

Financial Statements of

CHATHAM-KENT HEALTH ALLIANCE

Year ended March 31, 2018

CHATHAM-KENT HEALTH ALLIANCE

Table of Contents

Year ended March 31, 2018

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

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

May 31, 2018

CHATHAM-KENT HEALTH ALLIANCE

Statement of Financial Position

March 31, 2018, with comparative information for 2017
(In thousands of dollars)

	2018	2017
Assets		
Current assets:		
Cash (note 2)	\$ 7,525	\$ -
Accounts receivable (note 3)	4,335	8,523
Inventories	720	717
Prepaid expenses	1,342	1,504
	<u>13,922</u>	<u>10,744</u>
Investments (note 4)	776	765
Capital assets (note 5)	82,841	81,333
	<u>\$ 97,539</u>	<u>\$ 92,842</u>

Liabilities, Deferred Contributions and Net Assets

Current liabilities:		
Bank indebtedness (note 2)	\$ -	\$ 3,879
Accounts payable and accrued liabilities	19,346	16,151
Deferred grants	814	933
Current portion of long-term debt (note 6)	375	364
	<u>20,535</u>	<u>21,327</u>
Long-term debt (note 6)	3,338	3,713
Employee future benefit liability (note 7)	7,496	7,349
Deferred capital contributions (note 8)	54,618	51,077
Net assets:		
Restricted (note 9)	3,893	3,880
Unrestricted	7,659	5,496
	<u>11,552</u>	<u>9,376</u>
Commitments and guarantee (note 11)		
Contingent liabilities (note 12)		
	<u>\$ 97,539</u>	<u>\$ 92,842</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, 2018, with comparative information for 2017
(In thousands of dollars)

	2018	2017
Hospital Operations:		
Revenue:		
Ministry of Health and Long-Term Care	\$ 124,894	\$ 123,622
Other revenue:		
Patient revenue from other payers	15,425	15,526
Recoveries and miscellaneous	3,210	5,051
Differential and co-payment	2,153	2,216
Amortization of deferred capital contributions	267	255
	<u>21,055</u>	<u>23,048</u>
	145,949	146,670
Expenses:		
Salaries and wages	67,906	71,849
Employee benefits	20,824	20,501
Supplies and expenses	17,864	19,439
Medical staff remuneration	16,948	17,002
Medical and surgical supplies	6,614	6,953
Drugs and medical supplies	4,833	4,272
Contracted services	4,069	4,168
Amortization of equipment, computer hardware and software	1,763	1,939
Bad debts	179	173
Interest	21	91
	<u>141,021</u>	<u>146,387</u>
Excess of revenue over expenses from hospital operations	4,928	283
Other votes:		
Revenue	4,642	4,464
Expenses	4,642	4,464
	-	-
Other funding sources:		
Revenue	357	278
Expenses	344	265
	13	13
Building Operations (income (expense)):		
Amortization of deferred capital contributions	2,140	2,112
Gain/(loss) on disposal of capital assets	20	(126)
Interest on long-term debt	(112)	(151)
Amortization of land improvements and buildings	(3,473)	(3,419)
Impairment of capital assets (note 5)	(1,340)	-
	<u>(2,765)</u>	<u>(1,584)</u>
Excess (deficiency) of revenue over expenses	\$ 2,176	\$ (1,288)

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Statement of Changes in Net Assets

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

(In thousands of dollars)

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

March 31, 2017	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 3,861	\$ 6,803	\$ 10,664
Deficiency of revenue over expenses	-	(1,288)	(1,288)
Transfer to restricted	19	(19)	-
Balance, end of year	\$ 3,880	\$ 5,496	\$ 9,376

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Statement of Cash Flows

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

(In thousands of dollars)

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 2,176	\$ (1,288)
Items not involving cash:		
Amortization of equipment, computer hardware and software	1,784	1,959
Amortization of land improvements and buildings	3,523	3,478
Change in employee future benefit liability	147	163
Amortization of deferred capital contributions	(2,479)	(2,445)
Loss/(gain) on disposal of capital assets	(20)	126
Impairment of capital assets	1,340	-
Changes in non-cash working capital balances:		
Accounts receivable	4,188	(3,107)
Inventories	(3)	(32)
Prepaid expenses	162	(153)
Accounts payable and accrued liabilities	3,195	1,692
Deferred grants	(119)	(464)
	13,894	(71)
Capital activities:		
Purchase of capital assets	(8,639)	(3,937)
Proceeds on disposition of capital assets	26	169
Receipt of deferred capital contributions, net	6,498	1,460
	(2,115)	(2,308)
Investing activities:		
Increase in investments	(11)	(18)
Financing activities:		
Repayment of long-term debt	(364)	(341)
Increase (decrease) in cash	11,404	(2,738)
Bank indebtedness, beginning of year	(3,879)	(1,141)
Cash (bank indebtedness), end of year	\$ 7,525	\$ (3,879)

Cash (bank indebtedness) consists of the following:

Cash (note 2)	\$ 7,416	\$ 5
Restricted cash (note 9)	109	108
Bank indebtedness (note 2)	-	(3,992)
	\$ 7,525	\$ (3,879)

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements

Year ended March 31, 2018

(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.

CKHA 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 CKHA. To effect the transfer, one-time funding of \$2,000 was paid to St. Joseph's by the MoHLTC, for which the CKHA 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 CKHA, as a separate legal entity and the acceptance by CKHA 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 CKHA. As a result, these financial statements have presented 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 CKHA 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 CKHA. There is currently no commitment by the MoHLTC to fund deficits incurred by the CKHA. 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 CKHA 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 CKHA together with performance standards and obligations of the CKHA that establish acceptable results for the CKHA's performance.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars, unless otherwise noted)

If the CKHA does not meet certain performance standards or obligations, the MoHLTC/ESC LHIN has the right to adjust certain funding streams received by the CKHA. 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 CKHA 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 CKHA are dependent upon the adequacy of funding from the ESC LHIN as well as other revenue and financial support received from the CKHA'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 CKHA follows the deferral method of accounting for contributions which include donations and government grants.

The CKHA 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 (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 flow through funding for which the CKHA acts as a paymaster for the Ministry.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars, unless otherwise noted)

1. Significant accounting policies (continued):

(b) Contributed services:

Volunteers contribute numerous hours to assist the CKHA 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 CKHA'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 CKHA's benefit plans for vacation, sick leave, and retirement allowances.

(f) Restricted net assets:

The CKHA 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, 2018

(In thousands of dollars, unless otherwise noted)

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 CKHA 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 CKHA 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, 2018

(In thousands of dollars, unless otherwise noted)

1. Significant accounting policies (continued):

(h) Employee future benefits:

The CKHA 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 CKHA 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.

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 (2017 – 10.9 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 CKHA'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, 2018

(In thousands of dollars, unless otherwise noted)

1. Significant accounting policies (continued):

(j) Adoption of new accounting standards:

On April 1, 2017, the CKHA adopted Canadian public sector accounting standards PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights.

The adoption of these standards did not result in an accounting policy change, and did not result in any adjustments to the financial statements as at April 1, 2017.

In addition, on April 1, 2017, the CKHA 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 CKHA entered into a restructuring arrangement during the year, for which the accounting is in accordance with the adopted standard.

2. Cash (bank indebtedness):

The CKHA's bank accounts are maintained at one Canadian chartered bank. The CKHA also has a demand operating credit facility that bears interest at the bank's prime rate minus one percent per annum. In May, 2017, the CKHA 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, 2018 the CKHA has not drawn on this facility (2017 – \$3,992).

3. Accounts receivable:

	2018	2017
MoHLTC and other hospitals	\$ 1,070	\$ 4,672
Patient and other	3,366	3,983
	4,436	8,655
Less: allowance for doubtful accounts	101	132
	\$ 4,335	\$ 8,523

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars, unless otherwise noted)

4. Investments:

	2018	2017
Savings accounts	\$ 30	\$ 30
Bonds and fixed income securities	746	735
	<u>\$ 776</u>	<u>\$ 765</u>

Investments are recorded at cost or amortized cost. Bonds and fixed income securities have interest rates ranging from 1.80% to 4.40% (2017 – 1.80% to 4.40%) and mature between 2018 and 2022.

5. Capital assets:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Land	\$ 3,853	\$ -	\$ 3,853	\$ 4,671
Land improvements	2,538	2,220	318	374
Buildings	119,358	49,630	69,728	67,508
Equipment, computer hardware and software	50,924	42,268	8,656	7,043
Construction-in-progress	286	-	286	1,737
	<u>\$ 176,959</u>	<u>\$ 94,118</u>	<u>\$ 82,841</u>	<u>\$ 81,333</u>

During the year, assets with a cost of \$5,111, having \$6 net book value remaining, were removed from cost and accumulated amortization.

During the year, 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 were written off. The impairment has been offset by \$478 in associated deferred capital contributions (note 8).

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars, unless otherwise noted)

6. Long-term debt:

In December, 2011, the CKHA 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, 2019, 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, 2019, aside from scheduled cash repayments in 2018, the loan is presented as if it will be repaid in fiscal 2020.

	2018	2017
Committed term instalment loan – with monthly blended payments of \$40, bearing interest at 2.88% and maturing on May 31, 2019	\$ 3,713	\$ 4,077
Less: current portion of long term debt	375	364
Long-term debt	\$ 3,338	\$ 3,713

7. Employee future benefits:

(a) Pension plan:

Healthcare of Ontario Pension Plan (the "Plan"), provides pension services to more than 339,000 active and retired members and approximately 540 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, 2017. The audited financial statements of the Plan at December 31, 2017, disclose a net assets value of \$77.8 billion with accrued going concern liabilities relating to pension obligations of \$59.6 billion, resulting in a surplus of \$18.153 billion (2017 - \$15.898 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 CKHA 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 \$5,812 (2017 - \$5,850) and are included in employee benefits in the statement of operations for the CKHA.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars, unless otherwise noted)

7. Employee future benefits (continued):

(b) Other employee future benefits:

The CKHA 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 CKHA.

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

	2018	2017
Accrued benefit obligation	\$ 5,048	\$ 6,170
Unamortized actuarial gain	2,448	1,179
	\$ 7,496	\$ 7,349

The CKHA's current benefit cost is as follows:

	2018	2017
Current service cost	\$ 424	\$ 399
Amortization of net actuarial gain	(115)	(128)
Interest cost	227	225
Current benefit cost	\$ 536	\$ 496

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 (2017 – 10.9 years).

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

Discount rate	3.37%
Medical benefits cost escalation - extended health care	7.2% grading down over 20 years to an ultimate rate of 4.0%

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(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, 2018, there were no unspent contributions (2017 – nil). The amortization of capital contributions is recorded as revenue in the statement of operations.

	2018	2017
Balance, beginning of year	\$ 51,077	\$ 52,062
Contributions received	6,545	1,617
Less amounts amortized to revenue	(2,479)	(2,445)
Less recognition of unamortized contributions for impaired capital assets	(478)	(157)
Less amounts recovered to be recovered the Ministry	(47)	-
Balance, end of year	\$ 54,618	\$ 51,077

9. Restricted net assets:

The restricted net assets of the CKHA as at March 31, 2018, amount to \$3,893 (2017 - \$3,880) and are comprised of the following:

- The restricted net assets of the CKHA 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, 2018, amount to \$109 (2017 - \$108).
- The restricted net assets of CKHA include funds internally restricted for working capital. The funds as at March 31, 2018, amount to \$3,000 (2017 - \$3,000).
- The restricted net assets of the CKHA consist of funds internally restricted for use at the Wallaceburg site and in part for the purchase of educational aids and operating room equipment. The funds as at March 31, 2018, amount to \$784 (2017 - \$772).

10. Capital disclosure:

The CKHA 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 CKHA'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 CKHA's capital is maintained at an appropriate level.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars, unless otherwise noted)

11. Commitments and guarantee:

- (a) The CKHA has entered into contracts for various equipment and building improvements. The projects are expected to cost \$3,650 (2017 - \$1,772), of which \$828 (2017 - \$949) has been spent as of March 31, 2018.
- (b) The CKHA 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 CKHA has issued a guarantee in the amount of \$557 (2017 - \$727) on behalf of TransForm. As at year ended March 31, 2018, it is not probable that the CKHA will be required to make payments under the guarantee. As a result, no liability has been accrued for a loss related to the CKHA's obligation under the guarantee arrangement.

12. Contingent liabilities:

The CKHA 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, 2018, 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 CKHA. Donations to the CKHA 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 CKHA.

Included in accounts receivable at March 31, 2018, are amounts due from the Foundation of Chatham-Kent Health Alliance of \$263 (2017 - \$62). During the year, the CKHA received donations of \$2,163 (2017 - \$340) from the Foundations to assist with capital and other initiatives. Additionally, the Foundation paid \$2,072 on behalf of the CKHA for capital expenses and \$13 on behalf of the CKHA directly to vendors for other expenses (2017 - \$15).

The CKHA provides certain services to the Foundations and pays certain expenses on behalf of the Foundations. During the year, the Foundations reimbursed the CKHA for all direct costs associated with services provided and expenses paid, in the amount of \$548 (2017 - \$541).

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars, unless otherwise noted)

13. Related party transactions (continued):

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

During the year, the CKHA paid \$1,986 (2017 - \$2,017) to TransForm for IT/IS services that are included in supplies and expenses on the statement of operations.

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

The CKHA 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 CKHA at March 31, 2018, is the carrying value of these assets.

Included in accounts receivable are patient receivables in the amount of \$1,896 (2017 - \$1,678) of which 9.6% (2017 - 8.6%) is over 90 days. All other accounts receivables are current. As at year ended March 31, 2018, an amount of \$101 (2017 - \$132) has been provided for as an impairment allowance.

The CKHA'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 2017.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars, unless otherwise noted)

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

(b) Liquidity risk:

Liquidity risk is the risk that the CKHA will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The CKHA manages its liquidity risk by monitoring its operating requirements. The CKHA 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 CKHA maintains an operating line of credit to help manage its day to day obligations (limit of \$8,000). As at March 31, 2018, an amount of \$8,000 remains available to the CKHA.

In order to address liquidity risk, a recovery plan was instituted by the CKHA during 2017 and will be implemented over the next three years to ensure the CKHA 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 CKHA's liquidity risk exposure.

There have been no significant changes to the liquidity risk exposure from 2017.

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates will affect the CKHA'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 CKHA 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 CKHA makes purchases denominated in U.S. dollars. The CKHA does not currently enter into forward contracts to mitigate this risk. The CKHA 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 2017.

(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 CKHA to cash flow interest rate risk. There are no significant exposures to variables interest rates as at year ended March 31, 2018. 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 2017.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars, unless otherwise noted)

15. Other information, Diabetes Education Program:

During the year, the CKHA received \$696 (2017 - \$696) to support the Adult Diabetes Education Program. Expenses for the program during the year totalled \$696 (2017 - \$660). Any excess funds are repayable as of year ended March 31, 2018, and would be included in accounts payable and accrued liabilities.

During the year, the CKHA received \$37 (2017 - \$37) to support the Paediatric Diabetes Education Program. Expenses for the program during the year totalled \$37 (2017 - \$40). Any excess funds are repayable as of year ended March 31, 2018, and would be included in accounts payable and accrued liabilities.