

Financial Statements of

**CORNWALL COMMUNITY
HOSPITAL**

Year ended March 31, 2016

CORNWALL COMMUNITY HOSPITAL

Financial Statements

Year ended March 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Cornwall Community Hospital

We have audited the accompanying financial statements of the Cornwall Community Hospital, which comprise the statement of financial position as at March 31, 2016, the statements of operations, changes in net assets (deficiency), cash flows and remeasurement gains and losses 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 Cornwall Community Hospital as at March 31, 2016, its results of operations, its changes in net assets (deficiency), its cash flows and the remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 2, 2016

Kingston, Canada

CORNWALL COMMUNITY HOSPITAL

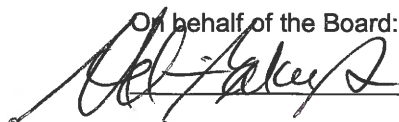
Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash	\$ -	\$ 3,890,448
Accounts receivable (note 3)	10,166,227	8,510,726
Inventories	1,229,976	1,200,317
Prepaid expenses	1,031,907	1,072,279
	<u>12,428,110</u>	<u>14,673,770</u>
Restricted cash (note 4)	209,010	209,010
Capital assets (note 5(a))	138,280,770	138,559,145
	<u>\$ 150,917,890</u>	<u>\$ 153,441,925</u>
Liabilities, Deferred Contributions and Net Assets (Deficiency)		
Current liabilities:		
Bank overdraft	\$ 509,411	\$ -
Short-term loan (note 2)	5,000,000	5,000,000
Accounts payable and accrued liabilities (note 6)	13,784,386	16,472,982
Deferred revenue	475,512	843,426
Employee future benefits (note 7)	548,713	472,451
Current portion of long-term debt (note 8)	533,000	51,235
	<u>20,851,022</u>	<u>22,840,094</u>
Employee future benefits (note 7)	5,324,562	5,089,990
Other long-term accrued liabilities	231,741	-
Interest rate swaps (note 8)	191,937	-
Long-term debt (note 8)	5,402,000	-
Deferred contributions (note 9)	119,786,634	125,676,891
	<u>151,787,896</u>	<u>153,606,975</u>
Net assets (deficiency):		
Invested in capital assets (note 10)	12,735,513	14,506,985
Restricted for endowments (note 11)	209,010	209,010
Unrestricted	(13,622,592)	(14,881,045)
	<u>(678,069)</u>	<u>(165,050)</u>
Accumulated remeasurement gains/losses	(191,937)	-
	<u>(870,006)</u>	<u>(165,050)</u>
Contingencies and commitments (note 12)		
	<u>\$ 150,917,890</u>	<u>\$ 153,441,925</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

CORNWALL COMMUNITY HOSPITAL

Statement of Operations

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

	2016	2015
Revenue:		
Patient care:		
Ministry of Health and Long-Term Care	\$ 81,050,489	\$ 81,223,847
Other	15,297,191	17,016,456
Recovery:		
Preferred accommodations	612,605	787,050
Other	6,347,963	5,728,644
Investment income	2,187	2,715
Amortization of deferred contributions	2,680,377	2,669,085
Other programs:		
Ministry of Health and Long-Term Care	7,181,145	6,766,860
Ministry of Community and Social Services	2,850,900	2,659,022
	<u>116,022,857</u>	<u>116,853,679</u>
Expenses:		
Salaries and wages	51,215,220	50,592,031
Employee benefits	15,397,658	15,105,351
Medical staff remuneration	9,477,136	11,157,595
Medical and surgical supplies	5,591,979	5,849,760
Drugs and medical gases	2,151,828	1,997,069
Other supplies and expenses	17,009,044	17,164,358
Buildings and grounds	594,325	615,708
Amortization of equipment	4,552,640	4,678,719
Interest on long-term debt	–	4,588
Other programs:		
Ministry of Health and Long-Term Care	7,181,145	6,766,860
Ministry of Community and Social Services	2,850,900	2,659,022
	<u>116,021,875</u>	<u>116,591,061</u>
Excess of revenue over expenses before undernoted items	982	262,618
Interest on long-term debt	–	(2,669)
Amortization of deferred contributions related to capital assets	4,570,580	4,240,558
Amortization of capital assets	(5,084,581)	(4,830,903)
	<u>(514,001)</u>	<u>(593,014)</u>
Deficiency of revenue over expenses	<u>\$ (513,019)</u>	<u>\$ (330,396)</u>

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Changes in Net Assets (Deficiency)

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

	Invested in capital assets	Endowments	Unrestricted	2016 Total	2015 Total
Balance, beginning of year	\$ 14,506,985	\$ 209,010	\$ (14,881,045)	\$ (165,050)	\$ 165,346
Excess (deficiency) of revenue over expenses (note 10)	(2,386,263)	–	1,873,244	(513,019)	(330,396)
Net change in investment in capital assets (note 10)	614,791	–	(614,791)	–	–
Balance, end of year	\$ 12,735,513	\$ 209,010	\$ (13,622,592)	\$ (678,069)	\$ (165,050)

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Cash Flows

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

	2016	2015
Cash provided by (used for):		
Operating activities:		
Deficiency of revenue over expenses	\$ (513,019)	\$ (330,396)
Items not involving cash:		
Amortization of capital assets	9,637,221	9,509,622
Amortization of deferred contributions related to capital assets	(7,250,958)	(6,909,643)
Net change in non-cash working capital components (note 14)	(4,701,298)	(9,011,797)
Increase in employee future benefits	310,834	223,219
Increase in other long-term accrued liabilities	231,741	—
	<u>(2,285,479)</u>	<u>(6,518,995)</u>
Capital activities:		
Purchase of capital assets	(9,358,845)	(14,820,880)
Increase in deferred contributions related to capital assets	1,360,700	6,302,794
	<u>(7,998,145)</u>	<u>(8,518,086)</u>
Financing activities:		
Repayment of long-term debt	(51,235)	(429,221)
Proceeds from short-term debt	5,935,000	5,000,000
	<u>5,883,765</u>	<u>4,570,779</u>
Net decrease in cash	(4,399,859)	(10,466,302)
Cash, beginning of year	4,099,458	14,565,760
Cash (bank indebtedness), end of year	<u>\$ (300,401)</u>	<u>\$ 4,099,458</u>
Cash is comprised of the following:		
Cash	\$ —	\$ 3,890,448
Restricted cash	209,010	209,010
Bank indebtedness	(509,411)	—
	<u>\$ (300,401)</u>	<u>\$ 4,099,458</u>

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Remeasurement Gains and Losses

Year ended March 31, 2016

	2016
Accumulated remeasurement gains (losses), beginning of year	\$ -
Unrealized gains (losses) attributable to:	
Interest rate swap	(191,937)
	(191,937)
Accumulated remeasurement gains (losses), end of year	\$ (191,937)

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016

Cornwall Community Hospital/Hôpital communautaire de Cornwall (the "Hospital") is incorporated under the Ontario Corporations Act. The Hospital is principally involved in providing health care services to Cornwall and area. 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.

1. Significant accounting policies:

(a) Revenue recognition:

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

Under the *Health Insurance Act* and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care. 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 incurred. 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.

Revenue from the Ontario Health Insurance Plan (OHIP), preferred accommodation, and marketed services is recognized when the goods are sold or the service is provided.

Endowment contributions are recognized as direct increases in endowment net assets.

(b) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year to assist the Hospital in carrying out its service activities. Due to the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

(c) Inventories:

Inventories are valued at the lower of average cost and replacement cost.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(d) Capital assets:

Purchased capital assets, other than minor equipment are recorded at cost. Assets acquired under capital lease are initially recorded at the present value of future minimum lease payments and amortized over the estimated life of the assets. 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. Contributed capital assets are recorded at fair value at the date of contribution.

Capital assets are amortized on a straight-line basis over their expected useful lives at rates varying from 2% to 20% per annum.

Minor equipment replacements are expensed in the year of replacement. Construction in progress is not amortized until the project is complete and the facilities come into use.

The cost of renovations to the Hospital buildings which significantly increase its useful life and capacity are included as part of the cost of the related capital assets. Renovation costs to adapt the Hospital buildings to changed operating conditions or to maintain normal operating efficiency are expensed as incurred.

Equipment leased on terms which transfer substantially all of the benefits and risks of ownership to the Hospital are accounted for as "capital leases" and are therefore accounted for as though an asset has been purchased and a liability incurred. All other items of equipment held on lease are accounted for as operating leases.

(e) Employee future benefits:

The Hospital accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the compensated absences and other retirement benefits. The actuarial determination of the accrued benefit obligations for retirement 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 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 covered by the other retirement benefits plan is 8.5 years.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(e) Employee future benefits (continued):

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

The Hospital is an employer member of the Healthcare of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. The Hospital has adopted deferred contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. Contributions to the multi-employer defined benefit plan are expensed when due.

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has not elected to carry financial instruments at fair value.

Long-term debt is recorded at cost.

(g) Use of estimates:

The preparation of 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 revenues and expenses during the period. Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in the periods in which they became known.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

2. Short-term loan:

Short-term loan is comprised of the following items:

	2016	2015
Short-term loan	\$ 5,000,000	\$ 5,000,000

The Hospital has an available non-revolving term facility of \$6,000,000 with its lenders, of which \$Nil was drawn against at March 31, 2016 (2015 - \$Nil). This line of credit is unsecured and bears interest at prime. The Hospital also has an available revolving demand facility of \$5,000,000 with its lenders, of which \$5,000,000 was drawn against at March 31, 2016 (2015 - \$5,000,000). This line of credit is unsecured and bears interest at prime.

The Hospital also maintains an ongoing \$2,000,000 revolving lease line of credit whose main purpose is the financing of major equipment of which \$Nil was drawn against at year end.

3. Accounts receivable:

Accounts receivable are comprised of the following items:

	2016	2015
Ministry of Health and Long-Term Care	\$ 5,131,975	\$ 4,582,743
Ontario Health Insurance Plan (OHIP)	1,808,847	1,185,218
Other	3,477,292	2,886,765
	10,418,114	8,654,726
Less allowance for doubtful accounts receivable	251,887	144,000
	\$ 10,166,227	\$ 8,510,726

The receivable from the Ministry of Health and Long-Term Care relates to the 5% holdback by the Capital Branch for the restructuring project.

4. Restricted cash:

Restricted cash is comprised of the following items:

	2016	2015
Cash related to endowment fund	\$ 209,010	\$ 209,010

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

5. Capital assets:

(a) Capital assets are comprised of the following items:

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Land	\$ 482,402	\$ –	\$ 482,402	\$ 482,402
Land improvements	607,147	548,850	58,297	45,544
Buildings	95,095,274	15,430,472	79,664,802	81,227,876
Building service equipment	40,828,762	7,247,407	33,581,355	35,607,866
Furniture and equipment	50,259,648	36,862,639	13,397,009	16,623,895
Deferred charges	12,109,970	3,154,406	8,955,564	3,762,591
Construction-in-progress	2,141,341	–	2,141,341	808,971
	\$ 201,524,544	\$ 63,243,774	\$ 138,280,770	\$ 138,559,145

Cost and accumulated amortization of capital assets at March 31, 2015 amounted to \$192,165,575 and \$53,606,430, respectively.

(b) Capital redevelopment:

In 2003, the Hospital was directed by the Ministry of Health and Long-Term Care to begin planning to consolidate all acute care services on the McConnell Avenue site. The Hospital engaged architects and health care planners to assist in the planning for the expansion and renovations of the McConnell Avenue site. Funding for this project is comprised of capital grants from the Province of Ontario, Municipal contributions and local fundraising initiatives.

On December 12, 2008, the Hospital was approved by the Ministry of Health and Long-Term Care to proceed with the capital redevelopment of the McConnell Avenue Site. Total capital cost is estimated at \$113M which includes an expansion of 95,000 square feet of new space, 78,000 square feet of renovation and new equipment. Substantial completion was achieved in November 2014 and the final reconciliation with the Capital Branch at the Ministry has started.

In 2015, the Hospital was approved by the Ministry of Health and Long-Term Care to proceed with the capital project to build a Community Addictions and Mental Health Building to consolidate adult and child services in one location. Funding for this project is comprised of capital grants from the Province of Ontario and local fundraising initiatives. Expected completion of this project is October 2016.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

6. Accounts payable and accrued liabilities:

Accounts payable are comprised of the following items:

	2016	2015
Salaries and wages	\$ 5,600,339	\$ 4,816,139
Vacation and banked time	1,352,384	1,533,788
Pay equity liability	25,377	493,370
Construction holdback	127,317	1,480,368
Accounts payable and accrued liabilities	6,678,969	8,149,317
	<u>\$ 13,784,386</u>	<u>\$ 16,472,982</u>

7. Employee future benefits:

The Hospital provides extended health care, dental and life insurance to certain employees. An independent actuarial study of the post-retirement and post-employment benefits has been undertaken. The most recent valuation of employee future benefits was completed as at March 31, 2016.

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

	2016	2015
Discount rate	3.76%	3.31%
Salary increases	2.50%	2.50%
Inflation	2.00%	2.00%
Dental benefits escalation	2.50%	2.50%
Health benefits escalation	4.00%	4.00%

The continuity of the Hospital's accrued benefit obligation is as follows:

	2016	2015
Accrued benefit obligation, opening balance	\$ 5,857,767	\$ 5,107,783
Current service costs	311,526	287,303
Interest on accrued benefit obligation	194,083	201,987
Benefits paid	(237,879)	(249,233)
Actuarial loss	(434,162)	509,927
Accrued benefit obligation, closing balance	<u>\$ 5,691,335</u>	<u>\$ 5,857,767</u>

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

7. Employee future benefits (continued):

Reconciliation of the accrued benefit obligation to the accrued benefit liability is as follows:

	2016	2015
Accrued benefit obligation	\$ 5,691,335	\$ 5,857,767
Unamortized actuarial losses (gains)	93,630	(383,636)
Accrued benefit liability	5,784,965	5,474,131
Less: current portion of benefit obligation	548,713	472,451
Long-term portion of employee future benefits	5,236,252	5,001,680
Add: EORLA vested employees	88,310	88,310
	\$ 5,324,562	\$ 5,089,990

8. Long-term debt:

	2016	2015
Fixed rate term loan bearing interest at 3.3%, payable in blended monthly payments of \$4,737, due January 11, 2016	\$ -	\$ 51,235
Fixed rate term loan bearing interest at 2.1%, payable in blended monthly payments of \$84,000, due September 25, 2023	5,050,000	-
Fixed rate term loan bearing interest at 2.66%, payable in blended month payments of \$11,000, due December 18, 2041	885,000	-
	5,935,000	51,235
Less current portion	533,000	51,235
	\$ 5,402,000	\$ -

The Organization has entered into an interest rate swap agreement to manage the volatility of interest rates. The maturity date of the interest rate swap is the same as the maturity dates of the associated loans.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

8. Long-term debt (continued):

The fair value of the interest rate swap at March 31, 2016 is in a net unfavorable position of \$191,937 which is recorded on the statement of financial position. The current year impact of the change in fair value of the interest rate swap is a reduction to the statement of remeasurement gains and loss of \$191,937.

The fair value of the interest rate swap has been determined using Level 3 of the fair value hierarchy. The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Future principal payments required on all long-term debt for the next five years are as follows:

2017	\$ 533,000
2018	1,150,000
2019	1,176,000
2020	1,200,000
2021	1,228,000

9. Deferred contributions:

Deferred capital contributions related to capital assets represent the unspent and unamortized 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	\$ 125,676,891	\$ 126,283,741
Additional donations and grants received	1,357,024	6,245,584
Interest earned on unspent contributions	3,676	57,209
Less amounts amortized to revenue for the current year	(7,250,957)	(6,909,643)
Balance, end of year	\$ 119,786,634	\$ 125,676,891

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

9. Deferred contributions (continued):

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

	2016	2015
Unamortized capital contributions used to purchase assets	\$ 119,610,257	\$ 124,000,925
Unspent contributions	176,377	1,675,966
	<u>\$ 119,786,634</u>	<u>\$ 125,676,891</u>

10. Investment in capital assets:

(a) Investment in capital assets is calculated as follows:

	2016	2015
Capital assets	\$ 138,280,770	\$ 138,559,145
Amounts financed by:		
Deferred contributions on capital assets	(119,610,257)	(124,000,925)
Long-term debt	(5,935,000)	(51,235)
	<u>\$ 12,735,513</u>	<u>\$ 14,506,985</u>

(b) Change in net assets investment in capital assets is calculated as follows:

	2016	2015
Deficiency of revenue over expenses:		
Amortization of deferred contributions	\$ 7,250,958	\$ 6,909,643
Amortization of capital assets	(9,637,221)	(9,509,622)
	<u>\$ (2,386,263)</u>	<u>\$ (2,599,979)</u>

	2016	2015
Net change in investment in capital assets:		
Purchase of capital assets	\$ 9,358,845	\$ 14,820,880
Amounts funded by deferred contributions	(2,860,289)	(12,942,393)
Repayment of long-term debt	51,235	429,221
Amounts financed by long-term debt	(5,935,000)	-
	<u>\$ 614,791</u>	<u>\$ 2,307,708</u>

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

11. Restrictions on net assets:

The net assets for endowment purposes are subject to externally imposed restrictions stipulating that the principal be maintained intact. Investment income of \$2,187 on the assets is used to offset costs incurred by the Hospital.

12. Contingencies and commitments:

- (a) The nature of the Hospital's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2016, management believes the Hospital has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Hospital's financial position.
- (b) On July 1, 1987, a group of health care organizations, ("subscribers"), formed Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is registered as a Reciprocal pursuant to Provincial Insurance Acts, which permits persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage of health care organizations in the provinces of Ontario, Manitoba, Saskatchewan and Newfoundland. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No such assessments have been made to March 31, 2016.

Since its inception in 1987, HIROC has accumulated an un-appropriated surplus, which is the total of premiums paid by all subscribers plus investment income less the obligation for claims reserves and expenses and operating expenses. Each subscriber which has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the un-appropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There are no distributions receivables from HIROC as of March 31, 2016.

- (c) Working capital:

The Hospital has received \$25,420,500 in one-time funding, at the rate of \$8,473,500 per year starting in 2012 to improve the working funds deficit position of the Hospital. In order to retain the funding, the Hospital must have an annual balanced budget, and the Hospital must contribute to improving the working fund deficit position to 0% by March 31, 2023.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

12. Contingencies and commitments (continued):

(d) Cerner contract (FHIT Project):

The Hospital has entered into a contract with Cerner in September 2014 to implement an Electronic Health Record (EHR) over the next 18 months. The total value of the contract is \$10.88 million for licensing and implementation, with an annual operating cost of \$1.366 million following implementation for remote hosting, application management, and maintenance. The project has been progressing well and is in its final stages. The Electronic Health Record is expected to go live in October 2016

13. Pension costs:

Substantially all of the employees of the Hospital are members of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Contributions to the plan made during the year by the Hospital on behalf of its employees amounted to \$4,633,743 (2015 - \$4,544,685) and are included in the statement of operations.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The Plan's 2013 Annual Report indicates the plan is fully funded at 114%.

14. Net changes in non-cash working capital components relating to operations:

	2016	2015
Decrease (increase) in current assets:		
Accounts receivable	\$ (1,655,501)	\$(2,448,848)
Inventories	(29,659)	94,945
Prepaid expenses	40,372	50,232
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	(2,688,596)	(7,432,688)
Deferred revenue	(367,914)	724,562
Net change in non-cash working capital	\$ (4,701,298)	\$(9,011,797)

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

15. Related entities:

(a) Cornwall Community Hospital Foundation:

The Hospital has an economic interest, but not control, in Cornwall Community Hospital Foundation (the "Foundation").

The Foundation is incorporated under the Canada Corporations Act and is a registered charity under the Income Tax Act. The Foundation's mandate is to raise funds for the Hospital's programs, medical equipment, expansion and renovation to enhance quality healthcare in the community.

The net assets and results of the operations of the Foundation are not included in the financial statements of the Hospital.

Related party transactions during the year not separately disclosed in the financial statements include an amount of \$600,000 (2015 - \$680,000) that has been received from the Foundation, which has been recorded as deferred contributions to be used to fund the purchase of equipment for the Hospital.

(b) Auxiliary to the Cornwall Community Hospital:

The net assets and results of the operations of the Auxiliary are not included in the financial statements of the Hospital.

The Hospital has an economic interest in the Auxiliary to the Cornwall Community Hospital by way of the Hospital holding resources that are used by the Auxiliary to produce revenue.

(c) Eastern Ontario Regional Laboratory Association:

The Hospital has economic interest, but not control, in Eastern Ontario Regional Laboratory Association ("EORLA"). The net assets and results of the operations of EORLA are not included in the financial statements of the Hospital. Services in the amount of \$5,817,961 (2015 - \$5,627,726) were purchased from EORLA and are included in other supplies and expenses on the statement of operations. Expenses incurred at the Hospital for items such as salaries and supplies in the amount of \$335,273 (2015 - \$404,594) associated with lab testing are fully recoverable from EORLA, of which, \$16,922 (2015 - \$20,988) is included in accounts receivable as at March 31, 2016.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

16. 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 Hospital is exposed to credit risk with respect to the accounts receivable and cash.

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 carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the statement of operations. Subsequent recoveries of impairment losses related to accounts receivable are credited to the statement of operations. The balance of the allowance for doubtful accounts at March 31, 2016 is \$251,887 (2015 - \$144,001).

As at March 31, 2016, \$Nil (2015 - \$96,748) of trade accounts receivable were past due, but not impaired.

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 60 days of receipt of an invoice.

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

(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.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2016

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

(d) 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. The Hospital is exposed to this risk through its interest bearing term loans payable and its interest rate swaps.

The Hospital mitigates interest rate risk on its term loans through derivative financial instruments (interest rate swaps) that exchanges the variable rate inherent in the term loan for a fixed rate (see note 8). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the term debt.

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

17. Diabetes education program:

Included in Patient Care Ministry of Health and Long-Term Care revenue is funding in the amount of \$372,838 (2015 - \$372,838) intended for the Diabetes Education Program which was previously reported under Other Programs Ministry of Health and Long-Term Care revenue. The expenses for this program totaled \$372,936 (2015 - \$392,845) which includes \$350,565 (2015 - \$376,592) for salaries, and \$22,371 (2015 - \$16,253) for supplies and sundry expenses. The program deficit of \$98 (2015 - \$20,007) was covered with hospital base funding.