

Financial Statements of

**PEMBROKE REGIONAL  
HOSPITAL INC.**

Year ended March 31, 2018

## STATEMENT OF MANAGEMENT RESPONSIBILITY

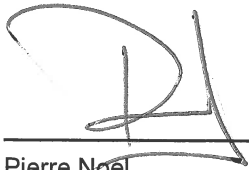
The accompanying financial statements of Pembroke Regional Hospital Inc. have been prepared by management in accordance with Canadian public sector accounting standards, and the integrity and objectivity of these statements are management's responsibilities. Management is also responsible for all the 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 30, 2018



KPMG LLP  
Claridge Executive Centre  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Pembroke Regional Hospital Inc.

We have audited the accompanying financial statements of Pembroke Regional Hospital Inc., which comprise the statement of financial position as at March 31, 2018, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pembroke Regional Hospital Inc., as at March 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*Comparative Information*

The financial statements of the Pembroke Regional Hospital Inc. as at and for the year ended March 31, 2017 were prepared by another chartered professional accountant May 31, 2017.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

Sudbury, Canada  
May 30, 2018

# PEMBROKE REGIONAL HOSPITAL INC.

## Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
CLHIN and MOHLTC funding	\$ 70,287,385	67,620,937
Other government funding	16,658,614	14,960,477
Insurers and patients	1,626,919	1,576,753
Other income and recoveries	3,095,055	3,462,229
Amortization of deferred contributions (note 9)	398,180	404,187
	<u>92,066,153</u>	<u>88,024,583</u>
Expenses:		
Salaries	41,731,012	39,556,667
Benefits	11,318,953	11,061,688
Medical staff remuneration	12,461,185	11,395,487
Purchased services	2,582,230	2,505,057
Medical and surgical supplies	3,578,890	2,672,365
Drugs and medical gases	2,243,136	1,869,008
Other supplies and expenses	15,253,707	14,260,713
Interest on demand loans and long-term debt	384,591	331,310
Interest on obligations under capital lease	21,483	26,322
Amortization - equipment	2,005,159	1,787,118
	<u>91,580,346</u>	<u>85,465,735</u>
Excess (deficiency) of revenue over expenses from Hospital operations	485,807	2,558,848
Amortization - buildings	(2,042,768)	(2,003,373)
Amortization - deferred capital contributions for buildings	858,871	818,659
Excess (deficiency) of revenue over expenses	<u>\$ (698,090)</u>	<u>1,374,134</u>

See accompanying notes to financial statements

# PEMBROKE REGIONAL HOSPITAL INC.

## Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Cash	\$ 2,945,923	288,868
Accounts receivable (note 2)	3,317,713	2,954,707
Receivable from government entities	1,178,884	1,136,421
Inventories	701,674	574,227
Prepaid expenses	846,438	831,882
	<u>8,990,632</u>	<u>5,786,105</u>
Capital assets and assets under capital leases (note 3)	73,486,423	75,910,035
	<u>\$ 82,477,055</u>	<u>81,696,140</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 12,089,902	9,832,470
Demand loans (note 4)	18,689,984	19,579,988
Current portion of obligations under capital leases (note 8)	101,796	96,948
	<u>30,881,682</u>	<u>29,509,406</u>
Employee future benefits liability (note 6)	5,509,804	5,369,990
Long-term debt (note 7)	2,850,513	2,794,620
Obligations under capital leases (note 8)	282,731	384,527
Deferred contributions (note 9)	29,525,238	29,512,420
	<u>69,049,968</u>	<u>67,570,963</u>
Net assets	13,427,087	14,125,177
Contingencies (note 14)		
	<u>\$ 82,477,055</u>	<u>81,696,140</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, 2018, with comparative information for 2017

	2018	2017
Net assets, beginning of year	\$ 14,125,177	12,751,043
Excess (deficiency) of revenue over expenses	(698,090)	1,374,134
Net assets, end of year	\$ 13,427,087	14,125,177

See accompanying notes to financial statements

# PEMBROKE REGIONAL HOSPITAL INC.

## Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash flows from operating activities:		
Excess (deficiency) of revenues over expenses	\$ (698,090)	1,374,134
Adjustments for:		
Interest on note payable	55,893	54,796
Amortization of deferred contributions - capital assets and other expenditures	(1,289,588)	(1,239,348)
Amortization of capital assets and assets under capital leases	4,047,927	3,790,491
Loss (gain) on disposal of capital assets	2,049	(164,678)
Increase in employee future benefits liability	139,814	204,100
	<u>2,258,005</u>	<u>4,019,495</u>
Changes in non-cash working capital items:		
Accounts receivable	(363,007)	589,303
Receivable from government entities	(42,462)	(59,487)
Inventories	(127,447)	(23,793)
Prepaid expenses	(14,555)	(5,430)
Accounts payable and accrued liabilities	2,257,431	339,351
	<u>3,967,965</u>	<u>4,859,439</u>
Cash flows from capital activities:		
Acquisition of capital assets	(1,626,895)	(3,243,178)
Proceeds from disposal of capital assets	531	166,588
	<u>(1,626,364)</u>	<u>(3,076,590)</u>
Cash flows from financing activities:		
Net change in demand loans	(890,004)	(2,002,666)
Contributions received and deferred	1,302,406	777,509
Repayment of obligations under capital leases	(96,948)	(93,097)
	<u>315,454</u>	<u>(1,318,254)</u>
Net increase in cash	2,657,055	464,595
Cash (bank indebtedness), beginning of year	288,868	(175,727)
Cash, end of year	<u>\$ 2,945,923</u>	<u>288,868</u>

See accompanying notes to financial statements



# PEMBROKE REGIONAL HOSPITAL INC.

## Notes to Financial Statements

Year ended March 31, 2018

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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 and Long-Term Care (the "MOHLTC") 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, 2018

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## 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.

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

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### (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, 2018

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## 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 (EARSL) of the employees.

The Hospital is a member of the Hospitals 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.

# PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2018

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## 1. Significant accounting policies (continued):

### (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.

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:

	2018	2017
Insurers and patients	\$ 1,730,696	1,765,591
Other	2,167,672	1,779,369
	3,898,368	3,544,960
Less allowance for doubtful accounts	(580,655)	(590,253)
	\$ 3,317,713	2,954,707

# PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2018

### 3. Capital assets:

	2018		
	Cost	Accumulated Amortization	Net book Value
Construction in progress	\$ 1,233,677	-	1,233,677
Land and improvements	1,282,147	260,712	1,021,435
Buildings and additions	77,090,537	15,855,440	61,235,097
Equipment and furnishings	34,824,332	25,172,987	9,651,345
Assets under capital leases - equipment	574,572	229,703	344,869
	<b>\$ 115,005,265</b>	<b>41,518,842</b>	<b>73,486,423</b>

	2017		
	Cost	Accumulated Amortization	Net book Value
Construction in progress	\$ 1,649,142	-	1,649,142
Land and improvements	1,282,147	260,712	1,021,435
Buildings and additions	77,090,536	14,115,487	62,975,049
Equipment and furnishings	32,901,408	23,096,719	9,804,689
Assets under capital leases - equipment	574,572	114,852	459,720
	<b>\$ 113,497,805</b>	<b>37,587,770</b>	<b>75,910,035</b>

### 4. Demand loans:

	2018	2017
Demand loan – interest calculated monthly based on cost of funds plus 0.25%, payable in monthly instalments of \$74,167 in principal plus interest	\$ 18,689,984	19,579,988

### 5. Accounts payable and accrued liabilities:

	2018	2017
Trade accounts payable	\$ 3,285,052	2,466,930
Payroll liabilities	7,968,698	6,471,550
Other	836,152	893,990
	<b>\$ 12,089,902</b>	<b>9,832,470</b>

# PEMBROKE REGIONAL HOSPITAL INC.

## Notes to Financial Statements

Year ended March 31, 2018

### 6. 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, 2018. The accrued benefit obligation related to these employee future benefits is based on the actuarial valuation dated March 31, 2018. Information regarding these benefits is presented as follows:

	2018	2017
<i>Reconciliation of accrued benefit obligation:</i>		
Accrued benefit obligation, beginning of year	\$ 5,496,821	5,159,514
Current service cost	267,127	249,817
Interest on accrual benefit obligation	195,102	193,054
Experience losses	354,003	148,402
Benefits paid during the year	(352,921)	(253,966)
Accrued benefit obligation, end of year	5,960,132	5,496,821
Accrued benefit liability, end of year	5,509,804	5,369,990
	\$ 450,328	126,831

#### *Represented by:*

Unamortized actuarial losses	\$ 588,902	265,405
EORLA transferred employees remaining liability <sup>1</sup>	(138,574)	(138,574)
	\$ 450,328	126,831

#### *Reconciliation of current year expense:*

Current service cost	\$ 267,127	249,817
Amortization of actuarial losses	30,506	15,195
Interest on accrued benefit obligation	195,102	193,054
	\$ 492,735	458,066

#### *Reconciliation of accrued benefit liability:*

Accrued benefit liability, beginning of year	\$ 5,369,990	5,165,890
Expense for the period	492,735	458,066
Benefits paid during the year	(352,921)	(253,966)
Accrued benefit liability, end of year	\$ 5,509,804	5,369,990

# PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2018

## 6. Employee future benefits (continued):

### *Actuarial assumptions:*

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

	2018	2017
Discount rate on accrued benefit obligation	3.37%	3.56%
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 if 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 8.7 years	Amortized over 8.7 years

<sup>1</sup> 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.

## 7. Long-term debt:

	2018	2017
Note payable to the Grey Sisters of the Immaculate Conception, 2.0%, maturing March 31, 2035, interest only until March 31, 2020, repayable in fifteen annual instalments of \$197,712, principal plus interest, between March 31, 2021 and March 31, 2035	\$ 2,850,513	2,794,620

# PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2018

## 7. Long-term debt (continued):

Long-term debt principal repayments over the next five years are as follows:

2019	\$	—
2020		—
2021		197,712
2022		197,712
2023		197,712

## 8. Obligations under capital leases:

	2018	2017
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	\$ 384,527	481,475
Current portion of obligations under capital leases	(101,796)	(96,948)
	\$ 282,731	384,527

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

2019	\$	118,432
2020		118,432
2021		118,432
2022		63,559
		418,855
Interest included in instalments		34,328
	\$	384,527



# PEMBROKE REGIONAL HOSPITAL INC.

## Notes to Financial Statements

Year ended March 31, 2018

### 9. 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.

	2018	2017
Buildings and additions	\$ 27,285,454	27,149,536
Equipment and furnishings	2,061,641	2,141,571
Related to other expenditures	178,143	221,313
	<u>\$ 29,525,238</u>	<u>29,512,420</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:

	2018	2017
Balance, beginning of year	\$ 29,512,420	29,974,259
Contributions received during the year	1,302,406	777,509
Amount related to other expenditures amortized to revenue	(32,536)	(16,502)
Amount related to capital assets amortized to revenue	(1,257,052)	(1,222,846)
Balance, end of year	<u>\$ 29,525,238</u>	<u>29,512,420</u>

### 10. Pension plan:

Employees of the Hospital are entitled to participation in the Hospitals 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, 2018 amounts to \$3,432,966 (2017 - \$3,368,365). This amount is included in benefits in the statement of operations.

# PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2018

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## 11. 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 \$159,363 (2017 - \$128,443), and made payments to EORLA in the amount of \$4,281,600 (2017 - \$4,216,736).

### **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 \$127,463 (2017 - \$109,441) 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 \$156,000 (2017 - \$Nil) was recorded in the year.

# PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2018

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## 11. 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 \$43,562 (2017 - \$4,702) was recorded in the year.

## 12. 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 34% of the total accounts receivable is to be received from insurers and patients, 23% from Ontario government, and 43% 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, 2018

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## 13. 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:

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2019	\$	7,907,209
2020		7,394,934
2021		4,845,162
2022		4,619,715
2023		204,016

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### **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 \$2,094,657 (2017 - \$2,094,657).

# PEMBROKE REGIONAL HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2018

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## 14. 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, 2018.

## 15. Comparative information:

Certain comparative information has been reclassified from those previously presented to conform to the presentation of the 2018 financial statements.