



Audited Financial Statements

For the year ended March 31, 2019





KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Kingston Health Sciences Centre

Opinion

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

- the statement of financial position as at March 31, 2019
- the statement of operations for the year then ended
- the statement of remeasurement gains and losses for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, and its results of operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***Auditors' Responsibilities for the Audit of the financial statements*** section of our auditors' report.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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



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

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

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

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

June 10, 2019

KINGSTON HEALTH SCIENCES CENTRE
Statement of Financial Position

As at March 31, 2019
(in thousands of dollars)

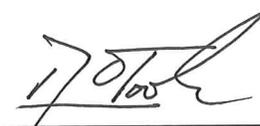
	2019	2018
	\$	\$
Assets		
Current assets		
Cash	58,808	67,865
Restricted cash	109,663	94,175
Accounts receivable	18,314	16,458
Due from Ministry of Health & Long-Term Care, South East Local Health Integration Network and Cancer Care Ontario	3,858	6,063
Inventories	7,159	7,167
Other current assets	7,956	6,999
	205,758	198,727
Other investments (note 4)	844	1,199
Investments in joint ventures (note 5)	3,512	3,512
Capital assets, net (note 6)	263,393	271,959
	473,507	475,397
Current liabilities		
Accounts payable and accrued liabilities	49,694	55,034
Accrued compensation	39,058	36,923
Note payable – KGH Auxiliary (note 16(c))	265	550
Agency obligations (note 8)	3,748	3,387
Current portion of long-term debt (note 9)	1,454	1,423
	94,219	97,317
Long-term debt (note 9)	5,473	6,929
Employee future benefits (note 10)	35,048	33,978
Interest rate swaps (note 9)	203	162
Deferred contributions (notes 11, 12 and 13)	235,215	246,095
Net assets		
Invested in capital assets (note 7)	34,390	27,025
Internally restricted	26,000	23,000
Unrestricted	43,072	40,974
	103,462	90,999
Accumulated remeasurement losses	(113)	(83)
	103,349	90,916
Commitments (note 14)		
Contingencies (notes 17 and 18)		
	473,507	475,397

See accompanying notes.

On behalf of the Board:



 Member



 Member

KINGSTON HEALTH SCIENCES CENTRE
Statement of Revenues and Expenses

For the year ended March 31, 2019
(in thousands of dollars)

	2019	2018
	\$	\$
Revenues		
Ministry of Health & Long-Term Care, South East Local Health Integration Network and Cancer Care Ontario	455,115	441,927
Other patient services	37,204	34,397
Clinical education, other votes and programs	69,354	67,751
Ancillary services	4,712	4,853
Recoveries and other	23,526	20,613
Amortization of deferred capital contributions-major equipment	6,555	6,392
Total revenues	596,466	575,933
Expenses		
Salaries and benefits	408,671	395,619
Patient care supplies and services	94,157	83,309
Utilities	6,384	6,809
General	59,408	55,385
Amortization of major equipment	14,157	14,124
Total expenses	582,777	555,246
Surplus of revenues over expenses before building amortization	13,689	20,687
Amortization of deferred capital contributions – building and land improvements	19,410	18,664
Amortization of building and land improvements	(20,636)	(20,466)
Surplus of revenues over expenses	12,463	18,885

See accompanying notes.

KINGSTON HEALTH SCIENCES CENTRE
Statement of Changes in Net Assets (Deficiency)

For the year ended March 31, 2019
(in thousands of dollars)

	Unrestricted	Internally Restricted	Invested in Capital Assets	2019 \$	2018 \$
Balance, beginning of year	40,974	23,000	27,025	90,999	72,114
Surplus of revenues over expenses (note 7)	21,291		(8,828)	12,463	18,885
Appropriated for capital projects	(3,000)	3,000		-	-
Net change in investment in capital assets (note 7)	(16,193)		16,193	-	-
Balance, end of year	43,072	26,000	34,390	103,462	90,999

See accompanying notes.

KINGSTON HEALTH SCIENCES CENTRE
Statement of Cash Flows

For the year ended March 31, 2019
(in thousands of dollars)

	2019	2018
	\$	\$
Operating activities		
Surplus of revenues over expenses	12,463	18,885
Add (deduct) non-cash items		
Amortization of capital assets	34,793	34,590
Amortization of deferred capital contributions	(25,965)	(25,056)
Change in fair value of other investments	10	(26)
(Gain) on disposition of capital assets	-	(7)
Change in non-cash working capital balances (note 15)	(3,443)	15,263
Increase in employee future benefits	1,070	1,382
Increase (decrease) in deferred contributions	1,481	(5,566)
	20,409	39,465
Capital activities		
Purchase of capital assets	(26,227)	(27,450)
Receipt of deferred capital contributions	13,604	14,942
	(12,623)	(12,508)
Financing activities		
Repayment of long-term debt	(1,425)	(1,797)
Note payable – KGH Auxiliary	(285)	75
	(1,710)	(1,722)
Investing activities		
Proceeds of investments, net	355	13,649
	355	13,649
Increase in cash during the year	6,431	38,884
Cash, beginning of year	162,040	123,156
Cash, end of year	168,471	162,040
Cash, end of year is represented by:		
Cash	58,808	67,865
Restricted cash	109,663	94,175
	168,471	162,040

See accompanying notes.

KINGSTON HEALTH SCIENCES CENTRE
Statement of Remeasurement Gains and Losses

For the year ended March 31, 2019
(in thousands of dollars)

	2019	2018
	\$	\$
Accumulated remeasurement gains, beginning of the year	(83)	(290)
Unrealized gains (losses) attributable to	(83)	(290)
Other investments		
Realized loss	1	-
Designated fair value	10	(26)
Interest rate swaps	(41)	233
Net remeasurement gains for the year	(30)	207
Accumulated remeasurement losses, end of the year	(113)	(83)

See accompanying notes.

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2019
(in thousands of dollars)

1. Nature of Operations

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

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

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

The financial statements and accompanying notes to the statements reflect the operations of the integrated entity.

2. Adoption of New Accounting Policies

The Hospital adopted Canadian Public Sector Accounting Standards PS 3430 Restructuring Transactions effective April 1, 2018. The adoption of this standard did not result in any adjustments to the financial statements as at April 1, 2018.

3. Summary of Significant Accounting Policies

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

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

Kingston Health Sciences Centre is funded primarily by the Province of Ontario. These financial statements reflect agreed funding arrangements approved by the Ministry of Health and Long-Term Care, Cancer Care Ontario and the South East Local Health Integration Network with respect to the year ended March 31, 2019.

Revenue Recognition

Kingston Health Sciences Centre follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions received for capital assets are deferred and amortized into revenue over the same term and on the same basis as the related capital assets.

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

Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. Operating grants are recorded as revenue in the period to which they relate.

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

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2019
(in thousands of dollars)

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 Revenues and Expenses.

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

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the Statement of Revenues and Expenses and any unrealized gain is adjusted through the Statement of Remeasurement Gains and Losses.

When the asset is sold, the unrealized gains and losses previously recognized in the Statement of Remeasurement Gains and Losses are reversed and recognized in the Statement of Revenues and Expenses.

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

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

Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;

Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Capital Assets

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

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

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2019
(in thousands of dollars)

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

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

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

Contributed Services

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

Inventories

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

Use of Estimates

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

Investments in Joint Ventures

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

Employee Benefit Plans

(a) Multi-Employer Pension Plan

Kingston Health Sciences Centre participates in a defined benefit multi-employer pension plan. The plan is accounted for on a defined contribution plan basis as contributions to the benefit plan are determined by the plan administrator and are expensed when due. The most recent regulatory funding valuation of this multi-employer pension plan conducted as at December 31, 2018 disclosed actuarial assets of \$78,622 million with accrued pension liabilities of \$65,128 million, resulting in a surplus of \$13,494 million. This filing valuation also confirmed that the plan was fully funded on a solvency basis as at December 31, 2018 based on the assumptions and methods adopted for the valuation.

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2019
(in thousands of dollars)

(b) Accrued Post-Employment Benefits

Kingston Health Sciences Centre accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs. The last actuarial valuation of the benefit plans for funding purposes was as of April 1, 2018.

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

The average remaining service period to retirement of employees covered by the employee benefit plan is 13-14 years (2018 – 13-18 years).

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

4. Other Investments

	Level	2019 \$	2018 \$
Equity shares (cost \$Nil)	2	97	97
Corporate bonds (cost \$754; 2018 - \$1,120)	2	747	1,102
		844	1,199

Corporate bonds earn interest at rates of 2.58% to 3.79% (2018 – 2.58% to 4.25%).

5. Investments in Joint Ventures

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

Kingston Health Sciences Centre has a long-term agreement, as equal partner with Queen's University at Kingston, for the operations of the Queen's University and Kingston Health Sciences Centre Parking Commission (the "Commission"). The principal business activities include the operation of an underground parking garage. Kingston Health Sciences Centre's share of the Commissions' excess of revenue over expense for 2019 amounts to \$655 (2018: \$582) and has been included in the Statement of Revenues and Expenses.

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

Kingston Health Sciences Centre participates in a joint venture with Queen's University at Kingston for the operation of a cogeneration facility governed by a Management Board consisting of representatives of Queen's University at Kingston and the Hospital. The purpose of the facility is to produce electricity and steam. The Hospital's net capital investment in the joint venture is \$3,512 (2018: \$3,512). Kingston Health Sciences Centre's proportionate share of the joint venture is 40% and Queen's University at Kingston's proportionate share is 60%. Kingston Health Sciences Centre's share of the facility's excess of expense over revenue is \$255 (2018: \$340) and has been included in the Statement of Revenues and Expenses.

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2019
(in thousands of dollars)

6. Capital Assets

Capital assets consist of the following:

	2019	2018
	\$	\$
Land & land improvements	1,640	1,640
Buildings & building service equipment	444,671	435,956
Major equipment	283,158	267,399
Work in progress	22,977	22,201
	752,446	727,796
Less accumulated amortization		
Land & land improvements	904	892
Buildings & building service equipment	249,240	228,615
Major equipment	238,909	226,330
	489,053	455,837
Net capital assets	263,393	271,959

At March 31 the Hospital's outstanding purchase orders related to work in progress and major equipment purchases were approximately \$6,463 (2018:\$7,460). An additional \$22,769 (2018: \$25,069) of expenditures are estimated to complete the approved capital projects. These funds are included in restricted cash.

7. Invested in Capital Assets

Net assets invested in capital assets are calculated as follows:

	2019	2018
	\$	\$
Balance, end of the year	263,393	271,959
Amounts financed by:		
Deferred contributions	(222,076)	(236,582)
Long-term debt	(6,927)	(8,352)
	34,390	27,025

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

	2019	2018
	\$	\$
Excess of expenses over revenues		
Amortization of deferred contributions related to capital assets	25,965	25,056
Amortization of capital assets	(34,793)	(34,590)
	(8,828)	(9,534)

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2019
(in thousands of dollars)

	2019	2018
	\$	\$
Purchase of capital assets	26,227	27,476
Amounts funded by:		
Deferred contributions	(11,459)	(15,893)
Repayment of long-term debt	1,425	1,797
	16,193	13,380

8. Agency Obligations

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

9. Long-Term Debt

	2019	2018
	\$	\$
Bank term loan with interest at 2.85%, payable in monthly installments of \$10 on account of principal and interest, due September 2020	174	285
Bank term loan with interest at 2.85%, payable in monthly installments of \$47 on account of principal and interest, due September 2020	830	1,364
Bank term loan with interest at 1.98%, payable in monthly installments of \$19 on account of principal and interest, due May 2018	-	1,943
Bank term loan with floating interest, payable in monthly installments of \$64 on account of principal and interest, due February 2022 (a)	4,182	4,760
Bank term loan with floating interest, payable in monthly installments of \$20 on account of principal and interest, due June 2027 (b)	1,741	-
	6,927	8,352
Less current portion of long term debt	(1,454)	(1,423)
	5,473	6,929

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

The fair value of the interest rate swaps at March 31, 2019 is (\$203) (2018 - (\$162)) which is recorded on the Statement of Financial Position. The current year impact of the change in fair value of the interest rate swaps is \$41 on the Statement of Remeasurement Gains and Losses.

The fair value of the interest rate swaps has been determined using Level 3 of the fair value hierarchy. The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2019
(in thousands of dollars)

- (a) The outstanding loan amount is subject to an interest rate swap agreement on an original notional principal of \$7,800 with the banker whereby the Hospital receives a floating interest rate while paying a fixed rate of 4.14%.
- (b) The outstanding loan amount is subject to an interest rate swap agreement on an original notional principal of \$1,894 with the banker whereby the Hospital receives a floating interest rate while paying a fixed rate of 3.4%.
- (c) The principal repayments due on long term debt for each of the five years subsequent to March 31, 2019 and thereafter are as follows: 2020 - \$1,454; 2021 - \$1,161; 2022 - \$854; 2023 - \$890; 2024 \$925; and thereafter - \$1,643.
- (d) Interest on long-term debt in the amount of \$292 (2018: \$306) is included in general expense in the Statement of Revenues and Expenses.

10. Post-Employment Benefits

Pension Plan

Substantially all of the employees of Kingston Health Sciences Centre are members of the Healthcare of Ontario Pension Plan. Contributions to the plan made during the year by the Hospital on behalf of its employees amounted to \$23,578 (2018: \$22,605) and is included in salaries and benefits on the Statement of Revenues and Expenses.

Non-Pension Plans

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

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

	2019	2018
	\$	\$
Accrued benefit obligation	37,941	35,682
Unamortized actuarial losses	(2,147)	(907)
Accrued compensation	(746)	(797)
Employee future benefits	35,048	33,978

The expense for the year related to these plans is \$3,173 (2018: \$3,244) and employer contributions for these plans is \$2,153 (2018: \$1,909).

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

- Discount rate for calculation of net benefit costs of 3.2% (2018 – 3.20% to 3.56%).
- Discount rate to determine accrued benefit obligation for disclosure at end of period 2.9% (2018 – 3.2%).

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2019
(in thousands of dollars)

- Dental and extended health costs in 2019 are based on actual rates. Dental cost increases are assumed to be 2.75% per annum thereafter. Extended health care costs are assumed to be 6% in 2019 decreasing by .25% per annum to an ultimate rate of 4.5% per annum.

11. Deferred Contributions Related to Operations

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

	2019	2018
	\$	\$
Balance, beginning of year	6,488	6,115
Additional contributions received	3,863	1,493
Less amounts recognized to revenue	(2,380)	(1,120)
	7,971	6,488

12. Deferred Contributions Related to Capital Assets

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

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

	2019	2018
	\$	\$
Balance, beginning of year	239,501	249,615
Additional contributions received	13,604	14,942
Less amounts amortized to revenue	(25,965)	(25,056)
	227,140	239,501

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

	2019	2018
	\$	\$
Unamortized capital contributions used to purchase assets	222,076	236,582
Unspent contributions	5,064	2,919
	227,140	239,501

KINGSTON HEALTH SCIENCES CENTRE
Notes to Financial Statements

For the year ended March 31, 2019
(in thousands of dollars)

13. Deferred Contributions Related to Externally Restricted Funds

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

	2019	2018
	\$	\$
Balance, beginning of year	106	6,047
Additional contributions received	163	261
Less amounts amortized to revenue	(165)	(195)
Less transfer to KGHRI	-	(6,007)
	104	106

14. Commitments

Lease Commitments

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

	2019
	\$
Year ending March 31,	
2020	2,333
2021	1,489
2022	1,194
2023	802
2024	447
Total minimum lease payments	6,265

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

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

	2019	2018
	\$	\$
Accounts receivable	(1,856)	(79)
Due from Ministry of Health and Long-Term Care, South East Local Health Integration Network and Cancer Care Ontario	2,205	1,092
Inventories	8	(446)
Other current assets	(957)	225
Accounts payable and accrued liabilities	(5,339)	11,052
Accrued compensation	2,135	3,638
Agency obligations	361	(219)
Net increase (decrease)	(3,443)	15,263

KINGSTON HEALTH SCIENCES CENTRE
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16. Related Entities

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

(a) University Hospitals Kingston Foundation

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

During the year, University Hospitals Kingston Foundation provided Kingston Health Sciences Centre \$5,826 (2018: \$3,422) to fund capital redevelopment, equipment purchases, research and special program costs.

(b) Volunteer Services to Hotel Dieu Hospital, Kingston Inc. ("Volunteer Services")

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

(c) Kingston General Hospital Auxiliary

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

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

During the year, Kingston General Hospital Auxiliary granted \$731 (2018: \$390) to the Hospital to fund equipment purchases and special program costs. Kingston Health Sciences Centre issued a note payable to Kingston General Hospital Auxiliary for \$265 (2018: \$550) which is payable on demand.

(d) Kingston Regional Hospital Laundry Incorporated

Kingston Health Sciences Centre has significant influence in Kingston Regional Hospital Laundry Incorporated (KRHL). KRHL, a Corporation incorporated under the laws of the Province of Ontario, provides laundry services, linen replacement, uniforms, dry cleaning and other related laundry services to hospitals in the Southeast region. During the year, Kingston Health Sciences Centre paid \$2,336 (2018: \$2,314) to KRHL. These costs are included in general expenses on the Statement of Revenues and Expenses.

(e) Shared Support Services South Eastern Ontario

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

The assets, liabilities, net assets and results of operation of the 3SO are not included in the financial statements. During the year, the Hospital paid \$3,187 (2018: \$3,036) to 3SO for governance/operating costs. These costs are included in general expenses on the Statement of Revenues and Expenses.

The Hospital has provided a limited guarantee to a maximum of 61.33% of a \$1,000 line of credit secured by 3SO, representing the Hospital's proportionate share of \$613. As at March 31, 2019, 3SO has drawn \$nil (2018: \$nil) on this line of credit, of which \$nil (2018: \$nil) is guaranteed by the Hospital.

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

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

The Hospital carries on its research mission through HDHkRI and KGHRI, both federally incorporated not-for-profit corporations. Funding for the research institutes is provided by a variety of external sources including Governments, charitable organizations, private industry and the Hospital. As a result of having representation on the Board of Directors of the research institutes, the Hospital exercises significant influence, but no control over these institutes. During the year, the Hospital provided \$580 (2018 - \$528) of funding for research administrative support.

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

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

17. Liability Insurance

On July 1, 1987, a group of health care organizations formed the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. Subscribers pay annual premiums that are actuarially determined. Subscribers are subject to assessment for losses, if any, experienced by the pool for the years in which they were a subscriber. No assessments have been made to March 31, 2019.

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

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18. Contingencies

Kingston Health Sciences Centre activities are such that there are usually claims pending or in progress at any time. With respect to claims at March 31, 2019, management believes that reasonable provisions have been made in the accounts.

19. Clinical Education Program

During the year, the Hospital's Clinical Education Program incurred expenses of \$37,855 (2018: \$37,630) and received \$38,227 (2018: \$38,309) in funding from the Ministry of Health and Long-Term Care. Under the terms of the arrangement, the surplus (deficit) of this funding of \$341 (2018: (\$679)) will be returned to (paid by) the Ministry of Health and Long-Term Care, and, as such, a payable (receivable) of \$341 (2018: (\$679)) has been recorded as at March 31, 2019.

20. Financial Risks and Concentration of Credit Risk

(a) Credit Risk

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

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2019 is the carrying value of these assets.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the Statement of Revenues and Expenses. Subsequent recoveries of impairment losses related to accounts receivable are credited to the Statement of Revenues and Expenses. The balance of the allowance for doubtful accounts at March 31, 2019 is \$1,227 (2018: \$1,107).

As at March 31, 2019, \$1,120 (2018: \$1,063) of accounts receivable were past due, but not impaired.

The Hospital follows an investment policy approved by the Board of Directors. The maximum exposure to credit risk on the Hospital's other investments at March 31, 2019 is the carrying value of these assets. There have been no significant changes to the credit risk exposure from 2018.

(b) Liquidity Risk

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Hospital manages its liquidity risk by monitoring its operating requirements. The Hospital prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

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

There have been no significant changes to the liquidity risk exposure from 2018.

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(c) Market Risk

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

- Interest rate risk:

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

As at March 31, 2019, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the estimated impact on the market value of bonds would approximate (\$8) and \$8 respectively.

The Hospital mitigates interest rate risk on certain of its term debt through derivative financial instruments (interest rate swaps) that exchange the variable rate inherent in the term debt for a fixed rate (see Note 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 4.

There has been no change to the interest rate risk exposure from 2018.

21. Comparative Figures

Certain comparative figures have been restated to conform to the financial statement presentation adopted in 2018.