

Financial Statements of

CHATHAM-KENT HEALTH ALLIANCE

Year ended March 31, 2017

CHATHAM-KENT HEALTH ALLIANCE

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Year ended March 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Members of Chatham-Kent Health Alliance

We have audited the accompanying financial statements of Chatham-Kent Health Alliance, which comprise the statement of financial position as at March 31, 2017, 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.

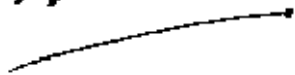
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Chatham-Kent Health Alliance as at March 31, 2017 and its results of operations and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a long, horizontal, slightly curved line that tapers at both ends, serving as a decorative underline.

Chartered Professional Accountants, Licensed Public Accountants

June 22, 2017

London, Canada

CHATHAM-KENT HEALTH ALLIANCE

Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Accounts receivable (note 3)	\$ 8,522,561	\$ 5,416,064
Inventories	717,283	685,597
Prepaid expenses	1,503,561	1,350,368
	<u>10,743,405</u>	<u>7,452,029</u>
Investments (note 4)	765,097	746,618
Capital assets (note 5)	81,333,018	83,127,906
	<u>\$ 92,841,520</u>	<u>\$ 91,326,553</u>
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Bank indebtedness (note 2)	\$ 3,878,844	\$ 1,141,449
Accounts payable and accrued liabilities	16,151,051	14,458,083
Deferred grants	933,203	1,397,295
Current portion of long-term debt (note 6)	363,930	338,152
	<u>21,327,028</u>	<u>17,334,979</u>
Long-term debt (note 6)	3,712,943	4,079,291
Employee future benefit liability (note 7)	7,348,500	7,185,800
Deferred capital contributions (note 8)	51,076,927	52,061,895
Net assets:		
Restricted (note 9)	3,880,332	3,860,706
Unrestricted	5,495,790	6,803,882
	<u>9,376,122</u>	<u>10,664,588</u>
Commitments and guarantees (note 11)		
Contingent liabilities (note 12)		
	<u>\$ 92,841,520</u>	<u>\$ 91,326,553</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

CHATHAM-KENT HEALTH ALLIANCE

Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Hospital Operations:		
Revenue:		
Ministry of Health and Long-Term Care	\$ 123,621,880	\$ 118,479,448
Other revenue:		
Patient revenue from other payers	15,526,814	15,187,377
Recoveries and miscellaneous	5,050,928	4,059,267
Differential and co-payment	2,215,840	2,015,534
Amortization of deferred capital contributions	254,870	419,471
	<u>23,048,452</u>	<u>21,681,649</u>
	146,670,332	140,161,097
Expenses:		
Salaries and wages	71,848,829	68,291,027
Employee benefits	20,500,525	19,240,377
Supplies and expenses	19,439,498	18,463,598
Medical staff remuneration	17,002,498	16,692,571
Medical and surgical supplies	6,953,482	6,801,695
Drugs and medical supplies	4,272,021	4,817,394
Contracted services	4,167,794	4,462,643
Amortization of equipment, computer hardware and software	1,939,267	2,289,670
Bad debts	172,746	46,046
Interest	90,788	56,069
	<u>146,387,448</u>	<u>141,161,090</u>
Excess (deficiency) of revenue over expenses from hospital operations	282,884	(999,993)
Other votes:		
Revenue	4,463,547	4,284,261
Expenses	<u>4,463,547</u>	<u>4,284,261</u>
	-	-
Other funding sources:		
Revenue	277,789	17,101
Expenses	<u>264,615</u>	<u>400</u>
	13,174	16,701
Building Operations:		
Amortization of deferred capital contributions	2,111,695	2,058,007
Gain/(loss) on disposal of capital assets	(126,150)	33,212
Interest on long-term debt	(151,397)	(169,096)
Amortization of land improvements and buildings	(3,418,672)	(3,372,959)
Impairment of construction-in-progress asset (note 5)	-	(1,248,163)
	<u>(1,584,524)</u>	<u>(2,698,999)</u>
Deficiency of revenue over expenses	<u>\$ (1,288,466)</u>	<u>\$ (3,682,291)</u>

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016

March 31, 2017	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 3,860,706	\$ 6,803,882	\$ 10,664,588
Deficiency of revenue over expenses	-	(1,288,466)	(1,288,466)
Transfer to restricted	19,626	(19,626)	-
Balance, end of year	\$ 3,880,332	\$ 5,495,790	\$ 9,376,122

March 31, 2016	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 3,843,806	\$ 10,503,073	\$ 14,346,879
Deficiency of revenue over expenses	-	(3,682,291)	(3,682,291)
Transfer to restricted	16,900	(16,900)	-
Balance, end of year	\$ 3,860,706	\$ 6,803,882	\$ 10,664,588

See accompanying notes to financial statements

CHATHAM-KENT HEALTH ALLIANCE

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (1,288,466)	\$ (3,682,291)
Items not involving cash:		
Amortization of equipment, computer hardware and software	1,959,102	2,303,674
Amortization of land improvements and buildings	3,477,690	3,431,977
Change in employee future benefit liability	162,700	223,200
Amortization of deferred capital contributions	(2,445,418)	(2,550,501)
Loss/(gain) on disposal of capital assets	126,150	(33,212)
Impairment of construction-in-progress asset	-	1,248,163
Changes in non-cash working capital balances:		
Accounts receivable	(3,106,497)	(452,430)
Inventories	(31,686)	3,855
Prepaid expenses	(153,193)	(20,747)
Accounts payable and accrued liabilities	1,692,968	(1,076,587)
Deferred grants	(464,092)	523,086
	(70,742)	(81,813)
Capital activities:		
Purchase of capital assets	(3,936,583)	(6,056,262)
Proceeds on disposition of capital assets	168,529	145,202
Receipt of deferred capital contributions, net	1,460,450	1,461,777
	(2,307,604)	(4,449,283)
Investing activities:		
Net increase in investments	(18,479)	(15,490)
Financing activities:		
Repayment of long-term debt	(340,570)	(325,952)
Decrease in cash	(2,737,395)	(4,872,538)
Cash (bank indebtedness), beginning of year	(1,141,449)	3,731,089
Bank indebtedness, end of year	\$ (3,878,844)	\$ (1,141,449)

Bank indebtedness consists of the following:

Cash (note 2)	\$ 5,467	\$ 80,032
Restricted cash (note 9)	107,980	107,031
Bank indebtedness (note 2)	(3,992,291)	(1,328,512)
	\$ (3,878,844)	\$ (1,141,449)

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements

Year ended March 31, 2017

Chatham-Kent Health Alliance (the "Alliance") is a partnership between The Public General Hospital Society of Chatham, St. Joseph's Health Services Association of Chatham, Incorporated and Sydenham District Hospital. The Alliance was formed in 1998 as a result of the report issued by the Health Services Restructuring Commission ("HSRC"). The Alliance is operated and governed by the terms and conditions contained in the Alliance agreement. Under the terms of the Alliance agreement the three hospitals have made substantially all of their operating assets available to the Alliance including land, buildings, equipment, and revenue from the Ministry of Health and Long-Term Care ("MoHLTC") and other services. The three hospitals share, in proportion to their 1998 revenues, in the financial results and specified capital additions of the Alliance. The Alliance is comprised of three hospitals, each having their own respective board of directors which comprise the Alliance Tri-Board.

On June 8, 2016, the MoHLTC appointed an Investigator to examine and report on the Alliance, including a review of issues related to governance and management of the hospitals. The Minister of Health and Long-Term Care accepted the Investigator's report which included the recommendation to appoint a Supervisor. On August 31, 2016 a Supervisor was appointed for the Alliance and has exclusive authority over The Public General Hospital Society of Chatham, St. Joseph's Health Services Association of Chatham, and Sydenham District Hospital, their officers and employees. The governance structure will be reviewed in the coming year.

All three hospitals are registered charities under the Income Tax Act and accordingly are exempt from income taxes, provided certain requirements of the Income Tax Act are met.

The Alliance is primarily funded by the Province of Ontario in accordance with funding policies established by the MoHLTC and the Local Health Integration Network ("LHIN"). Any excess of revenue over expenses earned during a fiscal year may be retained by the Alliance. There is currently no commitment by the MoHLTC to fund deficits incurred by the Alliance. Therefore, to the extent that deficits are incurred and not funded, future operations may be affected. The LHIN provides operating funding including base funding which is expected to be received on an annual basis, and special funding, which is non-recurring in nature, and consequently is unconfirmed for future years.

The Alliance operates under a Hospital Service Accountability Agreement ("H-SAA") with the Erie St. Clair Local Health Integration Network ("ESC LHIN"). This agreement sets out the rights and obligations of the two parties in respect of funding provided to the Alliance together with performance standards and obligations of the Alliance that establish acceptable results for the Alliance's performance.

If the Alliance does not meet certain performance standards or obligations, the MoHLTC/ESC LHIN has the right to adjust certain funding streams received by the Alliance. Given that the MoHLTC/ESC LHIN is not required to communicate funding adjustments until after the submission of year-end data, the amount of revenue recognized in these financial statements represents management's best estimates of amounts earned during the year.

The Alliance is working with the ESC LHIN to ensure the organization continues to be able to deliver the level of care and services expected. Future operations of the Alliance are dependent upon the adequacy of funding from the ESC LHIN as well as other revenue and financial support received from the Alliance's bank.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards ("PSAS") including PS 4200 *Standards for Government Not-For-Profit Organizations*.

(a) Revenue recognition:

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

The Alliance is funded primarily by the Province of Ontario in accordance with budget arrangements established by the MoHLTC. 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 recognized.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

Revenue from the Provincial Insurance Plan, patient, differential and co-payment, recoveries and miscellaneous, and other revenues are recognized when the services are provided and collection is reasonably assured.

(b) Contributed services:

Volunteers contribute numerous hours to assist the Alliance in carrying out certain charitable aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and, as such, is not reflected in these financial statements.

(c) Inventories:

Inventory is valued at the lower-of-cost and replacement cost, with cost being determined substantially on a first-in, first-out basis.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(d) Capital assets:

Capital assets are recorded at cost. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Alliance's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rates:

Asset	Rate
Land improvements	5.0 to 33.3%
Buildings	2.5 to 5.0%
Equipment, computer hardware and software	6.6 to 33.3%

Amortization of a specific asset is not recorded until the asset has been placed into use. Construction in progress comprises construction and development costs and capitalized interest. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

Upon sale or retirement, the cost of the capital asset, plus related accumulated amortization and unamortized deferred grants, is removed from the accounts and the gain or loss on disposal is recorded in the statement of operations.

(e) Compensated absences:

Compensated absences are accrued for all employees as entitlement to the payments is earned, in accordance with the Alliance's benefit plans for vacation, sick leave, and retirement allowances.

(f) Restricted net assets:

The Alliance records certain contributions as restricted funds. Contributions are either externally restricted for specific purposes by the funder, or internally restricted for specific purposes by the board of directors or Supervisor.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

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 reported 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.

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 other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

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 gains 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 cost.

PSAS requires the Alliance to classify 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.

The Alliance does not incur unrealized gains and losses which meet the definition for recognition in the statement of remeasurement gains and losses. Accordingly, no statement of remeasurement gains and losses is presented in these financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(h) Employee future benefits:

The Alliance provides defined extended health care, dental and life insurance benefits to various former employees. As part of the restructuring plan, post-retirement benefits were provided to employees accepting retirement packages.

The Alliance accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the retirement and other future benefits. The actuarial determination of the accrued benefit obligations for retirement and other future 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 for funding purposes was as of March 31, 2015, and the next required valuation will be completed as of March 31, 2018.

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 is 10.9 years (2016 – 11.0 years).

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

For those self-insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers' compensation, life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to these benefits are recognized immediately in the period they arise.

The costs of multi-employer defined contribution pension plan benefits, such as the Healthcare of Ontario Pension Plan ("HOOPP"), are the employer's contributions due to the plan in the period. As this is a multi-employer plan, no liability has been recorded in the Alliance's 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 year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, the amount of revenue recorded for specific types of funding, and obligations related to employee future benefits. Actual results could differ from those estimates.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

2. Cash (bank indebtedness):

The Alliance's bank accounts are maintained at one Canadian chartered bank. The Alliance also has a demand operating credit facility that bears interest at the bank's prime rate minus one percent per annum. During the year the Alliance increased the amount available under the credit facility to \$10,000,000. In May, 2017 the Alliance requested a reduction of the amount available under the credit facility back to \$8,000,000. As at March 31, 2017 the Alliance has drawn \$3,992,291 on this facility (2016 – \$1,328,512).

3. Accounts receivable:

	2017	2016
MoHLTC and other hospitals	\$ 4,672,393	\$ 1,271,665
Patient and other	3,982,590	4,295,361
	8,654,983	5,567,026
Less: allowance for doubtful accounts	132,422	150,962
	\$ 8,522,561	\$ 5,416,064

Included in the MoHLTC and other hospitals accounts is \$4,000,000 in new annualized base funding to help address operational pressures of the Alliance. This funding was received in full during May, 2017.

4. Investments:

	2017	2016
Savings accounts	\$ 29,770	\$ 35,210
Bonds and fixed income securities	735,327	711,408
	\$ 765,097	\$ 746,618

Investments are recorded at cost or amortized cost. Bonds and fixed income securities have interest rates ranging from 1.80% to 4.40% (2016 – 2.38% to 4.40%) and mature between 2017 and 2022.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

5. Capital assets:

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Land	\$ 4,670,740	\$ -	\$ 4,670,740	\$ 4,670,740
Land improvements	2,553,114	2,178,710	374,404	380,827
Buildings	115,524,393	48,016,759	67,507,634	70,034,627
Equipment, computer hardware and software	52,616,435	45,573,552	7,042,883	7,399,516
Construction-in-progress	1,737,357	-	1,737,357	642,196
	\$ 177,102,039	\$ 95,769,021	\$ 81,333,018	\$ 83,127,906

During the year, assets of \$385,827, having \$294,680 net book value remaining, were removed from cost and accumulated amortization.

During 2016, as a result of changes in the Alliance's strategy to develop new hospital facilities in Chatham and Wallaceburg, it was determined that \$1,348,163 in costs related to the Imagine project, previously recorded as construction-in-progress, should be fully written off. The impairment has been offset by \$100,000 in deferred capital contributions previously spent but not amortized (note 8).

6. Long-term debt:

In December, 2011, the Alliance entered into a loan agreement with its commercial bank to provide financing for the Energy Retro-fit Project. The \$5,700,000 loan was initially set up as a bridge loan, which was converted to a demand instalment loan in January, 2012. During the year the Alliance converted the demand instalment loan to a committed term loan, expiring May 31, 2018, although the loan is subject to an annual review and extension process. If the loan is continuously extended, the facility is structured with a fixed repayment schedule that will retire the debt in January 31, 2022. As the current commitment period expires May 31, 2018, aside from scheduled cash repayments in 2018, the loan is presented as if it will be repaid in fiscal 2019.

	2017	2016
Committed term instalment loan – with monthly blended payments of \$39,714, bearing interest at 2.88% and maturing on May 31, 2018	\$ 4,076,873	\$ 4,417,443
Less: current portion of long term debt	363,930	338,152
Long-term debt	\$ 3,712,943	\$ 4,079,291

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

7. Employee future benefits:

(a) Pension plan:

Healthcare of Ontario Pension Plan (the "Plan"), provides pension services to more than 321,000 active and retired members and approximately 500 employers. Each year an independent actuary determines the funding status the Plan by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan for accounting purposes was completed at December 31, 2015. The effective date of the next required actuarial valuation is December 31, 2017. The audited financial statements of the Plan at December 31, 2016 disclose a net assets value of \$70.4 billion with accrued going concern liabilities relating to pension obligations of \$54.461 billion, resulting in a surplus of \$15.898 billion (2016 - \$14.773 billion).

As the Plan is a multi-employer plan, any pension surpluses or deficits are a joint responsibility of Ontario Hospitals and their employees. As a result, the Alliance does not recognize any share of the Plan surplus or deficit. Contributions to the Plan made during the year on behalf of its employees amounted to \$5,849,872 (2016 - \$5,488,430) and are included in employee benefits in the statement of operations for the Alliance.

(b) Other employee future benefits:

The Alliance provides extended health care, dental and life insurance benefits to various former employees. As part of the restructuring plan, post-retirement benefits were provided to employees accepting retirement packages. The non-pension postretirement benefit plan is a defined benefit plan funded on a cash basis by contributions from the Alliance.

Information about the Alliance's accrued benefit liability is as follows:

	2017	2016
Accrued benefit obligation	\$ 6,170,300	\$ 5,745,700
Unamortized actuarial gain	1,178,200	1,440,100
	<u>\$ 7,348,500</u>	<u>\$ 7,185,800</u>

The Alliance's current benefit cost is as follows:

	2017	2016
Current service cost	\$ 398,600	\$ 409,100
Amortization of net actuarial gain	(127,700)	(100,000)
Interest cost	224,800	198,300
Current benefit cost	<u>\$ 495,700</u>	<u>\$ 507,400</u>

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

7. Employee future benefits (continued):

(b) Other employee future benefits (continued):

The current benefit cost is included in employee benefits on the statement of operations. The unamortized actuarial gain is amortized over the expected average remaining service life of 10.9 years (2016 – 11.0 years).

The Alliance has adopted a practice of tri-annual actuarial valuations of the benefit obligation, with extrapolation of results in the interim years. The most recent actuarial valuation was completed as at March 31, 2015.

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

Discount rate	3.56%
Medical benefits cost escalation - extended health care	7.4% grading down over 15 years to an ultimate rate of 4.50%

8. Deferred capital contributions:

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

	2017	2016
Unamortized capital contributions used to purchase assets	\$ 51,076,927	\$ 52,061,895

Deferred capital contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets. As of March 31, 2017 there were no unspent contributions (2016 – nil). The amortization of capital contributions is recorded as revenue in the statement of operations.

	2017	2016
Balance, beginning of year	\$ 52,061,895	\$ 53,250,619
Contributions received	1,616,957	1,522,735
Less amounts amortized to revenue	(2,445,418)	(2,550,501)
Less recognition of unamortized contributions for impaired capital assets	(156,507)	(100,000)
Less amounts recovered by the Ministry	-	(60,958)
Balance, end of year	\$ 51,076,927	\$ 52,061,895

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

9. Restricted net assets:

The restricted net assets of the Alliance as at March 31, 2017 amount to \$3,880,332 (2016 - \$3,860,706) and are comprised of the following:

- (a) The restricted net assets of The Public General Hospital Society consist of funds held in trust that may be used for certain hospital activities and educational development. The funds as at March 31, 2017 amount to \$107,980 (2016 - \$107,031).
- (b) The restricted net assets of St. Joseph's Health Services Association of Chatham, Incorporated at the end of the year consist of funds restricted for working capital. The funds as at March 31, 2017 amount to \$3,000,000 (2016 - \$3,000,000).
- (c) The restricted net assets of Sydenham District Hospital consist of funds internally restricted for the purchase of educational aids and operating room equipment. The funds as at March 31, 2017 amount to \$772,352 (2016 - \$753,675).

10. Capital disclosure:

The Alliance considers its capital to be its net assets, restricted and unrestricted. Restricted net assets consist of amounts for certain hospital activities, educational development, working capital, and amounts invested in capital assets. The Alliance's objective when managing its capital is to safeguard its ability to continue to provide services to its patients. Annual budgets are developed and monitored to ensure the Alliance's capital is maintained at an appropriate level.

11. Commitments and guarantees:

- (a) The Alliance has entered into contracts for various equipment and building improvements. The projects are expected to cost \$1,772,162 (2016 - \$577,638), of which \$948,978 (2016 - nil) has been spent as of March 31, 2017.
- (b) During the year, the Alliance entered into a demand installment loan with a borrowing limit of \$1,000,000 for use by the Chatham-Kent Hospice (the "Hospice"). The loan is secured by an agreement between the Chatham-Kent Hospice and the Municipality of Chatham-Kent, pledged amounts from the Hospice, and the assets owned by the Hospice. In addition, the Hospice has guaranteed the loan. As at March 31, 2017 the Hospice has drawn a net amount of \$389,632. As the Alliance is the principal borrower, the loan has been recorded as bank indebtedness in the statement of financial position, with an offsetting receivable from the Hospice. A process is underway to work with the lender and the Hospice to transfer the facility in its entirety to the Hospice.
- (c) Chatham-Kent Health Alliance is a member of TransForm Shared Service Organization ("TransForm"), a not-for-profit organization without share capital under the laws of the Province of Ontario. The organization has been established to purchase and manage supplies on behalf of the hospital. The Alliance has issued a guarantee in the amount of \$727,489 (2016 - \$945,240) on behalf of TransForm. As at year ended March 31, 2017, it is not probable that the Alliance will be required to make payments under the guarantee. As a result, no liability has been accrued for a loss related to the Alliance's obligation under the guarantee arrangement.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

12. Contingent liabilities:

The Alliance is subject to certain actual and potential legal claims, which have arisen in the normal course of operations. In management's opinion, insurance coverage is sufficient to offset the cost of unfavourable settlements, if any, which may result from such claims.

13. Related party transactions:

(a) Foundations:

The Foundation of Chatham-Kent Health Alliance, Public General Hospital Foundation, St. Joseph's Hospital Foundation and Sydenham District Hospital Foundation (collectively the "Foundations") are related entities incorporated without share capital under the laws of Ontario. During February, 2017, The St. Joseph's Hospital Foundation was amalgamated with the St. Joseph's Health Care Society and is no longer considered a related entity. The objectives of the Foundations are the enhancement and improvement of services and patient care provided by the Alliance. Donations to the Alliance from the Foundations' boards of directors are required to meet prioritized needs not funded by the traditional sources. The net assets and results from operations of the Foundations are not included in the financial statements of the Alliance.

Included in accounts receivable at March 31, 2017 are amounts due from the Foundations of \$62,925 (2016 - \$81,173). The receivable is comprised of \$62,925 from the Foundation of Chatham-Kent Health Alliance (2016 - \$62,507 from the Foundation of Chatham-Kent Health Alliance and \$18,666 from St. Joseph's Hospital Foundation). During the year, the Alliance received donations of \$340,012 (2016 - \$495,687) from the Foundations to assist with capital and other initiatives. In addition the Foundations paid \$14,841 on behalf of the Alliance for other expenses (2016 - \$13,347).

The Alliance provides certain services to the Foundation and pays certain expenses on behalf of the Foundation. During the year, the Foundation reimbursed the Alliance for all direct costs associated with services provided and expenses paid, in the amount of \$541,090 (2016 - \$487,755).

(b) TransForm Shared Services Organization:

TransForm Shared Services Organization provides information technology and system (IT/IS) services and a regional supply chain management (procurement, logistics and contract management to the five member hospitals in the Erie St. Clair Local Health Integration Network. These services are provided at rates designed to reflect the costs and expenses incurred by TransForm in the normal course of business. Annual operating expenses are allocated between the hospitals based on the provincial government funding provided to each hospital as of the most recent fiscal year. TransForm provides IT/IS service to other Alliances, which is based on a fee by project basis. In addition, the Alliance contributes toward approved capital improvements and other costs incurred by TransForm.

During the year, the Alliance paid \$2,016,775 (2016 - \$2,123,410) to TransForm for IT/IS services that are included in supplies and expenses on the statement of operations.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

14. Financial risks and concentration of credit risk:

(a) Credit risk:

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

The Alliance 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 Alliance at year ended March 31, 2017, is the carrying value of these assets.

Included in accounts receivable are patient receivables in the amount of \$1,677,711 (2016 - \$1,834,011) of which 8.6% (2016 - 9.4%) is over 90 days. All other accounts receivables and long-term receivables are current. As at year ended March 31, 2017 an amount of \$132,422 (2016 - \$150,962) has been provided for an impairment allowance.

The Alliance's investments in savings accounts, bonds and fixed income securities are held with Canadian financial institutions.

There have been no significant changes to the credit risk exposure from 2016.

(b) Liquidity risk:

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

Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

The contractual maturities of the long-term debt are disclosed in note 6.

During the year ended March 31, 2017 the Alliance experienced a net decrease in cash of \$2,737,395 (2016 - decrease of \$4,872,538). The Alliance maintains an operating line of credit to help manage its day to day obligations. The credit limit of the operating line was increased to \$10,000,000 during 2017 (previously \$8,000,000) in order to manage peak borrowing throughout the year. As at March 31, 2017 an amount of \$6,007,709 remains available to the Alliance.

An amount of \$4,000,000 of new annualized base funding to help address cash and operational pressures was announced to the Alliance in March, 2017. As a result, subsequent to year end, the Alliance has requested to reduce the credit facility available back to \$8,000,000. In order to address liquidity risk, a recovery plan was instituted by the Alliance during 2017 and will be implemented over the next three years to ensure that the Alliance meets performance standards and its obligations.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2017

14. 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 Alliance'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.

(i) Foreign exchange risk:

The Alliance is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Alliance makes purchases denominated in U.S. dollars. The Alliance does not currently enter into forward contracts to mitigate this risk. The Alliance does not have any material transactions during the year or financial instruments denominated in foreign currencies at year end. There have been no significant changes to the foreign exchange risk exposure from 2016.

(ii) 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 Alliance to cash flow interest rate risk. There are no significant exposures to variables interest rates as at year ended March 31, 2017. The interest on long-term debt is fixed at 2.88% until January 31, 2022.

There has been no change to the interest rate risk exposure from 2016.

15. Other information, Diabetes Education Program:

During the year, the Alliance received \$695,591 (2016 - \$695,591) to support the Adult Diabetes Education Program. Expenses for the program during the year totalled \$659,980 (2016 - \$659,116). Any excess funds are repayable as of year ended March 31, 2017, and are included in accounts payable and accrued liabilities.

During the year, the Alliance received \$38,724 (2016 - \$36,952) to support the Paediatric Diabetes Education Program. Expenses for the program during the year totalled \$39,582 (2016 - \$35,322). Any excess funds are repayable as of year ended March 31, 2017, and are included in accounts payable and accrued liabilities.