

**Humber River Hospital**  
**Financial Statements**  
For the year ended March 31, 2019

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## Independent Auditor's Report

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### To the Members of Humber River Hospital

#### Opinion

We have audited the financial statements of Humber River Hospital (the "Hospital"), which comprise the statement of financial position as at March 31, 2019, and the statements of remeasurement losses, operations and changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2019, and its financial performance 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our 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.

#### Emphasis of Matter

We draw attention to Note 16 of the financial statements, which explains that certain comparative information presented for the year ended March 31, 2019 has been restated. Our opinion is not modified in respect of this matter.

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

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

#### Auditor's 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 auditor's 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.

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## Independent Auditor's Report (continued)

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### Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 auditor's 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 auditor's report. However, future events or conditions may cause the Hospital to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Mississauga, Ontario  
June 12, 2019

**Humber River Hospital**  
**Statement of Financial Position**

	March 31, 2019 \$	March 31, 2018 \$
		(Restated - Note 16)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	21,333,518	16,178,274
Restricted cash and investments [note 2]	35,738,711	32,178,412
Accounts receivable [note 4]	17,206,432	19,534,016
Inventory	2,675,088	2,578,714
Prepaid expenses	3,259,927	4,687,213
Current portion of long-term receivable [note 5]	8,243,173	7,720,633
<b>Total current assets</b>	<b>88,456,849</b>	<b>82,877,262</b>
Long-term receivable [note 5]	539,843,124	547,217,575
Capital assets [note 6]	1,335,368,594	1,350,346,100
	<b>1,963,668,567</b>	<b>1,980,440,937</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities [note 7]	70,202,806	72,428,509
Current portion of long-term debt [note 14]	4,087,935	3,997,935
Current portion of MES lease obligation [note 9]	7,391,587	6,793,342
Current portion of long-term payable [note 8]	8,243,173	7,720,633
Legal defense fund [note 13/ii]	3,754,000	3,319,000
<b>Total current liabilities</b>	<b>93,679,501</b>	<b>94,259,419</b>
Long-term debt [note 14]	149,977,750	154,028,352
Post-employment benefits [note 10]	8,030,600	8,124,800
MES lease obligation [note 9]	23,285,954	30,812,390
Long-term payable [note 8]	572,533,835	562,739,579
Interest rate swaps [note 14]	8,841,555	4,275,859
Deferred capital contributions [note 11b]	1,109,832,675	1,128,640,122
<b>Total liabilities</b>	<b>1,966,181,870</b>	<b>1,982,880,521</b>
Commitments and contingencies [note 13]		
<b>Net assets</b>	<b>6,328,252</b>	<b>1,836,275</b>
<b>Accumulated remeasurement losses</b>	<b>(8,841,555)</b>	<b>(4,275,859)</b>
	<b>(2,513,303)</b>	<b>(2,439,584)</b>
	<b>1,963,668,567</b>	<b>1,980,440,937</b>

On behalf of the Board:

 Trustee

 Trustee

The accompanying notes are an integral part of these financial statements.

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**Humber River Hospital**  
**Statement of Remeasurement Losses**

<b>For the year ended March 31</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Accumulated remeasurement losses, beginning of year	<b>(4,275,859)</b>	(10,976,707)
Unrealized (losses) gains attributable to derivative interest rate swaps	<b>(4,565,696)</b>	6,700,848
Net remeasurement (losses) gains for the year	<b>(4,565,696)</b>	6,700,848
Accumulated remeasurement losses, end of year	<b>(8,841,555)</b>	(4,275,859)

*The accompanying notes are an integral part of these financial statements.*

**Humber River Hospital**  
**Statement of Operations and Changes in Net Assets**

<b>For the year ended March 31</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUE</b>		
Ministry of Health and Long-Term Care and Central Local Health Integrated Network	445,914,775	408,401,740
Patient services	31,962,903	29,964,202
Ancillary and other	17,551,139	25,629,860
Amortization of deferred capital contributions - equipment	8,211,196	8,899,483
	<b>503,640,013</b>	<b>472,895,285</b>
<b>EXPENSES</b>		
Salaries, wages and benefits	332,610,626	309,753,331
Medical and surgical supplies	33,767,547	30,144,928
Drugs and gases	19,992,893	19,051,505
Supplies and other expenses	85,470,529	87,835,700
Specifically funded programs	8,018,663	4,656,469
Amortization - equipment	20,566,402	20,802,489
	<b>500,426,660</b>	<b>472,244,422</b>
<b>Excess of revenue over expenses for the year before building interest and amortization</b>	<b>3,213,353</b>	<b>650,863</b>
Revenue allocated to buildings	12,088,801	10,590,557
Building amortization and interest, net [note 11a]	(6,008,923)	(5,957,331)
Interest on long-term debt	(4,801,254)	(4,846,682)
<b>Excess of revenue over expenses for the year</b>	<b>4,491,977</b>	<b>437,407</b>
<b>Net assets, beginning of year</b>	<b>1,836,275</b>	<b>1,398,868</b>
<b>Net assets, end of year</b>	<b>6,328,252</b>	<b>1,836,275</b>

*The accompanying notes are an integral part of these financial statements.*

**Humber River Hospital**  
**Statement of Cash Flows**

<b>For the year ended March 31</b>	<b>2019</b> <b>\$</b>	<b>2018</b> <b>\$</b>
		(Restated - Note 16)
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses for the year	4,491,977	437,407
Add (deduct) items not requiring cash		
Amortization	58,762,293	60,429,421
Amortization of deferred capital contributions	(40,398,164)	(42,569,084)
Amortization of deferred financing fee	37,333	37,333
	<u>22,893,439</u>	<u>18,335,077</u>
Net change in non-cash working capital balances related to operations [note 15]	1,197,731	(1,737,233)
Accrual for post-employment benefits	(94,200)	15,100
<b>Cash provided by operating activities</b>	<u>23,996,970</u>	<u>16,612,944</u>
<b>FINANCING AND CAPITAL ACTIVITIES</b>		
Deferred capital contributions received	21,590,717	22,409,668
Repayment of long-term debt	(3,997,935)	(3,903,935)
Purchase of capital assets	(43,784,787)	(39,089,411)
Decrease in long-term receivable	6,851,911	6,357,435
Increase (decrease) in long-term payable	10,316,796	(1,036,738)
Payments on capital lease obligation	(6,928,191)	(5,269,295)
<b>Cash (used in) provided by financing and capital activities</b>	<u>(15,951,489)</u>	<u>(20,532,276)</u>
<b>INVESTING ACTIVITIES</b>		
Increase in investments	(2,890,237)	(17,104,526)
<b>Cash used in investing activities</b>	<u>(2,890,237)</u>	<u>(17,104,526)</u>
<b>Net increase (decrease) in cash during the year</b>	<b>5,155,244</b>	<b>(21,023,858)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>16,178,274</b>	<b>37,202,132</b>
<b>Cash and cash equivalents, end of year</b>	<u><b>21,333,518</b></u>	<u><b>16,178,274</b></u>

*The accompanying notes are an integral part of these financial statements.*

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# Humber River Hospital

## Notes to Financial Statements

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For the year ended March 31, 2019

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Nature and purpose of organization

Humber River Hospital [the "Hospital"] is incorporated without share capital under the Corporations Act (Ontario). The Hospital provides a full range of secondary level care and selected regional services principally to the residents of northwest Toronto.

The Hospital is a charitable organization registered under the Income Tax Act (Canada) [the "Act"] and, as such, is exempt from income taxes. In order to maintain its status as an organization registered under the Act, the Hospital must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

#### Basis of accounting and presentation

The financial statements of the Hospital have been prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public Sector Accounting Board ("PSAB for Government NPOs").

These financial statements do not include the activities of the following non-controlled affiliated entities [note 12]:

- Humber River Hospital Foundation (The Foundation)
- Humber River Hospital Volunteer Association (The Volunteer Association)

#### Cash and cash equivalents

Cash and cash equivalents consist of bank accounts and term deposits held at a chartered bank. The Hospital considers all highly liquid investments that are cashable within 90 days to be cash equivalents. As at March 31, 2019, cash equivalents consist of one term deposit of \$10,750,000 (2018 - \$6,000,000 and \$1,500,000) with a maturity date of April 29, 2019 and that earns interest at 2.00% (2018 - 1.75% and 1.60%).

These cash equivalents consist of term deposits that are recorded at fair value, which is considered to be cost plus accrued interest.

#### Inventory

Inventory is valued at the lower of cost which is recorded on the first in first out basis, and net realizable value. Inventory consists of medical and general supplies that are used in the Hospital's operations and not for resale purposes.

#### Capital assets

Purchased capital assets are recorded at cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments that extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Hospital's ability to provide services or the value of future economic benefits associated with the capital asset is less than its net book value, the carrying value of the capital asset is reduced to reflect the decline in the asset's value.



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# Humber River Hospital

## Notes to Financial Statements

For the year ended March 31, 2019

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### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Capital assets (continued)

Construction in progress is not amortized until construction is substantially complete and the assets are ready for use.

Capital assets are capitalized on acquisition. Amortization of buildings, service equipment and equipment is provided on a straight-line basis over the assets estimated useful lives at the rates indicated as follows:

Buildings and building service equipment	2% to 20%
Equipment	5% to 33%

#### MES capital lease

The Hospital entered into an agreement with General Electric Canada for long-term managed equipment services that includes new equipment, equipment replacement at specified periods in time and maintenance on this equipment. The agreement is being treated as a capital lease as substantially all of the benefits and risks associated with ownership are transferred to the Hospital. Assets under capital lease are recorded with an offsetting obligation in the period in which new equipment is delivered to the Hospital. The equipment is amortized in a manner consistent with capital assets owned by the Hospital and the obligation including interest thereon is expensed over the term of the lease. The maintenance component of the lease is expensed over the term of the lease.

#### Contributed services

The Humber River Hospital Volunteer Association volunteer numerous valuable hours to assist the Hospital in carrying out certain charitable aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and, as such, is not reflected in these financial statements. Contributed materials are also not recognized in these financial statements.

#### Revenue recognition

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 and Long-Term Care (MOHLTC) and the Central Local Health Integration Network (CLHIN). The Hospital has entered into a Hospital Service Accountability Agreement (the H-SAA) for fiscal 2019 with the CLHIN that sets out the rights and obligations of the parties to the H-SAA in respect of funding provided to the Hospital by the CLHIN. The H-SAA also sets out the performance standards and obligations of the Hospital that establish acceptable results for the Hospital's performance in a number of areas.

If the Hospital does not meet its performance standards or obligations, the CLHIN has the right to adjust funding received by the Hospital. The CLHIN is not required to communicate certain funding adjustments until after the submission of year-end data. Since this data is not submitted until after the completion of the financial statements, the amount of CLHIN funding received by the Hospital during the year may be increased or decreased subsequent to year end.

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## Humber River Hospital Notes to Financial Statements

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For the year ended March 31, 2019

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### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue recognition (continued)

The Hospital follows the deferral method of accounting for contributions which includes donations and government grants. Unrestricted contributions are recognized as revenue when received or if the amount can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the period in which the related expenses are recognized. Restricted contributions for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant is related to a future period, it is deferred and recognized in a subsequent period. These financial statements reflect agreed arrangements approved by the MOHLTC and the CLHIN with respect to the year ended March 31, 2019.

Revenue from patient services is recognized when the service is provided.

Ancillary and other revenue consists of items such as parking and medical aids, and investment income. Parking and medical aids revenue is recognized when the goods are sold and services provided. Investment income is earned on restricted capital contributions and is deferred and recognized consistent with these restricted contributions as described above.

#### Employee benefit plans

##### [i] Multi-employer plan

Substantially all of the employees of the Hospital are eligible to be members of the Hospital of Ontario Pension Plan ["HOOPP" or the "Plan"], which is a multi-employer, defined benefit, final average earnings, contributory pension plan. This plan is accounted for as a defined contribution plan. The costs of the multi-employer defined benefit pension are the employer's contributions due to the plan in the period.

##### [ii] Accrued post-employment benefits

The Hospital provides defined retirement and post-employment benefits to certain employee groups. The costs of post-employment future benefits are actuarially determined using management's best estimate of health care costs, disability recovery rates and discount rates. Adjustments to these costs arising from changes in estimates and experience gains and losses are amortized to income over the estimated average remaining service life of the employee groups on a straight line basis. Plan amendments, including past service costs are recognized as an expense in the period of the plan amendment. The discount rate used in the determination of the above-mentioned liabilities is equal to the Hospital's internal rate of borrowing.

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## Humber River Hospital Notes to Financial Statements

**For the year ended March 31, 2019**

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### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments

The Hospital is party to an interest rate swap agreement that manages the exposure to market risks from changing interest rates. At March 31, 2019, \$140,138,000 (2018 - \$143,606,000) is the outstanding amount advanced under this interest rate swap. HRH's policy is not to utilize derivative financial instruments for trading or speculative purposes

The Hospital classifies its financial instruments as either fair value or amortized cost. The Hospital's accounting policy for each category is as follows:

#### Fair value

This category is comprised of cash and cash equivalents, restricted cash and investments and derivative instruments. These financial instruments are initially measured at cost and subsequently carried at fair value with changes in fair value recognized in the statement of operations and changes in net assets. Changes in fair value of derivative instruments are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations and changes in net assets. Transaction costs related to financial instruments in the fair value category are expensed as incurred. Changes in fair value on restricted assets are recognized as a liability until the restriction criterion has been met.

Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from accumulated remeasurement gains and losses and recognized in the statement of operations and changes in net assets. On sale, the amount held in accumulated remeasurement gains and losses associated with that instrument is removed from net assets and recognized in the statement of operations and changes in net assets.

#### Amortized cost

This category includes accounts receivable, long-term receivable, accounts payable and accrued liabilities, legal defense fund, long-term debt and long-term payable. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Write-downs on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the statement of operations.

# Humber River Hospital

## Notes to Financial Statements

**For the year ended March 31, 2019**

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Use of estimates

The preparation of the financial statements in conformity with PSAB for Government NPOs requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Management believes that the estimates utilized in preparing the financial statements are reasonable and prudent; however, actual results could differ from those estimates. Accounts receivable, post-employment benefits and the legal defense fund are reported based on amounts expected to be recovered or incurred and reflect an appropriate allowance for unrecoverable amounts based on management's estimates. Amounts recorded for amortization of capital assets are based on estimates of useful service life.

### 2. RESTRICTED CASH AND INVESTMENTS

In May 2000, the Hospital received from the Ontario Ministry of Health and Long-Term Care (MOHLTC), an unconditional capital grant from the Superbuild Growth Fund for capital projects directed by the Health Services Restructuring Commission. The balance for the Superbuild fund at March 31, 2019 is \$6,993,843 [2018 - \$6,993,843].

The Hospital received from MOHLTC planning grants to assist with developing the Humber River Hospital's new hospital project, Finch Site Reactivation Centre and the Church Site Reactivation Centre. The planning grants balance at year end was \$7,301,099 [2018 - \$8,481,171].

The MOHLTC has agreed to allow the Hospital to retain \$10,000,000 towards the MOHLTC's share of construction costs [note 8].

The restricted cash and investments are summarized in the following continuity table:

	2019	2018
	\$	\$
Legal defense fund	4,430,728	3,760,666
Planning grants	7,301,099	8,481,171
Humber River Hospital sinking fund	2,480,254	2,436,575
Unrestricted investment fund	14,500,000	14,500,000
Restricted investment fund	7,026,630	3,000,000
	<b>35,738,711</b>	<b>32,178,412</b>

The unspent portion of these grants and donations is invested in term deposits, bankers' acceptances or current accounts bearing average interest rates ranging from 0.85% to 1.86% [2018 - 0.85% to 1.10%]. The interest income earned was \$140,080 [2018 - \$105,803].

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**Humber River Hospital**  
**Notes to Financial Statements**

**For the year ended March 31, 2019**

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**2. RESTRICTED CASH AND INVESTMENTS (continued)**

**Legal defense fund:**

Effective January 1, 2014, the Hospital entered into an arrangement with Health Care Insurance Reciprocal of Canada (HIROC) whereby the costs of investigating and defending any litigation claims are borne by the Hospital.

The Hospital has transferred funds to an account held by HIROC Management Limited (HML), as the Hospital's appointed agent, to fund expected payments. The cash balance of \$4,430,728 [2018 - \$3,760,666] is restricted to these payments.

**Sinking fund:**

Under the Development Accountability Agreement, the Hospital was required to establish a sinking fund, three months in advance of substantial completion, to pay for its share of the new hospital. The sinking fund trust account should contain at all times an amount equal to at least six months of long term debt interest costs and the Hospital's share of the annual service payments excluding facility management services. The Hospital's sinking fund, as at March 31, 2019, was \$2,480,254 [2018 - \$2,436,675] and is held in trust by Computershare.

**Unrestricted investment fund:**

Unrestricted investment fund consists of a guaranteed investment certificates (GICs) with an interest rate of 2.44% [2018 - 2.05%] and maturity date of December 23, 2019 [2018 - March 28, 2019].

**Restricted investment fund:**

Restricted investment fund consists of funds restricted for purposes approved by the Board of Directors only.

Restricted investment fund consists of three guaranteed investment certificates (GICs) with interest rates ranging from 2.33% to 2.45% [2018 - 1.80%] and maturity dates between July 31 and December 20, 2019 [2018 - July 17, 2018].

**Humber River Hospital**  
**Notes to Financial Statements**

**For the year ended March 31, 2019**

**3. FINANCIAL INSTRUMENT CLASSIFICATIONS**

The following table provides cost and fair value information of financial instruments by category. The maximum exposure to credit risk would be the carrying value as shown below.

	<b>2019</b>		
	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Total</b>
	\$	\$	\$
Cash and cash equivalents	-	21,333,518	21,333,518
Accounts receivable	-	17,206,432	17,206,432
Long-term receivable	-	548,086,297	548,086,297
Restricted cash and investments	35,738,711	-	35,738,711
Accounts payable and accrued liabilities	-	70,202,806	70,202,806
Legal defense fund	-	3,754,000	3,754,000
Long-term debt	-	154,065,686	154,065,686
Long-term payable	-	580,777,008	580,777,008
Interest rate swaps	8,841,555	-	8,841,555

	<b>2018</b>		
	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Total</b>
	\$	\$	\$
Cash and cash equivalents	-	16,178,274	16,178,274
Accounts receivable	-	19,534,016	19,534,016
Long-term receivable	-	554,938,208	554,938,208
Restricted cash and investments	32,178,412	-	32,178,412
Accounts payable and accrued liabilities	-	72,428,509	72,428,509
Legal defense fund	-	3,319,000	3,319,000
Long-term debt	-	158,026,287	158,026,287
Long-term payable	-	570,460,212	570,460,212
Interest rate swaps	4,275,859	-	4,275,859

## Humber River Hospital Notes to Financial Statements

**For the year ended March 31, 2019**

### 3. FINANCIAL INSTRUMENT CLASSIFICATIONS (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Restricted cash and investments	35,738,711	-	-	35,738,711
Interest rate swaps	-	-	8,841,555	8,841,555
	<b>35,738,711</b>	<b>-</b>	<b>8,841,555</b>	<b>44,580,266</b>

There were no transfers between Level 1 and Level 2 for the year ended March 31, 2019. There were also no transfers in or out of Level 3.

### 4. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	2019 \$	2018 \$
Patient Receivables		
OHIP	2,733,365	2,341,427
WSIB	197,634	175,599
Third Party-Self Pay	1,324,869	1,632,507
Other Third Party	2,488,004	2,523,191
	6,743,872	6,672,724
Impairment allowance	(1,396,050)	(1,670,461)
Sub-total	5,347,822	5,002,263
Non-Patient Receivables	9,193,407	9,593,105
Receivable from MOHLTC/CLHIN	2,609,472	4,860,113
Receivable from HRH Foundation	55,731	78,535
Balance, end of year	17,206,432	19,534,016

Included in accounts receivable is \$4,326,449 (2018 - \$6,392,856) relating to HST.

**Humber River Hospital**  
**Notes to Financial Statements**

**For the year ended March 31, 2019**

**5. LONG-TERM RECEIVABLE**

The Hospital has recorded a long-term receivable of \$544,545,770 [2018 - \$552,266,403] from MOHLTC for the New Acute Care Hospital. The prepayment on land lease is related to the lease of the land from Infrastructure Ontario.

The long-term receivables are summarized in the following continuity tables.

	2019	2018 (Restated - Note 16)
	\$	\$
Long-term building receivable balance, beginning of year	552,266,403	559,496,951
Funds received	(7,720,633)	(7,230,548)
	544,545,770	552,266,403
Less: current portion	(8,243,173)	(7,720,633)
Long-term building receivable balance, end of year	536,302,597	544,545,770
Prepayment on land lease	3,540,527	2,671,805
	<b>539,843,124</b>	<b>547,217,575</b>

Payments to the Hospital from MOHLTC for the next five years and thereafter are as follows:

	\$
2020	8,243,173
2021	8,800,302
2022	9,394,295
2023	10,027,573
2024	10,702,720
2025 and thereafter	497,377,707
	<b>544,545,770</b>

**6. CAPITAL ASSETS**

Capital assets consist of the following:

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Land	761,235	-	761,235	-
Buildings & building service equip.	1,441,596,097	210,681,597	1,418,387,816	172,616,984
Equipment	321,398,172	233,781,716	305,203,450	213,212,920
Construction in progress - other	16,076,403	-	11,823,503	-
	<b>1,779,831,907</b>	<b>444,463,313</b>	<b>1,736,176,004</b>	<b>385,829,904</b>
Net book value		<b>1,335,368,594</b>		<b>1,350,346,100</b>



**Humber River Hospital**  
**Notes to Financial Statements**

**For the year ended March 31, 2019**

**6. CAPITAL ASSETS (continued)**

Substantial completion of the New Acute Hospital was May 11, 2015 however the final completion certification of the project has not been issued. Any potential adjustment to the costs will be recorded on a prospective basis. Costs for the New Acute Hospital are included in buildings and building service equipment.

Assets under capital lease [note 9] are included in equipment above as follows:

	2019		2018	
	Cost \$	Accumulated Amortization \$	Cost \$	Accumulated Amortization \$
Equipment under capital lease	57,293,530	22,756,314	57,293,530	16,137,663
Net book value		34,537,216		41,155,867

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Included in accounts payable and accrued liabilities is \$14,344,527 [2018 - \$5,120,682] of deferred revenue from the MOHLTC, CLHIN, and others.

**8. LONG-TERM PAYABLE**

Balance includes the following:

	2019	2018 (Restated - Note 16)
	\$	\$
Due to PHCP [i]	544,545,770	552,266,403
Due to MOHLTC [ii]	10,000,000	10,000,000
Due to Infrastructure Ontario [iii]	4,000,000	3,000,000
Other PHCP payable [iv]	11,481,693	5,193,809
MOHLTC deferred revenue [v]	10,749,545	-
	<b>580,777,008</b>	570,460,212
Less: current portion	8,243,173	7,720,633
	<b>572,533,835</b>	562,739,579

[i] Based on the payment terms in the Plenary Health Care Partners (“PHCP”) project agreement, the Hospital has recorded a long-term payable to PHCP in the amount of \$544,545,770 [2018 – \$552,266,403] and a long-term receivable of \$544,545,770 [2018 - \$552,266,403] from the MOHLTC. These amounts are included in deferred capital contributions [note 11].

[ii] Due to MOHLTC related to construction costs due May 2020.

**Humber River Hospital**  
**Notes to Financial Statements**

**For the year ended March 31, 2019**

**8. LONG-TERM PAYABLE (continued)**

[iii] Due to Infrastructure Ontario related to lease of land.

[iv] Other PHCP payable related to payments withheld based on the PHCP project agreement. These amounts are currently in discussion with Plenary and are not expected to be settled within a year.

[v] MOHLTC deferred revenue relates to funding received to cover transaction costs related to the amount due to PHCP. Amounts will be amortized over the term of the payable.

Payments to PHCP for the next five years and thereafter are as follows;

	\$
2020	8,243,173
2021	8,800,302
2022	9,394,295
2023	10,027,573
2024	10,702,720
2025 and thereafter	497,377,707
	<b>544,545,770</b>

**9. MES LEASE OBLIGATION**

In fiscal 2016, the Hospital entered into a lease agreement for certain equipment under managed equipment services with General Electric Canada which requires monthly payments of principal plus interest and maintenance costs. The lease has an interest rate of 8.05%, expiring at the equipment replacement dates, at which time the Hospital has the option to purchase the equipment. The capital lease is recorded as follows:

	2019	2018
	\$	\$
MES lease obligation	<b>30,677,541</b>	37,605,732
Less: current portion	<b>7,391,587</b>	6,793,342
	<b>23,285,954</b>	30,812,390

The current portion represents payments to be made over the next 12 months. For a full repayment schedule related to the MES equipment contract see Note 13 [iv].

Included in operations is \$2,710,292 [2018 - \$3,187,369] related to interest on this lease obligation.

**Humber River Hospital**  
**Notes to Financial Statements**

**For the year ended March 31, 2019**

**10. EMPLOYEE BENEFIT PLANS**

**[a] Multi-employer plan**

Substantially all of the employees of the Hospital are eligible to be members of HOOPP. The plan is a multi-employer plan and therefore the Hospital's contributions are accounted for as if the plan were a defined contribution plan with the Hospital's contributions being expensed in the period they come due. Contributions made to the plan during the year by the Hospital amounted to \$19,990,584 [2018 - \$18,385,609].

**[b] Post-employment benefits**

The Hospital's non-pension post-employment benefit plans comprise medical, dental and life insurance coverage for certain groups of employees who have retired from the Hospital and are between the ages of 55 and 65. The most recent actuarial valuation of the plan was March 31, 2019.

	2019	2018
	\$	\$
Accrued benefit obligation	6,529,600	6,316,800
Unamortized experience gain	1,501,000	1,808,000
Accrued benefit liability	8,030,600	8,124,800

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

	2019	2018
	%	%
Discount rate	3.18	3.37
Dental cost trend rates	2.75	2.75
Extended Health care trend rates	6.00*	6.00

\* The rate as at March 31, 2019 is 6.0% (starting in Fiscal 2020) and decreasing by 0.25% each year to an ultimate rate of 4.5%.

**Humber River Hospital**  
**Notes to Financial Statements**

**For the year ended March 31, 2019**

**11. DEFERRED CAPITAL CONTRIBUTIONS**

- a) In the Statement of Operations and Changes in Net Assets, building amortization and interest, represents the amortization net of amortization of building deferred grants and the interest cost net of MOHLTC funding as follows:

	2019	2018 (Restated - Note 16)
	\$	\$
Building grant amortization	<b>32,186,968</b>	33,669,601
Amortization	<b>(38,195,891)</b>	(39,626,932)
	<b>(6,008,923)</b>	(5,957,331)
MOHLTC Interest on long term debt obligation related to building		
MOHLTC funding of interest on building	<b>35,320,570</b>	35,794,677
MOHLTC interest cost on building	<b>(35,320,570)</b>	(35,794,677)
Building amortization and interest, net	<b>(6,008,923)</b>	(5,957,331)

The 2018 numbers have been restated as follows:

MOHLTC Funding of interest on building, as previously stated	24,089,938
Increase in MOHLTC Funding of interest on building	<u>11,704,739</u>
MOHLTC Funding of interest on building, as restated	<u>35,794,677</u>
MOHLTC interest cost of building, as previously stated	24,089,938
Increase in MOHLTC interest cost of building	<u>11,704,739</u>
MOHLTC interest cost of building, as restated	<u>35,794,677</u>

- b) In the Statement of Financial Position, deferred capital contributions represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets. The change in deferred capital contributions is as follows:

	2019	2018
	\$	\$
Deferred capital contributions, beginning of year	<b>1,128,640,122</b>	1,148,799,538
Add contributions/interest received/receivable for capital purposes		
MOHLTC/CLHIN	<b>16,682,419</b>	15,571,063
Humber River Hospital Foundation and other	<b>4,908,298</b>	6,838,605
Less amortization of deferred capital contributions	<b>(40,398,164)</b>	(42,569,084)
Deferred capital contributions, end of year	<b>1,109,832,675</b>	1,128,640,122

As at March 31 2019 there was \$8,652,681 (2018 - \$13,312,725) of deferred capital contributions received which were not spent.

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**Humber River Hospital**  
**Notes to Financial Statements**

**For the year ended March 31, 2019**

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**12. AFFILIATED ENTITIES**

The Foundation is an independent corporation incorporated without share capital which has its own Board of Directors and is a registered charity under the Income Tax Act. The Foundation receives and maintains funds for charitable purposes for the use of operations, renovations, maintenance and equipment of the Hospital.

At March 31, 2019, the Hospital has a receivable from the Foundation of \$55,731 [2018 – \$78,535]. As at March 31, 2019, the Foundation had total fund balances of \$9,690,872 [2018 - \$10,188,247]. Total funds received from the Foundation for fiscal 2018 amounts to \$4,989,645 [2018 – \$7,240,224].

The Volunteer Association, an independent organization, engages in fundraising activities to generate funds for the benefit of the Hospital. All amounts received from the Association are externally restricted for capital or operating purposes. As at March 31, 2019, the Association had net assets of approximately \$443,713 [2018 - \$541,155].

**13. COMMITMENTS AND CONTINGENCIES**

[i] The Hospital is subject to various claims and potential claims. Where the potential liability is determinable, management believes that the ultimate disposition of the matters will not materially exceed insurance coverage in place. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any losses in excess of insurance coverage related to claims will be recorded in the year during which the liability is determinable.

[ii] The Hospital participates in the Healthcare Insurance Reciprocal of Canada (HIROC), a pooling of the public liability insurance risks of its hospital members. Members of the pool pay annual premiums, which are actuarially determined. Members are subject to assessment for losses, if any, experienced by the pool for the year in which they were members. No assessments have been made to March 31, 2019, with respect to claims.

Effective January 1, 2014, the Hospital entered into an agreement with HIROC where the costs of investigating and defending litigation claims would be assumed by the Hospital. The Hospital has appointed HIROC Management Limited (HML) as the Hospital's appointed agent for such claims defense costs in accordance with an Agency Agreement. At March 31, 2019, a provision of \$3,754,000 [2018 – \$3,319,000] has been established.

[iii] The following is a schedule of service contract commitments for the next five years and thereafter:

	\$
2020	26,619,729
2021	24,299,726
2022	23,435,094
2023	15,669,087
2024	13,289,456
2025 and thereafter	<u>34,517,269</u>
Total minimum commitments for the next four years	<u>137,830,361</u>

In addition, there is a 30 years maintenance agreement for the new hospital that commenced upon substantial completion May 11, 2015. The commitment is \$1,411,732,523 excluding HST. This includes financing costs during the operational term, including interest costs (net of interest earned) and fees of \$685,819,866, lifecycle costs of \$238,693,815, facilities management costs and other transaction costs during the operational term of \$487,218,842.

**Humber River Hospital**  
**Notes to Financial Statements**

**For the year ended March 31, 2019**

**13. COMMITMENTS AND CONTINGENCIES (continued)**

The following schedule indicates the commitments by the MOHLTC and the Hospital:

	MOHLTC \$	Hospital \$
Lifecycle costs	212,745,280	25,948,535
Interest	685,819,866	-
Maintenance	-	436,482,300
Other transactional costs	50,736,542	-
<b>Balance, end of year</b>	<b>949,301,688</b>	<b>462,430,835</b>

[iv] The Hospital has entered into a long-term managed equipment services contract with General Electric Canada over 15 years [Note 9].

The following is a schedule of commitments at a nominal dollar value:

	\$
2020	14,851,198
2021	15,044,264
2022	15,239,839
2023	15,437,957
2024	15,638,650
2025 and thereafter	106,706,660
	<b>182,918,568</b>

Included in the payments above is a total of \$86,383,669 in interest and maintenance.

**14. CREDIT FACILITIES**

The Hospital has a \$15,000,000 demand revolving credit facility which bears interest based on the bank's prime rate minus 0.50%. \$5,000,000 of this facility is available as a swing-line loan. As at March 31, 2019, the Hospital had not utilized this facility.

As part of the new acute site hospital project, the Hospital has entered into an agreement with the Bank of Montreal and the Toronto-Dominion bank to establish a committed non-revolving term loan in the maximum principal amount not to exceed \$175,000,000. The term loan bears interest at the banks' prime rate minus 0.50%.

As at March 31, 2019, the Hospital has utilized \$165,800,000 of this loan (2018 - \$165,800,000) of which the total amount outstanding was \$154,476,353 (2018 - \$158,474,288). \$410,668 (2018 - \$448,001) of transaction costs have been netted against this balance. Repayment commenced May 13, 2016. These funds were transferred to the Hospital's Sinking Fund [Note 2] to pay for its share of the new acute care hospital.

**Humber River Hospital**  
**Notes to Financial Statements**

**For the year ended March 31, 2019**

**14. CREDIT FACILITIES (continued)**

Principal repayments for the next five years and thereafter are as follows:

	\$
2020	4,087,935
2021	12,853,935
2022	4,001,935
2023	4,095,935
2024	4,197,935
2025 and thereafter	125,238,678
	<b>154,476,353</b>

On May 4, 2015, the Hospital entered into a series of interest rate swaps to finance its share of the new acute care hospital.

An interest rate swap in the amount of \$10,000,000 with a maturity date of May 13, 2020 and a fixed interest rate of 1.97% was established. An interest rate swap in the amount of \$20,000,000 with a maturity date of May 13, 2025 and a fixed interest rate of 2.65% was established. An interest rate swap in the amount of \$10,000,000 with a maturity date of May 13, 2030 and a fixed interest rate of 2.99% was established. An interest rate swap in the amount of \$10,000,000 with a maturity date of May 14, 2035 and a fixed interest rate of 3.16% was established. An interest rate swap in the amount of \$100,000,000 with a maturity date of May 14, 2046 and a fixed interest rate of 3.26% was established. As of March 31, 2019, total unrealized losses of \$8,841,555 (2018 - \$4,275,859) have been recognized on the above interest rate swaps.

**15. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES**

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

	2019	2018
	\$	\$
Accounts receivable	2,327,584	(5,410,696)
Inventory	(96,374)	(764,724)
Prepaid expenses	1,427,286	(933,331)
Accounts payable and accrued liabilities	(2,225,703)	5,697,568
Legal defense fund	(235,062)	(326,050)
	<b>1,197,731</b>	<b>(1,737,233)</b>

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**Humber River Hospital**  
**Notes to Financial Statements**

**For the year ended March 31, 2019**

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**16. LONG-TERM RECEIVABLE AND LONG-TERM PAYABLE ADJUSTMENT**

During the year, management and the MOHLTC determined that the allocation of principal and interest on payments made against the long-term loan payable to Plenary Health Care Partners [Note 8] should be adjusted to more accurately reflect the time value of money. The adjustment has been recorded retroactively and accordingly affects the long-term receivable from the MOHLTC, MOHLTC Funding of interest on building and MOHLTC interest cost on building as follows:

	2018 \$
<u>Statement of Financial Position</u>	
Current portion of long-term receivable, as previously stated	18,942,173
Increase in long-term receivable	<u>(11,221,540)</u>
Current portion of long-term receivable, as restated	<u>7,720,633</u>
Long-term receivable, as previously stated	500,117,961
Increase in long-term receivable	<u>47,099,614</u>
Long-term receivable, as restated	<u>547,217,575</u>
Current portion of long-term payable, as previously stated	18,942,173
Increase in long-term payable	<u>(11,221,540)</u>
Current portion of long-term payable, as restated	<u>7,720,633</u>
Long-term payable, as previously stated	510,446,156
Increase in long-term payable	<u>52,293,423</u>
Long-term payable, as restated	<u>562,739,579</u>

As a result of the restatement noted above, certain amounts in notes 5, 8 and 11 were adjusted accordingly. There was no impact to the Statement of Operations and Changes in Net Assets.



## Humber River Hospital Notes to Financial Statements

**For the year ended March 31, 2019**

### 17. FINANCIAL RISK MANAGEMENT

#### Credit risk

Credit risk is the risk of financial loss to the Hospital if a debtor fails to make payments of interest and principal when due. The Hospital is exposed to this risk relating to its cash, restricted cash and investments, accounts receivable and long-term receivable. The Hospital holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, the Hospital's cash accounts are insured up to \$500,000 (2018 - \$500,000).

The Hospital's investment policy operates within the constraints of the investment guidelines issued by the MOHLTC in relation to the funding agreements described in Note 1.

Accounts receivable are primarily due from Ontario Health Insurance Plan (OHIP), the MOHLTC, CLHIN, Canada Revenue Agency and patients. Credit risk is mitigated by the financial solvency of the provincial government and the highly diversified nature of the patient population.

The long-term receivable is due from MOHLTC relating to the new acute site hospital project [Note 5] and the related credit risk is mitigated by the financial solvency of the provincial government.

The Hospital measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the Hospital's historical experience regarding collections.

The amounts outstanding at **March 31, 2019** were as follows:

	Total	Current	Past Due			
			1 - 30 days	31 - 60 days	61 - 90 days	91+ days
Gross receivables	18,602,482	11,858,610	3,058,690	1,569,432	328,940	1,786,810
Less: impairment allowance	(1,396,050)	-	-	-	-	(1,396,050)
Net receivables	17,206,432	11,858,610	3,058,690	1,569,432	328,940	390,760
Long-term receivables	544,545,770	544,545,770	-	-	-	-

The amounts outstanding at March 31, 2018 were as follows:

	Total	Current	Past Due			
			1 - 30 days	31 - 60 days	61 - 90 days	91+ days
Gross receivables	21,204,477	14,531,753	3,336,644	945,508	425,311	1,965,261
Less: impairment allowance	(1,670,461)	-	-	-	-	(1,670,461)
Net receivables	19,534,016	14,531,753	3,336,644	945,508	425,311	294,800
Long-term receivables	552,266,403	552,266,403	-	-	-	-

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## Humber River Hospital Notes to Financial Statements

For the year ended March 31, 2019

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### 17. FINANCIAL RISK MANAGEMENT (continued)

#### Credit risk (continued)

The amounts aged greater than 90 days owing from patients that have not had a corresponding impairment allowance setup against them are collectible based on the Hospital's past experience. Management has reviewed the individual balances and based on the credit quality of the debtors and their past history of payment. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

#### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk and equity risk. The Hospital is not exposed to significant currency or equity risk as it does not transact materially in foreign currency or hold equity financial instruments.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

#### Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Hospital is exposed to this risk through its interest bearing investments and the Hospital's credit facilities. The risk over interest bearing investments is mitigated by the fact that the Hospital only holds short-term deposits. The risk over interest bearing debt is mitigated by the use of interest rate swaps to fix the interest rate on the debt over a period of the obligation. As at March 31, 2019, a 1% fluctuation in interest rates, with all other variables being held constant, would have an estimated impact on the market value of the interest rate swaps of approximately \$15,052,178 (2018 - \$7,775,600).

#### Liquidity risk

Liquidity risk is the risk that the Hospital will not be able to meet all cash outflow obligations as they come due. The Hospital mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining investments that may be converted to cash in the near-term if unexpected cash outflows arise. \$39,055,969 (2018 - \$56,055,783) of accounts payable and accrued liabilities is due within the next 6 months, and the remaining amount of \$31,146,837 (2018 - \$21,566,535) is due within a year. The long-term payable is based on the project agreement with PHCP and the amount is payable over 30 years as described in Note 8. Also see notes 9 and 14 for additional obligations.

### 18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the method of presentation adopted for the current year.