

Financial Statements of

**CORNWALL COMMUNITY
HOSPITAL**

Year ended March 31, 2023

CORNWALL COMMUNITY HOSPITAL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Cornwall Community Hospital

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Cornwall Community Hospital (the Entity), which comprise the statement of financial position as at March 31, 2023, the statement of operations, the statement of changes in net assets (deficiency), the statement of cash flows, the statement of remeasurement gains and losses 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").

We do not express an opinion on the accompanying financial statements of the Entity. Because of the significance of the matters described in the ***Basis for Disclaimer of Opinion*** section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

In April 2023, the Entity experienced a cyber event of such severity that the historical records in the Entity's financial reporting system were destroyed and non-recoverable. We were unable to satisfy ourselves by alternative means to support the Entity's financial statements as at and for the year ended March 31, 2023. This scope limitation, beyond the control of Entity's management, is material and pervasive and will not be remedied.

As a result of this matter, we were unable to determine whether any adjustments might have been found necessary in respect of these financial statements.

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.



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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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Entity's financial statements in accordance with Canadian generally accepted auditing standards and to issue an auditor's report. However, because of the matters described in the ***Basis for Disclaimer of Opinion*** section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

March 7, 2024

CORNWALL COMMUNITY HOSPITAL

Statement of Financial Position

March 31, 2023, with comparative information for 2022

	2023	2022
Assets		
Current assets:		
Cash	\$ 23,011,407	\$ 17,972,866
Restricted cash (note 4)	200,000	500,000
Accounts receivable (note 3)	8,666,192	8,795,427
Inventories	1,348,184	1,940,626
Prepaid expenses	1,130,974	1,958,293
	<u>34,356,757</u>	<u>31,167,212</u>
Restricted cash (note 4)	—	209,010
Capital assets (note 5)	106,240,412	109,631,874
Interest rate swaps (note 8)	262,982	212,584
	<u>\$ 140,860,151</u>	<u>\$ 141,220,680</u>

Liabilities, Deferred Contributions and Net Assets (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 32,714,966	\$ 26,143,343
Deferred revenue	2,205,554	2,446,774
Employee future benefits (note 7)	348,606	488,795
Current portion of long-term debt (note 8)	521,000	1,572,000
	<u>35,790,126</u>	<u>30,650,912</u>
Employee future benefits (note 7)	6,274,940	6,212,273
Long-term debt (note 8)	5,255,000	4,766,000
Asset retirement obligation liability (note 20)	3,273,389	—
Deferred capital contributions (note 9)	92,351,023	97,243,448
	<u>142,944,478</u>	<u>138,872,633</u>
Net assets (deficiency):		
Invested in capital assets (note 10)	7,680,219	6,050,426
Restricted for endowments (note 11)	—	209,010
Unrestricted	(10,027,528)	(4,123,973)
	<u>(2,347,309)</u>	<u>2,135,463</u>
Accumulated remeasurement gains	262,982	212,584
	<u>(2,084,327)</u>	<u>2,348,047</u>


Contingencies and commitments (note 12)

	<u>\$ 140,860,151</u>	<u>\$ 141,220,680</u>
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See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

CORNWALL COMMUNITY HOSPITAL

Statement of Operations

Year ended March 31, 2023, with comparative information for 2022

	2023	2022
Revenue:		
Patient care:		
Ministry of Health (note 18)	\$ 121,369,679	\$ 114,857,696
Other	20,437,739	18,970,144
Recovery:		
Preferred accommodations	14,625	26,150
Other	5,428,375	4,876,806
Investment income	678,868	86,294
Amortization of deferred contributions related to equipment	2,151,085	1,787,807
Other programs:		
Ministry of Health	10,414,645	9,717,305
Ministry of Community and Social Services	3,458,230	3,415,178
	<u>163,953,246</u>	<u>153,737,380</u>
Expenses:		
Salaries and wages	70,271,411	64,872,269
Employee benefits	22,096,119	20,790,918
Medical staff remuneration	15,628,445	14,432,542
Medical and surgical supplies	8,660,742	7,272,480
Drugs and medical gases	6,754,660	6,287,252
Other supplies and expenses	22,205,255	21,399,177
Buildings and grounds	994,825	815,418
Amortization of capital assets - equipment	4,462,625	4,250,706
Interest on long-term debt	35,176	63,840
Other programs:		
Ministry of Health	10,414,645	9,717,305
Ministry of Community and Social Services	3,458,230	3,415,178
	<u>164,982,133</u>	<u>153,317,085</u>
Excess (deficiency) of revenue over expenses		
before undernoted items	(1,028,887)	420,295
Interest on long-term debt	(118,251)	(106,854)
Amortization of deferred contributions related to building	5,256,900	5,157,317
Accretion expense (ARO)	(116,490)	-
Amortization of capital assets - building	(5,543,304)	(5,470,758)
	<u>(521,145)</u>	<u>(420,295)</u>
<u>Deficiency of revenue over expenses</u>	<u>\$ (1,550,032)</u>	<u>\$ -</u>

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2023, with comparative information for 2022

	Invested in capital assets	Endowments	Unrestricted	2023 Total	2022 Total
Balance (deficiency), beginning of year	\$ 6,050,426	\$ 209,010	\$ (4,123,973)	\$ 2,135,463	\$ 2,135,463
Adjustment upon adoption of PS 3280 (note 20)	–	–	(2,723,730)	(2,723,730)	–
Balance (deficiency), beginning of year, as restated	6,050,426	209,010	(6,847,703)	(588,267)	2,135,463
Excess (deficiency) of revenue over expenses (note 10(b))	(2,597,945)	–	1,047,913	(1,550,032)	–
Transfer of endowment fund (note 11)	–	(209,010)	–	(209,010)	–
Net change in investment in capital assets (note 10(b))	4,227,738	–	(4,227,738)	–	–
Balance (deficiency), end of year	\$ 7,680,219	\$ –	\$ (10,027,528)	\$ (2,347,309)	\$ 2,135,463

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Cash Flows

Year ended March 31, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used for):		
Operating activities:		
Deficiency of revenue over expenses	\$ (1,550,032)	\$ -
Items not involving cash:		
Amortization of capital assets	10,005,930	9,721,464
Accretion expense	116,490	-
Amortization of deferred contributions related to capital assets	(7,407,985)	(6,945,124)
Increase in employee future benefits	(77,522)	162,292
Net change in non-cash working capital components (note 14)	7,879,398	6,534,049
	8,966,279	9,472,681
Capital activities:		
Purchase of capital assets	(6,181,299)	(3,501,100)
Increase in deferred contributions related to capital assets	2,515,561	3,005,912
	(3,665,738)	(495,188)
Financing activities:		
Proceeds from long-term debt	2,000,000	-
Transfer of endowment fund	(209,010)	-
Repayment of long-term debt	(2,562,000)	(1,540,000)
	(771,010)	(1,540,000)
Increase in cash	4,529,531	7,437,493
Cash, beginning of year	18,681,876	11,244,383
Cash, end of year	\$ 23,211,407	\$ 18,681,876
Cash is comprised of the following:		
Cash	\$ 23,011,407	\$ 17,972,866
Restricted cash (capital)	200,000	500,000
Restricted cash	-	209,010
	\$ 23,211,407	\$ 18,681,876

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Remeasurement Gains and Losses

Year ended March 31, 2023, with comparative information for 2022

	2023	2022
Accumulated remeasurement gains (losses), beginning of year	\$ 212,584	\$ (17,494)
Unrealized gain attributable to: Interest rate swaps	50,398	230,078
Accumulated remeasurement gains, end of year	\$ 262,982	\$ 212,584

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements

Year ended March 31, 2023

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, 2023

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) Asset retirement obligation:

An asset retirement obligation is recognized when, as at the financial reporting date, all of the following criteria are met:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

1. Significant accounting policies (continued):

(e) Asset retirement obligation (continued):

A liability for the removal of asbestos in Hospital buildings has been recognized based on estimated future expenses on renovation/demolition of the buildings. The liability is discounted using a present value calculation and adjusted yearly for accretion expense. The recognition of a liability resulted in an accompanying increase to the respective tangible capital assets. The increase to the capital assets is being amortized in accordance with the depreciation accounting policies outlined in note 1 (d). Actual remediation costs incurred are charged against the ARO to the extent of the liability recorded. Differences between the actual remediation costs incurred and the associated liability are recognized in the Statement of Operations at the time of remediation.

(f) 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, 2022 disclosed actuarial assets of \$103,674 million (2021 - \$114,414 million) with accrued pension liabilities of \$92,721 million (2021 - \$89,905 million), resulting in a surplus of \$10,953 million (2021 - \$28,512 million). This filing valuation also confirmed that the plan was fully funded on a solvency basis as at December 31, 2022 based on the assumptions and methods adopted for the valuation.

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, 2021, and the next required valuation will be as of March 31, 2024.

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 9.5 years (2022 - 9.8 years).

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

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

1. Significant accounting policies (continued):

(g) 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.

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.

(h) 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, asset retirement obligations, and the carrying value of capital assets. Actual results could differ from those estimates.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

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, 2023 (2022 - \$Nil). This line of credit is unsecured and bears interest at the lender's prime rate.

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 (2022 - \$Nil) was drawn against at year end.

3. Accounts receivable:

Accounts receivable are comprised of the following items:

	2023	2022
Ministry of Health (Ontario Health)	\$ 4,497,042	\$ 4,886,466
Ontario Health Insurance Plan (OHIP)	1,721,329	1,146,376
Other	2,716,410	2,864,368
	8,934,781	8,897,210
Less allowance for doubtful accounts receivable	268,589	101,783
	\$ 8,666,192	\$ 8,795,427

4. Restricted cash:

Restricted cash is comprised of the following items:

	2023	2022
Cash related to capital (note 12)	\$ 200,000	\$ 500,000
Cash related to endowment fund	—	209,010
	200,000	709,010
Less current portion	200,000	500,000
	\$ —	\$ 209,010

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

5. Capital assets:

Capital assets are comprised of the following items:

	Cost	Accumulated amortization	2023 Net book value	2022 Net book value
Land	\$ 2,586,644	\$ —	\$ 2,586,644	\$ 482,402
Land improvements	606,535	606,535	—	—
Buildings	105,789,109	39,600,836	66,188,273	68,886,954
Building service equipment	45,701,345	22,044,567	23,656,778	25,023,514
Furniture and equipment	45,373,901	39,083,141	6,290,760	6,721,096
Information system software and equipment	25,946,242	18,428,285	7,517,957	8,517,908
	<u>\$ 226,003,776</u>	<u>\$ 119,763,364</u>	<u>\$ 106,240,412</u>	<u>\$ 109,631,874</u>

Cost and accumulated amortization of capital assets at March 31, 2022 amounted to \$219,887,426 and \$110,255,552, respectively.

6. Accounts payable and accrued liabilities:

Accounts payable are comprised of the following items:

	2023	2022
Salaries and wages	\$ 10,183,956	\$ 7,293,748
Vacation and banked time	2,004,896	1,989,394
Pay equity liability	1,659,936	52,605
Accounts payable and accrued liabilities	18,866,178	16,807,596
	<u>\$ 32,714,966</u>	<u>\$ 26,143,343</u>

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

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, 2021. The next valuation of the plan is effective March 31, 2024.

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

	2023	2022
Discount rate	4.04%	3.89%
Salary increases	2.50%	2.50%
Inflation	2.00%	2.00%
Dental benefits escalation	4.00%	4.00%
Health benefits escalation	4.00%	4.00%

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

	2023	2022
Accrued benefit obligation, opening balance	\$ 5,605,705	\$ 6,102,930
Current service costs	244,291	332,600
Interest on accrued benefit obligation	213,419	194,662
Benefits paid	(426,128)	(326,503)
Actuarial loss (gain)	351,626	(697,984)
Accrued benefit obligation, closing balance	\$ 5,988,913	\$ 5,605,705

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

	2023	2022
Accrued benefit obligation	\$ 5,988,914	\$ 5,605,705
Unamortized actuarial gain	575,759	1,036,490
Accrued benefit liability	6,564,673	6,642,195
Less: current portion of benefit liability	348,606	488,795
Long-term portion of employee future benefits	6,216,067	6,153,400
Add: EORLA vested employees	58,873	58,873
	\$ 6,274,940	\$ 6,212,273

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

8. Long-term debt:

	2023	2022
Fixed rate term loan bearing interest at 5.0%, payable in blended month payments of \$30,000, due February 28, 2028	\$ 1,971,000	\$ -
Fixed rate term loan bearing interest at 2.12%, payable in blended monthly payments of \$107,000, due November 27, 2023	-	2,379,000
Fixed rate term loan bearing interest at 2.66%, payable in blended month payments of \$11,000, due December 18, 2041	3,805,000	3,959,000
	5,776,000	6,338,000
Less current portion	521,000	1,572,000
	\$ 5,255,000	\$ 4,766,000

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, 2023 is in a net favorable position of \$262,982 which is recorded on the Statement of Financial Position (2022 - \$212,584). The current year impact of the change in fair value of the interest rate swaps is an unrealized gain on the Statement of Remeasurement Gains and Losses of \$50,398 (2022 - unrealized gain of \$230,078).

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:

2024	\$ 521,000
2025	544,000
2026	566,000
2027	593,000
2028 Thereafter	3,552,000
	\$ 5,776,000

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

9. Deferred capital 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.

	2023	2022
Balance, beginning of year	\$ 97,243,448	\$ 101,182,660
Additional donations and grants received	2,515,560	3,005,912
Less amounts amortized to revenue for the current year	(7,407,985)	(6,945,124)
Balance, end of year	\$ 92,351,023	\$ 97,243,448

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

	2023	2022
Unamortized capital contributions used to purchase assets	\$ 92,351,023	\$ 97,243,448

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

10. Investment in capital assets:

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

	2023	2022
Capital assets	\$ 106,240,412	\$ 109,631,874
Amounts financed by:		
Deferred contributions on capital assets	(92,351,023)	(97,243,448)
Asset retirement obligation	(433,170)	–
Long-term debt	(5,776,000)	(6,338,000)
	\$ 7,680,219	\$ 6,050,426

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

	2023	2022
Deficiency of revenue over expenses:		
Amortization of deferred contributions	\$ 7,407,985	\$ 6,945,124
Amortization of capital assets	(10,005,930)	(9,721,464)
	\$ (2,597,945)	\$ (2,776,340)

	2023	2022
Net change in investment in capital assets:		
Purchase of capital assets	\$ 6,181,299	\$ 3,501,100
Amounts funded by deferred contributions	(2,515,561)	(3,005,912)
Repayment of long-term debt	2,562,000	1,540,000
Amounts financed by long-term debt	(2,000,000)	–
	\$ 4,227,738	\$ 2,035,188

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

11. Restrictions on net assets:

In prior years, the net assets for endowment purposes are subject to externally imposed restrictions stipulating that the principal be maintained intact. During the year, the funds were transferred to the Cornwall Community Hospital Foundation with the proviso that the fund continues to be managed under the noted restrictions.

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, 2023, 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, 2023.

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, 2023.

(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.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

12. Contingencies and commitments (continued):

(d) Unspent funds:

In light of the unprecedented and exceptional and ongoing circumstances related to the COVID-19 pandemic, the Hospital is permitted to carry the following unspent funds into fiscal 2024:

- Health Infrastructure Renewal Funding (HIRF) of \$200,000

It is agreed that the carry-over of these funds will be used for the original intention and will not be repurposed to cover other costs not originally contemplated. These funds will be subject to reconciliation at a future date, with any adjustment reflected in the Hospital's financial statements in the year of settlement. These amounts are included as a component of deferred revenue on the Statement of Financial Position.

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 \$6,422,346 (2022 - \$5,871,898) and are included in the Statement of Operations.

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

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The Plan's 2022 Annual Report indicates the plan is fully funded at 120%.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

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

	2023	2022
Decrease (increase) in current assets:		
Accounts receivable	\$ 129,235	\$ 5,272,267
Inventories	592,442	302,608
Prepaid expenses	827,318	(458,601)
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	6,571,623	1,988,882
Deferred revenue	(241,220)	(571,107)
Net change in non-cash working capital	\$ 7,879,398	\$ 6,534,049

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 \$1,050,650 (2022 - \$590,237) that has been received or receivable from the Foundation, of which \$1,050,650 has been recorded as deferred contributions to be used to fund the purchase of equipment for the Hospital.

(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.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

15. Related entities (continued):

(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 \$6,454,638 (2022 - \$6,225,262) 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 \$177,725 (2022 - \$159,654) associated with lab testing are fully recoverable from EORLA, of which, \$27,500 (2022 - \$29,623) is included in accounts receivable as at March 31, 2023.

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, 2023 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 2022.

(b) Liquidity risk:

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

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

There have been no significant changes to the liquidity risk exposure from 2022.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

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

(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 2022.

17. Diabetes education program:

Included in Patient Care Ministry of Health revenue is funding in the amount of \$372,838 (2022 - \$372,838) intended for the Diabetes Education Program. The expenses for this program totaled \$466,456 (2022 - \$400,503) which includes \$465,904 (2022 - \$399,856) for salaries, and \$552 (2022 - \$647) for supplies and sundry expenses. The program deficit of \$93,618 (2022 - \$27,665) was covered with hospital base funding.

18. Ministry of Health pandemic funding:

In connection with the ongoing coronavirus pandemic ("COVID-19"), the Ministry of Health ("Ministry") has announced a number of funding programs intended to assist hospitals with incremental operating and capital costs resulting from COVID-19. In addition to these funding programs, the Ministry is also permitting hospitals to redirect unused funding from certain volume-based programs towards COVID-19 costs and other operating pressures through a broad-based funding reconciliation.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

18. Ministry of Health pandemic funding (continued):

While the Ministry has provided guidance with respect to the criteria for eligibility and revenue recognition, this guidance continues to evolve and is subject to revision and clarification subsequent to the time of approval of these financial statements. The Ministry has also indicated that all funding related to COVID-19 is subject to review and reconciliation, with the potential for adjustments during the subsequent fiscal year.

Management's estimate of Ministry revenue for COVID-19 is based on the most recent guidance provided by Ministry and the impacts of COVID-19 on the Hospital's operations, revenue and expenses. Any adjustments to Management's estimate of Ministry revenues will be reflected in the Hospital's financial statements in the year of settlement.

Details of the Ministry funding for COVID-19 recognized as revenue are summarized below:

	2023	2022
Funding for incremental COVID-19 operating expenses	\$ 1,704,809	\$ 4,448,000
Funding for pandemic pay/retention	1,030,025	967,243
Funding for temporary physician funding	2,623,431	2,984,368
Funding for temporary/permanent wage enhancement	268,200	281,856
	<u>\$ 5,626,465</u>	<u>\$ 8,681,467</u>

In addition to the above, the Hospital has also recognized \$103,126 (2022 - \$387,504) in Ministry funding for COVID-19 related capital expenditures, which has been recorded as an addition to deferred capital contributions during the year.

In fiscal 2023, to reduce the operating deficit, the Hospital recognized \$637,773 (2022 - \$1,375,677) of unearned volume-based funding to offset operational pressures as a result of COVID-19.

19. Ontario Health Team:

The Hospital is the designated fund holder of the implementation funding for the Upper Canada, Cornwall and Area Ontario Health Team ("UCCA OHT"). The Hospital received funding for the UCCA OHT in the amount of \$977,500 during the 2023 fiscal year. As at March 31, 2023, \$811,750 is recorded as both a revenue and an expense on the Statement of Operations, while the remaining amount of \$165,750 is included in accounts payable and accrued liabilities on the Statement of Financial Position.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2023

20. Asset retirement obligation:

On April 1, 2022, the Hospital adopted Public Accounting Standard PS 3280 – Asset Retirement Obligations. The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in buildings owned by the Hospital. The standard was adopted on the modified retrospective basis at the date of adoption. Under the modified retrospective method of adoption, the assumptions used to estimate the Hospital's asset retirement obligations are applied as of the date of adoption of the standard.

On April 1, 2022, the Hospital recognized an asset retirement obligation relating to buildings owned by the Hospital that contain asbestos. The building was originally obtained as part of the amalgamation in December 2003 and the liability was measured as of the date of transfer when the liability was created. The building had an expected useful life of 25 years, and the estimate has not been changed since the transfer.

In accordance with this provision of this new standard, the Hospital reflected the following adjustments at April 1, 2022.

- An increase of \$3,156,899 to the building's capital asset account, representing the estimate of the obligation of the date of purchase, and an accompanying increase of \$2,737,730 to accumulated amortization representing 19 years of increased amortization/accretion had the liability originally been recognized,
- An asset retirement obligation in the amount of \$3,156,899, representing the estimated cost of remediation as at that date, and
- A decrease to opening net assets of \$2,723,730, representing 19 years of accumulated amortization/accretion expense on the building's asset and the portion of the liability charged directly to expense for assets no longer in productive use, if any.