

Financial Statements of

**CORNWALL COMMUNITY
HOSPITAL**

Year ended March 31, 2017

CORNWALL COMMUNITY HOSPITAL

Financial Statements

Year ended March 31, 2017

	<u>Page</u>
Independent Auditors' Report	1
Statement of Financial Position	3
Statement of Operations	4
Statement of Changes in Net Assets (Deficiency)	5
Statement of Cash Flows	6
Statement of Remeasurement Gains and Losses	7
Notes to Financial Statements	8



KPMG LLP
863 Princess Street, Suite 400
Kingston ON K7L 5N4
Canada
Telephone 613-549-1550
Fax 613-549-6349

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, 2017, 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, 2017, 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 1, 2017

Kingston, Canada

CORNWALL COMMUNITY HOSPITAL

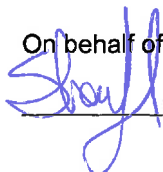
Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash	\$ 229,499	\$ -
Accounts receivable (note 3)	9,116,364	10,166,227
Inventories	1,284,338	1,229,976
Prepaid expenses	1,294,661	1,031,907
	<u>11,924,862</u>	<u>12,428,110</u>
Restricted cash (note 4)	209,010	209,010
Capital assets (note 5(a))	141,451,836	138,280,770
	<u>\$ 153,585,708</u>	<u>\$ 150,917,890</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)	13,469,391	13,784,386
Deferred revenue	364,130	475,512
Employee future benefits (note 7)	501,274	548,713
Current portion of long-term debt (note 8)	1,423,000	533,000
	<u>20,757,795</u>	<u>20,851,022</u>
Employee future benefits (note 7)	5,509,969	5,324,562
Other long-term accrued liabilities	64,026	231,741
Interest rate swaps (note 8)	56,605	191,937
Long-term debt (note 8)	12,320,000	5,402,000
Deferred contributions (note 9)	116,338,716	119,786,634
	<u>155,047,111</u>	<u>151,787,896</u>
Net assets (deficiency):		
Invested in capital assets (note 10)	11,370,120	12,735,513
Restricted for endowments (note 11)	209,010	209,010
Unrestricted	(12,983,928)	(13,622,592)
	<u>(1,404,798)</u>	<u>(678,069)</u>
Accumulated remeasurement gains/losses	(56,605)	(191,937)
	<u>(1,461,403)</u>	<u>(870,006)</u>
Contingencies and commitments (note 12)		
	<u>\$ 153,585,708</u>	<u>\$ 150,917,890</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

CORNWALL COMMUNITY HOSPITAL

Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Patient care:		
Ministry of Health and Long-Term Care	\$ 85,755,256	\$ 81,050,489
Other	15,586,410	15,297,191
Recovery:		
Preferred accommodations	482,540	612,605
Other	6,807,138	6,347,963
Investment income	2,019	2,187
Amortization of deferred contributions related to equipment	2,527,092	2,680,377
Other programs:		
Ministry of Health and Long-Term Care	7,067,255	7,181,145
Ministry of Community and Social Services	2,870,545	2,850,900
	<u>121,098,255</u>	<u>116,022,857</u>
Expenses:		
Salaries and wages	54,055,705	51,215,220
Employee benefits	16,542,257	15,397,658
Medical staff remuneration	9,489,630	9,477,136
Medical and surgical supplies	6,201,320	5,591,979
Drugs and medical gases	2,493,462	2,151,828
Other supplies and expenses	17,201,119	17,009,044
Buildings and grounds	652,359	594,325
Amortization of capital assets - equipment	4,441,885	4,552,640
Interest on long-term debt	81,485	-
Other programs:		
Ministry of Health and Long-Term Care	7,067,255	7,181,145
Ministry of Community and Social Services	2,870,545	2,850,900
	<u>121,097,022</u>	<u>116,021,875</u>
Excess of revenue over expenses before undernoted items	1,233	982
Interest on long-term debt	(35,457)	-
Amortization of deferred contributions related to building	4,582,001	4,570,580
Amortization of capital assets - building	(5,274,506)	(5,084,581)
	<u>(727,962)</u>	<u>(514,001)</u>
Deficiency of revenue over expenses	<u>\$ (726,729)</u>	<u>\$ (513,019)</u>

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2017, with comparative information for 2016

	Invested in capital assets	Endowments	Unrestricted	2017 Total	2016 Total
Balance (deficiency), beginning of year	\$ 12,735,513	\$ 209,010	\$ (13,622,592)	\$ (678,069)	\$ (165,050)
Excess (deficiency) of revenue over expenses (note 10)	(2,607,298)	-	1,880,569	(726,729)	(513,019)
Net change in investment in capital assets (note 10)	1,241,905	-	(1,241,905)	-	-
Balance (deficiency), end of year	\$ 11,370,120	\$ 209,010	\$ (12,983,928)	\$ (1,404,798)	\$ (678,069)

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used for):		
Operating activities:		
Deficiency of revenue over expenses	\$ (726,729)	\$ (513,019)
Items not involving cash:		
Amortization of capital assets	9,716,391	9,637,221
Amortization of deferred contributions related to capital assets	(7,109,093)	(7,250,958)
Net change in non-cash working capital components (note 14)	306,370	(4,701,298)
Increase in employee future benefits	137,968	310,834
Increase in other long-term accrued liabilities	(167,715)	231,741
	<u>2,157,192</u>	<u>(2,285,479)</u>
Capital activities:		
Purchase of capital assets	(12,887,457)	(9,358,845)
Increase in deferred contributions related to capital assets	3,661,175	1,360,700
	<u>(9,226,282)</u>	<u>(7,998,145)</u>
Financing activities:		
Repayment of long-term debt	(457,000)	(51,235)
Proceeds from long-term debt	8,265,000	5,935,000
	<u>7,808,000</u>	<u>5,883,765</u>
Net increase (decrease) in cash	738,910	(4,399,859)
Cash (bank indebtedness), beginning of year	(300,401)	4,099,458
Cash (bank indebtedness), end of year	<u>\$ 438,509</u>	<u>\$ (300,401)</u>
Cash is comprised of the following:		
Cash	\$ 229,499	\$ -
Restricted cash	209,010	209,010
Bank indebtedness	-	(509,411)
	<u>\$ 438,509</u>	<u>\$ (300,401)</u>

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Remeasurement Gains and Losses

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Accumulated remeasurement losses, beginning of year	\$ (191,937)	\$ —
Unrealized gains (losses) attributable to:		
Interest rate swaps	135,332	(191,937)
	(56,605)	(191,937)
Accumulated remeasurement losses, end of year	\$ (56,605)	\$ (191,937)

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements

Year ended March 31, 2017

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, 2017

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 8.1 years.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2017

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. Derivative instruments and equity instruments that are quoted in an active market are recorded 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. Management has not elected to subsequently record financial 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 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 gain 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. Interest rate swaps are recorded at fair value.

The Public Sector Accounting Standards require an organization to clarify 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

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(f) Financial instruments (continued):

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.

(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 revenue 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.

2. Short-term loan:

Short-term loan is comprised of the following items:

	2017	2016
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, 2017 (2016 - \$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, 2017 (2016 - \$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 (2016 - \$Nil) was drawn against at year end.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2017

3. Accounts receivable:

Accounts receivable are comprised of the following items:

	2017	2016
Ministry of Health and Long-Term Care	\$ 4,171,307	\$ 5,131,975
Ontario Health Insurance Plan (OHIP)	1,621,182	1,808,847
Other	3,645,805	3,477,292
	9,438,294	10,418,114
Less allowance for doubtful accounts receivable	321,930	251,887
	\$ 9,116,364	\$10,166,227

The receivable from the Ministry of Health and Long-Term Care contains \$2,936,492 (2016 - \$4,561,767) relating to the holdback by the Capital Branch for the restructuring project.

4. Restricted cash:

Restricted cash is comprised of the following items:

	2017	2016
Cash related to endowment fund	\$ 209,010	\$ 209,010

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2017

5. Capital assets:

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

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Land	\$ 482,402	\$ —	\$ 482,402	\$ 482,402
Land improvements	606,535	563,166	43,369	58,297
Buildings	102,781,001	18,682,659	84,098,342	79,664,802
Building service equipment	41,308,056	9,237,334	32,070,722	33,581,355
Furniture and equipment	51,540,374	41,246,447	10,293,927	13,397,009
Deferred charges	17,673,198	3,210,124	14,463,074	8,955,564
Construction-in- progress	—	—	—	2,141,341
	\$ 214,391,566	\$ 72,939,730	\$ 141,451,836	\$ 138,280,770

Cost and accumulated amortization of capital assets at March 31, 2016 amounted to \$201,524,544 and \$63,243,774, respectively.

(b) Capital redevelopment:

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. Completion of this project was November 30, 2016.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2017

6. Accounts payable and accrued liabilities:

Accounts payable are comprised of the following items:

	2017	2016
Salaries and wages	\$ 4,726,020	\$ 5,600,339
Vacation and banked time	1,476,030	1,352,384
Pay equity liability	26,335	25,377
Construction holdback	28,655	127,317
Accounts payable and accrued liabilities	7,212,351	6,678,969
	<u>\$ 13,469,391</u>	<u>\$ 13,784,386</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, 2015.

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

	2017	2016
Discount rate	3.56%	3.76%
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:

	2017	2016
Accrued benefit obligation, opening balance	\$ 5,691,335	\$ 5,857,767
Current service costs	298,861	311,526
Interest on accrued benefit obligation	213,973	194,083
Benefits paid	(363,306)	(237,879)
Actuarial loss (gain)	344,246	(434,162)
Accrued benefit obligation, closing balance	<u>\$ 6,185,109</u>	<u>\$ 5,691,335</u>

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2017

7. Employee future benefits (continued):

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

	2017	2016
Accrued benefit obligation	\$ 6,185,109	\$ 5,691,335
Unamortized actuarial losses (gains)	(262,176)	93,630
Accrued benefit liability	5,922,933	5,784,965
Less: current portion of benefit obligation	501,274	548,713
Long-term portion of employee future benefits	5,421,659	5,236,252
Add: EORLA vested employees	88,310	88,310
	\$ 5,509,969	\$ 5,324,562

8. Long-term debt:

	2017	2016
Fixed rate term loan bearing interest at 2.12%, payable in blended monthly payments of \$107,000, due November 27, 2023	\$ 9,076,000	\$ 5,050,000
Fixed rate term loan bearing interest at 2.66%, payable in blended month payments of \$11,000, due December 18, 2041	4,667,000	885,000
	13,743,000	5,935,000
Less current portion	1,423,000	533,000
	\$ 12,320,000	\$ 5,402,000

The Hospital has entered into interest rate swap agreements to manage the volatility of interest rates. The maturity date of the interest rate swaps are the same as the maturity dates of the associated loans.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2017

8. Long-term debt (continued):

The fair value of the interest rate swaps at March 31, 2017 is in a net unfavorable position of \$56,605 which is recorded on the statement of financial position. The current year impact of the change in fair value of the interest rate swaps is an unrealized gain on the statement of remeasurement gains and losses of \$135,332 (2016 - \$191,937 unrealized loss).

The fair value of the interest rate swaps 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	\$ 1,423,000
2018	1,452,000
2019	1,480,000
2020	1,510,000
2021	1,540,000

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.

	2017	2016
Balance, beginning of year	\$ 119,786,634	\$ 125,676,891
Additional donations and grants received	3,661,175	1,357,024
Interest earned on unspent contributions	—	3,676
Less amounts amortized to revenue for the current year	(7,109,093)	(7,250,957)
Balance, end of year	\$ 116,338,716	\$ 119,786,634

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2017

9. Deferred contributions (continued):

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

	2017	2016
Unamortized capital contributions used to purchase assets	\$ 116,338,716	\$ 119,610,257
Unspent contributions	-	176,377
	<u>\$ 116,338,716</u>	<u>\$ 119,786,634</u>

10. Investment in capital assets:

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

	2017	2016
Capital assets	\$ 141,451,836	\$ 138,280,770
Amounts financed by:		
Deferred contributions on capital assets	(116,338,716)	(119,610,257)
Long-term debt	(13,743,000)	(5,935,000)
	<u>\$ 11,370,120</u>	<u>\$ 12,735,513</u>

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

	2017	2016
Deficiency of revenue over expenses:		
Amortization of deferred contributions	\$ 7,109,093	\$ 7,250,958
Amortization of capital assets	(9,716,391)	(9,637,221)
	<u>\$ (2,607,298)</u>	<u>\$ (2,386,263)</u>

	2017	2016
Net change in investment in capital assets:		
Purchase of capital assets	\$ 12,887,457	\$ 9,358,845
Amounts funded by deferred contributions	(3,837,552)	(2,860,289)
Repayment of long-term debt	457,000	51,235
Amounts financed by long-term debt	(8,265,000)	(5,935,000)
	<u>\$ 1,241,905</u>	<u>\$ 614,791</u>

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2017

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 \$2,019 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, 2017, 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, 2017.

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, 2017.

(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 and ending in 2015 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, 2017

12. Contingencies and commitments (continued):

(d) Cerner contract (FHIT Project):

The Hospital entered into a contract with Cerner in September 2014 to implement an Electronic Health Record (EHR). 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 Electronic Health Record project went live on December 1, 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 \$4,823,918 (2016 - \$4,633,743) 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 2016 Annual Report indicates the plan is fully funded at 122%.

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

	2017	2016
Decrease (increase) in current assets:		
Accounts receivable	\$ 1,049,863	\$(1,655,501)
Inventories	(54,362)	(29,659)
Prepaid expenses	(262,754)	40,372
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	(314,995)	(2,688,596)
Deferred revenue	(111,382)	(367,914)
Net change in non-cash working capital	\$ 306,370	\$(4,701,298)

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2017

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 \$1,616,031 (2016 - \$600,000) that has been received or receivable 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 \$5,243,508 (2016 - \$5,817,961) 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 \$205,581 (2016 - \$335,273) associated with lab testing are fully recoverable from EORLA, of which, \$18,049 (2016 - \$16,922) is included in accounts receivable as at March 31, 2017.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2017

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, 2017 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, 2017 is \$321,930 (2016 - \$251,887).

As at March 31, 2017, \$Nil (2016 - \$Nil) of trade accounts receivable were past due, but not impaired.

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

(b) Liquidity risk:

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

Accounts payable and accrued liabilities are generally due within 60 days of receipt of an invoice.

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

(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, 2017

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 2016.

17. Diabetes education program:

Included in Patient Care Ministry of Health and Long-Term Care revenue is funding in the amount of \$372,838 (2016 - \$372,838) intended for the Diabetes Education Program. The expenses for this program totaled \$373,342 (2016 - \$372,936) which includes \$348,052 (2016 - \$350,565) for salaries, and \$25,290 (2016 - \$22,371) for supplies and sundry expenses. The program deficit of \$504 (2016 - \$98) was covered with hospital base funding.