

Financial Statements of

CHATHAM-KENT HEALTH ALLIANCE

And Independent Auditors' Report thereon

Year ended March 31, 2019

CHATHAM-KENT HEALTH ALLIANCE

Table of Contents

Year ended March 31, 2019

Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Operations	4
Statement of Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7



KPMG LLP
140 Fullarton Street Suite 1400
London ON N6A 5P2
Canada
Tel 519 672-4800
Fax 519 672-5684

INDEPENDENT AUDITORS' REPORT

To the Members of Chatham-Kent Health Alliance

Opinion

We have audited the financial statements of Chatham-Kent Health Alliance (the Entity), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

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

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

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



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

May 30, 2019

CHATHAM-KENT HEALTH ALLIANCE

Statement of Financial Position

March 31, 2019, with comparative information for 2018

(In thousands of dollars)

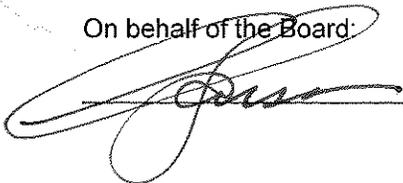
	2019	2018
Assets		
Current assets:		
Cash (note 2)	\$ 9,678	\$ 7,525
Accounts receivable (note 3)	4,926	4,335
Inventories	708	720
Prepaid expenses	1,581	1,342
	<u>16,893</u>	<u>13,922</u>
Investments (note 4)	458	776
Capital assets (note 5)	83,979	82,841
	<u>\$ 101,330</u>	<u>\$ 97,539</u>

Liabilities, Deferred Contributions and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	18,789	19,346
Deferred grants	444	814
Current portion of long-term debt (note 6)	385	375
	<u>19,618</u>	<u>20,535</u>
Long-term debt (note 6)	2,953	3,338
Employee future benefit liability (note 7)	7,399	7,496
Deferred capital contributions (note 8)	57,657	54,618
Net assets:		
Restricted (note 9)	577	3,893
Unrestricted	13,126	7,659
	<u>13,703</u>	<u>11,552</u>
Commitments and guarantee (note 11)		
Contingent liabilities (note 12)		
Subsequent event (note 15)		
	<u>\$ 101,330</u>	<u>\$ 97,539</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, 2019, with comparative information for 2018
(In thousands of dollars)

	2019	2018
Hospital Operations:		
Revenue:		
Ministry of Health and Long-Term Care	\$ 128,399	\$ 124,894
Other revenue:		
Patient revenue from other payers	16,512	15,425
Recoveries and miscellaneous	3,883	3,210
Differential and co-payment	2,198	2,153
Amortization of deferred capital contributions related to equipment	862	267
	<u>23,455</u>	<u>21,055</u>
	151,854	145,949
Expenses:		
Salaries and wages	69,027	67,906
Employee benefits	21,707	20,824
Supplies and expenses	19,126	17,864
Medical staff remuneration	17,672	16,948
Medical and surgical supplies	6,860	6,614
Drugs and medical supplies	5,853	4,833
Contracted services	5,545	4,069
Amortization of equipment, computer hardware and software	2,307	1,763
Bad debts	173	179
Interest	-	21
	<u>148,270</u>	<u>141,021</u>
Excess of revenue over expenses from hospital operations	3,584	4,928
Other votes:		
Revenue	4,767	4,642
Expenses	4,767	4,642
	-	-
Other funding sources:		
Revenue	51	357
Expenses	33	344
	<u>18</u>	<u>13</u>
Building Operations (income (expense)):		
Amortization of deferred capital contributions	2,191	2,140
Gain on disposal of capital assets	3	20
Interest on long-term debt	(102)	(112)
Amortization of land improvements and buildings	(3,543)	(3,473)
Impairment of capital assets (note 5)	-	(1,340)
	<u>(1,451)</u>	<u>(2,765)</u>
Excess of revenue over expenses	<u>\$ 2,151</u>	<u>\$ 2,176</u>

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Statement of Changes in Net Assets

Year ended March 31, 2019, with comparative information for 2018
(In thousands of dollars)

March 31, 2019	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 3,893	\$ 7,659	\$ 11,552
Excess of revenue over expenses	-	2,151	2,151
Transfer from restricted	(3,316)	3,316	-
Balance, end of year	\$ 577	\$ 13,126	\$ 13,703

March 31, 2018	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 3,880	\$ 5,496	\$ 9,376
Excess of revenue over expenses	-	2,176	2,176
Transfer to restricted	13	(13)	-
Balance, end of year	\$ 3,893	\$ 7,659	\$ 11,552

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018
(In thousands of dollars)

	2019	2018
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 2,151	\$ 2,176
Items not involving cash:		
Amortization of equipment, computer hardware and software	2,319	1,784
Amortization of land improvements and buildings	3,598	3,523
Change in employee future benefit liability	(97)	147
Amortization of deferred capital contributions	(3,120)	(2,479)
(Gain) on disposal of capital assets	(3)	(20)
Impairment of capital assets	-	1,340
Changes in non-cash working capital balances:		
Accounts receivable	(591)	4,188
Inventories	12	(3)
Prepaid expenses	(239)	162
Accounts payable and accrued liabilities	(557)	3,195
Deferred grants	(370)	(119)
	3,103	13,894
Capital activities:		
Purchase of capital assets	(7,055)	(8,639)
Proceeds on disposition of capital assets	3	26
Receipt of deferred capital contributions, net	6,159	6,498
	(893)	(2,115)
Investing activities:		
Decrease (increase) in investments	318	(11)
Financing activities:		
Repayment of long-term debt	(375)	(364)
Increase in cash	2,153	11,404
Cash (bank indebtedness), beginning of year	7,525	(3,879)
Cash end of year	\$ 9,678	\$ 7,525

Cash consists of the following:

Cash	\$ 9,567	\$ 7,416
Restricted cash (note 9)	111	109
	\$ 9,678	\$ 7,525

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

The Chatham-Kent Health Alliance ("CKHA" or the "Hospital") is incorporated without share capital under the Corporations Act of Ontario. 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.

The Chatham-Kent Health Alliance was formed on February 1, 2018, through an amalgamation of The Public General Hospital Society of Chatham ("Public General") and Sydenham District Hospital ("Sydenham"). Approval for voluntary integration was granted by the Ministry of Health and Long-Term Care ("MoHLTC" or the "Ministry") under the Public Hospitals Act. Additionally, on the date of amalgamation, St. Joseph's Health Services Association of Chatham, Incorporated ("St. Joseph's") agreed to transfer its net assets and hospital operations to Chatham-Kent Health Alliance. To effect the transfer, one-time funding of \$2,000 was paid to St. Joseph's by the MoHLTC, for which the Hospital acted as an agent in the transaction. As a result, the flow through of funds has no impact on the financial statements. The control of the St. Joseph's legal entity was transferred to the St. Joseph's Health Care Society on April 1, 2018.

Prior to February 1, 2018, the Hospital was not a separate legal entity but operated as an Alliance between Public General, St. Joseph's, and Sydenham (the "Hospitals"). The Alliance was previously operated and governed by the terms and conditions contained in the Alliance agreement. Under the terms of the Alliance agreement the three Hospitals made substantially all of their operating assets available to the Alliance including land, buildings, equipment, and revenue from the MoHLTC and other services. The Alliance was governed by the Tri-Board, which was comprised of the Hospitals' respective Board of Directors.

In 2016, the Lieutenant Governor in Council appointed a Supervisor by Order-in-Council to, amongst other things, exercise all the powers of the Board of Directors of the Hospitals and the Tri-Board. In accordance with the terms of reference in the Order-in Council to guide the Supervisor, it was determined that a fundamental corporate change was required to ensure implementation of the best governance practices, and that the Hospitals comprising the Alliance should be integrated into a single corporation. This was completed on February 1, 2018, upon the creation of the Hospital, as a separate legal entity and the acceptance by the Hospital of the net assets and Hospital operations of St. Joseph's.

Although the Alliance agreement ceased on February 1, 2018, the intent of the voluntary integration is to continue the Hospital operations of the Alliance under the single corporate structure of the Hospital. As a result, these financial statements present comparative period information from the previous Alliance financial statements, inclusive of St. Joseph's. Therefore, the financial statements do not reflect any gain or loss on transfer of net assets from St. Joseph's that may have been required had the financial statements only presented the results of the amalgamated Hospitals.

The Hospital 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 Hospital. There is currently no commitment by the MoHLTC to fund deficits incurred by the Hospital. 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 Hospital 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 Hospital together with performance standards and obligations of the Hospital that establish acceptable results for the Hospital's performance.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

If the Hospital does not meet certain performance standards or obligations, the MoHLTC/ESC LHIN has the right to adjust certain funding streams received by the Hospital. 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 Hospital 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 Hospital are dependent upon the adequacy of funding from the ESC LHIN as well as other revenue and financial support received from the Hospital's bank.

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

The Hospital 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. No amortization is recorded until the related capital asset is put in use.

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 (included in patient revenue from other payers), patient, differential and co-payment, recoveries and miscellaneous, and other revenues are recognized when the services are provided and collection is reasonably assured.

Other votes relate to operating grants and related expenses for community programs.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

1. Significant accounting policies (continued):

(b) Contributed services:

Volunteers contribute numerous hours to assist the Hospital 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.

(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 Hospital'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 12.5%
Buildings	2.5 to 5.0%
Equipment, computer hardware and software	5 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 Hospital's benefit plans for vacation, sick leave, and retirement allowances.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

1. Significant accounting policies (continued):

(f) Restricted net assets:

The Hospital 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.

(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 re-measurement 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 re-measurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of re-measurement gains and losses are reversed and recognized in the statement of operations.

Long-term debt is recorded at cost.

PSAS requires the Hospital 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 Hospital does not incur unrealized gains and losses which meet the definition for recognition in the statement of re-measurement gains and losses. Accordingly, no statement of re-measurement gains and losses is presented in these financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

1. Significant accounting policies (continued):

(h) Employee future benefits:

The Hospital provides defined extended health care, dental and life insurance benefits to various former employees. As part of the restructuring plan in 2018, post-retirement benefits were provided to employees accepting retirement packages.

The Hospital 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, 2018. The valuation has been extrapolated for the year ended March 31, 2019.

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 11.0 years (2018 – 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 pension asset or liability has been recorded in the Hospital'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, 2019

(In thousands of dollars, unless otherwise noted)

1. Significant accounting policies (continued):

(j) Adoption of new accounting standards:

On April 1, 2017, the Hospital early adopted Canadian public sector accounting standard PS3430 Restructuring Transactions, which was originally effective for years commencing on or after April 1, 2018. As identified in the opening description to the notes of the financial statements, the Hospital entered into a restructuring arrangement during the 2018 fiscal year, for which the accounting is in accordance with the adopted standard.

2. Cash:

The Hospital's bank accounts are maintained at one Canadian chartered bank. The Hospital also has a demand operating credit facility that bears interest at the bank's prime rate minus 1% per annum. In May, 2017, the Hospital requested and received approval for a reduction of the amount available under the credit facility from \$10,000 to \$8,000. As at March 31, 2019 the Hospital has not drawn on this facility (2018 – nil).

3. Accounts receivable:

	2019	2018
MoHLTC and other Hospitals	\$ 1,185	\$ 1,070
Patient and other	3,822	3,366
	5,007	4,436
Less: allowance for doubtful accounts	81	101
	\$ 4,926	\$ 4,335

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

4. Investments:

	2019	2018
Savings accounts	\$ 11	\$ 30
Bonds and fixed income securities	447	746
	\$ 458	\$ 776

Investments are recorded at cost or amortized cost. Bonds and fixed income securities have interest rates ranging from 1.80% to 4.25% (2018 – 1.80% to 4.40%) and mature between 2019 and 2022.

5. Capital assets:

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Land	\$ 3,853	\$ -	\$ 3,853	\$ 3,853
Land improvements	2,538	2,269	269	318
Buildings	117,319	53,179	64,140	69,728
Equipment, computer hardware and software	52,536	42,321	10,215	8,656
Construction-in-progress	5,502	-	5,502	286
	\$ 181,748	\$ 97,769	\$ 83,979	\$ 82,841

Amortization of \$5,917 (2018 - \$5,307) is included within Amortization of equipment, computer hardware and software, Amortization of land improvements and building, and includes \$67 (2018 - \$71) in net expenses of Other votes on the statement of operations.

During the year, assets with a cost of \$2,265 (2018 - \$5,111), having nil (2018 - \$6) net book value remaining, were removed from cost and accumulated amortization.

During 2018, land of \$1,681 was written down to its residual value of \$699. As a result, an impairment loss of \$982 was recognized. In addition, building improvements with net book value of \$836, related to the east wing and general renovations which have no further service potential were written off. The impairment has been offset by \$478 in associated deferred capital contributions (note 8). No amounts were written off and no impairment was recognized for 2019.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

6. Long-term debt:

In December, 2011, the Hospital entered into a loan agreement with its commercial bank to provide financing for the Energy Retro-fit Project. The \$5,700 loan was initially set up as a bridge loan, converted to a demand instalment loan in January, 2012, and converted to a committed term loan during 2017. The committed term loan is due May 31, 2020, however, 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, 2020, the loan is presented as if it will be repaid in fiscal 2020.

	2019	2018
Committed term instalment loan – with monthly blended payments of \$40, bearing interest at 2.88% and maturing on May 31, 2020	\$ 3,338	\$ 3,713
Less: current portion of long term debt	385	375
Long-term debt	\$ 2,953	\$ 3,338

7. Employee future benefits:

(a) Pension plan:

Healthcare of Ontario Pension Plan (the “Plan”), provides pension services to more than 357,000 active and retired members and approximately 570 employers. Each year an independent actuary determines the funding status of 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, 2017. The audited financial statements of the Plan at December 31, 2018, disclose a net assets value of \$79 billion with accrued going concern liabilities relating to pension obligations of \$65.1 billion, resulting in a surplus of \$13.891 billion (2018 - \$18.153 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 Hospital 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 \$5,935 (2018 - \$5,812) and are included in employee benefits in the statement of operations for the Hospital.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

7. Employee future benefits (continued):

(b) Other employee future benefits:

The Hospital provides extended health care, dental and life insurance benefits to various former employees. As part of the restructuring plan in fiscal 2018, 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 Hospital.

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

	2019	2018
Accrued benefit obligation	\$ 5,292	\$ 5,048
Unamortized actuarial gain	2,107	2,448
	\$ 7,399	\$ 7,496

The Hospital's current benefit cost is as follows:

	2019	2018
Current service cost	\$ 293	\$ 424
Amortization of net actuarial gain	(241)	(115)
Interest cost	174	227
Current benefit cost	\$ 226	\$ 536

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 11.0 years (2018 – 11.0 years).

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

Discount rate	3.18%
Medical benefits cost escalation - extended health care	7.1% grading down over 19 years to an ultimate rate of 4.0%

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

8. Deferred capital contributions:

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, 2019, there were no unspent contributions (2018 – nil). The amortization of capital contributions is recorded as revenue in the statement of operations.

	2019	2018
Balance, beginning of year	\$ 54,618	\$ 51,077
Contributions received	6,159	6,545
Less amounts amortized to revenue	(3,120)	(2,479)
Less recognition of unamortized contributions for impaired capital assets (note 5)	-	(478)
Less amounts recovered to be recovered the Ministry	-	(47)
Balance, end of year	\$ 57,657	\$ 54,618

Amortization of \$3,120 (2018 - \$2,479 is included within Amortization of deferred capital contributions related to equipment and Amortization of deferred capital contributions related to building operations and includes \$67 (2018 - \$71) in net expenses of Other votes on the statement of operations.

9. Restricted net assets:

The restricted net assets of the Hospital as at March 31, 2019, amount to \$577 (2018 - \$3,893) and are comprised of the following:

- The restricted net assets of the Hospital consist of funds held in trust for the Chatham site that may be used for certain Hospital activities and educational development. The funds as at March 31, 2019, amount to \$111 (2018 - \$109).
- The restricted net assets of the Hospital consist of funds internally restricted for use at the Wallaceburg site and in part for the purchase of educational aids and capital equipment. The funds as at March 31, 2019, amount to \$466 (2018 - \$784).

The previous restriction of \$3,000 for working capital has been removed as approved by the CKHA Board on September 27, 2018.

10. Capital disclosure:

The Hospital considers its capital to be its net assets, restricted and unrestricted. Restricted net assets consist of amounts for certain Hospital activities, educational development and amounts invested in capital assets. The Hospital'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 Hospital's capital is maintained at an appropriate level.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

11. Commitments and guarantee:

- (a) The Hospital has entered into contracts for various equipment and building improvements and a new health information system. The projects are expected to cost \$44,781 (2018 - \$3,650), of which \$1,663 (2018 - \$828) has been spent as of March 31, 2019.
- (b) During the year, the Hospital approved a funding letter with Transform Shared Services Organization (“Transform”), along with Erie Shores Healthcare (ESH), Hôtel-Dieu Grace Healthcare (HDGH) and Windsor Regional Hospital (WRH), collectively “the Hospitals” which authorizes Transform to execute contracts on their behalf and approve estimated budgets for the new health information system project. The letter documents the intention of the parties to support the underlying budget estimates. The project will see the replacement of existing Hospital information systems and improve the ability to deliver healthcare through clinical transformation. The Hospital’s share of the estimated project budget is \$20,397 and once implemented the ongoing commitment to the vendor for operating costs is \$15,591 over ten years. These amounts have been included in the total commitment disclosed in note 11(a).
- (c) The Hospital 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, payment responsibilities and Information Technology/Information systems on behalf of the Hospital. The Hospital has issued a guarantee in the amount of \$452 (2018 - \$557) on behalf of TransForm. As at year ended March 31, 2019, it is not probable that the Hospital will be required to make payments under the guarantee. As a result, no liability has been accrued for a loss related to the Hospital’s obligation under the guarantee arrangement.

12. Contingent liabilities:

The Hospital 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.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

13. Related party transactions:

(a) Foundations:

The Foundation of Chatham-Kent Health Alliance, Public General Hospital Foundation, and Sydenham District Hospital Foundation (collectively the "Foundations") are related entities incorporated without share capital under the laws of Ontario. Subsequent to year end the Foundations were amalgamated and will continue forward as the Chatham-Kent Health Alliance Foundation. The objectives of the Foundations are the enhancement and improvement of services and patient care provided by the Hospital. Donations to the Hospital 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 Hospital.

Included in accounts receivable at March 31, 2019, are amounts due from the Foundation of Chatham-Kent Health Alliance of \$158 (2018 - \$263). During the year, the Hospital received donations of \$2,952 (2018 - \$2,163) from the Foundations to assist with capital and other initiatives, including payments of \$2,855 (2018 - \$2,072) on behalf of the Hospital for capital expenses and \$5 on behalf of the Hospital directly to vendors for other expenses (2018 - \$13).

The Hospital provides certain services to the Foundations and pays certain expenses on behalf of the Foundations. During the year, the Foundations reimbursed the Hospital for all direct costs associated with services provided and expenses paid, in the amount of \$645 (2018 - \$548).

(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 Hospital contributes toward approved capital improvements and other costs incurred by TransForm.

During the year, the Hospital paid \$1,957 (2018 - \$1,986) to TransForm for IT/IS services and purchasing and payment processing 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, 2019

(In thousands of dollars, unless otherwise noted)

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 Hospital is exposed to credit risk with respect to the accounts receivable, cash and long-term investments.

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, 2019, is the carrying value of these assets.

Included in accounts receivable are patient receivables in the amount of \$1,865 (2018 - \$1,896) of which 6.2% (2018 – 9.6%) is over 90 days. All other accounts receivables are current. As at year ended March 31, 2019, an amount of \$81 (2018 - \$101) has been provided for as an impairment allowance.

The Hospital'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 2018.

(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 30 days of receipt of an invoice.

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

The Hospital maintains an operating line of credit to help manage its day to day obligations (limit of \$8,000). As at March 31, 2019, an amount of \$8,000 remains available to the Hospital.

In order to address liquidity risk, a recovery plan was instituted by the Hospital during 2017 to ensure the Hospital meets performance standards and obligations. The plan involved new annualized base funding of \$4,000 from the Ministry, which began in 2017, and has helped alleviate the Hospital's liquidity risk exposure.

There have been no significant changes to the liquidity risk exposure from 2018.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars, unless otherwise noted)

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 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.

(i) Foreign exchange risk:

The Hospital 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 Hospital makes purchases denominated in U.S. dollars. The Hospital does not currently enter into forward contracts to mitigate this risk. The Hospital 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 2018.

(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 Hospital to cash flow interest rate risk. There are no significant exposures to variables interest rates as at year ended March 31, 2019. 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 2018.

15. Subsequent Events:

Subsequent to year end, the Hospital entered into a loan agreement with its commercial bank to provide financing for the replacement of the Hospital's health information system. The \$20,400 loan is set up as a non-revolving bridge loan, available in multiple draws with multiple options for the payment of interest including at the bank's prime rate minus 0.6% per annum. The Hospital will make interest only payments on a monthly or quarterly basis for up to two years from the initial draw down date until such time the loan is converted to an amortizing loan.

16. Other information, Diabetes Education Program:

During the year, the Hospital received \$696 (2018 - \$696) to support the Adult Diabetes Education Program. Expenses for the program during the year totalled \$719 (2018 - \$696). There are no excess funds repayable as of March 31, 2019.

During the year, the Hospital received \$37 (2018 - \$37) to support the Paediatric Diabetes Education Program. Expenses for the program during the year totalled \$37 (2018 - \$40). There are no excess funds repayable as of March 31, 2019.