Financial statements of
William Osler Health System

March 31, 2020

Deloitte LLP
400 Applewood Crescent
Suite 500
Vaughan ON L4K 0C3

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Board of Directors of
William Osler Health System

Opinion

We have audited the financial statements of William Osler Health System (the "Hospital"), which comprise the statement of financial position as at March 31, 2020, and the statements of operations and changes in fund balance, remeasurement gains and losses, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively 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 the results of its operations, changes in net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). 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.

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

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

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

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

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 GAAS 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 GAAS, 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.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
May 27, 2020

William Osler Health System

Statement of financial position

As at March 31, 2020

(In thousands of dollars)

	Notes	2020 $	2019 $
Assets			
Current assets			
Cash	3	**48,245**	65,518
Accounts receivable			
Ministry of Health and Central West Local Health Integration Network		**7,604**	8,076
Other		**25,665**	31,809
Contributions receivable	4	**21,951**	20,315
Inventories		**7,688**	5,683
Prepaid expenses and deposits		**5,684**	5,202
		116,837	136,603
Contributions receivable	4	**513,725**	530,375
Restricted cash and investments	5	**57,206**	57,946
Prepaid expenses and deposits	10	**23,907**	21,192
Investments in joint ventures	6	**1,750**	1,587
Capital assets	7	**1,181,371**	1,186,227
		1,894,796	1,933,930
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	**126,901**	122,697
Derivative liability	8	**895**	448
Deferred contributions		**4,698**	4,152
Capital lease obligations	10	**5,916**	5,357
Obligations – buildings	11	**25,974**	29,790
Revolving credit facility	8	**7,132**	5,968
Non-revolving credit facility	8	**4,044**	14,467
		175,560	182,879
Contingencies and commitments	10, 17 and 18		
Employee future benefits	14	**33,026**	30,718
Capital lease obligations	10	**20,722**	20,445
Obligations – buildings	11	**621,988**	637,359
Derivative liability	8	**11,417**	6,321
Revolving credit facility	8	**19,516**	19,648
Non-revolving credit facility	8	**73,923**	77,967
Legal defence fund	17	**9,088**	8,437
Deferred capital contributions	13	**936,271**	955,852
		1,725,951	1,756,747
Fund balance		**5,597**	1,073
Accumulated remeasurement losses		**(12,312)**	(6,769)
		(6,715)	(5,696)
		1,894,796	1,933,930

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

Approved by the Board

D. McMullan, Director

Director

William Osler Health System

Statement of operations and changes in fund balance

Year ended March 31, 2020

(In thousands of dollars)

	Notes	2020 $	2019 $
Revenue			
Ministry of Health and Central West Local Health Integration Network		**693,054**	649,330
Patient revenue		**72,771**	67,890
Other income		**25,403**	24,165
Amortization of deferred capital contributions – equipment	13	**6,771**	5,350
		797,999	746,735
Expenses			
Salaries, wages and benefits		**534,528**	504,394
Medical, surgical supplies and drugs		**83,093**	76,943
Supplies and other expenses		**148,084**	141,446
Amortization of equipment		**19,659**	16,710
		785,364	739,493
Excess of revenue over expenses before building amortization and interest expense		**12,635**	7,242
Amortization of buildings		**(34,622)**	(30,242)
Amortization of deferred capital contributions – buildings	13	**28,882**	25,452
Interest cost on buildings	11	**(50,584)**	(45,784)
Funding of interest – buildings	11	**48,213**	44,136
Excess of revenue over expenses for the year		**4,524**	804
Fund balance, beginning of year		**1,073**	269
Fund balance, end of year		**5,597**	1,073

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

William Osler Health System

Statement of remeasurement gains and losses

Year ended March 31, 2020

(In thousands of dollars)

	2020 $	2019 $
Accumulated remeasurement losses, beginning of year	**(6,769)**	(4,145)
Net remeasurement (losses) for the year	**(5,543)**	(2,624)
Accumulated remeasurement losses, end of year	**(12,312)**	(6,769)

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

William Osler Health System

Statement of cash flows

Year ended March 31, 2020

(In thousands of dollars)

	Notes	2020 $	2019 $
Operating activities			
Excess of revenues over expenses for the year		**4,524**	804
Items not affecting cash			
Joint venture – equity recorded	6	**(163)**	(257)
Amortization of deferred capital contributions	13	**(35,653)**	(30,802)
Amortization of capital assets		**54,281**	46,952
Increase in employee future benefits		**2,308**	2,297
Legal defence fund obligation		**651**	629
Net change in non-cash working capital	15	**8,879**	3,939
		34,827	23,562
Capital activities			
Purchase of capital assets, net of disposals	7	**(49,425)**	(46,668)
Etobicoke General Hospital ("EGH")			
Construction-in-progress additions		**—**	(15,395)
Contributions received	4	**20,315**	96,016
Deferred capital contributions received, net of disposals	13	**15,430**	28,349
		(13,680)	62,302
Investing activities			
Investments restricted for Brampton Civic Hospital ("BCH") and Peel Memorial Centre for Integrated Health and Wellness ("PMC")	5	**1,775**	(2,621)
Financing activities			
Osler's share of BCH and PMC financing	11	**(5,838)**	(5,973)
Net increase in long term prepaid expenses and deposits		**(2,715)**	(2,452)
Net change in capital leases and building obligations		**(18,351)**	(101,765)
Proceeds from draw on revolving credit facility	8	**7,000**	15,000
Proceeds from draw on non-revolving credit facility	8	**—**	10,567
Repayment of revolving credit facility	8	**(5,968)**	(4,518)
Repayment of non-revolving credit facility	8	**(14,467)**	(2,163)
Net contribution to legal defence fund	5	**(1,035)**	(1,210)
Interest earned on redevelopment funds		**1,179**	3,035
		(40,195)	(89,479)
Net change in cash during the year		**(17,273)**	(6,236)
Cash, beginning of year		**65,518**	71,754
Cash, end of year		**48,245**	65,518

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

1. Operations

William Osler Health System ("Osler") provides healthcare services to Brampton, Etobicoke, and surrounding areas. These services are provided through Etobicoke General Hospital ("EGH"), Brampton Civic Hospital ("BCH"), Peel Memorial Centre for Integrated Health and Wellness ("PMC") and several satellite sites. Osler 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.

Osler is funded primarily by the Province of Ontario in accordance with budget arrangements established by both the Ministry of Health (the "Ministry") and the Central West Local Health Integration Network (the "LHIN"). Osler has entered into a Hospital Service Accountability Agreement ("H-SAA") with the LHIN that sets out the obligations as well as the minimum performance standards that must be met by Osler. Any excess of revenue over expenses with respect to base funding during a fiscal year is not required to be returned. However, if Osler does not meet its performance standards or obligations under the H-SAA, the LHIN has the right to adjust funding received by Osler. Osler accrues for known clawback amounts. As at March 31, 2020, management is of the opinion that Osler is in compliance with the obligations and minimum performance standards under the H-SAA.

2. Significant accounting policies

Basis of presentation

Management has prepared these financial statements in accordance with Canadian public sector accounting standards including the 4200 series of standards as issued by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

These financial statements do not include the assets, liabilities or operations of William Osler Health System Foundation or William Osler Health System Volunteers Association as the respective organizations are not controlled by Osler, maintain their own accounts and report separately from Osler to their own governing bodies.

Revenue recognition

Osler follows the deferral method of accounting for restricted contributions, whereby restricted contributions are recognized as revenue in the same period in which the related expenses are incurred.

Under the Health Insurance Act (Ontario) and the regulations thereunder, Osler is ultimately funded by the Province of Ontario in accordance with funding arrangements established by the Ministry. Ministry and LHIN operating grants are recorded as revenue in the period to which they relate. Where a portion of a grant relates to a future period, it is deferred and recognized in the subsequent period. Ministry and LHIN grants that are approved but not received at the end of a period are accrued. These financial statements reflect funding arrangements agreed to with the LHIN.

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

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.

2. Significant accounting policies (continued)

Financial instruments

All financial instruments, including derivatives, are included on the statement of financial position and are measured either at fair value, cost or amortized cost based on the characteristics of the instrument and Osler's accounting policy choices.

All financial instruments reported on the statement of financial position of Osler are measured as follows:

Cash	Amortized cost
Restricted cash and investments	Fair value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Derivative liability	Fair value
Revolving credit facility	Amortized cost
Non-revolving credit facility	Amortized cost

Financial instruments measured at fair value are initially recognized at cost and subsequently carried at fair value. 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 and changes in fund balance. Transaction costs related to financial instruments in the fair value category are expensed as incurred.

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 into the statement of operations and changes in fund balance. On sale or disposal, 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 fund balance.

Financial instruments measured at amortized cost 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 and changes in fund balances.

Contributed materials and services

A substantial number of volunteers contribute significant time each year to Osler. Due to the difficulty of determining the fair value, these contributed services are not recognized in the financial statements. Contributed materials are recorded, when received, at fair value.

Joint ventures

Investments in jointly controlled entities are accounted for using the modified equity method, whereby the investment is initially recorded at cost and adjusted thereafter to recognize Osler's share of the jointly controlled entity's net surplus or deficit for its fiscal year ending within Osler's fiscal year. Any distributions received are accounted for as a reduction in the investment.

2. Significant accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the average weighted cost method.

Capital assets

Capital assets are recorded at acquisition cost. Contributed capital assets are recorded at fair value at the date of acquisition. Expenditures for new facilities or expenditures that substantially increase the useful lives of existing capital assets are capitalized. Renovation costs to maintain normal operating efficiency are expensed as incurred. Maintenance, repairs and minor replacements are also expensed as incurred. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets at the following annual rates:

Land improvements	2% – 10%
Buildings	2% – 20%
Equipment	4% – 33%

Construction-in-progress represents expenditures incurred for projects currently underway. Upon completion, the related construction-in-progress will be transferred to the appropriate capital asset category and amortization will commence.

Osler reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable and exceeds its fair value. The impairment loss, if any, is the excess of carrying value over its fair value.

Capital leases

Capital assets leased on terms that transfer substantially all of the benefits and risks of ownership to Osler are treated as capital leases and are accounted for as though a capital asset had been purchased and a liability assumed. Where the lease terms do not transfer substantially all of the benefits and risks of ownership to Osler, these leases are accounted for as operating leases, wherein lease payments are expensed as incurred.

Employee future benefits

Employees of Osler are eligible to be members of the Healthcare of Ontario Pension Plan, which is a multi-employer high five-year average pay contributory pension plan, and employees are entitled to certain other post-employment retirement benefits. Defined contribution plan accounting is applied to the multi-employer defined benefit plan whereby contributions are expensed when due.

Osler accrues its obligations under non-pension employee benefits as full-time employees render services. The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate assumptions of retirement ages of employees and expected health care costs.

Actuarial gains or losses are amortized over the average remaining service period of the active employees. The average remaining service period of active employees is 15 years. Future cost escalation affects the amount of employee future benefits. The accrued benefit obligation related to employee benefits is discounted using current interest rates based on management's best estimate in consultation with their actuary.

Adjustments arising from plan amendments are recognized in the year when the plan amendments occur.

(In thousands of dollars)

2. Significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Estimates are used when accounting for a number of items including, but not limited to provision for accounts receivable, amortization of capital assets, recognition of deferred revenue, recognition of certain revenues based on patient volumes, amortization of deferred capital contributions, recording of accrued liabilities, provisions for claims defence costs, provisions for employee benefits and market valuation of interest rate swaps. Actual results could differ from those estimates.

3. Cash

Under revised directions received from the Ministry in 2000 and 2001, Osler was required to plan for the redevelopment of facilities at EGH and PMC to meet the needs of the growing communities served by Osler. The following funds are externally restricted and internally allocated for these projects.

	2020	2019
	$	$
Ministry funding in excess of spending/ (spending in excess of funding) to date for redevelopment		
PMC	**5,577**	5,577
EGH	**(3,143)**	8,192
	2,434	13,769
Osler funds designated for redevelopment		
PMC	**4,966**	9,311
EGH	**33,196**	38,369
	38,162	47,680
Funds held for redevelopment	**40,596**	61,449
Funds available for operations	**7,649**	4,069
	48,245	65,518

4. Contributions receivable

(a) *Brampton Civic Hospital*

In August 2003, Osler entered into a project agreement with The Healthcare Infrastructure Company of Canada ("THICC") to design, build, finance, and property manage BCH. The agreed upon services included facility design, construction, project financing, building maintenance, laundry, materials management, housekeeping, portering, food services, and security. Construction was completed in July 2007 and all services were transferred from Peel Memorial to BCH in October 2007.

Effective January 18, 2013 the terms of the project agreement were assigned to Fengate (WOHC).

4. Contributions receivable (continued)

(a) Brampton Civic Hospital (continued)

Effective September 2016, Osler performed market comparison for the services included in the project agreement and, as a result, the following services were awarded to various other providers: laundry, housekeeping, portering and security.

As part of the project funding agreement with the Ministry, Osler has made operating and capital financial commitments for BCH (Notes 10 and 11).

The Ministry has committed, over a 25-year period, to fund 91.05% of the BCH building capital cost base and related interest cost. In addition to its 8.95% share of the capital cost base, Osler will fund the entire cost of the parking facility. As part of its agreement with the Ministry, Osler is required to maintain a sinking fund, managed by a trust company (Note 5). Osler is required to hold all non-clinical ancillary revenues, including parking, in the sinking fund until the sinking fund is fully funded. To date, Osler's share of the commitments has been met through the sinking fund which is fully funded at March 31, 2020.

The capital cost base is calculated as shown below, and has been discounted using an effective interest rate of 6.3% to match the obligation (Note 11).

(b) Peel Memorial Centre for Integrated Health and Wellness

On May 26, 2014, Osler entered into a financial arrangement with Plenary Health to design, build, finance and maintain PMC. Construction was completed in October 2016. The agreed upon services include facility design, construction project financing and building maintenance.

As part of the project funding agreement with the Ministry, Osler has made operating and capital financial commitments for PMC (Notes 10 and 11).

The Ministry has committed, over a 30 year period, to fund 90.62% of the PMC building capital cost base and related interest cost. In addition to its 9.38% share of the capital cost base, Osler will fund the entire cost of the parking facility. As part of its agreement with the Ministry, Osler is required to maintain a sinking fund, managed by a trust company (Note 5). Osler is required to hold funds invested in the sinking fund equal to six months of Osler's share of future payments under the agreement. To date, Osler's share of the commitments has been met and the sinking fund is fully funded at March 31, 2020.

The capital cost base is calculated as shown below and has been discounted using an effective interest rate of 3.1% to match the obligation (Note 11).

(c) Etobicoke General Hospital Step 1 Patient Tower

On May 3, 2016, Osler entered into a financial arrangement with Etobicoke Healthcare Partnership to design, build, finance and maintain ("DBFM") the Etobicoke General Hospital Step 1 Patient Tower. Construction began in June 2016 and reached substantial completion in February 2019.

As part of the DBFM Agreement with the Ministry, Osler has made financial commitments for the Etobicoke General Hospital Step 1 Patient Tower (Notes 10 and 11). The Ministry has committed, over a 30 year period, to fund 90.27% of the Patient Tower building capital cost base and related interest cost.

The capital cost base is calculated as shown below and has been discounted using an effective interest rate of 4.6% to match the obligation (Note 11).

(In thousands of dollars)

4. Contributions receivable (continued)

	BCH $	PMC $	EGH $
Original principal of long-term obligation	**550,409**	**289,920**	**217,433**
Harmonized Sales Tax	**10,053**	**5,362**	**4,109**
Osler's 100% share of construction cost of parking facility	**(38,828)**	**(21,994)**	**—**
Capital cost base	**521,634**	**273,288**	**221,542**
Funded as follows			
Ministry	**474,948**	**247,654**	**199,835**
Osler	**46,686**	**25,634**	**21,707**
	521,634	**273,288**	**221,542**

The contributions receivable for BCH are accreted using an interest rate of 6.3%, resulting in interest income being recognized of $30,233 ($30,152 in 2019), which represents the Ministry's share of the interest expense attributable to the obligation (Note 11).

The contributions receivable for PMC are accreted using an interest rate of 3.1%, resulting in interest income being recognized of $7,223 ($7,295 in 2019), which represents the Ministry's share of the interest expense attributable to the obligation (Note 11).

The contributions receivable for EGH are accreted using an interest rate of 4.6% resulting in an increase in deferred capital contributions of $1,149 ($492 in 2019), and interest income being recognized of $3,448 (nil in 2019), which represents the Ministry's share of the capitalized interest and of the interest expense attributable to the obligation (Note 11).

The following is a continuity schedule of the contributions receivable from the Ministry:

	2020 $	2019 $
Amount receivable, beginning of year	**550,690**	633,146
Contributions received during year	**(20,315)**	(96,016)
Increase in receivable	**5,301**	13,560
Amount receivable, end of year	**535,676**	550,690
Current portion	**21,951**	20,315
Long-term portion	**513,725**	530,375
	535,676	550,690

(In thousands of dollars)

5. Restricted cash and investments

	2020	2019
	$	$
Legal defence fund	**12,406**	11,371
Sinking fund	**44,800**	46,575
	57,206	57,946

Effective January 1, 2012, Osler entered into an agreement with Health Care Insurance Reciprocal of Canada ("HIROC") whereby the cost of investigating and defending any litigation claims are borne by Osler. To fund the expected payments, Osler transfers funds to an operating account managed by HIROC Management Limited ("HML") as Osler's appointed agent. The cash and investment balance is $12,406 ($11,371 in 2019).

Osler's sinking fund is held in trust by a custodian and managed under the direction of an investment manager. Investment income of $1,164 ($1,372 in 2019) was earned in the year and is included in deferred capital contributions on the statement of financial position. The investments are recorded at fair value and the components are as follows:

		2020
	Fair value	**Cost**
	$	**$**
Cash and cash equivalents	**17**	**17**
Bonds and mortgages	**36,025**	**34,590**
Equities	**8,758**	**7,363**
	44,800	**41,970**

		2019
	Fair value	Cost
	$	$
Cash and cash equivalents	9	9
Bonds and mortgages	38,123	36,829
Equities	8,443	6,023
	46,575	42,861

6. Investments in joint ventures

Osler has a 50% interest in the William Osler ProResp Inc. joint venture. Osler's share of the net surplus in William Osler ProResp Inc. for the fiscal year of $163 ($257 in 2019) has been included in other income on the statement of operations and changes in fund balance.

Management fees were earned by Osler from William Osler ProResp Inc. in the amount of $289 ($273 in 2019) and have been included in other income and accounts receivable – other as at March 31, 2020.

(In thousands of dollars)

7. Capital assets

	Cost $	Accumulated amortization $	2020 Net book value $	2019 Net book value $
Land	**20,510**	**—**	**20,510**	20,510
Land improvements	**6,211**	**4,094**	**2,117**	2,262
Buildings	**1,332,633**	**296,888**	**1,035,745**	853,763
Equipment	**367,577**	**284,163**	**83,414**	74,658
Construction-in-progress	**39,585**	**—**	**39,585**	235,034
	1,766,516	**585,145**	**1,181,371**	1,186,227

Buildings include existing building service equipment and leasehold improvements. During the year, capital assets and equipment were acquired at an aggregate cost of $49,425, net of disposals ($62,063 in 2019).

The total costs of construction and financing for the EGH Phase 1 Patient Tower over the construction period was $188,088. The EGH Phase 1 Patient tower was constructed by Etobicoke Health Partnership. The building was substantially completed in February 2019 and opened for use in June 2019.

8. Credit facilities and derivative liability

Osler has available unsecured credit facilities of $35,000 ($35,000 in 2019). These facilities bear interest at prime, of which no amount is outstanding at March 31, 2020 (nil in 2019). Osler also has the availability of a revolving lease line of credit of $5,000 and a revolving demand facility by way of letters of credit and letters of guarantee of $5,000, bearing interest at 0.85% per annum. These facilities have not been drawn upon as at March 31, 2020.

In fiscal 2015, Osler provided the Corporation of the City of Brampton a letter of credit in the amount of $1,419 for indemnity towards certain construction at the site of PMC. The balance on this letter of credit as at March 31, 2020 is $139 ($139 in 2019), and no amounts were drawn on the instrument as at March 31, 2020.

In fiscal 2016, Osler provided Alectra Utilities Corp., formerly Hydro One Brampton Networks Inc., ("Alectra"), a letter of credit in the amount of $618 for indemnity towards certain construction at the site of PMC. The balance on this letter of credit as at March 31, 2020 is $618 ($618 in 2019), and no amounts were drawn on the instrument as at March 31, 2020.

In fiscal 2017, Osler provided City of Toronto a letter of credit in the amount of $586 for indemnity towards certain construction at the EGH site. The balance on this letter of credit as at March 31, 2020 is $586 ($586 in 2019), and no amounts were drawn on the instrument as at March 31, 2020.

(In thousands of dollars)

8. Credit facilities and derivative liability (continued)

Credit facilities are comprised of committed revolving and non-revolving credit facilities and are reflected as a liability on the statement of financial position as follows:

	2020	2019
	$	$
Credit facilities		
Facility 1 – Non-revolving credit facility (a)	**36,743**	39,056
Facility 2 – Non-revolving credit facility (b)	**41,224**	42,811
Facility 3 – Revolving credit facility (c)	**—**	25,616
Facility 4 – Non-revolving credit facility (d)	**—**	10,567
Facility 6 – Revolving credit facility (f)	**26,648**	—
	104,615	118,050
Less: current portion	**(11,176)**	(20,435)
	93,439	97,615

Derivative liability is comprised of interest rate swaps. The fair value of the interest rate swaps was calculated using the discounted cash flow method and is reflected as a liability on the statement of financial position as follows:

	2020	2019
	$	$
Facility 5 – Derivative liability		
Interest rate swap on		
Facility 1 – Non-revolving credit facility (e)	**5,910**	4,041
Interest rate swap on		
Facility 2 – Non-revolving credit facility (e)	**6,402**	2,728
	12,312	6,769
Less: current portion	**895**	448
	11,417	6,321

On May 26, 2014 as part of the PMC and EGH redevelopment projects, Osler entered into an agreement with the Bank of Montreal (“BMO”) to establish the following:

(a) Facility 1 – a committed non-revolving credit facility with a maximum principal amount not to exceed $53,000 for the purpose of financing a portion of the PMC redevelopment project. This facility bears interest at the Canadian Dealer Offered Rate (“CDOR”) plus 0.34%. At March 31, 2020, the outstanding principle balance is $36,743 ($39,056 in 2019).

(b) Facility 2 – a committed non-revolving credit facility with a maximum principal amount not to exceed $44,000 for the purpose of financing a portion of the EGH redevelopment project. This facility bears interest at the CDOR plus 0.34%. At March 31, 2020, the outstanding principle balance is $41,224 ($42,811 in 2019).

On July 7, 2017, the agreement was amended to transfer the unutilized credit of $9,574 from Facility 1 to Facility 2 to provide a maximum principal amount not to exceed $53,574.

(In thousands of dollars)

8. Credit facilities and derivative liability (continued)

(c) Facility 3 – a committed revolving credit facility with a maximum principal amount not to exceed $33,000 at any time for the purpose of financing capital equipment purchases. This facility bears interest at the BMO Bankers Acceptance (BA) fee plus 0.34%. On May 29, 2019 the agreement was amended to transfer the outstanding balance from Facility 3 to Facility 6. At March 31, 2020, the outstanding principle is nil ($25,616 in 2019).

(d) Facility 4 – a demand non-revolving bridge facility with a maximum principal amount not to exceed $35,000 for the purpose of financing the recoverable HST of the substantial completion payment for EGH. This facility bears interest at the BMO BA fee plus 0.34%. At March 31, 2020, the outstanding principle is nil ($10,567 in 2019).

(e) Facility 5 – a treasury risk management facility to enable hedging of interest rate risk in connection to Facilities 1,2,3 or 6.

Osler is exposed to interest rate cash flow risk with respect to its floating rate debt and has endeavored to mitigate this risk by entering into an interest rate swap that fixes the rate over the term of the debt at 3.911%. At March 31, 2020, the fair value of the interest rate swap agreement resulted in a liability of $5,910 ($4,041 in 2019).

Osler is exposed to interest rate cash flow risk with respect to its floating rate debt and has endeavored to mitigate this risk by entering into an interest rate swap that fixes the rate over the term of the debt at 3.16%. At March 31, 2020, the fair value of the interest rate swap agreement resulted in a liability of $6,402 ($2,728 in 2019).

(f) Facility 6 – a demand revolving credit facility in the maximum principal amount not to exceed $33,000 at any time for the purposes of financing hospital capital equipment purchases and paying out the outstanding balance under Facility 3. This facility bears interest at the Canadian Dollar Offered Rate (CDOR) plus 0.55%. At March 31, 2020 the outstanding principle is $26,648 (nil in 2019).

9. Accounts payable and accrued liabilities

	2020	2019
	$	$
Accounts payable	**55,311**	60,289
Accounts payable – Ministry	**2,850**	4,094
Accrued liabilities		
Salaries, wages and employee benefits	**67,006**	58,052
Other	**1,734**	262
	126,901	122,697

(In thousands of dollars)

10. Capital lease obligations, operating commitments, prepaid expenses and deposits

Osler has entered into various capital lease obligations for computer and medical equipment. The effective interest rate of the capital leases ranges from 0.38% to 12.50%.

	Capital equipment leases $
2021	3,533
2022	6,663
2023	5,472
2024	4,216
2025	2,764
and thereafter	6,499
	29,147
Less: amount representing interest	2,509
	26,638
Less: current portion	5,916
Long-term portion	20,722

Operating commitments include payments related to operational and maintenance services at BCH, PMC, EGH and Etobicoke Wellness Centre (“EWC”). The future minimum annual payments consist of the following:

	Operating commitments $
2021	48,167
2022	39,094
2023	36,617
2024	36,945
2025	37,372
and thereafter	436,517
	634,712

(In thousands of dollars)

10. Capital lease obligations, operating commitments, prepaid expenses and deposits (continued)

Effective May 1, 2015, Osler entered into a Managed Equipment Services agreement (the "agreement") with Siemens Canada Limited ("Siemens") to provide Osler with access to technology, equipment and infrastructure for a variety of diagnostic equipment for a period of 15 years. Under the terms of the agreement, Siemens will provide services related to the procurement, installation, and commissioning of capital assets in accordance with an Equipment Replacement Plan as well as the maintenance, training and on-site technical support services for the equipment acquired as part of the agreement. As equipment is acquired, it is accounted for as capital leases and is included in capital assets (Note 7) and capital lease obligations. Maintenance, training and support service costs are expensed as incurred and are included in the statement of operations and changes in fund balance. Due to the timing of service payments, payments made in advance of capital purchases and scheduled maintenance are recorded as prepaid expenses and deposits in the statement of financial position.

Future annual services payments related to the agreement consist of the following:

	Capital expenditures	Operating commitments	Annual service payments
	$	$	$
2021	2,094	5,543	7,637
2022	2,178	5,735	7,913
2023	2,424	5,831	8,255
2024	2,758	5,982	8,740
2025	3,484	6,121	9,605
2026 and thereafter	55,251	31,803	87,054
	68,189	61,015	129,204
Less: amount representing interest	4,339		
	63,850		

11. Obligations – buildings

The long-term obligations related to BCH, PMC, EGH and EWC require annual payments as follows:

	$
2021	66,632
2022	67,531
2023	67,550
2024	63,330
2025	60,906
and thereafter	775,236
	1,101,185
Amount representing interest	(453,223)
	647,962
Less: current portion	25,974
Long-term portion	621,988

(In thousands of dollars)

11. Obligations – buildings (continued)

The obligations are anticipated to be funded through a combination of Ministry grants (Note 4), a municipal grant, Foundation grants, hospital funds, and income arising from contractual rights (Note 12).

Interest on the long-term obligations and on the non-revolving credit facilities (Note 8) included in the statement of operations and changes in fund balance for BCH was $34,554 ($34,835 in 2019) for PMC was $8,725 ($8,869 in 2019), for EGH was $4,476 (nil in 2019), and for EWC was $2,829 ($2,080 in 2019). Interest included in EGH construction in progress was $1,149 ($1,449 in 2019). These amounts were funded as follows:

	2020	2019
	$	$
Ministry's share	**42,053**	37,939
Less Ministry share of the capitalized interest attributable to the obligation included in deferred capital contributions	**(1,149)**	(492)
Osler's share, funded through other income	**1,471**	716
Osler's share, funded through amortization of deferred capital contributions	**5,838**	5,973
	48,213	44,136

12. Contractual rights

Osler has entered into various agreements giving rise to contractual rights to receive payments for subleased space at the EWC and income from other retail facilities at BCH and EGH. Future annual payments consist of the following:

	Contractual rights
	$
2021	2,082
2022	1,834
2023	1,795
2024	1,589
2025	1,617
and thereafter	7,172
	16,089

(In thousands of dollars)

13. Deferred capital contributions

Deferred capital contributions represent the unamortized contributions and donations, which have been or will be expended on capital assets. Amortization of these contributions is recorded as revenues in the statement of operations and changes in fund balance, on a straight-line basis, at a rate corresponding with the amortization rate of the related capital asset.

	2020	2019
	$	$
Deferred capital contributions		
Balance, beginning of year	**955,852**	947,683
Contributions received during the year, net of disposals	**15,430**	28,349
Change in EGH contribution receivable	**5,301**	13,560
Interest earned	**1,179**	3,035
Less:		
Amounts amortized to revenue		
Equipment	**(6,771)**	(5,350)
Buildings	**(28,882)**	(25,452)
Funding of Osler's share of BCH and PMC financing costs	**(5,838)**	(5,973)
Balance, end of year	**936,271**	955,852

During the year, Osler recorded contributions of $8,303 ($11,571 in 2019) from the Ministry, $6,786 ($16,237 in 2019) from the William Osler Health System Foundation (the "Foundation"), and $350 ($541 in 2019) from other sources, net of disposals of $9 (nil in 2019).

14. Pension plan and other employee future benefits

Pension plan

Employees of Osler are eligible to be members of the Healthcare of Ontario Pension Plan (the "Plan"). Contributions made to the Plan during the year by Osler of $29,068 ($27,455 in 2019) are included in the salaries, wages and benefits expense in the statement of operations and changes in fund balance.

(In thousands of dollars)

14. Pension plan and other employee future benefits (continued)

Employee future benefits

Employees of Osler are entitled to certain post-employment benefits. Osler recognizes the present value of its obligation from these benefits as they are earned.

The date of the last actuarial valuation was March 31, 2020. Both pension plan and employee future benefits are included in salaries, wages and benefit expenses on the statement of operations and changes in fund balance.

	2020	2019
	$	$
Change in employee future benefits obligation		
Employee future benefits obligation, beginning of year	**35,203**	32,279
Current service cost	**2,886**	2,855
Interest cost	**1,074**	1,092
Actuarial loss	**1,857**	999
Benefits paid	**(2,090)**	(2,022)
Employee future benefits obligation, end of year	**38,930**	35,203
Unamortized actuarial losses	**(5,904)**	(4,485)
Employee future benefits liability, end of year	**33,026**	30,718
Plan expense		
Current service cost	**2,886**	2,855
Amortization of actuarial losses	**1,074**	372
Interest cost	**438**	1,092
Net benefit expense	**4,398**	4,319

(In thousands of dollars)

14. Pension plan and other employee future benefits (continued)

Employee future benefits (continued)

The significant actuarial assumptions adopted in estimating Osler's accrued benefit obligation are of a long-term nature consistent with the nature of employee future benefits, as follows:

	2020	2019
Discount rate for accrued benefit obligation, end of period (%)	**3.10%**	3.20%
Discount rate for net benefit cost, current period (%)	**2.90%**	2.90%
Dental benefits cost escalation (%)	**3.0% in 2020, increasing to an ultimate rate of 3.57% per annum**	2.75%
Medical benefits costs escalation, extended health care	**5.37% in 2020, decreasing to an ultimate rate of 3.57% per annum**	6.0% in 2019, decreasing by 0.25% per annum to an ultimate rate of 4.50% per annum
Average remaining service period of active employees to retirement who are expected to receive benefits under the benefit plan (years)	**15**	15
Average remaining service period of active employees to full eligibility who are expected to receive benefits under the benefit plan (years)	**15**	15

15. Net change in non-cash working capital items

	2020 **$**	2019 $
Accounts receivable – Ministry of Health/Central West Local Health Integration Network	**472**	(2,893)
Accounts receivable – other	**6,144**	(9,311)
Inventories	**(2,005)**	(435)
Current portion of prepaid expenses and deposits	**(482)**	(224)
Deferred contributions	**546**	2,424
Accounts payable and accrued liabilities	**4,204**	14,378
	8,879	3,939

16. Related entities

(a) The Foundation, an independent non-profit organization, raises funds for Osler for use in acquiring capital equipment, renovations and operations. Osler is considered related to the Foundation as the Foundation raises funds to support Osler's capital projects.
The Foundation's contributions towards building and equipment were $976 ($5,367 in 2019) for BCH, $3,208 ($3,256 in 2019) for PMC, $2,602 ($7,614 in 2019) for EGH and $786 ($507 in 2019) to support operating expenditures during the fiscal year. Included in Accounts receivable – other as at March 31, 2020 is $203 ($317 in 2019) due from the Foundation.

(b) The William Osler Volunteers Association (the "Volunteers") is an independent non-profit organization that raises funds in support of Osler and provides volunteer services at its hospitals. Osler is considered related to the Volunteers as the Volunteers support Osler. Included in accounts receivable – other as at March 31, 2020 is $21 ($25 in 2019) due from the Volunteers. In 2016, Osler received a demand loan of $500 from the Volunteers. Interest is payable based on the annual investment return achieved in Osler's sinking fund (Note 5). As at March 31, 2020, the outstanding balance of the loan was nil ($145 in 2019) and is included in accounts payable and accrued liabilities.

(c) In conjunction with two other hospitals, Osler is a member of West GTA Healthcare Shared Services Corporation, operating as Shared Services West ("SSW"). SSW is a non-profit corporation, administered by a Board of Directors, which includes representation from each of the three member hospitals. SSW provides purchasing, contract management and logistics services to Osler. In fiscal 2020, Osler paid membership fees to SSW in the amount of $2,480 ($2,497 in 2019). During the year, Osler paid an additional $9 ($39 in 2019) to SSW for project management and planning services for its redevelopment projects and also received $51 ($185 in 2019) in fees for providing project resources to SSW. As at March 31, 2020, the net balance payable to SSW was $14 ($33 in 2019).

17. Liability insurance and contingencies

A group of hospitals, including Osler, are members of HIROC. HIROC is a pooling of liability insurance risks of its members. All members of the pool pay annual deposit premiums, which are actuarially determined and are expensed in the current year. These premiums are subject to further assessment for the experience of gains and losses, by the pool, for the years in which Osler was a member. During fiscal 2020, no negative assessments (none in 2019) have been received.

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 that 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 are no distributions receivable from HIROC as of March 31, 2020.

From time to time, Osler is named in lawsuits related to its activities. It is not possible to determine the merits of these claims or to estimate the possible financial liability, if any, to Osler. Accordingly, no provision has been made for loss in these financial statements.
In management's view, these claims should not have a material adverse effect on the financial position of Osler.

17. Liability insurance and contingencies (continued)

Osler entered into an agreement with HIROC whereby HIROC will provide indemnity insurance, however the cost of investigating and defending any litigation claims would be borne by Osler. Osler has appointed HML to act as agent for Osler for such claims defence costs in accordance with an Agency Agreement. Costs associated with claims arising prior to January 1, 2012 will be borne by HIROC. Costs of defending claims that arise subsequent to January 1, 2012 are based on claims defence costs incurred by HIROC in the past. For the year ended March 31, 2020, a provision of $2,169 ($1,828 in 2019) for claims defence costs is included in the financial statements as supplies and other expenses in the statement of operations and changes in fund balance.

18. Guarantees

In the normal course of business, Osler has entered into agreements that meet the definition of a guarantee and may include indemnities in favour of third parties. Osler's primary guarantees are as follows:

(a) Indemnity has been provided to all directors and officers of Osler for various items including, but not limited to, all costs to settle suits or actions due to association with Osler, subject to certain restrictions. Osler has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of Osler. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) In the normal course of business, Osler has entered into agreements that include indemnities in favour of third parties. These indemnification agreements may require Osler to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction.

The nature of these indemnification agreements prevents Osler from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, Osler has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the statement of financial position with respect to these agreements.

(In thousands of dollars)

19. Diabetes Satellite Programs

In accordance with the Ministry Memorandum dated August 9, 2014, the information below reflects the revenues and eligible expenditures for the Diabetes Satellite Programs for the fiscal year.

		2020		2019
	Adult Diabetes	**Pediatric Education**	Adult Diabetes	Pediatric Education
	$	**$**	$	$
Revenue				
Central West Local Health Integration Network	**1,027**	**250**	1,027	250
Expenditures				
Salaries, wages and benefits	**981**	**250**	1,015	250
Supplies and other (including purchased services)	**66**	**—**	80	—
	1,047	**250**	1,095	250
Excess of expenditures over revenue for the year	**(20)**	**—**	(68)	—

20. Financial instruments

Risks arising from financial instruments and risk management

Osler is exposed to a variety of financial risks including market and credit risk. Osler's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Osler's financial performance. Osler is exposed to interest rate risk and market risk with regard to its long-term investments, which is minimized due to a conservative investment policy that has been approved by the Ministry.

Credit risk

Credit risk arises from cash and investments held with financial institutions and credit exposures to patients on outstanding accounts receivable balances. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. Cash is held at a major financial institution that has a high credit rating assigned to it by international credit rating agencies minimizing any potential exposure to credit risk. Osler assesses the credit quality of the counterparties, taking into account their financial position, past experience and other factors.

Liquidity risk

Liquidity risk results from Osler's potential inability to meet its obligations associated with the financial liabilities as they become due. Osler monitors its operations and cash flows to ensure current and future obligations will be met. Osler believes its current sources of liquidity are sufficient to cover its currently known short and long-term cash obligations.

Establishing fair value

The carrying value of cash, accounts receivable, long-term receivable, accounts payable and accrued liabilities approximates their fair value because of the relatively short period to maturity of the instruments. The fair value of long-term debt is not materially different from its carrying values as it bears interest at variable rates and has financing conditions similar to these currently available to Osler.

(In thousands of dollars)

20. Financial instruments (continued)

Establishing fair value (continued)

The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reported borrowing date. In situations in which there is no market for these guarantees and they were issued without explicit costs, it is not practicable to determine their fair value with sufficient reliability. Unless otherwise noted, it is management's opinion that Osler is not subject to significant interest or currency risk arising from these instruments.

The fair value of the interest rate swaps are determined using the discounted cash flow method.

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;

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).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Fair value hierarchy

The following table presents the financial instruments recorded at fair value in the statement of financial position, classified using the fair value hierarchy:

	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**2020** **Total** **$**
Financial instruments at fair value as at				
Investments – sinking fund	**44,800**	**—**	**—**	**44,800**
Derivative liability	**—**	**(12,312)**	**—**	**(12,312)**
Cash held in trust	**12,406**	**—**	**—**	**12,406**
	57,206	**(12,312)**	**—**	**44,894**

	Level 1 $	Level 2 $	Level 3 $	2019 Total $
Financial instruments at fair value as at				
Investments – sinking fund	46,575	—	—	46,575
Derivative liability	—	(6,769)	—	(6,769)
Cash held in trust	11,371	—	—	11,371
	57,946	(6,769)	—	51,177

There have been no movements between levels during the year.

20. Financial instruments (continued)

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 two types of risk: interest rate risk and equity risk.

(a) *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. Osler is exposed to interest rate risk on its credit facilities. For its credit facilities, Osler has entered into interest rate swap agreements in order to manage the impact of fluctuating interest rates. Osler's policy is not to utilize derivative instruments for trading or speculative purposes. Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the credit facilities.

(b) *Equity risk*

Equity risk is the risk that the fair value of equity investments will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

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.

21. Pandemic response

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put into place to combat the spread of the virus.

As a result of the COVID-19 pandemic, the Hospital experienced a change in the demand for its services and incurred unbudgeted pandemic response expenditures. The Hospital has tracked expenditures related to its pandemic response and will apply for reimbursement of hospital-incurred expenditures once provincial processes for such reimbursement are finalized. Any recoveries that may be received in the future will be recognized in the period in which approval is obtained.

The duration and impact of the COVID-19 pandemic is unknown at this time and it is not possible to reliably estimate the impact that the severity and length of the pandemic will have on the financial results and condition of the Hospital in future periods.