed goods and 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.

1. Significant accounting policies (continued):

(i) 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 carrying amount of capital assets, allowance for doubtful accounts and obligations related to employee future benefits. Actual results could differ from those estimates.

2. Change in accounting policy:

Effective November 3, 2019, the Hospital changed its accounting policy to value drug inventory on a weighted average basis. Previously, the Hospital valued drugs at the lower of cost on a first-in, first out basis, and replacement cost.

The change in policy has been made due to the functionality of the health care information system that does not support the first-in, first out basis costing method. The financial statements were not restated as the change did not have a material impact on the financial statements.

3. Cash:

The Hospital has an operating line which is available for use to the Hospital through the St. Joseph's Health System. The Hospital did not utilize this credit facility during the year.

4. Accounts receivable:

	2020	2019
Ontario Ministry of Health	$ 290,707	$ 848,734
OHIP, Patients and others	6,516,572	5,087,425
St. Joseph's Healthcare Hamilton	-	15,100
St. Mary's General Hospital Foundation	244,058	505,984
	7,051,337	6,457,243
Less allowance for doubtful accounts	(328,344)	(292,122)
	$ 6,722,993	$ 6,165,121

5. Investments:

	Level		2020		2019
Cash held for purchase of long-term assets, measured at fair value	1	$	829,139	$	830,027
Fixed income investments held for purchase of long-term assets, measured at fair value	2		2,440,634		1,300,081
		$	3,269,773	$	2,130,108

The fixed income investments mature from July 13, 2020 to March 11, 2023 and hold fixed interest rates from 1.6% to 2.83%. There were no changes in the classification of these financial instruments during the current year.

Investment income is included in deferred capital contributions on the statement of financial position. The investment income of $24,764 (2019 - $19,987) is comprised of interest income earned on bank balances and fixed income investment securities.

6. Capital assets:

March 31, 2020						
		Cost		Accumulated amortization		Net book value
Land	$	2,084,724	$	-	$	2,084,724
Buildings and building equipment		135,951,615		62,127,487		73,824,128
Major equipment		116,125,420		86,972,979		29,152,441
Deposit on equipment		509,075		-		509,075
Construction in progress		9,144,433		-		9,144,433
	$	263,815,267	$	149,100,466	$	114,714,801

6. Capital assets (continued):

March 31, 2019	Cost	Accumulated amortization	Net book value
Land	$ 2,084,724	$ -	$ 2,084,724
Buildings and building equipment	134,998,565	58,754,679	76,243,886
Major equipment	95,381,272	83,016,716	12,364,556
Deposit on equipment	1,119,786	-	1,119,786
Construction in progress	13,524,813	-	13,524,813
	$ 247,109,160	$ 141,771,395	$ 105,337,765

During the year, the Hospital capitalized net interest of $401,142 (2019 - $222,657).

7. Accounts payable and accrued liabilities:

	2020	2019
Accounts payable and other accrued liabilities	$ 19,458,798	$ 14,264,536
Accrued salaries, wages and employee deductions	9,647,317	8,111,899
Accrued vacation pay	5,436,230	4,849,729
Accounts payable MOH and other funding agencies	3,368,266	3,545,947
	$ 37,910,611	$ 30,772,111

8. Employee future benefits:

(a) Pension plan:

Substantially all full-time employees of the Hospital are members of the Healthcare of Ontario Pension Plan ("HOOPP"). This Plan is a multi-employer, defined benefit pension plan. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. As this is a multi-employer plan, no liability has been recorded on the Hospital's books.

Employer contributions to the Plan on behalf of employees amounted to $7,182,461 (2019 - $6,790,683). The most recent actuarial valuation for accounting purposes was completed by HOOPP as at December 31, 2019. Their December 31, 2019 audited financial statements disclosed an actuarial value of Net Assets in the amount of $87,181 million, with accrued benefits of $73,547 million, resulting in a going concern surplus of $13,634 million.

(b) Other employee future benefits:

The Hospital has an unfunded defined benefit dental, life insurance and health care plan. This covers substantially all of its employees and provides a segment of its retirees with post-retirement benefits.

Information about the accrued non-pension obligation and liability as at March 31, 2020, is as follows:

	2020	2019
Accrued benefit obligation, beginning of year	$ 4,697,500	$ 4,334,400
Current service cost	296,900	274,800
Interest cost	218,000	206,300
Benefits paid	(319,700)	(249,900)
Actuarial losses	15,800	131,900
Accrued benefit obligation, end of year	4,908,500	4,697,500
Unamortized actuarial gains	384,900	425,900
Total accrued benefit liability, end of year	$ 5,293,400	$ 5,123,400

8. Employee future benefits (continued):

(b) Other employee future benefits (continued):

The significant actuarial assumptions adopted in the measuring of the accrued non-pension benefit obligation are as follows:

	2020	2019
Accrued benefit obligation (at end of year):		
Discount rate	4.48%	4.51%
Extended health care	6.00%	6.00%
Dental care cost rate	4.00%	4.00%
Benefit costs (for fiscal year):		
Discount rate	4.51%	4.60%

The benefit obligation for accounting purposes is based on the most recent actuarial valuation of March 31, 2020.

9. Long-term debt:

The balance of long-term debt reported on the consolidated statement of financial position is made up of the following:

	2020	2019
Term loan, with interest at 3.95% per annum fixed through a swap transaction, monthly payments of interest and principal, maturing on June 1, 2025 (note 9(a))	$ 2,931,700	$ 3,424,525
Construction loan, with interest at 3.10% per annum fixed through a swap transaction, monthly payments of interest and principal, maturing on November 15, 2028 (note 9(b))	4,576,797	5,032,650
Health Information System project loan, with interest due monthly at 3.61% per annum fixed through a swap transaction, maturing on March 15, 2035 (note 9(c))	19,958,064	10,000,000
	27,466,561	18,457,175
Less: current portion of long-term debt	(1,511,543)	(948,677)
	$ 25,955,018	$ 17,508,498

9. Long-term debt (continued):

(a) The Hospital has a term loan agreement with the bank which bears interest at the bank's prime lending rate plus 0.30%, is payable monthly and matures on June 1, 2025. The Hospital entered into an interest rate swap transaction to pay a fixed interest rate of 3.95% (note 9 (e)). The agreement includes certain financial covenants. As at March 31, 2020, the Hospital is in compliance with the covenants.

(b) The Hospital has a 10 year term construction loan bearing variable interest rates and payable monthly. The loan matures on November 15, 2028, the Hospital entered into an interest rate swap to pay a fixed interest rate of 3.10% (note 9 (f)),

(c) The Hospital refinanced the Health Information System project loan through a term loan agreement with the bank. The first draw down of $10 million was on June 15, 2018. The second draw down of $10 million was on May 15, 2019. This loan was interest only until April 15, 2020 (note 15 (b)). The loan matures on March 15, 2035. The Hospital entered into an interest rate swap transaction to pay a fixed interest rate of 3.61% (note 9 (g)).

(d) Debt maturity:

The following are the future minimum annual debt principal repayment due over the next five fiscal years and thereafter:

2020	$ 1,511,543
2021	2,108,571
2022	2,185,322
2023	2,264,888
2024	2,347,370
Thereafter	17,048,867
	$ 27,466,561

9. Long-term debt (continued):

(e) Interest rate swap:

The Hospital has entered into an interest rate swap agreement to manage the volatility of interest rates. The Hospital is a party to a 15-year interest rate swap agreement with a notional principal amount of $7 million, whereby the Hospital is obligated to pay fixed interest of 3.95% while receiving variable rate interest which offsets the variable rate interest paid on its term loan (note 9 (a)). The agreement matures on June 1, 2025. The fair value of the interest rate swap agreement will continue to fluctuate until the maturity of the agreement, or its settlement.

The fair value of the interest rate swap at March 31, 2020 is in a net unfavorable position of $246,699 (2019 - $224,221). The current year impact of the change in fair value of the interest rate swap is an increase to the statement of remeasurement gains and loss of $22,478 (2019 – $11,712). The fair value of the interest rate swap is determined using Level 3 of the fair value hierarchy.

(f) Construction loan Interest rate swap:

The Hospital has entered into an interest rate swap agreement to manage the volatility of interest rates for the construction loan. The Hospital is a party to a 10-year interest rate swap agreement with a notional principal amount of up to $5.2 million, whereby the Hospital is obligated to pay fixed interest of 3.10% while receiving variable rate interest which offsets the variable rate interest paid on its construction loan (note 9 (b)). The agreement matures on October 15, 2028. The fair value of the interest rate swap agreement will continue to fluctuate until the maturity of the agreement, or its settlement. The fair value of the interest swap at March 31, 2020 is in a net unfavorable position of $266,545 (2019 – $64,873). The current year impact of the fair value of the interest rate swap is a decrease to the statement of remeasurement gains and Loss of $201,672 (2019 – $64,873). The fair value of the interest rate swap is determined using Level 3 of the fair value hierarchy.

(g) Project loan interest rate swap:

The Hospital has entered into an interest rate swap agreement to manage the volatility of interest rates for the project loan. The Hospital is a party to a 17-year interest rate swap agreement with a notional principal amount of up to $20 million, whereby the Hospital is obligated to pay fixed interest of 3.61% while receiving variable rate interest which offsets the variable rate interest paid on its project loan (note 9 (c)). The agreement matures on February 15, 2035. The fair value of the interest rate swap agreement will continue to fluctuate until the maturity of the agreement, or its settlement. The fair value of the interest swap at March 31, 2020 is in a net unfavorable position of $2,945,700 (2019 – $1,368,303). The current year impact of the fair value of the interest rate swap is a decrease to the statement of remeasurement gains and loss of 1,577,397 (2019 - $1,368,303). The fair value of the interest rate swap is determined using Level 3 of the fair value hierarchy.

10. Deferred contributions:

Deferred contributions related to capital assets represent the unamortized portion of contributed capital assets and the unamortized portion of restricted contributions with which capital assets were originally purchased, plus any unspent donations and grants received during the year for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations. The changes in the deferred contributions balance for the year are as follows:

	2020	2019
Balance, beginning of year	$ 76,694,940	$ 78,801,751
Additional contributions	3,026,835	4,345,292
Less amounts amortized to revenue	(5,969,408)	(6,452,103)
Balance, end of year	$ 73,752,367	$ 76,694,940

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

	2020	2019
Unamortized capital contributions used to purchase capital assets	$ 73,551,771	$ 76,534,895
Unspent capital contributions	200,596	160,045
	$ 73,752,367	$ 76,694,940

11. Net assets invested in capital assets:

Investment in capital assets is calculated as follows:

	2020	2019
Capital assets	$ 114,714,801	$ 105,337,765
Amounts financed by deferred contributions	(73,551,771)	(76,534,895)
Amounts financed by debt	(27,466,561)	(18,457,175)
	$ 13,696,469	$ 10,345,695

12. Contingencies:

(a) The Hospital is subject to certain actual and potential legal claims, which have arisen in the normal course of operations. In management's opinion, insurance coverage is sufficient to offset the cost of unfavourable settlements, if any, which may result from such claims.

(b) In the normal course of operations, the Hospital is subject to various human resource matters, including grievances filed by employees or groups of employees under Provincial legislation. Currently, no significant matters are before an arbitrator or pending resolution.

(c) In the normal course of operations, the Hospital is involved in certain employment related matters and has recorded accruals based on management's estimate of potential settlement amounts where these amounts are reasonably determinable.

13. Related party transactions:

(a) St. Joseph's Health System:

The Hospital, as a division of St. Joseph's Health System (the "System"), was involved in inter-divisional activities throughout the year. These activities consist of the sharing of the System's corporate administrative charges and resulted in charges of $396,227 (2019 - $398,565). Included in accounts payable and accrued liabilities is $132,045 (2019 – $nil) related to transactions with the System. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

13. Related party transactions (continued):

(b) St. Joseph's Healthcare Hamilton:

The Hospital receives services from St. Joseph's Healthcare throughout the year. These activities consist of the sharing of staff charges and other services and resulted in charges of $84,400 (2019 - $79,425). At March 31, 2020, the Hospital did not have a net accounts receivable balance (2019 - $15,100). These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

(c) St. Mary's General Hospital Foundation:

The Hospital has an economic interest in the St. Mary's General Hospital Foundation (the "Foundation") as the Foundation was established to raise funds for the use of the Hospital. The Foundation's by-laws indicate that it will operate and fundraise to support the Hospital. The Foundation is separately incorporated under laws of Ontario and is a registered charity under the Income Tax Act. The Board of Directors of the Foundation is separate from the Hospital, and thus the Foundation is separately managed. The Hospital may request donations from the Foundation, but the ultimate decisions on funding are completed by the Foundation management and Board of Directors.

Net resources of the Foundation amount to $15,506,601 (2019 - $12,486,736), of which $7,019,591 represents contributions externally restricted.

The net assets and results from operations of the Foundation are not included in the statements of the Hospital. Separate financial statements of the Foundation are available upon request.

Related party transactions during the year include the following:

(i) an amount of $2,249,864 (2019 - $2,476,937) has been received from the Foundation and recorded as deferred contributions related to capital assets; and

(ii) an amount of $667,499 (2019 - $674,511) representing debt repayments paid on the Hospital's behalf have been completed by the Foundation and recorded donations from Foundation toward long-term debt on the statement of operations.

13. Related party transactions (continued):

(d) St. Mary's General Hospital Volunteer Association:

The Hospital has an economic interest in the St. Mary's General Hospital Volunteer Association (the "Volunteer Association") as the Volunteer Association was established to support the Hospital's initiatives and raise funds for the use of the Hospital. The Volunteer Association is incorporated under laws of Ontario and is exempt from income tax under the Income Tax Act. The Board of Directors of the Volunteers Association is separate from the Hospital, and thus the Volunteers Association is separately managed. The Hospital may request donations from the Volunteers Association, but the ultimate decisions on funding are completed by the Volunteers Association management and Board of Directors.

Net resources of the Volunteer Association amount to $500,000 (2019 - $400,000), with no contributions externally restricted. An amount of $60,000 is internally restricted for capital improvements.

The net assets and results from operations of the Volunteer Association are not included in the statements of the Hospital. Separate financial statements of the Volunteer Association are available upon request.

Related party transactions during the year not separately disclosed in the financial statements:

(i) Intercompany transactions related to supply purchases made by the Volunteer Association and payroll costs for the Tim Horton's operated by the Volunteer Association.

14. Financial risks:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to the accounts receivable, cash and 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 income statement. Subsequent recoveries of impairment losses related to accounts receivable are credited to the income statement. The balance of the allowance for doubtful accounts at March 31, 2020 is included (in note 4).

As at March 31, 2020, there is no patient accounts receivable were are not impaired.

The maximum exposure to investment credit risk is outlined (in note 5).

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 60 days of receipt of an invoice.

The contractual maturities of long-term debt, and interest rate swaps are disclosed in (note 9).

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

(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.

14. Financial risks (continued):

(d) Interest rate risk:

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

Financial assets and financial liabilities with variable interest rates expose the Hospital to cash flow interest rate risk. The Hospital is exposed to this risk through to its interest bearing loan payable and its interest rate swap.

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 the interest rate swap would increase by $1,752,594 or decrease by $1,637,063 respectively.

The Hospital mitigates interest rate risk on its term debt through derivative financial instrument (interest rate swaps) that exchanges the variable rate inherent in the term debt for a fixed rate (see note 9). 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 5).

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

15. Subsequent event:

(a) COVID-19 Pandemic:

On March 11, 2020, the novel coronavirus ("COVID-19") outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

The Hospital has experienced the following financial implications and undertaken the following activities in relation to the COVID-19 pandemic:

(i) Initiated active screening of all persons entering the facility on March 16, 2020.

(ii) Effective March 16, 2020, the Hospital cancelled or postponed elective procedures and reduced ambulatory clinic appointments. The hospital does rely on ambulatory clinics to generate a small portion of revenue. For inpatients, ward rooms have been converted to accommodate physical distancing. Semi private and private rooms are considered medically necessary and are currently treated as ward rooms.

(iii) Large team meetings have been restricted as a precaution. Where applicable, employees are working remotely.

(iv) There is uncertainty surrounding the supply chain for drugs and personal protective equipment ("PPE") globally.

15. Subsequent event (continued):

(v) Effective March 19, 2020, the Hospital mandated that no visitors will be allowed on-site, pending limited exceptions.

(vi) The Hospital continues to follow the guidance of the Ministry of Health, the Ministry of Long-term Care and the Chief Medical Officer of Ontario in its management of the facility.

At this time these factors present uncertainty over future cash flows, may cause changes to the assets or liabilities and may have an impact on future operations. An estimate of the financial effect is not practical at this time. The Ministry of Health has set aside $2.1B for supporting the health sector, but the funding formula is unknown.

(b) Project Loan Principal Payment Suspension:

In April 2020, given the COVID-19 pandemic, the principal repayment for project loan was suspended for 6 months starting on May 15, 2020. Any and all interest accrued and accruing thereon shall continue to be paid on the existing due date. In addition, the interest rate, contractual term, rate term and amortization period of the loan will remain the same. The principal repayment will resume on November 15, 2020 until maturity on March 15, 2035. As a result of the principal payment suspension, the amounts of the remaining monthly payments will change in order to be repaid within the current amortization period.