

**DRAFT** Financial Statements of

**CHATHAM-KENT HEALTH ALLIANCE**

Year ended March 31, 2016

# CHATHAM-KENT HEALTH ALLIANCE

## Table of Contents

Year ended March 31, 2016

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Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6

## **DRAFT 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, 2016, 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, 2016 and its results of operations and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

## **DRAFT**

Chartered Professional Accountants, Licensed Public Accountants

June 16, 2016

London, Canada

**CHATHAM-KENT HEALTH ALLIANCE**

## Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash (note 2)	\$ -	\$ 3,731,089
Accounts receivable (note 3)	5,416,064	4,963,634
Inventories	685,597	689,452
Prepaid expenses	1,350,368	1,329,621
	<u>7,452,029</u>	<u>10,713,796</u>
Investments (note 4)	746,618	731,128
Capital assets (note 5)	83,127,906	84,267,449
	<u>\$ 91,326,553</u>	<u>\$ 95,712,373</u>

**Liabilities, Deferred Contributions and Net Assets**

Current liabilities:		
Bank indebtedness (note 2)	\$ 1,141,449	\$ -
Accounts payable and accrued liabilities	14,458,083	15,534,670
Deferred grants	1,397,295	874,209
Scheduled cash repayment of callable/long-term debt (note 6)	338,152	325,952
Current liabilities before callable debt	<u>17,334,979</u>	<u>16,734,831</u>
Callable debt (note 6)	-	4,417,444
Total current liabilities	17,334,979	21,152,275
Long-term debt (note 6)	4,079,291	-
Employee future benefit liability (note 7)	7,185,800	6,962,600
Deferred capital contributions (note 8)	52,061,895	53,250,619
Net assets:		
Restricted (note 9)	3,860,706	3,843,806
Unrestricted	6,803,882	10,503,073
	<u>10,664,588</u>	<u>14,346,879</u>
Commitments and guarantees (note 11)		
Contingent liabilities (note 12)		
	<u>\$ 91,326,553</u>	<u>\$ 95,712,373</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, 2016, with comparative information for 2015

	2016	2015
Hospital Operations:		
Revenue:		
Ministry of Health and Long-Term Care	\$ 118,479,448	\$ 116,736,167
Patient revenue from other payers	15,187,377	15,244,510
Differential and co-payment	2,015,534	2,090,379
Recoveries and miscellaneous	4,059,267	3,926,009
Amortization of deferred capital contributions	419,471	417,050
	<u>21,681,649</u>	<u>21,677,948</u>
	140,161,097	138,414,115
Expenses:		
Salaries and wages	68,291,027	66,091,933
Employee benefits	19,240,377	18,525,821
Supplies and expenses	18,463,598	18,160,141
Medical staff remuneration	16,692,571	17,097,401
Medical and surgical supplies	6,801,695	6,918,947
Drugs and medical supplies	4,817,394	4,767,971
Contracted services	4,462,643	3,775,885
Amortization of equipment, computer hardware and software	2,289,670	2,783,833
Interest	56,069	13,173
Bad debts	46,046	173,885
	<u>141,161,090</u>	<u>138,308,990</u>
Excess (deficiency) of revenue over expenses from hospital operations	(999,993)	105,125
Other votes:		
Revenue	4,284,261	3,793,115
Expenses	4,284,261	3,793,115
	-	-
Other funding sources:		
Revenue	17,101	18,808
Expenses	400	400
	<u>16,701</u>	<u>18,408</u>
Building Operations:		
Amortization of deferred capital contributions	2,058,007	1,845,759
Impairment of construction-in-progress asset (note 5)	(1,248,163)	-
Gain/(loss) on disposal of capital assets	33,212	(65,569)
Interest on callable/long-term debt	(169,096)	(180,855)
Amortization of land improvements and buildings	(3,372,959)	(3,049,986)
	<u>(2,698,999)</u>	<u>(1,450,651)</u>
Deficiency of revenue over expenses	<u>\$ (3,682,291)</u>	<u>\$ (1,327,118)</u>

See accompanying notes to financial statements.

**CHATHAM-KENT HEALTH ALLIANCE**

## Statement of Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015

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

March 31, 2015	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 3,829,516	\$ 11,844,481	\$ 15,673,997
Deficiency of revenue over expenses	-	(1,327,118)	(1,327,118)
Transfer to restricted	14,290	(14,290)	-
<b>Balance, end of year</b>	<b>\$ 3,843,806</b>	<b>\$ 10,503,073</b>	<b>\$ 14,346,879</b>

See accompanying notes to financial statements

**CHATHAM-KENT HEALTH ALLIANCE**

## Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (3,682,291)	\$ (1,327,118)
Items not involving cash:		
Amortization of equipment, computer hardware and software	2,303,674	2,868,448
Amortization of land improvements and buildings	3,431,977	3,098,084
Change in employee future benefit liability	223,200	518,400
Amortization of deferred capital contributions	(2,550,501)	(2,395,522)
Impairment of construction-in-progress asset	1,248,163	-
Loss/(gain) on disposal of capital assets	(33,212)	65,569
Changes in non-cash working capital balances:		
Accounts receivable	(452,430)	(1,078,480)
Inventories	3,855	37,158
Prepaid expenses	(20,747)	(252,750)
Accounts payable and accrued liabilities	(1,076,587)	445,612
Deferred grants	523,086	(1,523,411)
	(81,813)	455,989
Capital activities:		
Purchase of capital assets	(6,056,262)	(6,482,819)
Proceeds on disposition of capital assets	145,202	36,385
Receipt of deferred capital contributions, net	1,461,777	2,337,353
	(4,449,283)	(4,109,081)
Investing activities:		
Net increase in investments	(15,490)	(19,135)
Financing activities:		
Repayment of callable/long-term debt	(325,952)	(314,193)
Decrease in cash	(4,872,538)	(3,986,420)
Cash, beginning of year	3,731,089	7,717,508
<b>Cash (bank indebtedness), end of year</b>	<b>\$ (1,141,449)</b>	<b>\$ 3,731,089</b>

Cash (bank indebtedness) consists of the following:

Cash (note 2)	\$ 80,032	\$ 3,624,966
Restricted cash (note 9)	107,031	106,123
Bank indebtedness (note 2)	(1,328,512)	-
	<b>\$ (1,141,449)</b>	<b>\$ 3,731,089</b>

See accompanying notes to financial statements.

## CHATHAM-KENT HEALTH ALLIANCE

### Notes to Financial Statements

Year ended March 31, 2016

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Chatham-Kent Health Alliance (the "Alliance") is a partnership between The Public General Hospital Society of Chatham, St. Joseph's Health Services Association of Chatham, Incorporated and Sydenham District Hospital. The Alliance was formed in 1998 as a result of the report issued by the Health Services Restructuring Commission ("HSRC"). The Alliance is operated and governed by the terms and conditions contained in the Alliance agreement. Under the terms of the Alliance agreement the three hospitals have made substantially all of their operating assets available to the Alliance including land, buildings, equipment, and revenue from the Ministry of Health and Long-Term Care and other services. The three hospitals share, in proportion to their 1998 revenues, in the financial results and specified capital additions of the Alliance. The Alliance is comprised of three hospitals, each having their own respective board of directors, which have equal representation on the Alliance Tri-Board. No decision on any significant matter pertaining to the Alliance can be made without the approval of all three boards.

Subsequent to year end the hospital corporations of Public General Hospital Society of Chatham and St. Joseph's Health Services Association of Chatham, Incorporated, served notice to Sydenham District Hospital of their intention to suspend Alliance governance activities and terminate the Alliance. Since the Tri-Board meetings have essentially been suspended for the foreseeable future, the Alliance financial statements were approved by the three individual hospital board of directors.

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

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

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

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



# CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2016

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## 1. Significant accounting policies:

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

### (a) Revenue recognition:

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

The Alliance is funded primarily by the Province of Ontario in accordance with budget arrangements established by the MoHLTC. Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are recognized.

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

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

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

### (b) Contributed services:

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

### (c) Inventories:

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

**CHATHAM-KENT HEALTH ALLIANCE**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**1. Significant accounting policies (continued):**

## (d) Capital assets:

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

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

Asset	Rate
Land improvements	10.0 to 33.3%
Buildings	2.5 to 10.0%
Equipment, computer hardware and software	4.0 to 33.3%

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

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

## (e) Compensated absences:

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

## (f) Restricted net assets:

The Alliance records certain contributions as restricted funds. Contributions are either externally restricted for specific purposes by the funder, or internally restricted for specific purposes by the Tri-Board.

**CHATHAM-KENT HEALTH ALLIANCE**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**1. Significant accounting policies (continued):****(g) Financial instruments:**

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

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

Long-term debt is recorded at cost.

PSAS requires the Alliance to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

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

# CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2016

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## 1. Significant accounting policies (continued):

### (h) Employee future benefits:

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

The Alliance accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the retirement and other future benefits. The actuarial determination of the accrued benefit obligations for retirement and other future benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2015, and the next required valuation will be completed as of March 31, 2018.

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 11.0 years (2015 – 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") 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 Alliance's financial statements.

### (i) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, the amount of revenue recorded for specific types of funding, and obligations related to employee future benefits. Actual results could differ from those estimates.

**CHATHAM-KENT HEALTH ALLIANCE**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**2. Cash (bank indebtedness):**

The Alliance's bank accounts are maintained at one Canadian chartered bank. The Alliance also has a demand operating credit facility that bears interest at the bank's prime rate minus four tenths of one percent. The amount available under the credit facility is \$8,000,000. During April, 2016, the Alliance increased the amount available under the credit facility to \$10,000,000. As at March 31, 2016 the Alliance has drawn \$1,328,512 on this facility (2015 – nil).

**3. Accounts receivable:**

	2016	2015
MoHLTC and other hospitals	\$ 1,271,665	\$ 1,403,389
Patient and other	4,295,361	3,783,052
	5,567,026	5,186,441
Less: allowance for doubtful accounts	150,962	222,807
	\$ 5,416,064	\$ 4,963,634

**4. Investments:**

	2016	2015
Savings accounts	\$ 35,210	\$ 132,384
Bonds and fixed income securities	711,408	598,744
	\$ 746,618	\$ 731,128

Investments are recorded at cost or amortized cost. Bonds and fixed income securities have interest rates ranging from 2.38% to 4.40% (2015 – 2.45% to 4.40%) and mature between 2016 and 2020.

**CHATHAM-KENT HEALTH ALLIANCE**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**5. Capital assets:**

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Land	\$ 4,670,740	\$ -	\$ 4,670,740	\$ 4,670,740
Land improvements	2,507,452	2,126,625	380,827	288,937
Buildings	114,625,780	44,591,153	70,034,627	71,013,940
Equipment, computer hardware and software	51,105,114	43,705,598	7,399,516	6,819,205
Construction-in-progress	642,196	-	642,196	1,474,627
	\$ 173,551,282	\$ 90,423,376	\$ 83,127,906	\$ 84,267,449

During the year, assets of \$729,557, having \$111,989 net book value remaining, were removed from cost and accumulated amortization.

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

**6. Callable debt/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. Subsequent to year end, the Alliance converted the demand instalment loan to a committed term loan, expiring May 31, 2017, although the loan is subject to an annual review and extension process.

	2016	2015
Demand instalment loan – with monthly blended payments of \$41,254, bearing interest at 3.68% and maturing on January 31, 2017	\$ -	\$ 4,743,396
Committed term instalment loan – with monthly blended payments of \$41,254, bearing interest at 3.68% until January 31, 2017, and maturing on May 31, 2017	4,417,443	-
Less: scheduled cash repayment of callable/long term debt	338,152	325,952
Callable debt	\$ -	\$ 4,417,444
Long-term debt	4,079,291	-

**CHATHAM-KENT HEALTH ALLIANCE**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**6. Callable debt/long-term debt (continued):**

Accounting standards require loans which can be repaid on demand at the option of the lender to be classified as current liabilities. As a result of the changes to the loan facility subsequent to year end, the loan has been presented as long-term as the commitment period expires May 31, 2017. Aside from scheduled cash repayments in 2017, the loan is presented as if it will be repaid in fiscal 2018. The current rate of interest is valid until January 31, 2017, at which point a new interest rate will be agreed upon. As a result, the scheduled cash repayments include twelve months of repayments, based on current interest rates, for greater comparability to 2015.

**7. Employee future benefits:****(a) Pension plan:**

Healthcare of Ontario Pension Plan (the "Plan"), provides pension services to more than 295,000 active and retired members and approximately 478 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, 2015 disclose a net assets value of \$63.9 billion with accrued going concern liabilities relating to pension obligations of \$49.151 billion, resulting in a surplus of \$14.773 billion (2015 - \$13.925 billion).

As the Plan is a multi-employer plan, any pension surpluses or deficits are a joint responsibility of Ontario Hospitals and their employees. As a result, the Alliance does not recognize any share of the Plan surplus or deficit. Contributions to the Plan made during the year on behalf of its employees amounted to \$5,488,430 (2015 - \$5,297,413) and are included in employee benefits in the statement of operations for the Alliance.

**(b) Other employee future benefits:**

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

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

	2016	2015
Accrued benefit obligation	\$ 5,745,700	\$ 5,724,900
Unamortized actuarial gain	1,440,100	1,237,700
	<b>\$ 7,185,800</b>	<b>\$ 6,962,600</b>

**CHATHAM-KENT HEALTH ALLIANCE**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**7. Employee future benefits (continued):**

(b) Other employee future benefits (continued):

The Alliance's current benefit cost is as follows:

	2016	2015
Current service cost	\$ 409,100	\$ 513,500
Amortization of past service cost		-
Amortization of net actuarial (gain)/loss	(100,000)	42,400
Interest cost	198,300	311,300
<b>Current benefit cost</b>	<b>\$ 507,400</b>	<b>\$ 867,200</b>

The current benefit cost is included in employee benefits on the statement of operations. The unamortized actuarial loss is amortized over the expected average remaining service life of 11.0 years (2015 – 10.9 years).

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

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

Discount rate	3.76%
Medical benefits cost escalation - extended health care	7.6% grading down over 16 years to an ultimate rate of 4.50%



**CHATHAM-KENT HEALTH ALLIANCE**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**8. Deferred capital contributions:**

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

	2016	2015
Unamortized capital contributions used to purchase assets	\$ 52,061,895	\$ 52,740,752
Unspent contributions	-	509,867
	<u>\$ 52,061,895</u>	<u>\$ 53,250,619</u>

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. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2016	2015
Balance, beginning of year	\$ 53,250,619	\$ 53,308,788
Contributions received	1,522,735	2,337,353
Less amounts amortized to revenue	(2,550,501)	(2,395,522)
Less recognition of unamortized contributions for impaired capital assets	(100,000)	-
Less amounts recovered by the Ministry	(60,958)	-
Balance, end of year	<u>\$ 52,061,895</u>	<u>\$ 53,250,619</u>

**9. Restricted net assets:**

The restricted net assets of The Public General Hospital Society consist of funds held in trust that may be used for certain hospital activities and educational development. The funds as at March 31, 2016 amount to \$107,031 (2015 - \$106,123).

The restricted net assets of St. Joseph's Health Services Association of Chatham, Incorporated at the end of the year consist of funds restricted for working capital. The funds as at March 31, 2016 amount to \$3,000,000 (2015 - \$3,000,000).

The restricted net assets of Sydenham District Hospital consist of funds internally restricted for the purchase of educational aids and operating room equipment. The funds as at March 31, 2016 amount to \$753,675 (2015 - \$737,683).

## CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2016

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### 10. Capital disclosure:

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

### 11. Commitments and guarantees:

- a) The Alliance has entered into contracts for various equipment and building improvements. The projects are expected to cost \$577,638 (2015 - \$1,823,856), of which nil (2015 - \$414,614) has been spent as of March 31, 2016.
- 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. The Hospice has the ability to receive advances directly from the loan and subsequent to year end, a total of \$489,632 has been drawn. As the Alliance is the principal borrower, any amounts owing on the loan will be recorded in the statement of financial position, with an offsetting receivable from the Hospice.
- c) Chatham-Kent Health Alliance is a member of TransForm Shared Service Organization ("TSSO"), 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 \$945,240 (2015 - \$948,940) on behalf of TSSO. As at March 31, 2016, 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.

### 12. Contingent liabilities:

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

## CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2016

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### 13. Related party transactions:

#### (a) Foundations:

The Foundation of Chatham-Kent Health Alliance, Public General Hospital Foundation of Chatham, St. Joseph's Hospital Foundation of Chatham and Sydenham District Hospital Foundation (collectively the "Foundations") are related entities incorporated without share capital under the laws of Ontario. 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.

The receivable from the Foundations at March 31, 2016 is \$81,173 (2015 - \$51,374), and is comprised of \$62,507 from the Foundation of Chatham-Kent and \$18,666 from St. Joseph's Hospital Foundation. The amounts have been included in accounts receivable. During the year, the Alliance received \$495,687 (2015 - \$289,481) from the Foundations to assist with capital asset purchases and other initiatives. In addition the Foundation paid \$13,347 on behalf of the Alliance for other expenses.

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 \$487,755 (2015 - \$497,723).

#### (b) TransForm Shared Service Organization

TransForm Shared Service Organization (TSSO) 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 ESC LHIN. These services are provided at rates designed to reflect the costs and expenses incurred by TSSO 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. TSSO provides IT/IS service to other hospital alliances, which is based on a fee by project basis. In addition, the Alliance contributes toward approved capital improvements and other costs incurred by TSSO.

During the year, the Alliance paid \$2,123,410 (2015 - \$2,717,851) to TSSO for IT/IS and supply chain management 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, 2016

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**14. Financial risks and concentration of credit risk:****(a) Credit risk:**

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

The Alliance assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Alliance at March 31, 2016 is the carrying value of these assets.

Included in accounts receivable are patient receivables in the amount of \$1,834,011 (2015 - \$1,696,007) of which 9.4% (2015 – 5.3%) is over 90 days. All other accounts receivables and long-term receivables are current. As at March 31, 2016 an amount of \$150,962 (2015 - \$222,807) has been provided for an impairment allowance.

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

There have been no significant changes to the credit risk exposure from 2015.

**(b) Liquidity risk:**

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

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

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

There have been no significant changes to the liquidity risk exposure from 2015, other than the conversion of the demand loan in to a committed term loan.

**(c) Market risk:**

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates will affect the Alliance's income or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing return on investment.

**(i) Foreign exchange risk:**

The Alliance is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Alliance makes purchases denominated in U.S. dollars. The Alliance does not currently enter into forward contracts to mitigate this risk. The Alliance does not have any material transactions during the year or financial instruments denominated in foreign currencies at year end. There have been no significant changes to the foreign exchange risk exposure from 2015.

**CHATHAM-KENT HEALTH ALLIANCE**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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

(c) Market risk (continued):

(ii) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Alliance to cash flow interest rate risk. There are no significant exposures to variables interest rates as at March 31, 2016.

There has been no change to the interest rate risk exposure from 2015.

**15. Other information, Diabetes Education Program:**

During the year, the Alliance received \$695,591 (2015 - \$695,591) to support the Adult Diabetes Education Program. Expenses for the program during the year totalled \$659,116 (2015 - \$670,081). Any excess funds are repayable as of March 31, 2016, and are included in accounts payable and accrued liabilities.

During the year, the Alliance received \$36,952 (2015 - \$36,952) to support the Paediatric Diabetes Education Program. Expenses for the program during the year totalled \$35,322 (2015 - \$44,285). Any excess funds are repayable as of March 31, 2016, and are included in accounts payable and accrued liabilities.

**DRAFT** Financial Statements of

**THE PUBLIC GENERAL HOSPITAL  
SOCIETY OF CHATHAM**

Year ended March 31, 2016

# THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

## Table of Contents

Year ended March 31, 2016

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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

## 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, 2016, 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, 2016, 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.

**DRAFT**

Chartered Professional Accountants, Licensed Public Accountants

June 16, 2016

London, Canada

**THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM**

## Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash (note 2)	\$ -	\$ 3,626,955
Accounts receivable (note 3)	7,792,609	5,193,790
Inventories	89,070	137,195
Prepaid expenses	1,350,368	1,329,621
	<u>9,232,047</u>	<u>10,287,561</u>
Capital assets (note 4)	35,122,971	35,419,580
	<u>\$ 44,355,018</u>	<u>\$ 45,707,141</u>
<b>Liabilities, Deferred Contributions and Net Assets</b>		
Current liabilities:		
Bank indebtedness (note 2)	\$ 517,209	\$ -
Accounts payable and accrued liabilities	14,322,966	14,493,173
Deferred grants	1,397,295	874,209
Scheduled cash repayment of callable/long-term debt (note 5)	169,076	162,976
Current liabilities before callable debt	<u>16,406,546</u>	<u>15,530,358</u>
Callable debt (note 5)	-	2,208,722
Total current liabilities	16,406,546	17,739,080
Long-term debt (note 5)	2,039,645	-
Employee future benefit liability (note 6)	3,592,900	3,481,300
Deferred capital contributions (note 7)	19,963,914	20,367,786
Net assets:		
Restricted (note 8)	107,031	106,123
Unrestricted	<u>2,244,982</u>	<u>4,012,852</u>
	2,352,013	4,118,975
Commitments and guarantees (note 10)		
Contingent liabilities (note 11)		
	<u>\$ 44,355,018</u>	<u>\$ 45,707,141</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, 2016, with comparative information for 2015

	2016	2015
Hospital Operations:		
Revenue:		
Ministry of Health and Long-Term Care	\$ 59,239,724	\$ 67,860,212
Other revenue	10,631,089	1,114,160
Amortization of deferred capital contributions	209,735	232,685
	<u>70,080,548</u>	<u>69,207,057</u>
Expense allocation per Alliance Agreement	70,580,545	69,154,495
Excess (deficiency) of revenue over expenses from hospital operations	(499,997)	52,562
Other votes:		
Revenue	4,237,156	3,667,054
Expenses	4,237,156	3,667,054
	-	-
Other funding sources:		
Revenue	1,307	1,189
Expenses	400	400
	<u>907</u>	<u>789</u>
Building Operations:		
Amortization of deferred capital contributions	861,021	731,396
Impairment of construction-in-progress asset (note 4)	(624,081)	-
Gain/(loss) on disposal of capital assets	16,606	(32,786)
Interest on callable/long-term debt	(84,548)	(90,428)
Amortization of land improvements and buildings	(1,436,870)	(1,272,623)
	<u>(1,267,872)</u>	<u>(664,441)</u>
<b>Deficiency of revenue over expenses</b>	<b>\$ (1,766,962)</b>	<b>\$ (611,090)</b>

See accompanying notes to financial statements.

**THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM**

## Statement of Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015

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)	-
<b>Balance, end of year</b>	<b>\$ 107,031</b>	<b>\$ 2,244,982</b>	<b>\$ 2,352,013</b>

March 31, 2015	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 105,334	\$ 4,624,731	\$ 4,730,065
Deficiency of revenue over expenses	-	(611,090)	(611,090)
Transfer to restricted	789	(789)	-
<b>Balance, end of year</b>	<b>\$ 106,123</b>	<b>\$ 4,012,852</b>	<b>\$ 4,118,975</b>

See accompanying notes to financial statements.

## THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

### Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (1,766,962)	\$ (611,090)
Items not involving cash:		
Amortization of equipment, computer hardware and software	1,151,837	1,397,334
Amortization of land improvements and buildings	1,442,826	1,273,120
Change in employee future benefit liability	111,600	259,200
Amortization of deferred capital contributions	(1,084,761)	(969,993)
Impairment of construction-in-progress asset	624,081	-
Loss/(gain) on disposal of capital assets	(16,606)	32,785
Changes in non-cash working capital balances:		
Accounts receivable	(2,598,819)	(1,195,117)
Inventories	48,125	(6,335)
Prepaid expenses	(20,747)	(252,750)
Accounts payable and accrued liabilities	(170,207)	(123,136)
Deferred grants	523,086	(1,446,711)
	<u>(1,756,547)</u>	<u>(1,642,693)</u>
Capital activities:		
Purchase of capital assets	(3,028,131)	(3,241,410)
Proceeds on disposition of capital assets	72,601	18,193
Receipt of deferred capital contributions, net	730,889	1,168,675
	<u>(2,224,641)</u>	<u>(2,054,542)</u>
Financing activities:		
Repayment of callable/long-term debt	(162,976)	(157,097)
Decrease in cash	(4,144,164)	(3,854,332)
Cash, beginning of year	3,626,955	7,481,287
Cash (bank indebtedness) end of year	<u>\$ (517,209)</u>	<u>\$ 3,626,955</u>

Cash (bank indebtedness) consists of the following:

Cash (note 2)	\$ 80,032	\$ 3,520,832
Restricted cash (note 8)	107,031	106,123
Bank indebtedness (note 2)	(704,272)	-
	<u>\$ (517,209)</u>	<u>\$ 3,626,955</u>

## THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements

Year ended March 31, 2016

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").

Subsequent to year end the hospital corporations of Public General Hospital Society of Chatham and St. Joseph's Health Services Association of Chatham, Incorporated served notice to Sydenham District Hospital of their intention to suspend Alliance governance activities and terminate the Alliance.

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 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 may be impacted by the Tri-Board governance issues and 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.

**THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**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.

Other revenues are recognized when the services are provided.

**(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, 2016

## 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	10.0 to 33.3%
Buildings	2.5 to 10.0%
Equipment, computer hardware and software	4.0 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 Tri-Board.



**THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**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, 2016

---

**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 11.0 years (2015 – 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") 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, 2016

## 2. Cash (bank indebtedness):

The Alliance's bank accounts are maintained at one Canadian chartered bank. The Alliance also has a demand operating credit facility that bears interest at the bank's prime rate minus four tenths of one percent. The amount available under the credit facility is \$8,000,000. During April, 2016, the Alliance increased the amount available under the credit facility to \$10,000,000. As at March 31, 2016 the Alliance has drawn \$1,328,512 on this facility (2015 – nil). The Hospital's portion of the amount drawn is \$704,272 (2015 – nil)

## 3. Accounts receivable:

	2016	2015
MoHLTC and other hospitals	\$ 1,271,665	\$ 1,400,691
Due from related hospitals	2,283,405	236,710
Patient and other	4,288,501	3,779,196
	7,843,571	5,416,597
Less: allowance for doubtful accounts	150,962	222,807
	\$ 7,692,609	\$ 5,193,790

At March 31, 2016, due from related hospitals of \$2,283,405 includes \$1,139,861 (2015 – nil) due from St. Joseph's and \$1,243,544 (2015 – \$236,710) due from Sydenham.

## 4. Capital assets:

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Land	\$ 3,721,119	\$ -	\$ 3,721,119	\$ 3,721,119
Land improvements	1,191,711	1,015,803	175,908	124,031
Buildings	48,699,514	21,494,425	27,205,089	27,427,515
Equipment, computer hardware and software	25,552,557	21,852,800	3,699,757	3,409,602
Construction-in-progress	321,098	-	321,098	737,313
	\$ 79,485,999	44,363,028	\$ 35,122,971	\$ 35,419,580

During the year, assets of \$364,379, having \$55,995 net book value remaining, were removed from cost and accumulated amortization.

During the year, 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).

# THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2016

## 5. Callable debt/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. Subsequent to year end, the Alliance converted the demand instalment loan to a committed term loan, expiring May 31, 2017, although the loan is subject to an annual review and extension process.

The committed term instalment loan is repaid through monthly blended payments of \$41,254, bearing interest at 3.68% until January 31, 2017, and maturing May 31, 2017. The allocation of amounts owing under the loan agreement are as follows:

March 31, 2016	The Public General Hospital Society of Chatham	St. Joseph's Health Services Association of Chatham, Incorporated	Sydenham District Hospital	Total
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

March 31, 2015	The Public General Hospital Society of Chatham	St. Joseph's Health Services Association of Chatham, Incorporated	Sydenham District Hospital	Total
Share of loan	\$ 2,371,698	\$ 1,581,416	\$ 790,282	\$ 4,743,396
Less: current portion	162,976	108,542	54,434	325,952
	\$ 2,208,722	\$ 1,472,874	\$ 735,848	\$ 4,417,444

Accounting standards require loans which can be repaid on demand at the option of the lender to be classified as current liabilities. As a result of the changes to the loan facility subsequent to year end, the loan has been presented as long-term as the commitment period expires May 31, 2017. Aside from scheduled cash repayments in 2017, the loan is presented as if it will be repaid in fiscal 2018. The current rate of interest is valid until January 31, 2017, at which point a new interest rate will be agreed upon. As a result, the scheduled cash repayments include twelve months of repayments, based on current interest rates, for greater comparability to 2015.

**THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**6. Employee future benefits:**

## (a) Pension plan:

Healthcare of Ontario Pension Plan (the "Plan"), provides pension services to more than 295,000 active and retired members and approximately 478 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, 2015 disclose a net assets value of \$63.9 billion with accrued going concern liabilities relating to pension obligations of \$49.151 billion, resulting in a surplus of \$14.773 billion (2015 - \$13.925 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 \$2,744,215 (2015 - \$2,648,707) 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:

	2016	2015
Accrued benefit obligation	\$ 2,872,850	\$ 2,862,450
Unamortized actuarial gain	720,050	618,850
	<b>\$ 3,592,900</b>	<b>\$ 3,481,300</b>

The Hospital's current benefit cost is as follows:

	2016	2015
Current service cost	\$ 204,550	\$ 256,750
Amortization of past service cost	-	-
Amortization of net actuarial (gain)/loss	(50,000)	21,200
Interest cost	99,150	155,650
	<b>\$ 253,700</b>	<b>\$ 433,600</b>

# THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2016

## 6. Employee future benefits (continued):

### (b) Other employee future benefits (continued):

The current benefit cost is included in employee benefits on the statement of operations. The unamortized actuarial loss is amortized over the expected average remaining service life of 11.0 years (2015 – 10.9 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		3.76%
Medical benefits cost escalation - extended health care	7.6% grading down over 16 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:

	2016	2015
Unamortized capital contributions used to purchase assets	\$ 19,963,914	\$ 20,112,853
Unspent contributions	-	254,933
	<b>\$ 19,963,914</b>	<b>\$ 20,367,786</b>

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. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2016	2015
Balance, beginning of year	\$ 20,367,786	\$ 20,169,104
Contributions received	761,368	1,168,676
Less amounts amortized to revenue	(1,084,761)	(969,994)
Less recognition of unamortized contributions for impaired capital assets	(50,000)	-
Less amounts recovered by the Ministry	(30,479)	-
Balance, end of year	<b>\$ 19,963,914</b>	<b>\$ 20,367,786</b>

# THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM

Notes to Financial Statements (continued)

Year ended March 31, 2016

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## 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, 2016 amount to \$107,031 (2015 - \$106,123).

## 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 \$577,638 (2015 - \$1,823,856), of which nil (2015 - \$414,614) has been spent as of March 31, 2016.
- 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. The Hospice has the ability to receive advances directly from the loan and subsequent to year end, a total of \$489,632 has been drawn. As the Alliance is the principal borrower, any amounts owing on the loan will be recorded in the statement of financial position of each hospital, based on its share of the Alliance Agreement, with an offsetting receivable from the Hospice.
- c) Chatham-Kent Health Alliance is a member of TransForm Shared Service Organization ("TSSO"), 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 \$945,240 (2015 - \$948,940) on behalf of TSSO. As at March 31, 2016, 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, 2016

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## 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 of Chatham, St. Joseph's Hospital Foundation of Chatham and Sydenham District Hospital Foundation (collectively the "Foundations") are related entities incorporated without share capital under the laws of Ontario. 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.

The receivable from the Foundations at March 31, 2016 is \$81,173 (2015 - \$51,374), and is comprised of \$62,507 from the Foundation of Chatham-Kent and \$18,666 from St. Joseph's Hospital Foundation. The amounts have been included in accounts receivable. During the year, the Alliance received \$495,687 (2015 - \$289,481) from the Foundations to assist with capital asset purchases and other initiatives. In addition the Foundation paid \$13,347 on behalf of the Alliance for other expenses.

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 \$487,755 (2015 - \$497,723).

### (b) TransForm Shared Service Organization

TransForm Shared Service Organization (TSSO) 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 ESC LHIN. These services are provided at rates designed to reflect the costs and expenses incurred by TSSO 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. TSSO provides IT/IS service to other hospital alliances, which is based on a fee by project basis. In addition, the Alliance contributes toward approved capital improvements and other costs incurred by TSSO.

During the year, the Alliance paid \$2,123,410 (2015 - \$2,717,851) to TSSO for IT/IS and supply chain management 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, 2016

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**13. Financial risks:**

## (a) Credit risk:

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to the accounts receivable, 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, 2016 is the carrying value of these assets.

Included in accounts receivable are patient receivables in the amount of \$1,834,011 (2015 - \$1,696,007) of which 9.4% (2015 - 5.3%) is over 90 days. All other accounts receivables and long-term receivables are current. As at March 31, 2016 an amount of \$150,962 (2015 - \$222,807) has been provided for an impairment allowance.

There have been no significant changes to the credit risk exposure from 2015.

## (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 callable/long-term debt are disclosed in note 5.

There have been no significant changes to the liquidity risk exposure from 2015, other than the conversion of the demand loan in to a committed term loan.

## (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 2015.

**THE PUBLIC GENERAL HOSPITAL SOCIETY OF CHATHAM**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**13. Financial risks (continued):**

## (c) Market risk (continued):

## (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 March 31, 2016.

There has been no change to the interest rate risk exposure from 2015.

**DRAFT** Financial Statements of

**ST. JOSEPH'S HEALTH SERVICES  
ASSOCIATION OF CHATHAM,  
INCORPORATED**

Year ended March 31, 2016

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

## Table of Contents

Year ended March 31, 2016

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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

## INDEPENDENT AUDITORS' REPORT

To the Members of St. Joseph's Health Services Association of Chatham, Incorporated

We have audited the accompanying financial statements of St. Joseph's Health Services Association of Chatham, Incorporated, which comprise the statement of financial position as at March 31, 2016, 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 St. Joseph's Health Services Association of Chatham, Incorporated as at March 31, 2016, 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 St. Joseph's Health Services Association of Chatham, Incorporated to meet the requirements of the Agreement. As a result, the financial statements may not be suitable for another purpose.

**DRAFT**

Chartered Professional Accountants, Licensed Public Accountants

June 16, 2016

London, Canada

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

## Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash (note 2)	\$ -	\$ 3,934
Accounts receivable (note 3)	-	1,474,452
Inventories	596,527	552,257
	<u>596,527</u>	<u>2,030,643</u>
Capital assets (note 4)	39,537,287	40,348,015
	<u>\$ 40,133,814</u>	<u>\$ 42,378,658</u>
<b>Liabilities, Deferred Contributions and Net Assets</b>		
Current liabilities:		
Bank indebtedness (note 2)	\$ 416,142	\$ -
Accounts payable and accrued liabilities (note 3)	1,139,862	1,715,402
Scheduled cash repayment of callable/long-term debt (note 5)	112,605	108,542
Current liabilities before callable debt	<u>1,668,609</u>	<u>1,823,944</u>
Callable debt (note 5)	-	1,472,874
Total current liabilities	1,668,609	3,296,818
Long-term debt (note 5)	1,360,269	-
Employee future benefit liability (note 6)	2,395,027	2,320,634
Deferred capital contributions (note 7)	27,625,607	28,357,886
Net assets:		
Restricted (note 8)	3,000,000	3,000,000
Unrestricted	4,084,302	5,403,320
	<u>7,084,302</u>	<u>8,403,320</u>
Commitments and guarantees (note 10)		
Contingent liabilities (note 11)		
	<u>\$ 40,133,814</u>	<u>\$ 42,378,658</u>

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

## Statement of Operations

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Hospital Operations:		
Revenue:		
Ministry of Health and Long-Term Care	\$ 39,453,656	\$ 30,868,649
Other revenue	7,122,354	15,142,364
Amortization of deferred capital contributions	139,684	122,412
	<u>46,715,694</u>	<u>46,133,425</u>
Expense allocation per Alliance Agreement	<u>47,048,991</u>	<u>46,098,386</u>
Excess (deficiency) of revenue over expenses from hospital operations	(333,297)	35,039
Other votes:		
Revenue	-	-
Expenses	-	-
	<u>-</u>	<u>-</u>
Building Operations:		
Amortization of deferred capital contributions	1,046,515	983,321
Impairment of construction-in-progress asset (note 4)	(416,050)	-
Gain/(loss) on disposal of capital assets	11,067	(21,854)
Interest on callable/long-term debt	(56,359)	(60,279)
Amortization of land improvements and buildings	(1,570,894)	(1,463,404)
	<u>(985,721)</u>	<u>(562,216)</u>
Deficiency of revenue over expenses	<u>\$ (1,319,018)</u>	<u>\$ (527,177)</u>

See accompanying notes to financial statements.



**ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM,  
INCORPORATED**

Statement of Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015

March 31, 2016	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 3,000,000	\$ 5,403,320	\$ 8,403,320
Deficiency of revenue over expenses	-	(1,319,018)	(1,319,018)
<b>Balance, end of year</b>	<b>\$ 3,000,000</b>	<b>\$ 4,084,302</b>	<b>\$ 7,084,302</b>

March 31, 2015	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 3,000,000	\$ 5,930,497	\$ 8,930,497
Deficiency of revenue over expenses	-	(527,177)	(527,177)
<b>Balance, end of year</b>	<b>\$ 3,000,000</b>	<b>\$ 5,403,320</b>	<b>\$ 8,403,320</b>

See accompanying notes to financial statements.

## ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

### Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (1,319,018)	\$ (527,177)
Items not involving cash:		
Amortization of equipment, computer hardware and software	767,884	931,229
Amortization of land improvements and buildings	1,574,865	1,463,735
Change in employee future benefit liability	74,393	174,715
Amortization of deferred capital contributions	(1,186,199)	(1,109,676)
Impairment of construction-in-progress asset	416,050	-
Loss/(gain) on disposal of capital assets	(11,067)	21,854
Changes in non-cash working capital balances:		
Accounts receivable	1,474,452	(1,186,873)
Inventories	(44,270)	43,493
Accounts payable and accrued liabilities	(575,540)	1,579,749
	1,171,550	1,391,049
Capital activities:		
Purchase of capital assets	(2,018,734)	(2,160,918)
Proceeds on disposition of capital assets	48,396	12,127
Receipt of deferred capital contributions, net	487,254	779,110
	(1,483,084)	(1,369,681)
Financing activities:		
Repayment of callable/long-term debt	(108,542)	(104,626)
Decrease in cash	(420,076)	(83,258)
Cash, beginning of year	3,934	87,192
<b>Cash (bank indebtedness), end of year</b>	<b>\$ (416,142)</b>	<b>\$ 3,934</b>

See accompanying notes to financial statements.

## ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements

Year ended March 31, 2016

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The St. Joseph's Health Services Association of Chatham, Incorporated (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 The Public General Hospital Society of Chatham ("Public General") and Sydenham District Hospital ("Sydenham") under which they jointly provide health care services under the name Chatham-Kent Health Alliance ("Alliance").

Subsequent to year end the hospital corporations of Public General Hospital Society of Chatham and St. Joseph's Health Services Association of Chatham, Incorporated served notice to Sydenham District Hospital of their intention to suspend Alliance governance activities and terminate the Alliance.

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:

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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%

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

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

The Alliance is working with the ESC LHIN to ensure the organization continues to be able to deliver the level of care and services expected. Future operations of the Alliance may be impacted by the Tri-Board governance issues and 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.

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements (continued)

Year ended March 31, 2016

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## 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.

Other revenues are recognized when the services are provided.

### (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.

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements (continued)

Year ended March 31, 2016

## 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	10.0 to 33.3%
Buildings	2.5 to 10.0%
Equipment, computer hardware and software	4.0 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 Tri-Board.

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements (continued)

Year ended March 31, 2016

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## 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.

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements (continued)

Year ended March 31, 2016

---

## 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 11.0 years (2015 – 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") 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.

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements (continued)

Year ended March 31, 2016

## 2. Cash (bank indebtedness):

The Alliance's bank accounts are maintained at one Canadian chartered bank. The Alliance also has a demand operating credit facility that bears interest at the bank's prime rate minus four tenths of one percent. The amount available under the credit facility is \$8,000,000. During April, 2016, the Alliance increased the amount available under the credit facility to \$10,000,000. As at March 31, 2016 the Alliance has drawn \$1,328,512 on this facility (2015 – nil). The Hospital's portion of the amount drawn is \$416,142 (2015 – nil).

## 3. Amounts due to/from Alliance Hospitals:

At March 31, 2016 accounts payable includes \$1,139,861 (2015 – \$236,710) due to Public General.

At March 31, 2016 accounts receivable includes nil (2015 – \$1,474,452) due from Sydenham.

## 4. Capital assets:

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Land	\$ 558,668	\$ -	\$ 558,668	\$ 558,668
Land improvements	763,502	646,231	117,271	82,686
Buildings	52,840,837	16,687,032	36,153,805	36,915,078
Equipment, computer hardware and software	17,034,868	14,568,388	2,466,480	2,273,046
Construction-in-progress	214,063	-	214,063	491,537
	<b>\$ 71,439,938</b>	<b>\$ 31,901,651</b>	<b>\$ 39,537,287</b>	<b>\$ 40,348,015</b>

During the year, assets of \$243,183, having \$37,329 net book value remaining, were removed from cost and accumulated amortization.

During the year, as a result of changes in the Alliance's strategy to develop new hospital facilities in Chatham and Wallaceburg, it was determined that \$449,383 in costs related to the Imagine project, previously recorded as construction-in-progress, should be fully written off. The impairment has been offset by \$33,333 in deferred capital contributions previously spent but not amortized (note 7).



# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements (continued)

Year ended March 31, 2016

## 5. Callable debt/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. Subsequent to year end, the Alliance converted the demand instalment loan to a committed term loan, expiring May 31, 2017, although the loan is subject to an annual review and extension process.

The committed term instalment loan is repaid through monthly blended payments of \$41,254, bearing interest at 3.68% until January 31, 2017, and maturing May 31, 2017. The allocation of amounts owing under the loan agreement are as follows:

March 31, 2016	The Public General Hospital Society of Chatham	St. Joseph's Health Services Association of Chatham, Incorporated	Sydenham District Hospital	Total
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

March 31, 2015	The Public General Hospital Society of Chatham	St. Joseph's Health Services Association of Chatham, Incorporated	Sydenham District Hospital	Total
Share of loan	\$ 2,371,698	\$ 1,581,416	\$ 790,282	\$ 4,743,396
Less: current portion	162,976	108,542	54,434	325,952
	\$ 2,208,722	\$ 1,472,874	\$ 735,848	\$ 4,417,444

Accounting standards require loans which can be repaid on demand at the option of the lender to be classified as current liabilities. As a result of the changes to the loan facility subsequent to year end, the loan has been presented as long-term as the commitment period expires May 31, 2017. Aside from scheduled cash repayments in 2017, the loan is presented as if it will be repaid in fiscal 2018. The current rate of interest is valid until January 31, 2017, at which point a new interest rate will be agreed upon. As a result, the scheduled cash repayments include twelve months of repayments, based on current interest rates, for greater comparability to 2015.

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements (continued)

Year ended March 31, 2016

## 6. Employee future benefits:

### (a) Pension plan:

Healthcare of Ontario Pension Plan (the "Plan"), provides pension services to more than 295,000 active and retired members and approximately 478 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, 2015 disclose a net assets value of \$63.9 billion with accrued going concern liabilities relating to pension obligations of \$49.151 billion, resulting in a surplus of \$14.773 billion (2015 - \$13.925 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 \$1,827,647 (2015 - \$1,765,628) 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:

	2016	2015
Accrued benefit obligation	\$ 1,915,474	\$ 1,908,109
Unamortized actuarial gain	479,553	412,525
	<b>\$ 2,395,027</b>	<b>\$ 2,320,634</b>

The Hospital's current benefit cost is as follows:

	2016	2015
Current service cost	\$ 136,230	\$ 171,150
Amortization of past service cost	-	-
Amortization of net actuarial (gain)/loss	(33,300)	14,132
Interest cost	66,034	103,756
Current benefit cost	<b>\$ 168,964</b>	<b>\$ 289,038</b>

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements (continued)

Year ended March 31, 2016

## 6. Employee future benefits (continued):

### (b) Other employee future benefits (continued):

The current benefit cost is included in employee benefits on the statement of operations. The unamortized actuarial loss is amortized over the expected average remaining service life of 11.0 years (2015 – 10.9 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	3.76%
Medical benefits cost escalation - extended health care	7.6% grading down over 16 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:

	2016	2015
Unamortized capital contributions used to purchase assets	\$ 27,625,607	\$ 28,187,932
Unspent contributions	-	169,954
	\$ 27,625,607	\$ 28,357,886

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. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2016	2015
Balance, beginning of year	\$ 28,357,885	\$ 26,688,452
Contributions received	507,573	779,110
Less amounts amortized to revenue	(1,186,199)	(1,109,676)
Less recognition of unamortized contributions for impaired capital assets	(33,333)	-
Less amounts recovered by the Ministry	(20,319)	-
Balance, end of year	\$ 27,625,607	\$ 28,357,885

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements (continued)

Year ended March 31, 2016

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## 8. Restricted net assets:

The restricted net assets of St. Joseph's Health Services Association of Chatham, Incorporated at the end of the year consist of funds restricted for working capital. The funds as at March 31, 2016 amount to \$3,000,000 (2015 - \$3,000,000).

## 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 \$577,638 (2015 - \$1,823,856), of which nil (2015 - \$414,614) has been spent as of March 31, 2016.
- 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. The Hospice has the ability to receive advances directly from the loan and subsequent to year end, a total of \$489,632 has been drawn. As the Alliance is the principal borrower, any amounts owing on the loan will be recorded in the statement of financial position of each hospital, based on its share of the Alliance Agreement, with an offsetting receivable from the Hospice.
- c) Chatham-Kent Health Alliance is a member of TransForm Shared Service Organization ("TSSO"), 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 \$945,240 (2015 - \$948,940) on behalf of TSSO. As at March 31, 2016, 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.

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements (continued)

Year ended March 31, 2016

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## 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 of Chatham, St. Joseph's Hospital Foundation of Chatham and Sydenham District Hospital Foundation (collectively the "Foundations") are related entities incorporated without share capital under the laws of Ontario. 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.

The receivable from the Foundations at March 31, 2016 is \$81,173 (2015 - \$51,374), and is comprised of \$62,507 from the Foundation of Chatham-Kent and \$18,666 from St. Joseph's Hospital Foundation. The amounts have been included in accounts receivable. During the year, the Alliance received \$495,687 (2015 - \$289,481) from the Foundations to assist with capital asset purchases and other initiatives. In addition the Foundation paid \$13,347 on behalf of the Alliance for other expenses.

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 \$487,755 (2015 - \$497,723).

### (b) TransForm Shared Service Organization

TransForm Shared Service Organization (TSSO) 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 ESC LHIN. These services are provided at rates designed to reflect the costs and expenses incurred by TSSO 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. TSSO provides IT/IS service to other hospital alliances, which is based on a fee by project basis. In addition, the Alliance contributes toward approved capital improvements and other costs incurred by TSSO.

During the year, the Alliance paid \$2,123,410 (2015 - \$2,717,851) to TSSO for IT/IS and supply chain management services that are included in supplies and expenses on the statement of operations.

# ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM, INCORPORATED

Notes to Financial Statements (continued)

Year ended March 31, 2016

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## 13. Financial risks:

### (a) Credit risk:

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to the accounts receivable, 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, 2016 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2015.

### (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 callable/long-term debt are disclosed in note 5.

There have been no significant changes to the liquidity risk exposure from 2015, other than the conversion of the demand loan in to a committed term loan.

### (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 2015.

**ST. JOSEPH'S HEALTH SERVICES ASSOCIATION OF CHATHAM,  
INCORPORATED**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**13. Financial risks (continued):**

## (c) Market risk (continued):

## (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 March 31, 2016.

There has been no change to the interest rate risk exposure from 2015.

**DRAFT** Financial Statements of

**SYDENHAM DISTRICT HOSPITAL**

Year ended March 31, 2016



**SYDENHAM DISTRICT HOSPITAL****Table of Contents**Year ended March 31, 2016

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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

## INDEPENDENT AUDITORS' REPORT

To the Members of Sydenham District Hospital

We have audited the accompanying financial statements of Sydenham District Hospital, which comprise the statement of financial position as at March 31, 2016, 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 Sydenham District Hospital as at March 31, 2016, 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 Sydenham District Hospital to meet the requirements of the Agreement. As a result, the financial statements may not be suitable for another purpose.

**DRAFT**

Chartered Professional Accountants, Licensed Public Accountants

June 16, 2016

London, Canada

**SYDENHAM DISTRICT HOSPITAL**

## Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash (note 2)	\$ -	\$ 100,200
Accounts receivable	6,859	6,554
	<u>6,859</u>	<u>106,754</u>
Investments (note 4)	746,618	731,128
Capital assets (note 5)	8,467,648	8,499,854
	<u>\$ 9,221,125</u>	<u>\$ 9,337,736</u>
<b>Liabilities, Deferred Contributions and Net Assets</b>		
Current liabilities:		
Bank indebtedness (note 2)	\$ 208,098	\$ -
Accounts payable and accrued liabilities (note 3)	1,378,659	1,037,257
Scheduled cash repayment of callable/long-term debt (note 6)	56,471	54,434
Current liabilities before callable debt	<u>1,643,228</u>	<u>1,091,691</u>
Callable debt (note 6)	-	735,848
Total current liabilities	1,643,228	1,827,539
Long-term debt (note 6)	679,377	-
Employee future benefit liability (note 7)	1,197,873	1,160,666
Deferred capital contributions (note 8)	4,472,374	4,524,947
Net assets:		
Restricted (note 9)	753,675	737,683
Unrestricted	474,598	1,086,901
	<u>1,228,273</u>	<u>1,824,584</u>
Commitments and guarantees (note 11)		
Contingent liabilities (note 12)		
	<u>\$ 9,221,125</u>	<u>\$ 9,337,736</u>

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

**SYDENHAM DISTRICT HOSPITAL**

## Statement of Operations

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Hospital Operations:		
Revenue:		
Ministry of Health and Long-Term Care	\$ 19,786,068	\$ 18,007,306
Other revenue	3,508,735	5,004,374
Amortization of deferred capital contributions	70,052	61,953
	<u>23,364,855</u>	<u>23,073,633</u>
Expense allocation per Alliance Agreement	<u>23,531,554</u>	<u>23,056,109</u>
Excess (deficiency) of revenue over expenses from hospital operations	(166,699)	17,524
Other votes:		
Revenue	47,105	126,061
Expenses	47,105	126,061
	-	-
Other funding sources:		
Revenue	15,794	17,619
Building Operations:		
Amortization of deferred capital contributions	150,471	131,042
Impairment of construction-in-progress asset (note 5)	(208,032)	-
Gain/(loss) on disposal of capital assets	5,539	(10,929)
Interest on callable/long-term debt	(28,189)	(30,148)
Amortization of land improvements and buildings	(365,195)	(313,959)
	<u>(445,406)</u>	<u>(223,994)</u>
Deficiency of revenue over expenses	<u>\$ (596,311)</u>	<u>\$ (188,851)</u>

See accompanying notes to financial statements.

**SYDENHAM DISTRICT HOSPITAL**

## Statement of Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015

March 31, 2016	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 737,683	\$ 1,086,901	\$ 1,824,584
Deficiency of revenue over expenses	-	(596,311)	(596,311)
Transfer to restricted	15,992	(15,992)	-
<b>Balance, end of year</b>	<b>\$ 753,675</b>	<b>\$ 474,598</b>	<b>\$ 1,228,273</b>

March 31, 2015	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 724,182	\$ 1,289,253	\$ 2,013,435
Deficiency of revenue over expenses	-	(188,851)	(188,851)
Transfer to restricted	13,501	(13,501)	-
<b>Balance, end of year</b>	<b>\$ 737,683</b>	<b>\$ 1,086,901</b>	<b>\$ 1,824,584</b>

See accompanying notes to financial statements.

**SYDENHAM DISTRICT HOSPITAL**

## Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (596,311)	\$ (188,851)
Items not involving cash:		
Amortization of equipment, computer hardware and software	383,953	539,885
Amortization of land improvements and buildings	414,286	361,229
Change in employee future benefit liability	37,207	84,485
Amortization of deferred capital contributions	(279,541)	(315,853)
Impairment of construction-in-progress asset	208,032	-
Loss/(gain) on disposal of capital assets	(5,539)	10,930
Changes in non-cash working capital balances:		
Accounts receivable	(305)	7,213
Accounts payable and accrued liabilities	341,402	285,296
Deferred grants	-	(76,700)
	503,184	707,634
Capital activities:		
Purchase of capital assets	(1,009,397)	(1,080,491)
Proceeds on disposition of capital assets	24,205	6,065
Receipt of deferred capital contributions, net	243,634	389,568
	(741,558)	(684,858)
Investing activities:		
Net increase in investments	(15,490)	(19,135)
Financing activities:		
Repayment of callable/long-term debt	(54,434)	(52,470)
Decrease in cash	(308,298)	(48,829)
Cash, beginning of year	100,200	149,029
Cash (bank indebtedness), end of year	\$ (208,098)	\$ 100,200

See accompanying notes to financial statements.

## SYDENHAM DISTRICT HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016

The Sydenham District Hospital (the "Hospital") was incorporated without share capital under the laws of Ontario in September 1952. The Hospital is principally involved in providing health care services to the Municipality of Chatham-Kent, Ontario and surrounding areas. 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 The Public General Hospital Society of Chatham ("Public General") and St. Joseph's Health Services Association of Chatham ("St. Joseph's"), Incorporated under which they jointly provide health care services under the name Chatham-Kent Health Alliance ("Alliance").

Subsequent to year end the hospital corporations of Public General Hospital Society of Chatham and St. Joseph's Health Services Association of Chatham, Incorporated served notice to Sydenham District Hospital of their intention to suspend Alliance governance activities and terminate the Alliance.

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 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 may be impacted by the Tri-Board governance issues and 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.



**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**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.

Other revenues are recognized when the services are provided.

**(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.

**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**1. Significant accounting policies (continued):****(c) 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	10.0 to 33.3%
Buildings	2.5 to 10.0%
Equipment, computer hardware and software	4.0 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.

**(d) 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.

**(e) 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 Tri-Board.

**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**1. Significant accounting policies (continued):**

## (f) 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.

**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**1. Significant accounting policies (continued):****(g) 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 11.0 years (2015 – 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") 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.

**(h) 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.

**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**2. Cash (bank indebtedness):**

The Alliance's bank accounts are maintained at one Canadian chartered bank. The Alliance also has a demand operating credit facility that bears interest at the bank's prime rate minus four tenths of one percent. The amount available under the credit facility is \$8,000,000. During April, 2016, the Alliance increased the amount available under the credit facility to \$10,000,000. As at March 31, 2016 the Alliance has drawn \$1,328,512 on this facility (2015 – nil). The Hospital's portion of the amount drawn is \$208,098 (2015 – nil).

**3. Amounts due to Alliance Hospitals:**

At March 31, 2016 accounts payable includes \$1,243,544 (2015 – \$236,710) due to Public General and nil (2015 – \$1,474,452) due to St. Joseph's.

**4. Investments:**

	2016	2015
Savings accounts	\$ 35,210	\$ 132,384
Bonds and fixed income securities	711,408	598,744
	<b>\$ 746,618</b>	<b>\$ 731,128</b>

Investments are recorded at cost or amortized cost. Bonds and fixed income securities have interest rates ranging from 2.38% to 4.40% (2015 – 2.45% to 4.40%) and mature between 2016 and 2020.

**5. Capital assets:**

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Land	\$ 363,953	\$ -	\$ 363,953	\$ 363,953
Land improvements	552,239	464,590	87,649	82,220
Buildings	13,085,429	6,409,696	6,675,733	6,671,347
Equipment	8,517,689	7,284,411	1,233,278	1,136,558
Computer hardware and software			-	-
Construction-in-progress	107,035	-	107,035	245,776
	<b>\$ 22,626,345</b>	<b>\$ 14,158,697</b>	<b>\$ 8,467,648</b>	<b>\$ 8,499,854</b>

During the year, assets of \$121,995, having \$18,665 net book value remaining, were removed from cost and accumulated amortization.

During the year, as a result of changes in the Alliance's strategy to develop new hospital facilities in Chatham and Wallaceburg, it was determined that \$224,699 in costs related to the Imagine project, previously recorded as construction-in-progress, should be fully written off. The impairment has been offset by \$16,667 in deferred capital contributions previously spent but not amortized (note 8).

**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**6. Callable debt/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. Subsequent to year end, the Alliance converted the demand instalment loan to a committed term loan, expiring May 31, 2017, although the loan is subject to an annual review and extension process.

The committed term instalment loan is repaid through monthly blended payments of \$41,254, bearing interest at 3.68% until January 31, 2017, and maturing May 31, 2017. The allocation of amounts owing under the loan agreement are as follows:

March 31, 2016	The Public General Hospital Society of Chatham	St. Joseph's Health Services Association of Chatham, Incorporated	Sydenham District Hospital	Total
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

March 31, 2015	The Public General Hospital Society of Chatham	St. Joseph's Health Services Association of Chatham, Incorporated	Sydenham District Hospital	Total
Share of loan	\$ 2,371,698	\$ 1,581,416	\$ 790,282	\$ 4,743,396
Less: current portion	162,976	108,542	54,434	325,952
	\$ 2,208,722	\$ 1,472,874	\$ 735,848	\$ 4,417,444

Accounting standards require loans which can be repaid on demand at the option of the lender to be classified as current liabilities. As a result of the changes to the loan facility subsequent to year end, the loan has been presented as long-term as the commitment period expires May 31, 2017. Aside from scheduled cash repayments in 2017, the loan is presented as if it will be repaid in fiscal 2018. The current rate of interest is valid until January 31, 2017, at which point a new interest rate will be agreed upon. As a result, the scheduled cash repayments include twelve months of repayments, based on current interest rates, for greater comparability to 2015.

**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**7. Employee future benefits:**

## (a) Pension plan:

Healthcare of Ontario Pension Plan (the "Plan"), provides pension services to more than 295,000 active and retired members and approximately 478 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, 2015 disclose a net assets value of \$63.9 billion with accrued going concern liabilities relating to pension obligations of \$49.151 billion, resulting in a surplus of \$14.773 billion (2015 - \$13.925 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 \$916,568 (2015 - \$883,078) 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:

	2016	2015
Accrued benefit obligation	\$ 957,376	\$ 954,341
Unamortized actuarial gain	240,497	206,325
	<b>\$ 1,197,873</b>	<b>\$ 1,160,666</b>

The Hospital's current benefit cost is as follows:

	2016	2015
Current service cost	\$ 68,320	\$ 85,600
Amortization of past service cost	-	-
Amortization of net actuarial (gain)/loss	(16,700)	7,068
Interest cost	33,116	51,894
	<b>\$ 84,736</b>	<b>\$ 144,562</b>

**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

**7. Employee future benefits (continued):**

## (b) Other employee future benefits (continued):

The current benefit cost is included in employee benefits on the statement of operations. The unamortized actuarial loss is amortized over the expected average remaining service life of 11.0 years (2015 – 10.9 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	3.76%
Medical benefits cost escalation - extended health care	7.6% grading down over 16 years to an ultimate rate of 4.50%

**8. Deferred capital contributions:**

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

	2016	2015
Unamortized capital contributions used to purchase assets	\$ 4,472,374	\$ 4,439,967
Unspent contributions	-	84,980
	\$ 4,472,374	\$ 4,524,947

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. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2016	2015
Balance, beginning of year	\$ 4,524,947	\$ 4,451,232
Contributions received	253,795	389,568
Less amounts amortized to revenue	(279,541)	(315,853)
Less recognition of unamortized contributions for impaired capital assets	(16,667)	-
Less amounts recovered by the Ministry	(10,160)	-
Balance, end of year	\$ 4,472,374	\$ 4,524,947



**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**9. Restricted net assets:**

The restricted net assets of Sydenham District Hospital consist of funds internally restricted for the purchase of educational aids and operating room equipment. The funds as at March 31, 2016 amount to \$753,675 (2015 - \$737,683).

**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, 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.

**11. 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 \$577,638 (2015 - \$1,823,856), of which nil (2015 - \$414,614) has been spent as of March 31, 2016.
- 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. The Hospice has the ability to receive advances directly from the loan and subsequent to year end, a total of \$489,632 has been drawn. As the Alliance is the principal borrower, any amounts owing on the loan will be recorded in the statement of financial position of each hospital, based on its share of the Alliance Agreement, with an offsetting receivable from the Hospice.
- c) Chatham-Kent Health Alliance is a member of TransForm Shared Service Organization ("TSSO"), 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 \$945,240 (2015 - \$948,940) on behalf of TSSO. As at March 31, 2016, 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.

**12. Contingent liabilities:**

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

**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**13. 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 of Chatham, St. Joseph's Hospital Foundation of Chatham and Sydenham District Hospital Foundation (collectively the "Foundations") are related entities incorporated without share capital under the laws of Ontario. 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.

The receivable from the Foundations at March 31, 2016 is \$81,173 (2015 - \$51,374), and is comprised of \$62,507 from the Foundation of Chatham-Kent and \$18,666 from St. Joseph's Hospital Foundation. The amounts have been included in accounts receivable. During the year, the Alliance received \$495,687 (2015 - \$289,481) from the Foundations to assist with capital asset purchases and other initiatives. In addition the Foundation paid \$13,347 on behalf of the Alliance for other expenses.

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 \$487,755 (2015 - \$497,723).

**(b) TransForm Shared Service Organization**

TransForm Shared Service Organization (TSSO) 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 ESC LHIN. These services are provided at rates designed to reflect the costs and expenses incurred by TSSO 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. TSSO provides IT/IS service to other hospital alliances, which is based on a fee by project basis. In addition, the Alliance contributes toward approved capital improvements and other costs incurred by TSSO.

During the year, the Alliance paid \$2,123,410 (2015 - \$2,717,851) to TSSO for IT/IS and supply chain management services that are included in supplies and expenses on the statement of operations.

**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**14. Financial risks:****(a) Credit risk:**

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to the accounts receivable, 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, 2016 is the carrying value of these assets.

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

There have been no significant changes to the credit risk exposure from 2015.

**(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 callable/long-term debt are disclosed in note 6.

There have been no significant changes to the liquidity risk exposure from 2015, other than the conversion of the demand loan in to a committed term loan.

**(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 2015.

**SYDENHAM DISTRICT HOSPITAL**

Notes to Financial Statements (continued)

Year ended March 31, 2016

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**14. Financial risks (continued):**

## (c) Market risk (continued):

## (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 March 31, 2016.

There has been no change to the interest rate risk exposure from 2015.