

Financial Statements of

**PEMBROKE REGIONAL
HOSPITAL INC.**

And Independent Auditors' Report thereon

Year ended March 31, 2020

STATEMENT OF MANAGEMENT RESPONSIBILITY

The accompanying financial statements of Pembroke Regional Hospital Inc. have been prepared by management in accordance with Canadian public sector accounting standards, and the integrity and objectivity of these statements are management's responsibilities. Management is also responsible for all the statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board. The Audit Committee meets with management and the external auditors no fewer than twice per year.

The external auditors, KPMG LLP, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of Pembroke Regional Hospital Inc.'s system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board and meet with it on a regular basis.

On behalf of Pembroke Regional Hospital Inc.



Pierre Noel
President & Chief Executive Officer



John Wren
Senior Vice President
Finance & Corporate Services

Pembroke, Canada
May 29, 2020



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Pembroke Regional Hospital Inc.

Opinion

We have audited the financial statements of Pembroke Regional Hospital Inc. (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 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 and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.



Page 2

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.

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's to cease to continue as a going concern.



Page 3

- 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

Sudbury, Canada

May 29, 2020

PEMBROKE REGIONAL HOSPITAL INC.

Statement of Operations

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

	2020	2019
Revenue:		
Champlain Local Health Integration Network and Ministry of Health Funding	\$ 76,638,298	\$ 73,534,872
Other government funding	17,390,989	16,614,770
Insurers and patients	1,482,889	1,661,388
Other income and recoveries	4,297,790	3,791,112
<u>Amortization of deferred contributions (note 10)</u>	<u>315,076</u>	<u>372,692</u>
	100,125,042	95,974,834
Expenses:		
Salaries	44,869,622	42,736,733
Benefits	11,657,972	11,770,405
Medical staff remuneration	13,014,202	12,716,030
Purchased services	2,577,276	2,568,197
Medical and surgical supplies	3,771,947	3,792,648
Drugs and medical gases	2,843,362	2,590,584
Other supplies and expenses	16,906,536	15,629,302
Interest on demand loans and long-term debt	529,531	522,933
Interest on obligations under capital lease	11,540	16,636
<u>Amortization - equipment</u>	<u>1,614,198</u>	<u>1,763,351</u>
	97,796,186	94,106,819
Excess of revenue over expenses from Hospital operations	2,328,856	1,868,015
Amortization - buildings	(2,760,146)	(2,109,804)
Amortization - deferred capital contributions for buildings	1,087,178	937,638
Excess of revenue over expenses	\$ 655,888	\$ 695,849

See accompanying notes to financial statements

PEMBROKE REGIONAL HOSPITAL INC.

Statement of Financial Position

March 31, 2020, with comparative information for 2019


	2020	2019
Assets		
Current assets:		
Cash	\$ 3,391,496	\$ 5,003,547
Accounts receivable (note 2)	3,560,933	3,501,146
Receivable from government entities	2,179,849	2,713,329
Inventories	882,324	700,838
Prepaid expenses	650,170	909,029
	<u>10,664,772</u>	<u>12,827,889</u>
Restricted cash (note 3)	1,695,622	-
Capital assets and assets under capital leases (note 4)	74,063,319	73,144,601
	<u>\$ 86,423,713</u>	<u>\$ 85,972,490</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 13,139,548	\$ 14,251,907
Demand loans (note 5)	16,909,976	17,799,980
Current portion of obligations under capital leases (note 9)	111,291	106,892
	<u>30,160,815</u>	<u>32,158,779</u>
Employee future benefits liability (note 7)	6,018,142	5,817,564
Long-term debt (note 8)	2,965,673	2,907,523
Obligations under capital leases (note 9)	64,548	175,839
Deferred contributions (note 10)	32,435,711	30,789,849
	<u>71,644,889</u>	<u>71,849,554</u>
Net assets	14,778,824	14,122,936
Contingencies (note 15)		
Effect of COVID-19 (note 16)		
	<u>\$ 86,423,713</u>	<u>\$ 85,972,490</u>

See accompanying notes to financial statements

On behalf of the Board:


Chair

PEMBROKE REGIONAL HOSPITAL INC.

Statement of Changes in Net Assets

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

	2020	2019
Net assets, beginning of year	\$ 14,122,936	\$ 13,427,087
Excess of revenue over expenses	655,888	695,849
Net assets, end of year	\$ 14,778,824	\$ 14,122,936

See accompanying notes to financial statements

PEMBROKE REGIONAL HOSPITAL INC.

Statement of Cash Flows

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

	2020	2019
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 655,888	\$ 695,849
Adjustments for:		
Interest on note payable	58,150	57,010
Amortization of deferred contributions - capital assets and other expenditures	(1,565,273)	(1,431,937)
Amortization of capital assets and assets under capital leases	3,880,271	3,873,155
Loss on disposal of capital assets	1,361	7,286
Increase in employee future benefits liability	200,578	307,760
	3,230,975	3,509,123
Changes in non-cash working capital items:		
Accounts receivable	(59,787)	(183,433)
Receivable from government entities	533,480	(1,534,445)
Inventories	(181,486)	836
Prepaid expenses	258,859	(62,591)
Accounts payable and accrued liabilities	(1,112,359)	2,162,005
	2,669,682	3,891,495
Cash flows from capital activities:		
Acquisition of capital assets	(4,800,969)	(3,553,089)
Proceeds from disposal of capital assets	620	14,469
	(4,800,349)	(3,538,620)
Cash flows from financing activities:		
Net change in demand loans	(890,004)	(890,004)
Contributions received and deferred	3,211,134	2,696,549
Repayment of obligations under capital leases	(106,892)	(101,796)
	2,214,238	1,704,749
Cash flows from investing activities:		
Increase in restricted assets	(1,695,622)	-
Net increase (decrease) in cash	(1,612,051)	2,057,624
Cash, beginning of year	5,003,547	2,945,923
Cash, end of year	\$ 3,391,496	\$ 5,003,547

See accompanying notes to financial statements

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

The Pembroke Regional Hospital Inc. (the "Hospital") is incorporated without share capital under the Canada not-for-profit Corporations Act. The Hospital is a registered charity under the Income Tax Act and, as such, is exempt from income tax.

The Mission of the Hospital is as follows:

"We are a regional community hospital committed to delivering a wide range of quality health services. Following Catholic traditions, we will meet the physical, emotional and spiritual needs of all."

As a community hospital, the Hospital provides inpatient services such as obstetrics, surgery, medicine, and emergency. Outpatient services include day surgery, medical day care, community adult mental health and a comprehensive ambulatory clinic staffed by local specialists as well as visiting specialists. Obstetrical services are also provided to outlying areas such as Barry's Bay and Deep River, in addition to a regional mental health program and a county-wide rehabilitation program.

1. Significant accounting policies:

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

(a) Revenue recognition:

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

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 (the "MOH") and the Champlain Local Health Integration Network ("CLHIN"). 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 the subsequent period.

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

Externally restricted contributions are recognized as revenue in the period in which the related expenses are recognized.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the straight-line basis, at rates corresponding to those of the related capital assets.

Revenue from patient and other services is recognized when the service is provided.

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

1. Significant accounting policies (continued):

(b) Inventories:

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

(c) Capital assets and assets under capital leases:

Capital assets and assets under capital leases purchased by the Hospital are recorded at cost. Contributed capital assets are recorded at fair value at the date of the contribution, if determinable. Minor equipment replacements are expensed in the year of replacement. Construction in progress is not amortized until the project is complete and the asset is utilized.

The cost of renovations to the Hospital buildings, which significantly increase their useful lives and capacities, is included as part of the cost of the related capital assets. Renovation costs to adapt the Hospital buildings to changing operating conditions or to maintain normal operating efficiency are expensed as incurred.

Amortization is calculated on a straight-line basis over the assets' estimated useful lives for periods varying from 3 to 50 years.

Land improvements	10 years
Buildings and additions	10 to 50 years
Equipment and furnishings	3 to 25 years

(d) Contribution receivable:

A contribution receivable is recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

(e) Write-down of capital assets:

When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to residual value, if any. The excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.

(f) Cash and cash equivalents:

The Hospital's policy is to present bank balances under cash and cash equivalents, including bank overdrafts with balances that can fluctuate from being positive to overdrawn.

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

1. Significant accounting policies (continued):

(g) Employee future benefits:

The Hospital accrues its obligation under employee benefits plans and the related costs. The cost of retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and based on management's best estimate of salary escalation, retirement ages of employees and expected health care costs. As a result, the present value of expected future payments for post-employment benefits are included in the statement of financial position and the costs are included in the statement of operations in benefits. The actuarial gains and losses are amortized over the expected average remaining service life (EARSLS) of the employees.

The Hospital is a member of the Healthcare of Ontario Pension Plan, a multi-employer defined benefit plan. For this plan, the Hospital has adopted defined contributions accounting standards as there is not sufficient information available to apply defined benefit accounting standards. The Hospital expenses the cost of the plan for the services rendered during the year, the amortization of past service costs and the interest costs related to future employer contributions to the plan for employees' past service costs.

(h) Contributed services:

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

(i) Use of estimates:

The preparation of the 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 periods specified. Significant items subject to such estimates and assumptions include the carrying amount of capital assets; valuation allowances for receivables, and inventories; valuation of financial instruments; and assets and obligations related to employee future benefits. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

(j) Financial instruments:

All financial instruments are initially recorded on the statement of financial position at fair value.

All investments, if any, held in equity instruments that trade in an active market are recorded at fair value. Management has elected to record investments at fair value as they are managed and evaluated on a fair value basis. Freestanding derivative instruments that are not equity instruments that are quoted in an active market are subsequently measured 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.

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

1. Significant accounting policies (continued):

(j) Financial instruments (continued):

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. Where a decline in fair value is determined to be other than temporary, the amount of the loss is recognized in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses. On sale, the statement of remeasurement gains and losses associated with that instrument are reversed and recognized in the statement of operations.

2. Accounts receivable:

	2020	2019
Insurers and patients	\$ 1,893,181	\$ 1,583,845
Other	2,346,432	2,556,302
	4,239,613	4,140,147
Less allowance for doubtful accounts	(678,680)	(639,001)
	\$ 3,560,933	\$ 3,501,146

3. Restricted assets:

	2020	2019
Capital grant	\$ 1,361,175	\$ -
Unspent capital donations	334,447	-
	\$ 1,695,622	\$ -

Restricted assets consist of amounts received for the purpose of the surgical capital project.

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

4. Capital assets:

	2020		
	Cost	Accumulated Amortization	Net book Value
Land and improvements	\$ 1,282,147	\$ 260,712	\$ 1,021,435
Buildings and additions	77,370,758	19,345,119	58,025,639
Equipment and furnishings	39,043,729	25,493,498	13,550,231
Assets under capital leases - equipment	574,572	459,720	114,852
Construction in progress	1,351,162	—	1,351,162
	<u>\$ 119,622,368</u>	<u>\$ 45,559,049</u>	<u>\$ 74,063,319</u>
	2019		
	Cost	Accumulated Amortization	Net book Value
Land and improvements	\$ 1,282,147	\$ 260,712	\$ 1,021,435
Buildings and additions	77,090,537	17,595,393	59,495,144
Equipment and furnishings	35,221,366	25,335,339	9,886,027
Assets under capital leases - equipment	574,572	344,554	230,018
Construction in progress	2,511,977	—	2,511,977
	<u>\$ 116,680,599</u>	<u>\$ 43,535,998</u>	<u>\$ 73,144,601</u>

5. Demand loans:

	2020	2019
Demand loan – interest calculated monthly based on cost of funds plus 0.25%, payable in monthly instalments of \$74,167 in principal plus interest	\$ 16,909,976	\$ 17,799,980

6. Accounts payable and accrued liabilities:

	2020	2019
Trade accounts payable	\$ 3,661,213	\$ 4,778,633
Payable to government entities	980,235	991,239
Payroll liabilities	7,377,865	7,618,648
Other	1,120,235	863,387
	<u>\$ 13,139,548</u>	<u>\$ 14,251,907</u>

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

7. Employee future benefits:

The Hospital offers its employees' health, dental and other benefits and continues to offer these benefits after their retirement through an unfunded defined benefit plan. An independent actuarial valuation of the post-retirement benefits for employees was prepared as at March 31, 2020. The accrued benefit obligation related to these employee future benefits is based on the actuarial valuation dated March 31, 2020. Information regarding these benefits is presented as follows:

	2020	2019
<i>Reconciliation of accrued benefit obligation:</i>		
Accrued benefit obligation, beginning of year	\$ 5,809,555	\$ 5,960,132
Current service cost	287,162	294,705
Interest on accrual benefit obligation	183,904	199,672
Experience (gains) losses	146,027	(392,903)
Benefits paid during the year	(285,495)	(252,051)
Accrued benefit obligation, end of year	6,141,153	5,809,555
Accrued benefit liability, end of year	6,018,142	5,817,564
	\$ 123,011	(8,009)
<i>Represented by:</i>		
Unamortized actuarial losses	\$ 261,585	\$ 130,565
EORLA transferred employees remaining liability ¹	(138,574)	(138,574)
	\$ 123,011	(8,009)
<i>Reconciliation of current year expense:</i>		
Current service cost	\$ 287,162	\$ 294,705
Amortization of actuarial losses	15,007	65,434
Interest on accrued benefit obligation	183,904	199,672
	\$ 486,073	\$ 559,811
<i>Reconciliation of accrued benefit liability:</i>		
Accrued benefit liability, beginning of year	\$ 5,817,564	\$ 5,509,804
Expense for the period	486,073	559,811
Benefits paid during the year	(285,495)	(252,051)
Accrued benefit liability, end of year	\$ 6,018,142	\$ 5,817,564

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

7. Employee future benefits (continued):

Actuarial assumptions:

The actuarial cost method used for the valuation is the projected benefit method prorated on services:

	2020	2019
Discount rate on accrued benefit obligation	3.29%	3.18%
Health cost increases	8.5% Decreasing by 0.5% to 4.5%	8.5% Decreasing by 0.5% to 4.5%
Dental cost increases	4%	4%
Retirement age	Earlier of age 60 or 57 with 30 years of service or in 6 months if eligible	Earlier of age 60 or 57 with 30 years of service or in 6 months if eligible
Unamortized actuarial gains and losses	Amortized over 9.0 years	Amortized over 9.0 years

¹ Effective April 1, 2012, a group of employees transferred to the Eastern Ontario Regional Laboratory Association (EORLA). As at the date of transfer, an accrued benefit liability related to these individuals remained under the responsibility of the Hospital up to a maximum amount of \$138,574. This amount could be reduced in the future if certain life events occur. This amount is included in the Hospital's accrued benefit liability.

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

8. Long-term debt:

	2020	2019
Note payable to the Grey Sisters of the Immaculate Conception, 2.0%, maturing March 31, 2040, interest only until March 31, 2025, repayable in fifteen annual instalments of \$218,290 principal plus interest, between March 31, 2026 and March 31, 2040	\$ 2,965,673	\$ 2,907,523

There are no long-term debt principal repayments due over the next five years.

9. Obligations under capital leases:

	2020	2019
Equipment lease contract with a book value of \$574,572 – 5%, maturing March 27, 2021, payable in monthly instalments of \$9,869, with a purchase option at maturity at fair market value estimated at \$64,548	\$ 175,839	\$ 282,731
Current portion of obligations under capital leases	(111,291)	(106,892)
	\$ 64,548	\$ 175,839

Future minimum lease payments of obligations under capital leases for the next three years are as follows:

2021	\$	117,445
2022		65,598
2023		–
		183,043
Interest included in instalments		7,204
	\$	175,839

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

10. Deferred contributions:

Deferred contributions related to capital assets represent the unamortized amount of contributions received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations at a rate corresponding to the amortization rate of the related capital assets.

	2020	2019
Buildings and additions	\$ 30,452,429	\$ 28,607,605
Equipment and furnishings	1,709,521	1,950,197
Related to other expenditures	273,761	232,047
	<u>\$ 32,435,711</u>	<u>\$ 30,789,849</u>

Deferred contributions related to other expenditures represent contributions received for specific expenses which have not yet been incurred at year-end.

Changes in deferred contributions balances for the year are as follows:

	2020	2019
Balance, beginning of year	\$ 30,789,849	\$ 29,525,238
Contributions received during the year	3,211,134	2,696,549
Amount related to other expenditures amortized to revenue	(163,017)	(121,607)
Amount related to capital assets amortized to revenue	(1,402,255)	(1,310,331)
Balance, end of year	<u>\$ 32,435,711</u>	<u>\$ 30,789,849</u>

11. Pension plan:

Employees of the Hospital are entitled to participation in the Healthcare of Ontario Pension Plan, which is a multi-employer final average pay contributory pension plan. All full-time employees that have reached six months of continuous service must adhere to the Plan. It is offered on a voluntary basis to part-time employees. The cost of the contributions paid by the Hospital and expensed for the year ended March 31, 2020 amounts to \$3,670,171 (2019 - \$3,579,742). This amount is included in benefits in the statement of operations.

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

12. Economic interests:

The following transactions are in the normal course of business and are measured at their exchange amounts.

Eastern Ontario Regional Laboratory Association (EORLA)

Pembroke Regional Hospital Inc. is one of sixteen acute care hospital facilities which participate in the integrated hospital laboratory network called EORLA, which became operational on April 1, 2012. Pembroke Regional Hospital Inc. has representation on EORLA's Board of Directors, which consists of eleven members.

EORLA has entered into a long-term service agreement with Pembroke Regional Hospital Inc. to provide laboratory services to the Hospital, and an occupancy agreement whereby the Hospital agrees to provide EORLA space within its facilities for the provision of laboratory services. The agreements are in effect for 10 years, with no escape clause for the first five years.

During the year, Pembroke Regional Hospital Inc. billed EORLA for services and supplies in the amount of \$140,066 (2019 - \$101,422), and made payments to EORLA in the amount of \$4,590,894 (2019 - \$4,280,862).

Champlain Health Supply Services (CHSS)

CHSS was established to provide sourcing, procurement and logistics services to member hospitals within the Champlain Local Health Integration Network, with the goal of reducing the amount that member hospitals pay for such services. Pembroke Regional Hospital Inc. is one of six founding members and has one voting member on the Board of Directors.

CHSS has entered into a membership agreement with the Hospital to provide procurement services. Member hospitals pay assessment fees to CHSS and are indirectly responsible as members to cover the operating costs of CHSS annually through the funding formula. During the year, Pembroke Regional Hospital Inc. paid \$120,116 (2019 - \$109,426) in membership fees to CHSS.

Catholic Health Corporation of Ontario

Sponsorship of Pembroke Regional Hospital Inc. is provided by the Catholic Health Corporation of Ontario. The Catholic Health Corporation of Ontario ensures that operational and land use decisions of the Hospital conform to the philosophy and mission of the Hospital as specified in its By-laws.

Pembroke Regional Hospital Auxiliary

The Hospital and Pembroke Regional Hospital Auxiliary, although under separate and independent governance, share common goals for the future vision of healthcare in the community. With this comes a collaboration of efforts and an effect on each party's ultimate decisions.

Donation revenue of \$57,000 (2019 - \$128,000) was recorded in the year.

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

12. Economic interests (continued):

Pembroke Regional Hospital Foundation

The Hospital and Pembroke Regional Hospital Foundation, although under separate and independent governance, share common goals for the future vision of healthcare in the community. With this comes a collaboration of efforts and an effect on each party's ultimate decisions.

Donation revenue of \$11,879 (2019 - \$11,944) was recorded in the year.

13. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Hospital's main credit risks relate to its accounts receivable. The Hospital provides credit to its clients in the normal course of its operations.

The Hospital establishes allowances for doubtful accounts while keeping in mind the specific credit risk of clients, their historic tendencies and economic situation. Approximately 29% of the total accounts receivable is to be received from insurers and patients, 34% from Ontario government, and 37% from other organizations. The Hospital considers that no significant risk arises from that situation.

(b) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Hospital is exposed to this risk mainly in respect of its demand loans, accounts payable and long-term debt. The Hospital's ability to meet obligations depends on the receipt of funds from its patient care services, the provincial government and other sources.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Hospital is exposed to interest risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Hospital to a fair value risk while the floating-rate instruments subject it to a cash flow risk. The Hospital no longer uses derivative financial instruments to alter the effects of this risk.

For the Hospital's long-term debt bearing a fixed interest rate, the risk exposure is minimal.

For the Hospital's demand loan bearing a variable interest rate, the Hospital's interest risk exposure is function of the changes of the underlying variable. However, a variation of 1% of the variable would not have a significant effect on the net earnings and financial position of the Hospital.

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

14. Contractual obligations:

The Hospital is committed under long-term leases and contracts for various service and maintenance agreements to make payments over the next five years as follows:

2021	\$	7,299,293
2022		4,917,334
2023		406,571
2024		363,695
2025		261,770

Eastern Ontario Regional Laboratory Association (EORLA)

As described in Note 11, the Hospital has entered into a long-term service agreement with EORLA for its laboratory services. The agreement is in effect for 10 years, with no escape clause for the first five years. EORLA has assumed all liabilities related to laboratory services effective April 1, 2012 and bills each member hospital semi-monthly for their share of laboratory costs incurred.

Grey Sisters of the Immaculate Conception

Specified land and buildings owned by the Grey Sisters of the Immaculate Conception have been leased to the Hospital under a long-term agreement ending March 31, 2036 for a one-time nominal payment of \$10. The Hospital is responsible for all occupancy costs including leasehold improvements.

Marianhill Inc.

Pembroke Regional Hospital Inc. has contracted Marianhill Inc. for the provision of services and the operation of eighteen complex continuing care hospital beds. Payments to Marianhill Inc. during the year amount to \$2,154,749 (2019 - \$2,094,657).

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

15. Contingencies:

The Hospital is involved in litigation matters involving outstanding claims against the Hospital. In the opinion of the Hospital the insurance coverage is adequate to meet any judgment which might be rendered against the Hospital and accordingly no provision has been made in the financial statements.

The Hospital is also involved in employee related grievances and litigation matters, which the outcome is not determinable at this time. Any liability or payments resulting from these matters will be recognized in the year when the outcome is reasonably determinable and the amounts involved can be estimated.

A group of hospitals, including the Pembroke Regional Hospital Inc., have formed the Healthcare Insurance Reciprocal of Canada (HIROC). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts, which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces and territories where it is licensed. 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 year in which they were a subscriber. No such assessments have been made to March 31, 2020.

16. Effects of COVID-19:

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

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

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

As a result of these measures, the Hospital continues to experience decreases in operating revenues and increases in operating costs. The Ministry 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.

PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2020

17. Comparative information:

Certain comparative information has been reclassified from those previously presented to conform to the presentation of the 2020 financial statements.