

Financial Statements of

BROCKVILLE GENERAL HOSPITAL

Year ended March 31, 2020

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, 2020
- 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, 2020, 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 25, 2020

BROCKVILLE GENERAL HOSPITAL

Statement of Financial Position

March 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Current assets:		
Receivable from Ministry of Health	\$ 5,337,759	\$ 1,313,257
Accounts receivable (note 14(a))	3,869,453	4,557,013
Inventory of supplies	956,759	923,079
Prepaid expenses	853,973	986,441
	<u>11,017,944</u>	<u>7,779,790</u>
Restricted cash (note 2)	417,423	–
Loan receivable from Brockville and District Hospital Foundation re JEJ Bequest Fund (note 2)	–	461,479
Capital assets (note 3)	84,403,679	73,071,838
	<u>\$ 95,839,046</u>	<u>\$ 81,313,107</u>
Liabilities, Deferred Contributions and Net Assets (Deficiency)		
Current liabilities:		
Bank indebtedness (note 9)	\$ 10,955,949	\$ 13,002,021
Accounts payable and accrued liabilities	15,503,930	11,245,680
Bank loans payable (note 4)	12,985,178	11,621,305
	<u>39,445,057</u>	<u>35,869,006</u>
Accrued employee future benefits liability (note 5(a))	3,321,200	3,490,600
Deferred contributions (note 6):		
Expenses of future periods	597,190	631,861
Capital assets	69,301,312	61,160,190
	<u>69,898,502</u>	<u>61,792,051</u>
Net assets (deficiency):		
Invested in capital assets (note 7(a))	4,639,412	2,812,566
Other internally restricted (note 8(a))	43,673	87,729
Externally restricted endowments (note 8(b))	19,397	19,397
Unrestricted deficiency	(21,528,195)	(22,758,242)
	<u>(16,825,713)</u>	<u>(19,838,550)</u>
Contingencies (note 10)		
Commitments (note 11)		
	<u>\$ 95,839,046</u>	<u>\$ 81,313,107</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

BROCKVILLE GENERAL HOSPITAL

Statement of Operations

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

	2020	2019
Revenue:		
Provincial Ministry of Health and South East LHIN	\$ 74,397,651	\$ 67,630,058
Provincial insurance plan	7,249,550	6,879,028
Patient revenue from other payers	886,614	816,307
Co-payments	224,021	168,812
Preferred accommodation	346,572	382,094
Funding for other programs	1,877,998	2,073,697
Amortization of deferred contributions for equipment capital assets	886,293	893,808
Recoveries and other revenue	3,554,938	3,696,914
Investment income (note 12)	7,266	6,823
	<u>89,430,903</u>	<u>82,547,541</u>
Expenses:		
Medical staff remuneration	8,828,206	8,472,897
Employee salary and benefits	55,644,242	54,028,671
Employee future benefits recovery	(169,400)	(197,500)
Drugs	1,484,226	1,481,826
Medical and surgical supplies	4,402,357	4,023,411
Supplies and other expenses	12,542,805	12,065,988
Interest	696,720	600,888
Amortization of equipment	2,323,426	1,946,878
	<u>85,752,582</u>	<u>82,423,059</u>
Excess of revenue over expenses before undernoted items	3,678,321	124,482
Amortization of deferred contributions related to capital assets - building	1,301,666	1,472,910
Amortization of capital assets - building	(1,967,150)	(1,590,924)
Excess of revenue over expenses	<u>\$ 3,012,837</u>	<u>\$ 6,468</u>

See accompanying notes to financial statements.

BROCKVILLE GENERAL HOSPITAL

Statement of Changes in Net Assets (Deficiency)

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

	Invested in capital assets (note 7(a))	Other internally restricted (note 8(a))	Externally restricted endowments (note 8(b))	Unrestricted	2020 Total	2019 Total
Balance (deficiency), beginning of year	\$ 2,812,566	\$ 87,729	\$ 19,397	\$ (22,758,242)	\$ (19,838,550)	\$ (19,845,018)
Excess (deficiency) of revenue over expenses	(2,102,617)	–	–	5,115,454	3,012,837	6,468
Investment in capital assets	3,929,463	–	–	(3,929,463)	–	–
Internally imposed restrictions	–	(44,056)	–	44,056	–	–
Balance (deficiency), end of year	\$ 4,639,412	\$ 43,673	\$ 19,397	\$ (21,528,195)	\$ (16,825,713)	\$ (19,838,550)

See accompanying notes to financial statements.

BROCKVILLE GENERAL HOSPITAL

Statement of Cash Flows

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

	2020	2019
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 3,012,837	\$ 6,468
Items not involving cash:		
Amortization of deferred contributions for capital assets	(2,187,959)	(2,366,717)
Amortization of capital assets	4,290,576	3,537,802
Decrease in accrued employee future benefits liability	(169,400)	(197,500)
Cash provided by (used in) the following operational balances:		
Receivable from Ministry of Health	(4,024,502)	(676,930)
Accounts receivable	687,560	(1,618,407)
Receivable, JEJ Bequest Fund	461,479	37,196
Inventory of supplies	(33,680)	(35,064)
Prepaid expenses	132,468	(286,314)
Accounts payable and accrued liabilities	4,258,250	125,887
Deferred contributions received for future expenses	(34,671)	(97,838)
	6,392,958	(1,571,417)
Capital activities:		
Purchase of capital assets	(15,622,417)	(13,811,694)
Deferred contributions received for capital assets	10,329,081	12,784,928
	(5,293,336)	(1,026,766)
Financing activities:		
Proceeds from long-term debt	2,500,000	–
Principal payments on debt	(1,136,127)	(1,512,863)
	1,363,873	(1,512,863)
Decrease (increase) in bank indebtedness	2,463,495	(4,111,046)
Bank indebtedness, beginning of year	(13,002,021)	(8,890,975)
Bank indebtedness, end of year	\$ (10,538,526)	\$ (13,002,021)
Bank indebtedness is comprised of the following:		
Bank indebtedness	\$ (10,955,949)	\$ (13,002,021)
Restricted cash	417,423	–
	\$ (10,538,526)	\$ (13,002,021)

See accompanying notes to financial statements.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2020

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.

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 (MOH) 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 MOH and LHIN with respect to the year ended March 31, 2020.

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

Externally restricted contributions are recognized as revenue in the year in which the related 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, 2020

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 MOH 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 (2019 - 13 years).

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

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, 2019 disclosed actuarial assets of \$94,102 million with accrued pension liabilities of \$73,547 million, resulting in a surplus of \$20,555 million. This filing valuation also confirmed that the plan was fully funded on a solvency basis as at December 31, 2019 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 amortized 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, 2020.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

2. Receivable from Brockville and District Hospital Foundation:

JEJ Bequest Fund:

The loan receivable from the Brockville and District Hospital Foundation (the "Foundation") 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.

During the year, the funds were received from the Foundation. The remaining amount as at March 31, 2020 of \$417,423 is shown as restricted cash on the Statement of Financial Position.

3. Capital assets:

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Land	\$ 3,357,835	\$ –	\$ 3,357,835	\$ 3,357,835
Land improvements	448,002	137,761	310,241	332,977
Buildings and building service equipment	63,064,688	33,779,351	29,285,337	29,156,400
Equipment, furnishings and software	42,669,688	35,268,923	7,400,765	6,634,708
Information system software and equipment	11,146,242	9,593,650	1,552,592	1,884,410
Construction and planning in progress	42,496,909	–	42,496,909	31,705,508
	<u>\$ 163,183,364</u>	<u>\$ 78,779,685</u>	<u>\$ 84,403,679</u>	<u>\$ 73,071,838</u>

Cost and accumulated amortization of capital assets at March 31, 2019 amounted to \$148,595,345 and \$75,523,507, respectively.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

4. Bank loans payable:

	2020	2019
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	\$ 649,973	\$ 849,977
Demand loan bearing interest at prime less 0.75% per annum, due May 2025, payable in monthly principal payments of \$35,642 plus interest	701,901	1,125,906
Demand loan bearing interest at 2.65%, due September 2030, payable in blended monthly payments of \$8,715	950,952	1,029,159
Demand loan bearing interest at prime less 0.75% per annum, due August 2030, payable in blended monthly payments of \$3,965	415,685	449,596
Demand loan, up to \$15,000,000 available credit, 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	9,500,000	7,000,000
Demand loan bearing interest at prime, payable in monthly principal payments of \$33,333 plus interest	766,667	1,166,667
	<u>\$ 12,985,178</u>	<u>\$ 11,621,305</u>

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

2021	\$ 3,139,491
2022	5,703,412
2023	3,097,691
2024	179,849
2025	133,014
Thereafter	731,721
Total principal payments	<u>\$ 12,985,178</u>

Interest on bank loans payable amounted to \$470,511 as at March 31, 2020 (2019 - \$418,853).

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

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:

	2020	2019
Accrued benefits obligation, beginning of year	\$ 2,646,700	\$ 2,695,900
Current service cost	125,200	115,900
Interest on accrued benefits	77,400	82,900
Actuarial experience	(58,600)	(23,300)
Benefits payments	(207,000)	(224,700)
Accrued benefits obligation, end of year	2,583,700	2,646,700
Unamortized actuarial experience gain	737,500	843,900
Accrued employee future benefits liability, end of year	\$ 3,321,200	\$ 3,490,600

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	3.1% per annum (2019 - 2.9%)
Dental cost escalation	3.0% per annum (2019 - 3.0%)
Health care cost escalation	5.25% per annum (2019 - 5.25%)

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

	2020	2019
Current service cost	\$ 125,200	\$ 115,900
Interest on accrued benefits	77,400	82,900
Amortization of actuarial gain	(165,000)	(171,600)
	\$ 37,600	\$ 27,200

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

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.

	2020	2019
Balance, beginning of year	\$ 631,861	\$ 729,699
Additional contributions	165,912	35,373
Less amount recognized as revenue in the year	(200,583)	(133,211)
Balance, end of year	\$ 597,190	\$ 631,861

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

	2020	2019
J.E. Johnson Bequest	\$ 373,750	\$ 373,750
Other	223,440	258,111
	\$ 597,190	\$ 631,861

(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.

	2020	2019
Balance, beginning of year	\$ 61,160,190	\$ 50,741,979
Additional contributions	10,329,081	12,784,928
Less amount amortized to revenue	(2,187,959)	(2,366,717)
Balance, end of year	\$ 69,301,312	\$ 61,160,190

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

	2020	2019
Unamortized capital contributions used to purchase assets	\$ 69,301,312	\$ 61,160,190
Unspent contributions	—	—
	\$ 69,301,312	\$ 61,160,190

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

7. Net assets invested in capital assets:

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

	2020	2019
Capital assets	\$ 84,403,679	\$ 73,071,838
Amount financed by bank loans	(10,462,955)	(9,099,082)
Amounts financed by deferred contributions	(69,301,312)	(61,160,190)
	<u>\$ 4,639,412</u>	<u>\$ 2,812,566</u>

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

	2020	2019
Excess of expenses over revenue:		
Amortization of deferred contributions for capital assets	\$ 2,187,959	\$ 2,366,717
Amortization of:		
Buildings	(1,967,150)	(1,590,924)
Equipment	(2,323,426)	(1,946,878)
	<u>(2,102,617)</u>	<u>(1,171,085)</u>
Net change in investment in capital assets:		
Purchase of capital assets	15,622,417	13,811,694
Amount financed by deferred contributions	(10,329,081)	(13,713,828)
Bank loans obtained	(2,500,000)	–
Repayment of bank loan	1,136,127	1,512,863
	<u>3,929,463</u>	<u>1,610,729</u>
	<u>\$ 1,826,846</u>	<u>\$ 439,644</u>

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

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:

	2020	2019
Beginning balance	\$ 87,729	\$ 124,926
Net income on fund	5,262	4,052
Draw from fund for expenditures	(49,318)	(41,249)
Unexpended balance	(44,056)	(37,197)
Original JEJ Bequest contribution	373,750	373,750
	\$ 417,423	\$ 461,479

- (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 2020, this seasonal bulge was increased to \$8,000,000 (2019 - \$8,000,000) to adjust for timing of the MOH cash advance. As at March 31, 2020, \$10,963,082 (2019 - \$11,907,348) was drawn bearing interest at prime rate less 0.75%, net with small cash balances in other accounts.

Interest paid on this facility during 2020 amounted to \$226,209 (2019 - \$182,035).

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, 2020, 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, 2020

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, 2020.

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, 2020.

- (c) Prior to the Hospital’s year-end, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact. At the time of approval of these financial statements, the Hospital has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic:
- The closure of certain facilities to the general public, with temporary facilities opened to deal with screening and testing activities;
 - Revisions to the delivery of a number of services in order to create capacity for pandemic response and limit the potential for transmission within the Hospital, including the cancellation of elective surgeries and the transfer of alternative level of care patients to other facilities; and
 - The implementation of working from home requirements for certain hospital employees.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

10. Contingencies (continued):

(c) (continued):

As a result of these measures, the Hospital continues to experience decreases in operating revenues and increases in operating costs in the subsequent period. The MOH has allowed the Hospital to redirect revenue from certain funded programs towards COVID-related costs incurred during the year ended March 31, 2020, and has also committed to providing additional funding for COVID-related operating and capital costs in the subsequent period.

At this time these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.

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 MOH approved a total project cost of \$179 million, with maximum MOH funds of up to \$159 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, 2020 with the option to renew for five years.

(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, on a recovery basis, effective May 1, 2018 for a 10-year period.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

12. Investment income:

Investment income earned is reported as follows:

	2020	2019
Income earned on unrestricted resources	\$ 2,004	\$ 2,771
Income earned on internally restricted resources: JEJ Bequest Fund	5,262	4,052
	<u>\$ 7,266</u>	<u>\$ 6,823</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 \$3,609,807 (2019 - \$3,488,249) and are recorded in the Statement of Operations.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The Plan's 2019 Annual Report indicates the plan is fully funded at 119%.

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, 2020

14. Other information (continued):

(a) (continued):

During the year, the Hospital received \$1,819,539 (2019 - \$3,208,020) from the Foundation for the purchase of capital and operating needs. Included in accounts receivable is \$2,000,000 (2019 - \$2,024,440) related to the Foundation's commitment to contribute to the Hospital's capital redevelopment.

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 \$80,500 of a \$1,000,000 line of credit secured by 3SO, representing the Hospital's proportionate share of 8.05%. As at March 31, 2020, 3SO had drawn \$Nil (2019 - \$Nil) on the line of credit, of which the Hospital guarantees \$Nil (2019 - \$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.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

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, 2020 is the carrying value of these assets.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the Statement of Operations. Subsequent recoveries of impairment losses related to accounts receivable are credited to the Statement of Operations. The balance of allowance for doubtful accounts at March 31, 2020 is \$138,582 (2019 - \$142,047).

There have been no significant changes to the credit risk exposure from 2019.

(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. At March 31, 2020, the Hospital's current liabilities exceed its current assets by \$28,427,113 (2019 - \$28,892,216). The Hospital continues to explore future operational funding requirements as well as capital financing with the Ministry.

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 2019.

(c) Market risk

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

There have been no significant changes to the market risk exposure from 2019.

BROCKVILLE GENERAL HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

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

(d) 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 2019.