

Financial Statements of

**THE PUBLIC GENERAL HOSPITAL
SOCIETY OF CHATHAM**

Year ended March 31, 2017

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

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Year ended March 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Members of The Public General Hospital Society of Chatham

We have audited the accompanying financial statements of The Public General Hospital Society of Chatham, 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. The financial statements have been prepared by management in accordance with the financial reporting provisions of Article 6 and 7 of the Alliance Agreement (2002) between The Public General Hospital Society of Chatham and St. Joseph's Health Services Association of Chatham, Incorporated, and Sydenham District Hospital (the "Agreement").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Article 6 and 7 of the Alliance Agreement (2002) between The Public General Hospital Society of Chatham and St. Joseph's Health Services Association of Chatham, Incorporated, and Sydenham District Hospital, 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 Public General Hospital Society of Chatham as at March 31, 2017, and its results of operations and its cash flows for the year then ended in accordance with the financial reporting provisions of Article 6 and 7 of the Alliance Agreement (2002) between The Public General Hospital Society of Chatham and St. Joseph's Health Services Association of Chatham, Incorporated, and Sydenham District Hospital.

Basis of Accounting

Without modifying our opinion, we draw attention to the opening note to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist The Public General Hospital Society of Chatham to meet the requirements of the Agreement. As a result, the financial statements may not be suitable for another purpose.

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

Chartered Professional Accountants, Licensed Public Accountants

June 22, 2017

London, Canada

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Accounts receivable (note 3)	\$ 9,814,099	\$ 7,792,609
Inventories	117,541	89,070
Prepaid expenses	1,503,561	1,350,368
	<u>11,435,201</u>	<u>9,232,047</u>
Capital assets (note 4)	34,500,760	35,122,971
	<u>\$ 45,935,961</u>	<u>\$ 44,355,018</u>

Liabilities, Deferred Contributions and Net Assets

Current liabilities:		
Bank indebtedness (note 2)	\$ 1,882,899	\$ 517,209
Accounts payable and accrued liabilities	15,969,420	14,322,966
Deferred grants	933,203	1,397,295
Current portion of long-term debt (note 5)	181,965	169,076
	<u>18,967,487</u>	<u>16,406,546</u>
Long-term debt (note 5)	1,856,472	2,039,645
Employee future benefit liability (note 6)	3,674,250	3,592,900
Deferred capital contributions (note 7)	19,683,882	19,963,914
Net assets:		
Restricted (note 8)	107,980	107,031
Unrestricted	1,645,890	2,244,982
	<u>1,753,870</u>	<u>2,352,013</u>
Commitments and guarantees (note 10)		
Contingent liabilities (note 11)		
	<u>\$ 45,935,961</u>	<u>\$ 44,355,018</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

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	\$ 61,810,940	\$ 59,239,724
Other revenue	11,392,388	10,631,089
Amortization of deferred capital contributions	131,838	209,735
	<u>73,335,166</u>	<u>70,080,548</u>
Expense allocation per Alliance Agreement	73,193,724	70,580,545
Excess (deficiency) of revenue over expenses from hospital operations	141,442	(499,997)
Other votes:		
Revenue	4,416,442	4,237,156
Expenses	4,416,442	4,237,156
	-	-
Other funding sources:		
Revenue	258,914	1,307
Expenses	264,615	400
	(5,701)	907
Building Operations:		
Amortization of deferred capital contributions	862,545	861,021
Gain/(loss) on disposal of capital assets	(63,075)	16,606
Interest on long-term debt	(75,699)	(84,548)
Amortization of land improvements and buildings	(1,457,655)	(1,436,870)
Impairment of construction-in-progress asset (note 4)	-	(624,081)
	<u>(733,884)</u>	<u>(1,267,872)</u>
Deficiency of revenue over expenses	\$ (598,143)	\$ (1,766,962)

See accompanying notes to financial statements.

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

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	\$ 107,031	\$ 2,244,982	\$ 2,352,013
Deficiency of revenue over expenses	-	(598,143)	(598,143)
Transfer to restricted	949	(949)	-
Balance, end of year	\$ 107,980	\$ 1,645,890	\$ 1,753,870

March 31, 2016	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 106,123	\$ 4,012,852	\$ 4,118,975
Deficiency of revenue over expenses	-	(1,766,962)	(1,766,962)
Transfer to restricted	908	(908)	-
Balance, end of year	\$ 107,031	\$ 2,244,982	\$ 2,352,013

See accompanying notes to financial statements.

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

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	\$ (598,143)	\$ (1,766,962)
Items not involving cash:		
Amortization of equipment, computer hardware and software	979,551	1,151,837
Amortization of land improvements and buildings	1,463,612	1,442,826
Change in employee future benefit liability	81,350	111,600
Amortization of deferred capital contributions	(1,010,257)	(1,084,761)
Loss/(gain) on disposal of capital assets	63,075	(16,606)
Impairment of construction-in-progress asset	-	624,081
Changes in non-cash working capital balances:		
Accounts receivable	(2,021,490)	(2,598,819)
Inventories	(28,471)	48,125
Prepaid expenses	(153,193)	(20,747)
Accounts payable and accrued liabilities	1,646,455	(170,207)
Deferred grants	(464,092)	523,086
	(41,603)	(1,756,547)
Capital activities:		
Purchase of capital assets	(1,968,292)	(3,028,131)
Proceeds on disposition of capital assets	84,265	72,601
Receipt of deferred capital contributions, net	730,225	730,889
	(1,153,802)	(2,224,641)
Financing activities:		
Repayment of long-term debt	(170,285)	(162,976)
Decrease in cash	(1,365,690)	(4,144,164)
Cash (bank indebtedness), beginning of year	(517,209)	3,626,955
Bank indebtedness end of year	\$ (1,882,899)	\$ (517,209)

Bank indebtedness consists of the following:

Cash (note 2)	\$ 5,267	\$ 80,032
Restricted cash (note 8)	107,980	107,031
Bank indebtedness (note 2)	(1,996,146)	(704,272)
	\$ (1,882,899)	\$ (517,209)

See accompanying notes to financial statements.

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements

Year ended March 31, 2017

The Public General Hospital Society of Chatham (the "Hospital") was incorporated without share capital under the laws of Ontario on October 24, 1890. The Hospital is principally involved in providing health care services to the Municipality of Chatham-Kent, 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.

On April 30, 1998, the Hospital entered into an Alliance agreement (the "Agreement") with St. Joseph's Health Services Association of Chatham, Incorporated ("St. Joseph's") and Sydenham District Hospital ("Sydenham") under which they jointly provide health care services under the name Chatham-Kent Health Alliance ("Alliance").

During the year the Hospital and St. Joseph's served notice to Sydenham of their intention to suspend Alliance governance activities and terminate the Alliance. On June 8, 2016, the MoHLTC appointed an Investigator to examine and report on the Alliance, including a review of issues related to the governance and management of the Alliance. 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.

The Alliance is primarily funded by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-term Care ("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 Agreement defines the basis in which the excess or deficiency of revenue over expense is to be allocated to the member hospitals. The Agreement sharing ratio is as follows:

The Public General Hospital Society of Chatham	50.0%
St. Joseph's Health Services Association of Chatham, Incorporated	33.3%
Sydenham District Hospital	16.7%

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 PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2017

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.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with the financial reporting provisions of Article 6 and 7 of the Alliance Agreement.

(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.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Restricted investment income that must be maintained as an endowment is credited to net assets. 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 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.

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

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 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 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 Hospital's benefit plans for vacation, sick leave, and retirement allowances.

(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 Hospital's Board of Directors, as represented by the Supervisor.

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

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 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 remeasurement gains and losses. Accordingly, no statement of remeasurement gains and losses is presented in these financial statements.

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2017

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, 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, 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") pensions, 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 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.

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2017

2. Bank indebtedness:

The Alliance's bank accounts are maintained at one Canadian chartered bank. For a description of restricted cash, see note 8. 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). The Hospital's portion of the amount drawn is \$1,996,146 (2016 – \$704,272).

3. Accounts receivable:

	2017	2016
MoHLTC and other hospitals	\$ 4,665,139	\$ 1,271,665
Due from related hospitals	1,298,792	2,383,405
Patient and other	3,982,590	4,288,501
	<u>9,946,521</u>	<u>7,943,571</u>
Less: allowance for doubtful accounts	132,422	150,962
	<u>\$ 9,814,099</u>	<u>\$ 7,792,609</u>

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.

At March 31, 2017, due from related hospitals of \$1,298,792 includes \$437,919 (2016 – \$1,139,861) due from St. Joseph's and \$860,873 (2016 – \$1,243,544) due from Sydenham.

4. Capital assets:

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Land	\$ 3,721,119	\$ -	\$ 3,721,119	\$ 3,721,119
Land improvements	1,214,542	1,035,913	178,629	175,908
Buildings	49,148,820	22,937,927	26,210,893	27,205,089
Equipment, computer hardware and software	26,308,218	22,786,777	3,521,441	3,699,757
Construction-in-progress	868,678	-	868,678	321,098
	<u>\$ 81,261,377</u>	<u>\$ 46,760,617</u>	<u>\$ 34,500,760</u>	<u>\$ 35,122,971</u>

During the year, assets of \$192,913, having \$147,339 net book value remaining, were removed from cost and accumulated amortization.

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2017

4. Capital assets (continued):

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 \$674,081 in costs related to the Imagine project, previously recorded as construction-in-progress, should be fully written off. The impairment has been offset by \$50,000 in deferred capital contributions previously spent but not amortized (note 7).

5. 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.

The committed term instalment loan is repaid through monthly blended payments of \$39,714, bearing interest at 2.88% and maturing May 31, 2018. The allocation of amounts owing under the loan agreement are as follows:

	The Public General Hospital Society of Chatham	St. Joseph's Health Services Association of Chatham, Incorporated	Sydenham District Hospital	Total
March 31, 2017				
Share of loan	\$ 2,038,437	\$ 1,358,944	\$ 679,492	\$ 4,076,873
Less: current portion	181,965	121,309	60,656	363,930
	\$ 1,856,472	\$ 1,237,635	\$ 618,836	\$ 3,712,943

	The Public General Hospital Society of Chatham	St. Joseph's Health Services Association of Chatham, Incorporated	Sydenham District Hospital	Total
March 31, 2016				
Share of loan	\$ 2,208,721	\$ 1,472,874	\$ 735,848	\$ 4,417,443
Less: current portion	169,076	112,605	56,471	338,152
	\$ 2,039,645	\$ 1,360,269	\$ 679,377	\$ 4,079,291

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2017

6. 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 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 \$2,924,936 (2016 - \$2,744,215) and are included in employee benefits in the statement of operations for the Hospital.

(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, 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 Hospital's accrued benefit liability is as follows:

	2017	2016
Accrued benefit obligation	\$ 3,085,150	\$ 2,872,850
Unamortized actuarial gain	589,100	720,050
	<u>\$ 3,674,250</u>	<u>\$ 3,592,900</u>

The Hospital's current benefit cost is as follows:

	2017	2016
Current service cost	\$ 199,300	\$ 204,550
Amortization of net actuarial (gain)/loss	(63,850)	(50,000)
Interest cost	112,400	99,150
Current benefit cost	<u>\$ 247,850</u>	<u>\$ 253,700</u>

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2017

6. Employee future benefits (continued):

(b) Other employee future benefits (continued):

The current benefit cost is included in employee benefits as part of the Expense allocation per Alliance Agreement, on the statement of operations. The unamortized actuarial loss 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 Hospital'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%

7. 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	\$ 19,683,882	\$ 19,963,914

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	\$ 19,963,914	\$ 20,367,786
Contributions received	808,479	761,368
Less amounts amortized to revenue	(1,010,257)	(1,084,761)
Less recognition of unamortized contributions for impaired capital assets	(78,254)	(50,000)
Less amounts recovered by the Ministry	-	(30,479)
Balance, end of year	\$ 19,683,882	\$ 19,963,914

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2017

8. Restricted net assets:

The restricted net assets of The Public General Hospital Society of Chatham 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).

9. 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, working capital, 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.

10. Commitments and guarantees:

Unless otherwise noted, members of the Alliance participate in commitments and guarantees in accordance with the sharing ratio outlined in the Agreement.

- (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.

11. 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. The members of the Alliance would share the costs of legal claims in accordance with the sharing ratio outlined in the Agreement.

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2017

12. Related party transactions:

Unless otherwise noted, members of the Alliance participate in related party transactions in accordance with the sharing ratio outlined in the Alliance Agreement.

(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 Alliance 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.

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2017

13. 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 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.

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

(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 5.

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.

THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2017

13. 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 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 Hospital 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.