Financial Statements of

SAULT AREA HOSPITAL

And Independent Auditors' Report thereon

Year ended March 31, 2020

KPMG LLP
111 Elgin Street, Suite 200
Sault Ste. Marie ON P6A 6L6
Canada
Telephone (705) 949-5811
Fax (705) 949-0911

INDEPENDENT AUDITORS' REPORT

To the Members of Sault Area Hospital

Opinion

We have audited the financial statements of Sault Area Hospital (the "Hospital"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes and schedule to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2020 and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations.

Basis for Opinion

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

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

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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 including the 4200 standards for government not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Hospital to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Hospital to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada
June 15, 2020

SAULT AREA HOSPITAL

Statement of Financial Position

March 31, 2020, with comparative information for 2019

(in thousands of Canadian dollars)		2020		2019
Assets				
Current assets:				
Cash	$	10,068	$	21,177
Accounts receivable (note 2)		11,734		8,318
Inventories		2,008		1,695
Prepaid expenses		1,081		1,014
Current portion of capital funding receivable (note 3)		4,166		3,857
		29,057		36,061
Capital funding receivable (note 3)		197,248		201,414
Capital assets (note 4)		279,977		284,206
	$	506,282	$	521,681
Liabilities, Deferred Capital Contributions and Deficiency in Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities (note 5)	$	41,331	$	46,262
Construction credit facility (note 7)		7,460		7,460
Current portion of long-term obligations (note 8)		4,603		4,394
		53,394		58,116
Deferred capital contributions (note 9)		287,838		293,541
Long-term obligations:				
Long-term obligations (note 8)		198,917		202,843
Employee future benefits (note 10)		8,719		8,579
		207,636		211,422
Total liabilities		548,868		563,079
Deficiency in net assets		(42,586)		(41,398)
Contingencies (note 13)				
Commitments (note 14)				
Impact of Coronavirus COVID-19 Pandemic (note 17)				
	$	506,282	$	521,681

See accompanying notes to the financial statements.

On behalf of the Board:

Wendy Hansson ________________ Director

Wendy Hansson, President and CEO

Sharon Kirkpatrick ________________ Director

Sharon Kirkpatrick, Board Chair

SAULT AREA HOSPITAL

Statement of Operations

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

(in thousands of Canadian dollars)		2020		2019
Revenue:				
Ministry of Health:				
LHIN based allocation	$	158,684	$	151,659
One-time hospital grants		6,981		10,029
Cancer Care Ontario funding		16,466		16,066
		182,131		177,754
Other revenue:				
Patient revenue		10,150		9,863
Differential and co-payment		1,887		2,530
Recoveries and miscellaneous		17,565		15,440
Amortization of deferred capital contributions - equipment		3,273		4,048
		215,006		209,635
Expenses:				
Compensation and benefits		133,152		130,765
Supplies and other		28,756		26,948
Drugs and medical gases		18,554		17,278
Medical staff remuneration		15,860		15,461
Medical and surgical supplies		12,730		12,635
Amortization of capital assets - equipment		4,435		4,595
Rental and lease of equipment		441		393
Bad debts		270		326
Interest		113		67
		214,311		208,468
Excess of revenue over expenses from Hospital operations		695		1,167
Interest and amortization of building and service equipment and deferred contributions:				
Recovery of interest and principal on long-term obligation		20,503		19,823
Interest on long-term obligation		(16,799)		(16,903)
Amortization of deferred capital contributions		2,369		2,370
Amortization of building and service equipment		(7,956)		(7,956)
Deficiency of revenue over expenses	$	(1,188)	$	(1,499)

See accompanying notes to the financial statements.

SAULT AREA HOSPITAL

Statement of Changes in Net Assets

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

(in thousands of Canadian dollars)		2020		2019
Deficiency in net assets, beginning of year	$	(41,398)	$	(39,899)
Deficiency of revenue over expenses		(1,188)		(1,499)
Deficiency in net assets, end of year	$	(42,586)	$	(41,398)

See accompanying notes to the financial statements.

SAULT AREA HOSPITAL

Statement of Cash Flows

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

(in thousands of Canadian dollars)		2020		2019
Cash flows from operating activities:				
Deficiency of revenue over expenses	$	(1,188)	$	(1,499)
Items not involving cash:				
Amortization of capital assets		12,391		12,551
Amortization of deferred capital contributions		(5,642)		(6,418)
Loss on disposal of capital assets		12		24
		5,573		4,658
Changes in non-cash working capital:				
Accounts receivable		(3,416)		2,648
Inventories		(313)		(431)
Prepaid expenses		(67)		(223)
Accounts payable and accrued liabilities		(4,931)		10,894
Accrual for employee future benefits		140		126
		(3,014)		17,672
Cash flows from capital activities:				
Purchase of capital assets		(8,174)		(13,428)
Receipt of deferred capital contributions		3,796		204,967
		(4,378)		191,539
Cash flows from financing activities:				
Increase in construction credit facility		-		7,460
Additions to long-term debt		690		1,183
Principal payments on long-term debt		(4,407)		(4,002)
		(3,717)		4,641
Cash flows from investing activities:				
Capital funding receivable		-		(205,271)
(Decrease) increase in cash position		(11,109)		8,581
Cash, beginning of year		21,177		12,596
Cash, end of year	$	10,068	$	21,177

See accompanying notes to the financial statements.

Sault Area Hospital (the “Hospital”) was incorporated by amended letters patent under the Ontario Business Corporations Act on April 26, 2003.

The Hospital is principally involved in providing health care services to Sault Ste. Marie and the surrounding area. The Hospital is a registered charity under the Income Tax Act and as a result is exempt from income taxes under section 149 of the Income Tax Act.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations.

a) Revenue recognition:

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

The Hospital is primarily funded by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health (MOH).

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 relates to a future period, it is deferred and recognized in that subsequent period. These financial statements reflect arrangements with the MOH with respect to the year ended March 31, 2020.

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

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

Revenue from the insurance plans, preferred accommodation and marketed services is recognized when the goods are sold or the service is provided, the amounts can be reasonably estimated and collection is reasonably assured.

b) Inventories:

Inventories are recorded at the lower of average cost and net realizable value. Cost comprises all costs to purchase, convert and any other costs incurred in bringing the inventories to their present location and condition.

1. Significant accounting policies (continued):

c) Capital assets:

Capital assets are recorded at cost. Assets are amortized on a straight line basis over their estimated useful lives:

Building and improvements	20 - 40 years
Building service equipment	10 - 20 years
Equipment	3 - 20 years
Computer equipment	3 - 5 years
Computer software	10 years

Tangible capital assets that are not subject to amortization and received as restricted contributions are recorded at their fair value as a direct increase in net assets at the date of receipt.

Construction in progress is not amortized until construction is complete and the facilities are placed into use.

d) 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.

e) Employee future benefits:

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

Actuarial gains (losses) on the accrued benefit obligation 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 of the active employees covered by the employee benefit plan is 12.7 years.

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

The Hospital is an employer member of the Health Care of Ontario Pension Plan (the "Plan"), which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. The Hospital records as pension expense the current service cost, amortization of past service costs and interest costs related to the future employer contributions to the Plan for past employee service.

1. Significant accounting policies (continued):

f) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of capital assets; valuation of receivables, inventories; and obligations related to employee future benefits. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in operations in the year in which they are known.

g) Financial instruments

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

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

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

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 operations 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 operations.

Long-term debt is recorded at cost.

h) Funding adjustments:

The Hospital receives grants from the MOH and the North East Local Health Integration Network (NELHIN) and Cancer Care Ontario (“CCO”) for specific services. Pursuant to the related agreements, if the Hospital does not meet specified levels of activity, the MOH, NELHIN or CCO is entitled to seek refunds. Should any amounts become refundable, the refunds would be charged to operations in the period in which the refund is determined to be payable. Should programs and activities incur a deficit, the Hospital records any recoveries thereon in the period in which collection is received.

(in thousands of Canadian dollars)

2. Accounts receivable:

	2020	2019
North East Local Health Integration Network/ Ministry of Health	$ 1,641	$ 1,374
Patients and clients	2,306	2,087
Cancer Care Ontario	1,690	815
Canada Revenue Agency	984	805
Other	5,161	3,491
	11,782	8,572
Less: allowance for doubtful accounts	(48)	(254)
	$ 11,734	$ 8,318

3. Capital funding receivable:

	2020	2019
Capital project funding	$ 201,414	$ 205,271
Current portion of capital funding	(4,166)	(3,857)
	$ 197,248	$ 201,414

The Hospital has recorded a long-term receivable relating to funding from the MOH relating to the construction of the new Sault Area Hospital facility. The MOH has committed to fund the principal repayments relating to the construction obligation, which amounted to $205,271 at March 31, 2019. The funding receivable is recorded at the net present value of MOH grants to be received monthly, with the last monthly grant to be received in October 2040. The net present value is calculated using the effective interest rate method and a discount rate of 7.74%, which is the rate used for the related long-term obligation. Information concerning the long-term obligation relating to the Sault Area Hospital facility is included in note 8.

The Hospital has recorded the grant receivable in the current fiscal year, reflecting a change in management's estimate concerning the probability of collection of future grant payments. As this reflects a change in management estimate, it has been recorded on a prospective basis with no adjustment of the prior year's financial information.

(in thousands of Canadian dollars)

4. Capital assets:

2020	Cost	Accumulated Amortization	Net book Value
Land	$ 1,901	$ –	$ 1,901
Building	317,865	71,896	245,969
Building improvements	6	5	1
Building service equipment	31	31	–
Equipment	57,541	42,291	15,250
Computer software	21,381	4,834	16,547
Computer equipment	3,031	2,856	175
Construction in progress	134	–	134
	$ 401,890	$ 121,913	$ 279,977

2019	Cost	Accumulated Amortization	Net book Value
Land	$ 1,901	$ –	$ 1,901
Building	317,865	63,940	253,925
Building improvements	6	5	1
Building service equipment	31	31	–
Equipment	56,259	43,348	12,911
Computer software	16,057	15,962	95
Computer equipment	3,031	2,599	432
Construction in progress	14,941	–	14,941
	$ 410,091	$ 125,885	$ 284,206

(in thousands of Canadian dollars)

5. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities consist of:

	2020	2019
Trade payables	$ 5,369	$ 7,132
Salaries and deductions payable	9,031	9,488
Accrued vacation and sick time payable	7,872	7,750
Accrued liabilities	12,834	15,103
Other liabilities	6,225	6,789
	$ 41,331	$ 46,262

Included in salary and deductions payable are $338 (2019 - $1,594) relating to government remittances.

6. Operating credit facility:

The operating credit facility is authorized to a maximum of $15,000 (2019 - $15,000), is repayable on demand, has interest calculated at bank prime minus 0.85% and is secured by a borrowing resolution. At March 31, 2020, the Hospital had $15,000 (2019 - $15,000) available on this credit facility.

7. Construction credit facility:

The construction credit facility is authorized to a maximum of $20,000 (2019 - $20,000), is repayable on demand, has interest calculated at bank prime minus 0.85% and is secured by a borrowing resolution. At March 31, 2020, the amount drawn against this facility is $7,460 (2019 - $7,460). The Hospital intends to convert the facility to a term loan, not to exceed 15 years, upon completion of the related capital project.

Subsequent to year end, the Hospital entered into an interest rate derivative agreement to manage the volatility of the interest rate on this facility. The Hospital has converted floating rate debt to fixed rate debt, equal to 1.69%. The agreement expires May 15, 2030.

(in thousands of Canadian dollars)

8. Long-term obligations:

	2020	2019
Hospital Obligation, due October 13, 2040, monthly payments of $1,633 including principal and interest at 7.74% secured by the Hospital Development Agreement	$ 201,414	$ 205,271
Term loan, due March 28, 2026, interest at 2.49% payable $7 monthly including interest	465	536
Term loan, due August 1, 2023 interest at 3.17%, payable $6 monthly including interest	558	615
Term loan, due March 6, 2022 interest at 1.87%, payable $14 monthly including interest	320	476
Term loan, due December 11, 2020, interest at 1.87%, payable $10 monthly including interest	86	198
Term loan, due March 27, 2030 interest at 2.78%, payable $3 monthly including interest	342	–
Term loan, due October 30, 2029, interest at 2.63%, payable $3 monthly including interest	335	–
Single draw credit facility, due April 30, 2019, variable principal payments and interest at 1.66%	–	141
	203,520	207,237
Current portion of long-term obligations	(4,603)	(4,394)
	$ 198,917	$ 202,843

The term loans and single draw credit facility are secured by a borrowing resolution.

The Hospital has an available $2,000 term facility which is not drawn upon at March 31, 2020 (2019 - $Nil). The Hospital can access this facility with multiple draws which are repayable quarterly after each draw over a period of four years. Interest can be at a fixed rate or variable rate at the time of the draw. The facility is secured by a borrowing resolution.

Principal due on the long-term debt is as follows:

2021	$ 4,603
2022	4,860
2023	5,065
2024	5,460
2025	5,887
Thereafter	177,645
	$ 203,520

(in thousands of Canadian dollars)

8. Long-term obligations (continued):

Hospital Obligation:

The financial statements reflect an obligation associated with the construction of the hospital which will be fully extinguished in October 2040. On August 7, 2007, the Hospital entered into a Development Accountability Agreement with the MOH to support the implementation of the Sault Area Hospital Project. The funding of the total construction costs and related obligation are shared between the MOH at approximately 90% and the Hospital at approximately 10%. The Hospital paid its full obligation at substantial completion in October 2010 and the MOH's obligation, consisting of principal and interest, is to be paid annually and matures in October 2040. Annual funding from the MOH is conditional upon an appropriation of funds by the Legislature of Ontario in the fiscal year in which the payment becomes due.

9. Deferred capital contributions:

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

	2020	2019
Balance, beginning of year	$ 293,541	$ 94,992
Contributions received during the year	20,442	19,519
Recognition of capital funding receivable (note 3)	–	205,271
Less: amounts recognized in revenue	(20,503)	(19,823)
Less: amounts amortized to revenue	(5,642)	(6,418)
Balance, end of year	$ 287,838	$ 293,541

(in thousands of Canadian dollars)

10. Employee future benefits:

The Hospital provides extended health care, dental and semi-private benefits to certain employees.

Information about the Hospital's benefit plan is as follows:

		2020		2019
Employee future benefit liability, beginning of year	$	8,579	$	8,453
Benefit costs		974		925
Benefit contributions		(834)		(799)
Employee future benefit liability, end of year	$	8,719	$	8,579

The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit obligations are as follows:

Discount rate	3.75%
Dental benefits cost escalation	2.75%
Medical benefits costs escalation - extended health care	4.50% - 6.00%

Included in compensation and benefits on the statement of operations, is an amount of $141 (2019 - $126) regarding employee future benefits and is comprised of:

		2020		2019
Current service cost	$	491	$	456
Interest cost		328		341
Amortization of actuarial losses		155		128
		974		925
Less: payments made		(833)		(799)
	$	141	$	126

11. Pension plan:

Employees of the Hospital are eligible to be members of the Hospitals of Ontario Pension Plan (the "Plan") which is a multi-employer defined benefit pension plan. Contributions to the Plan made during the year on behalf of the employees amounted to $8,858 (2019 – $8,532) and are included in the statement of operations.

12. Economic interest:

The Hospital has an economic interest in the Sault Area Hospital Foundation. The Foundation was established to solicit funds on behalf of the Hospital. All of the Foundation's net assets must be provided to the Hospital or used for the Hospital's benefit. The Foundation has net assets totaling $6,083 (2019 - $5,692) for the benefit of the Hospital.

13. Contingencies:

(a) Legal matters and litigation:

The Hospital is involved in certain legal matters, litigation and disputes, the outcomes of which are not presently determinable. The loss, if any, from these contingencies will be accounted for in the periods in which the matters are resolved. Management is of the opinion that these matters are mitigated.

(b) Employment matters:

During the normal course of operation, the Hospital is involved in certain employment related negotiations and has recorded accruals based on management's estimate of potential settlement amounts where these amounts are reasonably determinable.

14. Commitments:

Lifecycle and maintenance costs:

The Hospital signed an agreement with Hospital Infrastructure Partners (Sault), to build, maintain and finance the new Sault Area Hospital facility. Construction commenced in August 2007 with substantial completion on October 13, 2010 at which time the 30 year agreement commenced.

For the term of the agreement variable monthly payments in excess of $300 will be paid to cover facility maintenance and various lifecycle costs. A portion of the payments are indexed and escalate as per the agreement.

The MOH has approved an annual grant to fund the lifecycle component of these payments, with funding for the MOH's share of the facility maintenance costs incorporated into the Health Centre's operating grants.

The Hospital participated in a physician recruitment program in partnership with the City of Sault Ste. Marie and the Group Health Centre. The net expenditure for the year represents the Hospital's contribution to administrative costs of this program.

15. Other votes and other funding sources:

The Hospital administers a number of independent programs on behalf of the MOH and other agencies. These programs which provide separate and distinct funding for specific mandates and expenditures are limited to the amount of grant provided. Grants are recognized for specified levels of activity and any amounts to be returned to the Ministry are reflected in current liabilities. Expenditures in excess of the grants provided are the responsibility of the Hospital.

16. Financial risks and concentration of credit risk:

(a) Credit risk:

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

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2020 is the carrying value of these assets.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the statement of operations. Subsequent recoveries of impairment losses related to accounts receivable are credited to the statement of operations.

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

Changes to the credit risk exposure from 2019 are disclosed in note 17.

(b) Liquidity risk:

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

Accounts payable and accrued liabilities are generally due within 60 days of receipt of an invoice.

Changes to the liquidity risk exposure from 2019 are disclosed in note 17.

17. Impact of Coronavirus COVID-19 Pandemic:

On March 11, 2020, the World Health Organization declared the Coronavirus COVID-19 (COVID-19) outbreak a pandemic. This has resulted in significant financial, market and societal impacts in Canada and around the world.

From the declaration of the pandemic to the date of approval of these financial statements, the Hospital implemented the following actions in relation to the COVID-19 pandemic:

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

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

Current year transactions:

For the year ended March 31, 2020, the Ministry of Health of Ontario has allowed Ontario Hospitals to redirect unused amounts from certain funded programs towards COVID-related expenses. In the year, the Hospital incurred COVID-related expenses of $674 and has recognized $374 of revenue from these programs. These amounts have been recorded in LHIN based allocation revenue and compensation, supplies and other expenses in the statement of operations.

Subsequent events related to COVID-19:

The Ministry has also committed to providing additional funding to Ontario Hospitals for COVID-related operating and capital costs in the subsequent period. At the date of approval of these financial statements, the amount, timing and eligibility criteria for this funding is not known. As such, an estimate of the financial effect of this funding is not practicable at this time.

Impact of COVID-19 on financial risks:

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

i) Credit risk:

Credit risk has increased due to the greater uncertainty surrounding the collectability of accounts receivable from non-Canadian government entities, including individuals, businesses and foreign entities because of the economic slowdown and changes in operations caused by COVID-19. The Hospital is mitigating this risk by closely monitoring these receivables and by entering transactions with credit-worthy counterparties. The Hospital has updated its allowance for doubtful accounts to include considerations related to COVID-19.

17. Impact of Coronavirus COVID-19 Pandemic (continued):

ii) Liquidity risk:

The ability of the Hospital to meet their cash flow requirements in the short term has been impacted by several factors including delays in cash collections on receivables, and the loss of revenue associated with elective surgeries, parking revenues and other forms of patient revenue. The hospital is continuously monitoring their cash flow in order to maintain its liquidity moving forward.

iii) Market risk:

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

a) Currency risk:

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

b) Other price risk:

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

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

The ultimate duration and magnitude of the COVID-19 pandemic's impact on the Hospital's operations and financial position is not known at this time. These impacts could include a decline in future cash flows, changes to the value of assets and liabilities, and the use of accumulated net assets to sustain operations. An estimate of the financial effect of the pandemic on the Hospital is not practicable at this time.

18. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year excess of revenue over expenses.

SAULT AREA HOSPITAL

Schedule of Operations

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

(in thousands of Canadian dollars)	Hospital Operations	Other Votes	Other Funded	Total 2020	Total 2019
Revenue:					
Ministry of Health:					
LHIN based allocation	$ 146,394	12,108	182	$ 158,684	$ 151,659
One-time hospital grants	6,981	-	-	6,981	10,029
Cancer Care Ontario funding	16,466	-	-	16,466	16,066
	169,841	12,108	182	182,131	177,754
Other revenue:					
Patient revenue	10,150	-	-	10,150	9,863
Differential and co-payment	1,887	-	-	1,887	2,530
Recoveries and miscellaneous	16,965	241	359	17,565	15,440
Amortization of deferred capital contributions - equipment	3,273	-	-	3,273	4,048
	202,116	12,349	541	215,006	209,635
Expenses:					
Compensation and benefits	123,986	8,764	402	133,152	130,765
Supplies and other	25,801	2,816	139	28,756	26,948
Drugs and medical gases	18,554	-	-	18,554	17,278
Medical staff remuneration	15,163	697	-	15,860	15,461
Medical and surgical supplies	12,711	19	-	12,730	12,635
Amortization of capital assets - equipment	4,435	-	-	4,435	4,595
Rental and lease of equipment	388	53	-	441	393
Bad debts	270	-	-	270	326
Interest	113	-	-	113	67
	201,421	12,349	541	214,311	208,468
Excess of revenue over expenses from Hospital operations	695	-	-	695	1,167
Interest and amortization of building and service equipment and deferred contributions:					
Recovery of interest and principal on long-term obligation	20,503	-	-	20,503	19,823
Interest on long-term obligation	(16,799)	-	-	(16,799)	(16,903)
Amortization of deferred capital contributions	2,369	-	-	2,369	2,370
Amortization of building and service equipment	(7,956)	-	-	(7,956)	(7,956)
Deficiency of revenue over expenses	$ (1,188)	-	-	$ (1,188)	$ (1,499)