

Financial Statements of

**CORNWALL COMMUNITY
HOSPITAL**

Year ended March 31, 2020

CORNWALL COMMUNITY HOSPITAL

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Year ended March 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Cornwall Community Hospital

Opinion

We have audited the financial statements of Cornwall Community 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
- the statement of remeasurement gains and losses
- 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, 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 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 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 the financial statements.

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

We also:

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

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



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 4, 2020

CORNWALL COMMUNITY HOSPITAL

Statement of Financial Position

March 31, 2020, with comparative information for 2019

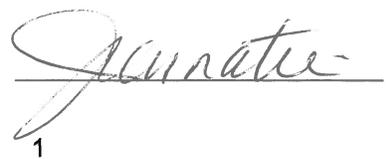
| | 2020 | 2019 |
|--|-----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 10,745,693 | \$ 9,420,133 |
| Accounts receivable (note 3) | 4,142,628 | 4,593,607 |
| Inventories | 1,382,019 | 1,167,511 |
| Prepaid expenses | 1,381,502 | 1,372,972 |
| | <u>17,651,842</u> | <u>16,554,223</u> |
| Restricted cash (note 4) | 209,010 | 209,010 |
| Capital assets (note 5) | 121,183,789 | 128,077,025 |
| Interest rate swaps (note 8) | — | 42,834 |
| | <u>\$ 139,044,641</u> | <u>\$ 144,883,092</u> |
| Liabilities, Deferred Contributions and Net Assets (Deficiency) | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 6) | \$ 16,124,693 | \$ 15,773,327 |
| Deferred revenue | 1,970,142 | 1,998,188 |
| Employee future benefits (note 7) | 533,052 | 553,324 |
| Current portion of long-term debt (note 8) | 1,510,000 | 1,480,000 |
| | <u>20,137,887</u> | <u>19,804,839</u> |
| Employee future benefits (note 7) | 5,914,515 | 5,839,545 |
| Long-term debt (note 8) | 7,878,000 | 9,388,000 |
| Interest rate swaps (note 8) | 353,560 | — |
| Deferred contributions (note 9) | 105,308,365 | 110,990,984 |
| Other long-term accrued liabilities | 64,026 | 64,026 |
| | <u>139,656,353</u> | <u>146,087,394</u> |
| Net assets (deficiency): | | |
| Invested in capital assets (note 10) | 6,487,424 | 6,218,041 |
| Restricted for endowments (note 11) | 209,010 | 209,010 |
| Unrestricted | (6,954,586) | (7,674,187) |
| | <u>(258,152)</u> | <u>(1,247,136)</u> |
| Accumulated remeasurement gains | (353,560) | 42,834 |
| | <u>(611,712)</u> | <u>(1,204,302)</u> |
| Contingencies and commitments (note 12) | | |
| Subsequent event (note 18) | | |
| | <u>\$ 139,044,641</u> | <u>\$ 144,883,092</u> |

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

CORNWALL COMMUNITY HOSPITAL

Statement of Operations

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

| | 2020 | 2019 |
|---|--------------------|--------------------|
| Revenue: | | |
| Patient care: | | |
| Ministry of Health | \$ 97,602,951 | \$ 92,437,944 |
| Other | 17,423,998 | 16,531,639 |
| Recovery: | | |
| Preferred accommodations | 704,000 | 752,785 |
| Other | 6,135,419 | 6,512,043 |
| Investment income | 173,847 | 138,681 |
| Amortization of deferred contributions related to equipment | 1,431,870 | 1,498,916 |
| Other programs: | | |
| Ministry of Health | 9,011,116 | 8,212,647 |
| Ministry of Community and Social Services | 2,950,968 | 3,077,871 |
| | <u>135,434,169</u> | <u>129,162,526</u> |
| Expenses: | | |
| Salaries and wages | 56,672,872 | 54,750,094 |
| Employee benefits | 17,154,327 | 17,343,187 |
| Medical staff remuneration | 11,283,477 | 10,280,316 |
| Medical and surgical supplies | 6,472,414 | 6,712,719 |
| Drugs and medical gases | 5,702,040 | 4,715,893 |
| Other supplies and expenses | 19,941,133 | 18,608,258 |
| Buildings and grounds | 889,914 | 878,329 |
| Amortization of capital assets - equipment | 3,886,347 | 3,594,034 |
| Interest on long-term debt | 122,807 | 149,825 |
| Other programs: | | |
| Ministry of Health | 9,011,116 | 8,212,647 |
| Ministry of Community and Social Services | 2,950,968 | 3,077,871 |
| | <u>134,087,415</u> | <u>128,323,173</u> |
| Excess of revenue over expenses before undernoted items | 1,346,754 | 839,353 |
| Interest on long-term debt | (115,657) | (118,427) |
| Amortization of deferred contributions related to building | 5,235,222 | 5,331,152 |
| Amortization of capital assets - building | (5,477,335) | (5,462,607) |
| | <u>(357,770)</u> | <u>(249,882)</u> |
| Excess of revenue over expenses | <u>\$ 988,984</u> | <u>\$ 589,471</u> |

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Changes in Net Assets (Deficiency)

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

| | Invested in capital assets | Endowments | Unrestricted | 2020 Total | 2019 Total |
|--|-------------------------------|------------|----------------|----------------|----------------|
| Balance (deficiency), beginning of year | \$ 6,218,041 | \$ 209,010 | \$ (7,674,187) | \$ (1,247,136) | \$ (1,836,607) |
| Excess (deficiency) of revenue over expenses (note 10) | (2,696,590) | – | 3,685,574 | 988,984 | 589,471 |
| Net change in investment in capital assets (note 10) | 2,965,973 | – | (2,965,973) | – | – |
| Balance (deficiency), end of year | \$ 6,487,424 | \$ 209,010 | \$ (6,954,586) | \$ (258,152) | \$ (1,247,136) |

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Cash Flows

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

| | 2020 | 2019 |
|--|---------------|--------------|
| Cash provided by (used for): | | |
| Operating activities: | | |
| Excess of revenue over expenses | \$ 988,984 | \$ 589,471 |
| Items not involving cash: | | |
| Amortization of capital assets | 9,363,682 | 9,056,641 |
| Amortization of deferred contributions related to capital assets | (6,667,092) | (6,830,068) |
| Increase in employee future benefits | 54,698 | 154,243 |
| Net change in non-cash working capital components (note 14) | 551,261 | 5,418,952 |
| | 4,291,533 | 8,389,239 |
| Capital activities: | | |
| Purchase of capital assets | (2,507,154) | (3,344,679) |
| Loss on disposal of capital assets | 36,708 | - |
| Increase in deferred contributions related to capital assets | 984,473 | 1,155,229 |
| | (1,485,973) | (2,189,450) |
| Financing activities: | | |
| Repayment of long-term debt | (1,480,000) | (1,452,000) |
| Increase in cash | 1,325,560 | 4,747,789 |
| Cash, beginning of year | 9,629,143 | 4,881,354 |
| Cash, end of year | \$ 10,954,703 | \$ 9,629,143 |
| Cash is comprised of the following: | | |
| Cash | \$ 10,745,693 | \$ 9,420,133 |
| Restricted cash | 209,010 | 209,010 |
| | \$ 10,954,703 | \$ 9,629,143 |

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Remeasurement Gains and Losses

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

| | 2020 | 2019 |
|--|--------------|------------|
| Accumulated remeasurement gains, beginning of year | \$ 42,834 | \$ 247,677 |
| Unrealized loss attributable to: Interest rate swaps | (396,394) | (204,843) |
| Accumulated remeasurement gains (losses), end of year | \$ (353,560) | \$ 42,834 |

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements

Year ended March 31, 2020

Cornwall Community Hospital/Hôpital communautaire de Cornwall (the "Hospital") is incorporated under the Ontario Corporations Act. The Hospital is principally involved in providing health care services to Cornwall and area. The Hospital is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

1. Significant accounting policies:

(a) Revenue recognition:

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

Under the *Health Insurance Act* and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health. Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

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, other than endowment contributions, are recognized as revenue in the year in which the related expenses are incurred. 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.

Revenue from the Ontario Health Insurance Plan (OHIP), preferred accommodations, and other revenue is recognized when the goods are sold or the service is provided.

Endowment contributions are recognized as direct increases in endowment net assets.

(b) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year to assist the Hospital in carrying out its service activities. Due to the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

(c) Inventories:

Inventories are valued at the lower of average cost and replacement cost.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(d) Capital assets:

Purchased capital assets, other than minor equipment are recorded at cost. Assets acquired under capital lease are initially recorded at the present value of future minimum lease payments and amortized over the estimated life of the assets. 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. Contributed capital assets are recorded at fair value at the date of contribution.

Amortization of cost and any corresponding deferred contribution is calculated on a straight-line basis using the following annual rates per Ministry of Health guidelines:

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

Minor equipment replacements are expensed in the year of replacement. Construction in progress is not amortized until the project is complete and the facilities come into use.

The cost of renovations to the Hospital buildings which significantly increase its useful life and capacity are included as part of the cost of the related capital assets. Renovation costs to adapt the Hospital buildings to changed operating conditions or to maintain normal operating efficiency are expensed as incurred.

Equipment leased on terms which transfer substantially all of the benefits and risks of ownership to the Hospital are accounted for as "capital leases" and are therefore accounted for as though an asset has been purchased and a liability incurred. All other items of equipment held on lease are accounted for as operating leases.

(e) Employee future benefits:

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.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(e) Employee future benefits (continued):

The Hospital accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the compensated absences and other retirement benefits. The actuarial determination of the accrued benefit obligations for retirement benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial valuation of the benefit plans was as of March 31, 2018, and the next required valuation will be as of March 31, 2021.

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the other retirement benefits plan is 8.15 years (2019 - 8.6 years).

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

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are recorded at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has not elected to subsequently record financial instruments 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.

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

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

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

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

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(f) Financial instruments (continued):

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

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

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

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

(g) Use of estimates:

The preparation of financial statements 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 period. Amounts subject to estimates include employee future benefit obligations and the carrying value of capital assets. Actual results could differ from those estimates.

2. Short-term loan:

The Hospital has an available non-revolving term facility of \$6,000,000 with its lenders, of which \$Nil was drawn against at March 31, 2019 (2019 - \$Nil). This line of credit is unsecured and bears interest at prime.

The Hospital also maintains an ongoing \$2,000,000 revolving lease line of credit whose main purpose is the financing of major equipment of which \$Nil (2019 - \$Nil) was drawn against at year end.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

3. Accounts receivable:

Accounts receivable are comprised of the following items:

| | 2020 | 2019 |
|---|--------------|--------------|
| Ministry of Health | \$ – | \$ 323,895 |
| Ontario Health Insurance Plan (OHIP) | 1,477,090 | 1,530,093 |
| Other | 2,964,381 | 2,932,955 |
| | 4,441,471 | 4,786,943 |
| Less allowance for doubtful accounts receivable | 298,843 | 193,336 |
| | \$ 4,142,628 | \$ 4,593,607 |

4. Restricted cash:

Restricted cash is comprised of the following items:

| | 2020 | 2019 |
|--------------------------------|------------|------------|
| Cash related to endowment fund | \$ 209,010 | \$ 209,010 |

5. Capital assets:

Capital assets are comprised of the following items:

| | Cost | Accumulated amortization | 2020 Net book value | 2019 Net book value |
|--|----------------|-----------------------------|---------------------------|---------------------------|
| Land | \$ 482,402 | \$ – | \$ 482,402 | \$ 482,402 |
| Land improvements | 606,535 | 605,667 | 868 | 14,764 |
| Buildings | 103,804,835 | 28,740,659 | 75,064,176 | 77,678,617 |
| Building service equipment | 43,175,258 | 15,479,229 | 27,696,029 | 29,563,132 |
| Furniture and equipment | 47,572,245 | 39,787,649 | 7,784,596 | 9,296,061 |
| Information system software and equipment | 17,419,626 | 7,263,908 | 10,155,718 | 11,042,049 |
| | \$ 213,060,901 | \$ 91,877,112 | \$ 121,183,789 | \$ 128,077,025 |

Cost and accumulated amortization of capital assets at March 31, 2019 amounted to \$210,926,477 and \$82,849,452, respectively.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

6. Accounts payable and accrued liabilities:

Accounts payable are comprised of the following items:

| | 2020 | 2019 |
|--|----------------------|----------------------|
| Salaries and wages | \$ 4,062,858 | \$ 6,103,821 |
| Vacation and banked time | 1,276,366 | 1,205,089 |
| Pay equity liability | 525,224 | 28,250 |
| Accounts payable and accrued liabilities | 10,260,245 | 8,436,167 |
| | <u>\$ 16,124,693</u> | <u>\$ 15,773,327</u> |

7. Employee future benefits:

The Hospital provides extended health care, dental and life insurance to certain employees. 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 March 31, 2018. The next valuation of the plan is effective March 31, 2021.

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

| | 2020 | 2019 |
|----------------------------|-------|-------|
| Discount rate | 3.29% | 3.18% |
| Salary increases | 2.50% | 2.50% |
| Inflation | 2.00% | 2.00% |
| Dental benefits escalation | 2.50% | 2.50% |
| Health benefits escalation | 4.00% | 4.00% |

The continuity of the Hospital's accrued benefit obligation is as follows:

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Accrued benefit obligation, opening balance | \$ 6,733,407 | \$ 6,665,854 |
| Current service costs | 274,530 | 272,999 |
| Interest on accrued benefit obligation | 211,650 | 221,741 |
| Benefits paid | (478,353) | (373,325) |
| Actuarial gain | (379,056) | (53,862) |
| Accrued benefit obligation, closing balance | <u>\$ 6,362,178</u> | <u>\$ 6,733,407</u> |

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

7. Employee future benefits (continued):

Reconciliation of the accrued benefit obligation to the accrued benefit liability is as follows:

| | 2020 | 2019 |
|---|--------------|--------------|
| Accrued benefit obligation | \$ 6,362,178 | \$ 6,733,407 |
| Unamortized actuarial gain (loss) | 22,834 | (403,093) |
| Accrued benefit liability | 6,385,012 | 6,330,314 |
| Less: current portion of benefit liability | 533,052 | 553,324 |
| Long-term portion of employee future benefits | 5,851,960 | 5,776,990 |
| Add: EORLA vested employees | 62,555 | 62,555 |
| | \$ 5,914,515 | \$ 5,839,545 |

8. Long-term debt:

| | 2020 | 2019 |
|---|--------------|--------------|
| Fixed rate term loan bearing interest at 2.12%, payable in blended monthly payments of \$107,000, due November 27, 2023 | \$ 5,134,000 | \$ 6,473,000 |
| Fixed rate term loan bearing interest at 2.66%, payable in blended month payments of \$11,000, due December 18, 2041 | 4,254,000 | 4,395,000 |
| | 9,388,000 | 10,868,000 |
| Less current portion | 1,510,000 | 1,480,000 |
| | \$ 7,878,000 | \$ 9,388,000 |

The Hospital has entered into interest rate swap agreements to manage the volatility of interest rates. The maturity date of the interest rate swaps are the same as the maturity dates of the associated loans.

The fair value of the interest rate swaps at March 31, 2020 is in a net unfavorable position of \$353,560 which is recorded on the Statement of Financial Position (2019 - \$42,834 net favourable position). The current year impact of the change in fair value of the interest rate swaps is an unrealized loss on the Statement of Remeasurement Gains and Losses of \$396,394 (2018 - \$204,843).

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

8. Long-term debt (continued):

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

Future principal payments required on all long-term debt for the next five years and thereafter are as follows:

| | | |
|------------|----|-----------|
| 2021 | \$ | 1,510,000 |
| 2022 | | 1,540,000 |
| 2023 | | 1,572,000 |
| 2024 | | 1,119,000 |
| 2025 | | 162,000 |
| Thereafter | | 3,485,000 |
| | \$ | 9,388,000 |

9. Deferred contributions:

Deferred capital contributions related to capital assets represent the unspent and unamortized amount of donations and grants 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 | \$ 110,990,984 | \$ 116,665,823 |
| Additional donations and grants received | 984,473 | 1,155,229 |
| Less amounts amortized to revenue for the current year | (6,667,092) | (6,830,068) |
| Balance, end of year | \$ 105,308,365 | \$ 110,990,984 |

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

| | 2020 | 2019 |
|---|----------------|----------------|
| Unamortized capital contributions used to purchase assets | \$ 105,308,365 | \$ 110,990,984 |

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

10. Investment in capital assets:

(a) Investment in capital assets is calculated as follows:

| | 2020 | 2019 |
|--|----------------|----------------|
| Capital assets | \$ 121,183,789 | \$ 128,077,025 |
| Amounts financed by: | | |
| Deferred contributions on capital assets | (105,308,365) | (110,990,984) |
| Long-term debt | (9,388,000) | (10,868,000) |
| | \$ 6,487,424 | \$ 6,218,041 |

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

| | 2020 | 2019 |
|--|----------------|----------------|
| Deficiency of revenue over expenses: | | |
| Amortization of deferred contributions | \$ 6,667,092 | \$ 6,830,068 |
| Amortization of capital assets | (9,363,682) | (9,056,641) |
| | \$ (2,696,590) | \$ (2,226,573) |

| | 2020 | 2019 |
|---|--------------|--------------|
| Net change in investment in capital assets: | | |
| Purchase of capital assets | \$ 2,507,154 | \$ 3,344,679 |
| Amounts funded by deferred contributions | (984,473) | (1,155,229) |
| Repayment of long-term debt | 1,480,000 | 1,452,000 |
| Disposal of capital assets | (36,708) | — |
| | \$ 2,965,973 | \$ 3,641,450 |

11. Restrictions on net assets:

The net assets for endowment purposes are subject to externally imposed restrictions stipulating that the principal be maintained intact. Investment income of \$4,590 (2019 - \$4,260) on the assets is used to offset costs incurred by the Hospital.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

12. Contingencies and commitments:

- (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 the Hospital has valid defenses and appropriate insurance coverage 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.
- (b) On July 1, 1987, a group of health care organizations, ("subscribers"), formed Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is registered as a Reciprocal pursuant to Provincial Insurance Acts, which permits persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage of health care organizations in the provinces of Ontario, Manitoba, Saskatchewan and Newfoundland. 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. No such assessments have been made to March 31, 2020.

Since its inception in 1987, HIROC has accumulated an un-appropriated 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 un-appropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There are no distributions receivables from HIROC as of March 31, 2020.

- (c) Working capital:

The Hospital has received \$25,420,500 in one-time funding, at the rate of \$8,473,500 per year starting in 2012 and ended in 2015 to improve the working funds deficit position of the Hospital. In order to retain the funding, the Hospital must have an annual balanced budget, and the Hospital must contribute to improving the working fund deficit position to 0% by March 31, 2023.

13. Pension costs:

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. Contributions to the plan made during the year by the Hospital on behalf of its employees amounted to \$5,306,875 (2019 - \$5,094,601) and are included in the Statement of Operations.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

13. Pension costs (continued):

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.

Variations 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. Net changes in non-cash working capital components relating to operations:

| | 2020 | 2019 |
|---|------------|--------------|
| Decrease (increase) in current assets: | | |
| Accounts receivable | \$ 450,979 | \$ 1,330,463 |
| Inventories | (214,508) | (8,054) |
| Prepaid expenses | (8,530) | (89,429) |
| Increase (decrease) in current liabilities: | | |
| Accounts payable and accrued liabilities | 6,658 | 3,022,479 |
| Deferred revenue | 316,662 | 1,163,493 |
| Net change in non-cash working capital | \$ 551,261 | \$ 5,418,952 |

15. Related entities:

(a) Cornwall Community Hospital Foundation:

The Hospital has an economic interest, but not control, in Cornwall Community Hospital Foundation (the "Foundation").

The Foundation is incorporated under the Canada Corporations Act and is a registered charity under the Income Tax Act. The Foundation's mandate is to raise funds for the Hospital's programs, medical equipment, expansion and renovation to enhance quality healthcare in the community.

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

Related party transactions during the year not separately disclosed in the financial statements include an amount of \$163,560 (2019 - \$396,644) that has been received or receivable from the Foundation, which has been recorded as deferred contributions to be used to fund the purchase of equipment for the Hospital.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

15. Related entities (continued):

(b) Auxiliary to the Cornwall Community Hospital:

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

The Hospital has an economic interest in the Auxiliary to the Cornwall Community Hospital by way of the Hospital holding resources that are used by the Auxiliary to produce revenue.

(c) Eastern Ontario Regional Laboratory Association:

The Hospital has economic interest, but not control, in Eastern Ontario Regional Laboratory Association ("EORLA"). The net assets and results of the operations of EORLA are not included in the financial statements of the Hospital. Services in the amount of \$5,812,928 (2019 - \$5,503,398) were purchased from EORLA and are included in other supplies and expenses on the Statement of Operations. Expenses incurred at the Hospital for items such as salaries and supplies in the amount of \$124,349 (2019 - \$117,921) associated with lab testing are fully recoverable from EORLA, of which, \$11,292 (2019 - \$19,220) is included in accounts receivable as at March 31, 2020.

16. Financial risks and concentration of credit risk:

(a) Credit risk:

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

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.

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.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

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

(b) Liquidity risk (continued):

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

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 exposures within acceptable parameters while optimizing return on investment.

(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 term loans payable and its interest rate swaps.

The Hospital mitigates interest rate risk on its term loans through derivative financial instruments (interest rate swaps) that exchanges the variable rate inherent in the term loan for a fixed rate (see note 8). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the term debt.

There has been no change to the interest rate risk exposure from 2019.

17. Diabetes education program:

Included in Patient Care Ministry of Health revenue is funding in the amount of \$372,838 (2019 - \$372,838) intended for the Diabetes Education Program. The expenses for this program totaled \$403,311 (2019 - \$386,489) which includes \$403,303 (2019 - \$382,051) for salaries, and \$8 (2019 - \$4,438) for supplies and sundry expenses. The program deficit of \$30,473 (2019 - \$9,213) was covered with hospital base funding.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2020

18. Subsequent event:

In March 2020, 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 the 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:

- Reduction of capacity, elective procedures and certain services offered by the Hospital
- Reduction in ancillary revenue streams
- Increased costs associated with assessment, screening and the purchase of materials and supplies
- Decrease in market rates effecting the undrawn variable short-term loans and fair market value of interest rate swaps

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.