

Financial Statements of

**BROCKVILLE GENERAL
HOSPITAL**

Year ended March 31, 2019

Independent Auditors' Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets (Deficiency)

Statement of Cash Flows

Notes to Financial Statements



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Brockville General Hospital

Opinion

We have audited the financial statements of the Brockville General Hospital ("the Entity"), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets (deficiency) for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

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

Basis for Opinion

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

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

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



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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

June 20, 2019

BROCKVILLE GENERAL HOSPITAL

Statement of Financial Position

March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Receivable from Ministry of Health and Long-Term Care | \$ 1,313,257 | \$ 636,327 |
| Accounts receivable (note 14(a)) | 4,557,013 | 2,938,606 |
| Inventory of supplies | 923,079 | 888,015 |
| Prepaid expenses | 986,441 | 700,127 |
| | <u>7,779,790</u> | <u>5,163,075</u> |
| Loan receivable from Brockville and District Hospital Foundation re JEJ Bequest Fund (note 2) | 461,479 | 498,675 |
| Capital assets (note 3) | 73,071,838 | 62,797,946 |
| | <u>\$ 81,313,107</u> | <u>\$ 68,459,696</u> |
| Liabilities, Deferred Contributions and Net Assets (Deficiency) | | |
| Current liabilities: | | |
| Bank indebtedness (note 9) | \$ 13,002,021 | \$ 8,890,975 |
| Accounts payable and accrued liabilities | 11,245,680 | 11,119,793 |
| Bank loans payable (note 4) | 11,621,305 | 13,134,168 |
| | <u>35,869,006</u> | <u>33,144,936</u> |
| Accrued employee future benefits liability (note 5(a)) | 3,490,600 | 3,688,100 |
| Deferred contributions (note 6): | | |
| Expenses of future periods | 631,861 | 729,699 |
| Capital assets | 61,160,190 | 50,741,979 |
| | <u>61,792,051</u> | <u>51,471,678</u> |
| Net assets (deficiency): | | |
| Invested in capital assets (note 7(a)) | 2,812,566 | 2,372,922 |
| Other internally restricted (note 8(a)) | 87,729 | 124,926 |
| Externally restricted endowments (note 8(b)) | 19,397 | 19,397 |
| Unrestricted deficiency | (22,758,242) | (22,362,263) |
| | <u>(19,838,550)</u> | <u>(19,845,018)</u> |
| Contingencies (note 10) | | |
| Commitments (note 11) | | |
| | <u>\$ 81,313,107</u> | <u>\$ 68,459,696</u> |

See accompanying notes to financial statements.

On behalf of the Board:


Director


Director

BROCKVILLE GENERAL HOSPITAL

Statement of Operations

Year ended March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|--|-------------------|-------------------|
| Revenue: | | |
| Provincial Ministry of Health and Long-Term Care and South East LHIN | \$ 67,630,058 | \$ 66,897,784 |
| Provincial insurance plan | 6,879,028 | 7,028,222 |
| Patient revenue from other payers | 816,307 | 789,307 |
| Co-payments | 168,812 | 203,080 |
| Preferred accommodation | 382,094 | 343,429 |
| Funding for other programs | 2,073,697 | 2,297,101 |
| Amortization of deferred contributions for equipment capital assets | 893,808 | 752,985 |
| Recoveries and other revenue | 3,696,914 | 3,610,487 |
| Investment income (note 12) | 6,823 | 6,175 |
| | <u>82,547,541</u> | <u>81,928,570</u> |
| Expenses: | | |
| Medical staff remuneration | 8,472,897 | 8,569,405 |
| Employee salary and benefits | 54,028,671 | 53,694,585 |
| Employee future benefits recovery | (197,500) | (160,200) |
| Drugs | 1,481,826 | 1,177,660 |
| Medical and surgical supplies | 4,023,411 | 3,787,059 |
| Supplies and other expenses | 12,065,988 | 12,169,847 |
| Interest | 600,888 | 513,133 |
| Amortization of equipment | 1,946,878 | 1,854,013 |
| | <u>82,423,059</u> | <u>81,605,502</u> |
| Excess of revenue over expenses before undernoted items | 124,482 | 323,068 |
| Amortization of deferred contributions related to capital assets - building | 1,472,910 | 1,435,931 |
| Amortization of capital assets - building | (1,590,924) | (1,754,048) |
| Excess of revenue over expenses | <u>\$ 6,468</u> | <u>\$ 4,951</u> |

See accompanying notes to financial statements.

BROCKVILLE GENERAL HOSPITAL

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2019, with comparative information for 2018

| | Invested in capital assets (note 7(a)) | Other internally restricted (note 8(a)) | Externally restricted endowments (note 8(b)) | Unrestricted | 2019 Total | 2018 Total |
|---|---|--|---|------------------------|------------------------|------------------------|
| Balance (deficiency), beginning of year | \$ 2,372,922 | \$ 124,926 | \$ 19,397 | \$ (22,362,263) | \$ (19,845,018) | \$ (19,849,969) |
| Excess (deficiency) of revenue over expenses | (1,171,085) | – | – | 1,177,553 | 6,468 | 4,951 |
| Investment in capital assets | 1,610,729 | – | – | (1,610,729) | – | – |
| Internally imposed restrictions | – | (37,197) | – | 37,197 | – | – |
| Balance (deficiency), end of year | \$ 2,812,566 | \$ 87,729 | \$ 19,397 | \$ (22,758,242) | \$ (19,838,550) | \$ (19,845,018) |

See accompanying notes to financial statements.

BROCKVILLE GENERAL HOSPITAL

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|--|-----------------|----------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess of revenue over expenses | \$ 6,468 | \$ 4,951 |
| Items not involving cash: | | |
| Amortization of deferred contributions for capital assets | (2,366,717) | (2,188,916) |
| Amortization of capital assets | 3,537,802 | 3,608,061 |
| Decrease in accrued employee future benefits liability | (197,500) | (160,200) |
| Cash provided by (used in) the following operational balances: | | |
| Receivable from Ministry of Health and Long-Term Care | (676,930) | (636,327) |
| Accounts receivable | (1,618,407) | (1,087,846) |
| Receivable, JEJ Bequest Fund | 37,196 | 48,603 |
| Inventory of supplies | (35,064) | (73,464) |
| Prepaid expenses | (286,314) | (47,934) |
| Accounts payable and accrued liabilities | 125,887 | (1,021,114) |
| Deferred revenue | — | (463,750) |
| Deferred contributions received for future expenses | (97,838) | 36,797 |
| | (1,571,417) | (1,981,139) |
| Capital activities: | | |
| Purchase of capital assets | (13,811,694) | (5,548,607) |
| Deferred contributions received for capital assets | 12,784,928 | 6,345,337 |
| | (1,026,766) | 796,730 |
| Financing activities: | | |
| Principal payments on debt | (1,512,863) | (1,770,843) |
| Increase in bank indebtedness | (4,111,046) | (2,955,252) |
| Bank indebtedness, beginning of year | (8,890,975) | (5,935,723) |
| Bank indebtedness, end of year | \$ (13,002,021) | \$ (8,890,975) |

See accompanying notes to financial statements.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2019

The Brockville General Hospital, (the "Hospital") was incorporated in 1885 under an Act respecting Benevolent, Provident and other Societies, being Chapter 167 of the Revised Statutes of Ontario, 1877. Its principal activity is the operation of a health care facility in Brockville, Ontario. The Brockville General Hospital is a registered charity under the Income Tax Act (Canada) and is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

For the period from October 5, 2016 to April 1, 2018, the Province of Ontario appointed a supervisor to review and recommend improvement of the financial and organizational issues that Brockville General Hospital was experiencing.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

(a) Revenue recognition:

The Hospital is funded primarily by the Ontario Ministry of Health and Long-Term Care (MOHLTC) and the South East Local Health Integration Network (LHIN). 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.

The Hospital follows the deferral method of accounting for contributions, which include donations and government grants. These financial statements reflect agreed arrangements approved by the MOHLTC and LHIN with respect to the year ended March 31, 2019.

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 expenditures are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Contributions of non-amortizable capital assets are recorded as direct increases in net assets in the year in which they are received.

Other revenue is recorded as earned and when services are performed.

(b) Contributed services:

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

(c) Inventory of supplies:

Inventory of supplies is valued at the lower of average cost and net replacement value.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

(d) Capital assets:

Capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life and capacity of an asset are capitalized. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value. Amortization of cost and any corresponding deferred contribution is calculated on a straight-line basis using the following annual rates per MOHLTC guidelines:

| | |
|---|---------------|
| Land improvements | 5% to 12.5% |
| Buildings | 2% to 5% |
| Building service equipment | 4% to 10% |
| Equipment, furnishings and software | 5% to 33.33% |
| Information system software and equipment | 20% to 33.33% |

Costs of construction and planning in progress are capitalized. Amortization is not recognized until construction is complete and the assets are put into use.

(e) Vacation pay:

Vacation pay is accrued for all employees as entitlement to these payments is earned in accordance with the Hospital's benefit plan for vacation.

(f) Employee future benefits:

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

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

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the remaining service period of active employees. The Hospital also accrues its obligations for post-employment benefits when an event that obligates the Hospital occurs such as parental and short-term sick leaves. The average remaining service period of active employees covered by the employee benefit plan is 13 years (2018 - 11.2 years).

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

(g) Multi-employer pension plan:

The Hospital participates in a defined benefit multi-employer pension plan. The plan is accounted for on a defined contribution plan basis as contributions to the benefit plan are determined by the plan administrator and are expensed when due. The most recent regulatory funding valuation of this multi-employer pension plan conducted as at December 31, 2018 disclosed actuarial assets of \$79,019 million with accrued pension liabilities of \$65,128 million, resulting in a surplus of \$13,891 million. This filing valuation also confirmed that the plan was fully funded on a solvency basis as at December 31, 2018 based on the assumptions and methods adopted for the valuation.

(h) Use of estimates:

The preparation of financial statement requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(i) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has not elected to subsequently carry financial instruments at fair value.

Long-term debt is recorded at cost.

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.

(j) Statement of remeasurement gains and losses:

A statement of remeasurement gains and losses has not been provided as there are no significant unrealized gains or losses at March 31, 2019.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

2. Receivable from Brockville and District Hospital Foundation:

JEJ Bequest Fund:

The loan receivable is from the Brockville and District Hospital Foundation which purchased the investment assets of the J.E. Johnson Bequest fund effective April 1, 2004. The return on the loan is equal to the annual net rate of return on the Foundation's investment portfolio as reported by the investment broker as the performance return for comparison against benchmark rates, less reasonable investment management and custodial fees and professional fees.

3. Capital assets:

| | Cost | Accumulated amortization | 2019 Net book value | 2018 Net book value |
|---|-----------------------|-----------------------------|---------------------------|---------------------------|
| Land | \$ 3,357,835 | \$ – | \$ 3,357,835 | \$ 3,357,835 |
| Land improvements | 448,002 | 115,025 | 332,977 | 442,388 |
| Buildings and building service equipment | 61,743,110 | 32,586,710 | 29,156,400 | 29,997,176 |
| Equipment, furnishings and software | 40,392,208 | 33,757,500 | 6,634,708 | 7,390,969 |
| Information system software and equipment | 10,948,682 | 9,064,272 | 1,884,410 | 1,983,912 |
| Construction and planning in progress | 31,705,508 | – | 31,705,508 | 19,625,666 |
| | <u>\$ 148,595,345</u> | <u>\$ 75,523,507</u> | <u>\$ 73,071,838</u> | <u>\$ 62,797,946</u> |

Cost and accumulated amortization of capital assets at March 31, 2018 amounted to \$135,732,135 and \$72,934,189, respectively.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

4. Bank loans payable:

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Demand loan, repaid during the year. | \$ — | \$ 125,400 |
| Demand loan bearing interest at prime less 0.75% per annum, due June 30, 2023, payable in monthly principal payments of \$16,667 plus interest | 849,977 | 1,049,981 |
| Demand loan bearing interest at prime per annum, due November 2018, payable in monthly principal payments of \$27,778 plus interest | — | 222,222 |
| Demand loan bearing interest at prime less 0.75% per annum, due May 2025, payable in monthly principal payments of \$35,642 plus interest | 1,125,906 | 1,582,380 |
| Demand loan bearing interest at 2.65%, due September 2030, payable in blended monthly payments of \$8,715 | 1,029,159 | 1,105,374 |
| Demand loan bearing interest at prime less 0.75% per annum, due August 2030, payable in blended monthly payments of \$3,965 | 449,596 | 482,144 |
| Demand loan bearing interest at prime, due November 2020 at which time it will be transferred into a loan payable in equal monthly installments plus interest over 2 years | 7,000,000 | 7,000,000 |
| Demand loan bearing interest at prime, payable in monthly principal payments of \$33,333 plus interest | 1,166,667 | 1,566,667 |
| | <u>\$ 11,621,305</u> | <u>\$ 13,134,168</u> |

Future principal payments over the next five years and thereafter are approximately as follows:

| | |
|--------------------------|----------------------|
| 2020 | \$ 1,082,960 |
| 2021 | 2,396,560 |
| 2022 | 4,396,105 |
| 2023 | 2,430,488 |
| 2024 | 309,163 |
| 2025 and thereafter | 1,006,029 |
| Total principal payments | <u>\$ 11,621,305</u> |

Interest on debt amounted to \$600,888 in 2019 (2018 - \$513,133).

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

5. Employee future benefits:

- (a) The Hospital has defined benefit plans providing post-retirement health care, dental and life insurance benefits covering substantially all retirees and permanent full-time employees. There are no assets associated with these benefit plans. Information about the Hospital's defined post-retirement benefit plans, in aggregate, is as follows:

| | 2019 | 2018 |
|--|--------------|--------------|
| Accrued benefits obligation, beginning of year | \$ 2,695,900 | \$ 2,692,900 |
| Current service cost | 115,900 | 134,000 |
| Interest on accrued benefits | 82,900 | 87,000 |
| Actuarial experience | (23,300) | — |
| Benefits payments | (224,700) | (218,000) |
| Accrued benefits obligation, end of year | 2,646,700 | 2,695,900 |
| Unamortized actuarial experience gain | 843,900 | 992,200 |
| Accrued employee future benefits liability, end of year | \$ 3,490,600 | \$ 3,688,100 |

An independent actuarial study of the post-retirement and post-employment benefits has been undertaken. The most recent valuation of employee future benefits was completed as at April 1, 2018.

The significant actuarial assumptions adopted in estimating the Hospital's accrued benefits obligation at the beginning and end of the year are as follows:

| | |
|-----------------------------|-------------------------------|
| Discount rate | 2.9% per annum (2018 - 3.2%) |
| Dental cost escalation | 3.0% per annum (2018 - 3.0%) |
| Health care cost escalation | 5.25% per annum (2018 - 5.5%) |

- (b) The Hospital's post-retirement benefit plans expense is as follows:

| | 2019 | 2018 |
|--------------------------------|------------|------------|
| Current service cost | \$ 115,900 | \$ 134,000 |
| Interest on accrued benefits | 82,900 | 87,000 |
| Amortization of actuarial gain | (171,600) | (163,000) |
| | \$ 27,200 | \$ 58,000 |

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

6. Deferred contributions:

(a) Expenses of future periods:

Deferred contributions for expenses of future periods represent unspent government grants and externally restricted provincial grants, donations, bequests and fundraising for particular purposes.

| | 2019 | 2018 |
|---|------------|------------|
| Balance, beginning of year | \$ 729,699 | \$ 692,902 |
| Additional contributions | 35,373 | 109,581 |
| Less amount recognized as revenue in the year | (133,211) | (72,784) |
| Balance, end of year | \$ 631,861 | \$ 729,699 |

The balance of deferred contributions for expenses of future periods consists of the following:

| | 2019 | 2018 |
|----------------------|------------|------------|
| J.E. Johnson Bequest | \$ 452,350 | \$ 452,350 |
| Other | 179,511 | 277,349 |
| | \$ 631,861 | \$ 729,699 |

(b) Capital assets:

Deferred contributions for capital assets represent the unamortized amount and unspent amount of grants and donations received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

| | 2019 | 2018 |
|----------------------------------|---------------|---------------|
| Balance, beginning of year | \$ 50,741,979 | \$ 46,585,558 |
| Additional contributions | 12,784,928 | 6,345,337 |
| Less amount amortized to revenue | (2,366,717) | (2,188,916) |
| Balance, end of year | \$ 61,160,190 | \$ 50,741,979 |

The balance of deferred contributions for capital assets consists of the following:

| | 2019 | 2018 |
|---|---------------|---------------|
| Unamortized capital contributions used to purchase assets | \$ 61,160,190 | \$ 49,813,079 |
| Unspent contributions | – | 928,900 |
| | \$ 61,160,190 | \$ 50,741,979 |

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

7. Net assets invested in capital assets:

(a) Net assets invested in capital assets is calculated as follows:

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Capital assets | \$ 73,071,838 | \$ 62,797,946 |
| Amount financed by bank loan | (9,099,082) | (10,611,945) |
| Amounts financed by deferred contributions | (61,160,190) | (49,813,079) |
| | <u>\$ 2,812,566</u> | <u>\$ 2,372,922</u> |

(b) Change in net assets invested in capital assets is calculated as follows:

| | 2019 | 2018 |
|---|--------------------|---------------------|
| Excess of expenses over revenue: | | |
| Amortization of deferred contributions for capital assets | \$ 2,366,717 | \$ 2,188,916 |
| Amortization of: | | |
| Buildings | (1,590,924) | (1,754,048) |
| Equipment | (1,946,878) | (1,854,013) |
| | <u>(1,171,085)</u> | <u>(1,419,145)</u> |
| Net change in investment in capital assets: | | |
| Purchase of capital assets | 13,811,694 | 5,548,607 |
| Amount financed by deferred contributions | (13,713,828) | (6,345,337) |
| Repayment of bank loan | 1,512,863 | 1,770,843 |
| | <u>1,610,729</u> | <u>974,113</u> |
| | <u>\$ 439,644</u> | <u>\$ (445,032)</u> |

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

8. Restrictions on net assets:

- (a) Other net assets internally restricted represent the unexpended balance of income on the J.E. Johnson Bequest of \$373,750 included in deferred contributions for expenses of future periods. The Hospital's Board of Directors considers the income from the bequest to be restricted in the same manner as the bequest itself, that is, its expenditure is subject to the approval of the Board of Directors of Brockville General Volunteer Association. The Board of Directors restricts net assets as follows:

| | 2019 | 2018 |
|-----------------------------------|------------|------------|
| Beginning balance | \$ 124,926 | \$ 170,298 |
| Net income on fund | 4,052 | 3,625 |
| Draw from fund for expenditures | (41,249) | (48,997) |
| Unexpended balance | 87,729 | 124,926 |
| Original JEJ Bequest contribution | 373,750 | 373,750 |
| | \$ 461,479 | \$ 498,676 |

- (b) Externally restricted endowments net assets represent endowment capital which cannot be expended.

9. Bank indebtedness:

The Hospital's financial agreement with its bank provides for an operating facility of up to \$8,000,000 to finance (operating and capital) expenses, with a \$3,000,000 annual seasonal bulge from February 15 to April 15. In 2019, this seasonal bulge was increased to \$8,000,000 (2018 - \$7,000,000) to adjust for timing of the MOHLTC cash advance. As at March 31, 2019, \$11,907,348 (2018 - \$9,242,461) was drawn bearing interest at prime rate less 0.75%, net with small cash balances in other accounts.

10. Contingencies:

- (a) The nature of the Hospital's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2019, management believes that the Hospital has valid defenses and appropriate insurance coverages in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Hospital's financial position.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

10. Contingencies (continued):

- (b) Healthcare Insurance Reciprocal of Canada (“HIROC” or the “Reciprocal”) was formed in 1987 as an insurance reciprocal pursuant to the Insurance Act of Ontario. The Reciprocal is licensed in Ontario, Manitoba, Newfoundland and Labrador, Saskatchewan, Alberta, Nova Scotia, Northwest Territories, Yukon and Nunavut. It facilitates the exchange of reciprocal contracts of insurance among its subscribers, which are not-for-profit Canadian health care organizations. Since 1987 coverage has been provided for health care liability risks and during 2003 coverage was extended to include property risks.

The Financial Services Commission of Ontario and the Insurance Act of Ontario require that the Reciprocal maintain a surplus of assets over liabilities.

Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. There are no such assessments payable to HIROC as at March 31, 2019.

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

11. Commitments:

- (a) The Hospital was approved, on February 21, 2018, to renovate and build an addition to the Charles Street site for a Complex Continuing Care/Mental Health/Rehabilitation Project (“Project”). The MOHLTC approved a total project cost of \$179 million, with maximum MOHLTC funds of up to \$159 million. As at March 31, 2019, total funds received and spent were \$30 million.

The expected completion date of the Project is August 2020. The addition will accommodate the transfer of all services currently provided at the Hospital’s Garden Street site, as well as additional acute care beds.

The Hospital has engaged, through a competitive procurement process, the planning and construction services for this project.

- (b) The Hospital has entered into a contract with Kingston Regional Hospital Laundry Services for laundry services for an initial term of April 1, 2015 until August 31, 2019 with the option to renew for five years.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

11. Commitments (continued):

- (c) The Hospital has entered into a contract with Kingston Health Sciences Centre and the Southeastern Ontario Academic Medical Organization for laboratory and pathology services for an initial term of July 6, 2017 until June 30, 2022 with the option to renew for five years.
- (d) The Hospital has entered into a contract with Compass Group Canada Ltd. for food and environmental services effective May 1, 2018.

12. Investment income:

Investment income earned is reported as follows:

| | 2019 | 2018 |
|---|-----------------|-----------------|
| Income earned on unrestricted resources | \$ 2,771 | \$ 2,550 |
| Income earned on internally restricted resources: JEJ Bequest Fund | 4,052 | 3,625 |
| | <u>\$ 6,823</u> | <u>\$ 6,175</u> |

13. Pension plan:

Substantially all of the employees of the Hospital are members of the Healthcare of Ontario Pension Plan (the "Plan") which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. The Plan specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to \$3,488,249 (2018 - \$3,460,751) and are recorded in the statement of operations.

14. Other information:

- (a) The Brockville & District Hospital Foundation (the "Foundation") is incorporated without share capital under the Ontario Corporations Act. It is a non-profit corporation established for the purpose of receiving and maintaining a fund or funds and applying all or part of the principal and the income therefrom to the Hospital or such other organizations whose objectives are similar to or congruent with the Hospital. The Foundation qualifies for tax-exempt status as a registered charity under the Income Tax Act (Canada). The Hospital has an economic interest, but not control of the Brockville & District Hospital Foundation.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

14. Other information (continued):

(a) (continued):

During the year, the Hospital received \$3,208,020 (2018 - \$1,822,291) from the Foundation for the purchase of capital and operating needs. Included in accounts receivable is \$2,024,440 (2018 - \$318,407) related to these purchases.

The net assets and results of operations of the Foundation are not included in the financial statements of the Hospital.

(b) Brockville General Hospital is a member of a group of six hospitals with the South East Local Health Integration Network which have voluntarily agreed to enter into a joint project for the purposes of planning, development, implementation and operation of a shared regional supply chain project, consisting of procurement, warehousing, logistics and contract management activities. Shared Support Services South Eastern Ontario ("3SO"), a non-profit corporation, has been created to manage the services and provide procurement oversight on the part of the member hospitals. The project received start-up funding from the Ministry of Finance. The four-year project implementation period commenced with the signing of a transfer payment agreement in March 2008 and was completed in 2012.

Each of the participating hospitals is a voting member of 3SO. Therefore, the Hospital has an economic interest, but not control, over 3SO. The assets, liabilities, net assets and results of operation of the 3SO are not included in the financial statements.

The Hospital has signed a commitment to the project, expiring June 2024 and has provided a limited guarantee up to a maximum of \$67,000 of a \$1,000,000 line of credit secured by 3SO, representing the Hospital's proportionate share of 6.7%. As at March 31, 2019, 3SO had drawn \$Nil (2018 - \$Nil) on the line of credit, of which the Hospital guarantees \$Nil (2018 - \$Nil).

(c) The Hospital has economic interest in the Brockville General Volunteer Association by way of the Hospital holding resources that are used by the Volunteer Association to produce revenue. The net assets and results of the operations of the Volunteer Association are not included in the financial statements of the Hospital.

16. Financial risks and concentration of credit risks:

(a) Credit risk:

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

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

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2019

16. Financial risks and concentration of credit risks (continued):

(a) Credit risk (continued):

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 balance of allowance for doubtful accounts at March 31, 2019 is \$142,047 (2018 - \$147,451).

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

(b) Liquidity risk:

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

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

The contractual maturities of long-term debt are disclosed in note 4.

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

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

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

(c) Interest rate risk:

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

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

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

17. Adoption of new accounting policy:

On April 1, 2018, the Hospital adopted Canadian public sector accounting standard PS 3430 Restructuring Transactions.

The adoption of this standard did not result in an accounting policy change for the Hospital, and did not result in any adjustments to the financial statements as at April 1, 2018.