

Financial Statements of

CHATHAM-KENT HEALTH ALLIANCE

Years ended March 31, 2013 and 2012

CHATHAM-KENT HEALTH ALLIANCE

Table of Contents

Years ended March 31, 2013 and 2012

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



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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 statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011 the statements of operations, changes in net assets, and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 audits. We conducted our audits 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 in our audits 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, 2013, March 31, 2012 and April 1, 2011 and its results of operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 and its remeasurement gains and losses for the year ended March 31, 2013 in accordance with Canadian public sector accounting standards.

Chartered Accountants, Licensed Public Accountants

June 4, 2013
London, Canada

CHATHAM-KENT HEALTH ALLIANCE

Statements of Financial Position

March 31, 2013, March 31, 2012 and April 1, 2011

	March 31, 2013	March 31, 2012	April 1, 2011
Assets			
Current assets:			
Cash (note 3)	\$ 6,628,222	\$ 8,536,651	\$ 3,070,308
Accounts receivable (note 4)	5,076,964	4,976,054	4,952,594
Inventories	728,780	738,057	683,222
Prepaid expenses	1,266,040	862,191	1,406,714
Loans receivable (note 5)	-	14,848	31,091
	<u>13,700,006</u>	<u>15,127,801</u>	<u>10,143,929</u>
Investments (note 6)	695,419	679,060	664,768
Capital assets (note 7)	86,439,639	88,099,348	89,402,922
	<u>\$ 100,835,064</u>	<u>\$ 103,906,209</u>	<u>\$ 100,211,619</u>

Liabilities, Deferred Contributions and Net Assets

Current liabilities:			
Accounts payable and accrued liabilities	\$ 13,200,105	\$ 15,326,101	\$ 12,344,768
Due to Ministry of Health and Long-term Care (note 8)	5,330,000	5,330,000	5,330,000
Deferred grants	3,074,542	863,341	1,324,586
Scheduled cash repayment of callable debt (note 9)	302,859	291,932	-
Current liabilities before callable debt	<u>21,907,506</u>	<u>21,811,374</u>	<u>18,999,354</u>
Callable debt (note 9)	5,057,589	5,360,448	-
Total current liabilities	<u>26,965,095</u>	<u>27,171,822</u>	<u>18,999,354</u>
Employee future benefit liability (note 10)	4,381,000	3,657,700	1,052,200
Deferred capital contributions (note 11)	54,638,058	55,491,305	57,561,245
Net assets:			
Restricted (note 12)	3,810,937	3,793,913	3,776,712
Unrestricted	<u>11,039,974</u>	<u>13,791,469</u>	<u>18,822,108</u>
	14,850,911	17,585,382	22,598,820
Commitment (note 14)			
Contingent liabilities (note 15)			
	<u>\$ 100,835,064</u>	<u>\$ 103,906,209</u>	<u>\$ 100,211,619</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

CHATHAM-KENT HEALTH ALLIANCE

Statements of Operations

Years ended March 31, 2013 and 2012

	2013	2012
Hospital Operations:		
Revenue:		
Ministry of Health and Long-Term Care:		
Base allocation	\$ 102,836,108	\$ 104,534,528
One-time payments	9,639,019	7,380,179
Cancer care	1,945,199	2,302,386
Paymaster	993,055	668,710
	<u>115,413,381</u>	<u>114,885,803</u>
Patient revenue from other payors	15,653,959	15,392,532
Differential and co-payment	2,337,309	2,288,784
Recoveries and miscellaneous	4,119,396	4,354,462
Amortization of deferred capital contributions	1,243,238	1,201,944
	<u>23,353,902</u>	<u>23,237,722</u>
	<u>138,767,283</u>	<u>138,123,525</u>
Expenses:		
Salaries and wages	65,637,191	66,454,866
Employee benefits	19,310,403	18,201,407
Supplies and expenses	17,566,517	19,041,903
Medical staff remuneration	17,362,691	16,623,076
Medical and surgical supplies	7,221,673	7,494,955
Drugs and medical supplies	4,679,088	4,396,336
Contracted services	4,673,423	4,231,276
Amortization of equipment, computer hardware and software	3,342,596	3,601,350
Interest	19,983	14,535
Bad debts	216,405	81,081
	<u>140,029,970</u>	<u>140,140,785</u>
Deficiency of revenue over expenses from hospital operations	(1,262,687)	(2,017,260)
Other votes:		
Revenue	6,696,035	6,323,693
Expenses	6,778,558	6,351,254
	<u>(82,523)</u>	<u>(27,561)</u>
Other funding sources:		
Revenue	45,559	57,003
Expenses	32,539	48,521
	<u>13,020</u>	<u>8,482</u>
Building Operations:		
Amortization of deferred capital contributions	1,841,406	1,838,205
Loss on disposal of capital assets	(14,688)	-
Interest on callable debt	(203,116)	(35,356)
Amortization of land improvements and buildings	(3,025,883)	(2,574,498)
	<u>(1,402,281)</u>	<u>(771,649)</u>
Deficiency of revenue over expenses, before undernoted	(2,734,471)	(2,807,988)
Increase in employee future benefit expense (note 18 (b))	-	(2,205,450)
Deficiency of revenue over expenses	<u>\$ (2,734,471)</u>	<u>\$ (5,013,438)</u>

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Statements of Changes in Net Assets

Years ended March 31, 2013 and 2012

March 31, 2013	Restricted	Unrestricted	Total
Balance, beginning of year	\$ 3,793,913	\$ 13,791,469	\$ 17,585,382
Deficiency of revenue over expenses	-	(2,734,471)	(2,734,471)
Transfer to restricted	17,024	(17,024)	-
Balance, end of year	\$ 3,810,937	\$ 11,039,974	\$ 14,850,911

March 31, 2012	Restricted	Unrestricted	Total
Balance, beginning of year (note 18)	\$ 3,776,712	\$ 18,822,108	\$ 22,598,820
Deficiency of revenue over expenses	-	(5,013,438)	(5,013,438)
Transfer to restricted	17,201	(17,201)	-
Balance, end of year	\$ 3,793,913	\$ 13,791,469	\$ 17,585,382

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Statements of Cash Flows

Years ended March 31, 2013, and 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (2,734,471)	\$ (5,013,438)
Items not involving cash:		
Amortization of equipment, computer hardware and software	4,022,605	5,474,319
Amortization of land improvements and buildings	3,072,981	2,621,596
Change in employee future benefit liability	723,300	2,605,500
Amortization of deferred capital contributions	(3,164,101)	(3,118,994)
Loss on disposal of capital assets	15,301	-
Changes in non-cash working capital balances:		
Accounts receivable	(100,910)	(23,460)
Inventories	9,277	(54,835)
Prepaid expenses	(403,849)	544,523
Accounts payable and accrued liabilities	(2,125,996)	2,981,333
Deferred grants	2,211,201	(461,245)
	<u>1,525,338</u>	<u>5,555,299</u>
Capital activities:		
Purchase of capital assets	(5,451,178)	(6,792,341)
Receipt of deferred capital contributions	2,310,854	1,049,054
	<u>(3,140,324)</u>	<u>(5,743,287)</u>
Investing activities:		
Net increase in investments	(16,359)	(14,292)
Financing activities:		
Repayment of callable debt	(291,932)	(47,620)
Loan receivable repayment	14,848	16,243
Proceeds from issuance of callable debt	-	5,700,000
	<u>(277,084)</u>	<u>5,668,623</u>
Increase (decrease) in cash	(1,908,429)	5,466,343
Cash, beginning of year	8,536,651	3,070,308
Cash, end of year	<u>\$ 6,628,222</u>	<u>\$ 8,536,651</u>

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements

Years ended March 31, 2013 and 2012

Chatham-Kent Health Alliance ("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 partnership was formed in 1998 as a result of the report issued by the Health Services Restructuring Commission ("HSRC"). The partnership 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 partnership 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 governed by the Tri-Board which has equal representation from each hospital.

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 MoHLTC 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") under the direction of the MoHLTC. 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 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.

On April 1, 2012, the Alliance adopted Canadian Public Sector Accounting Standards. The Alliance has also elected to apply the 4200 standards for government not-for-profit organizations. These are the first financial statements prepared in accordance with these Public Sector Accounting Standards.

In accordance with the transitional provisions in Public Sector Accounting Standards, the Alliance has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying Public Sector Accounting Standards.

A summary of transitional adjustments recorded to net assets and deficiency of revenue over expenses is provided in note 18.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards including the 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. Restricted investment income that must be maintained as an endowment is credit to net assets. Unrestricted investment income is recognized as revenue when earned.

Revenue from the Provincial Insurance Plan and marketed services is recognized when the services are provided or the goods are sold.

(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)

Years ended March 31, 2013 and 2012

1. Significant accounting policies (continued):

(d) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. 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	4.0 to 100.0%
Computer hardware and software	20.0 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.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

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. The related interest rate swaps are recorded at fair value.

The Standards require an 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)

Years ended March 31, 2013 and 2012

1. Significant accounting policies (continued):

(g) Restricted net assets:

The Alliance records certain contributions as restricted funds. The trust funds are restricted for the purpose of certain hospital activities and educational development.

(h) 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 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, 2012, and the next required valuation will be as of March 31, 2015.

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 years (2012 – 11 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 and 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.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

1. Significant accounting policies (continued):

(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 valuation of recognized pledges, the valuation of PCOP amounts due to the MoHLTC, and obligations related to employee future benefits. Actual results could differ from those estimates.

2. Change in accounting policy:

On April 1, 2012, the Alliance adopted Public Accounting Standards *PS 3450 - Financial Instruments and PS 2601 - Foreign Currency Translation*. The standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions.

Under PS 3450, all financial instruments, including derivatives, are included on the statement of financial position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the Alliance's accounting policy choices (see note 1 - Significant Accounting Policies).

The Alliance's investments are unquoted and have been previously recorded at cost. The Alliance has not elected to record these investments at fair value. Therefore, no adjustments were required as a result of the change in accounting policies.

3. Cash/bank indebtedness:

The Alliance's bank accounts are maintained at one chartered bank. The Alliance also has a demand operating credit facility that bears interest at the banks prime rate minus four tenths of one percent. The amount available under the credit facility is \$4,000,000 to be used for current expenditures and not for the purposes of funding deficits or capital expenditures. The Alliance has drawn nil (March 31, 2012 - nil, April 1, 2011 - nil) on this facility as at March 31, 2013.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

4. Accounts receivable:

	March 31, 2013	March 31, 2012	April 1, 2011
MoHLTC and other hospitals	\$ 1,301,499	\$ 746,364	\$ 570,313
Patient and other	3,900,912	4,310,498	4,818,294
	5,202,411	5,056,862	5,388,607
Less allowance for doubtful accounts	125,447	80,808	436,013
	\$ 5,076,964	\$ 4,976,054	\$ 4,952,594

Included in patient and other receivables, and recognized as deferred contributions in the current period, are pledges from the Foundation of Chatham-Kent Health Alliance of \$581,000 (March 31, 2012 – nil, April 1, 2011 - nil) for which the Alliance has determined are reasonably estimable and collection is reasonably assured. The pledges relate to the Cardiac Monitoring System (“CMS”) for \$256,000 and Diagnostic Imaging (“DI”) x-ray equipment for \$325,000. The final payment for CMS is scheduled for March 2014, while the second and third instalments of \$125,000 and \$200,000 for DI are scheduled for March 2014 and March 2015 respectively.

5. Loans receivable:

Various amounts have been advanced under the Alliance physician recruitment initiative. The amounts are classified as loans which are to be repaid when the physician begins providing service to the Alliance. The loans were interest free and repaid in full during 2013.

6. Investments:

	March 31, 2013	March 31, 2012	April 1, 2011
High interest savings accounts	\$ 312,366	\$ 308,466	\$ 304,871
Bonds	383,053	370,594	359,897
	\$ 695,419	\$ 679,060	\$ 664,768

Investments are recorded at cost or amortized cost. Bonds have interest rates ranging from 1.25% to 4.40% (March 31, 2012 – 2.50% to 4.95%, April 1, 2011 – 1.50% to 4.60%) and mature between 2014 and 2020.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

7. Capital assets:

March 31, 2013	Cost	Accumulated amortization	Net book value
Land	\$ 4,604,881	\$ -	\$ 4,604,881
Land improvements	2,124,053	1,947,033	177,020
Buildings	106,737,544	35,370,967	71,366,577
Equipment	56,443,594	48,319,039	8,124,555
Computer hardware and software	4,754,534	3,794,124	960,410
Construction-in-progress	1,206,196	-	1,206,196
	\$ 175,870,802	\$ 89,431,163	\$ 86,439,639

March 31, 2012	Cost	Accumulated amortization	Net book value
Land	\$ 4,455,579	\$ -	\$ 4,455,579
Land improvements	2,108,672	1,835,543	273,129
Buildings	104,970,915	32,409,477	72,561,438
Equipment	97,924,279	89,129,567	8,794,712
Computer hardware and software	4,020,693	3,145,861	874,832
Construction-in-progress	1,139,658	-	1,139,658
	\$ 214,619,796	\$ 126,520,448	\$ 88,099,348

April 1, 2011	Cost	Accumulated amortization	Net book value
Land	\$ 4,455,579	\$ -	\$ 4,455,579
Land improvements	2,108,672	1,725,591	383,081
Buildings	102,550,849	29,897,833	72,653,016
Equipment	95,298,813	85,496,470	9,802,343
Computer hardware and software	3,028,683	1,304,639	1,724,044
Construction-in-progress	384,859	-	384,859
	\$ 207,827,455	\$ 118,424,533	\$ 89,402,922

During the period, assets of \$44,200,171, having zero net book value remaining, were removed from cost and accumulated amortization.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

8. Ministry of Health and Long-Term Care funding accrual:

The Alliance did not achieve the targets set out in the original Post Construction Operating Plan ("PCOP") for 2008 to 2010. The Alliance has provided for the repayment of a portion of the base funding as a result of not achieving post construction volume targets. The accrual is based on the Alliance's best estimate of the repayable amount, given the information currently available. The actual settlement for the three years may vary from the amounts accrued in the financial statements. The PCOP accrual is expected to be settled in 2014.

9. Callable 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 an instalment loan in January, 2012.

	March 31, 2013	March 31, 2012	April 1, 2011
Instalment loan – with monthly blended payments of \$41,254, bearing interest at 3.68% and maturing in January, 2017	\$ 5,360,448	\$ 5,652,380	\$ –
Less: current portion	302,859	291,932	–
	<u>\$ 5,057,589</u>	<u>\$ 5,360,448</u>	<u>\$ –</u>

Accounting standards require loans which can be repaid on demand at the option of the lender be classified as current liabilities. Management does not believe that the demand features of the callable debt will be exercised in the current period. Assuming payment of the callable debt is not demanded, regular annual principal payments required on the callable debt for the next four years are as follows:

2014	\$ 302,859
2015	314,193
2016	325,952
2017	4,417,444
	<u>\$ 5,360,448</u>

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

10. Employee future benefits:

(a) Pension plan:

Healthcare of Ontario Pension Plan (the "Plan"), provides pension services to more than 260,000 active and retired members and approximately 370 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, 2011. The effective date of the next required actuarial valuation is December 31, 2014. The audited financial statements of the Plan at December 31, 2012 disclose a net assets value of \$47.414 billion with accrued going concern liabilities relating to pension obligations of \$39.919 billion, resulting in a going concern surplus of \$7.495 billion (2012 - \$4.539 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 \$5,581,592 (2012 - \$5,495,705) 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. During the year, the employee benefit plan was amended to include the option of post-retirement benefits for the ONA, OPSEU Paramed, and non-union employees from the age of 57 to 65, which came into effect April 1, 2011.

Information about the Alliance's obligation is as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
Accrued benefit obligation	\$ 5,145,500	\$ 4,050,100	\$ 1,052,200
Unamortized actuarial loss	(764,500)	(392,400)	-
Accrued benefit liability	\$ 4,381,000	\$ 3,657,700	\$ 1,052,200

The Alliance's current benefit cost is as follows:

	2013	2012
Current service cost	\$ 330,400	\$ 240,000
Amortization of past service cost	313,800	2,334,300
Amortization of net actuarial loss	35,700	-
Interest cost	216,100	199,400
Current benefit cost	\$ 896,000	\$ 2,773,700

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

10. 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 years (2012 – 11 years).

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

Discount rate	3.94%
Medical benefits cost escalation - extended health care	7.40% grading down over 20 years to an ultimate rate of 4.50%

11. Deferred capital contributions:

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

	March 31, 2013	March 31, 2012	April 1, 2011
Unamortized capital contributions used to purchase assets	\$ 53,504,156	\$ 55,302,077	\$ 57,561,245
Unspent contributions	1,133,902	189,228	–
	<u>\$ 54,638,058</u>	<u>\$ 55,491,305</u>	<u>\$ 57,561,245</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.

	2013	2012
Balance, beginning of year	\$ 55,491,305	\$ 57,561,245
Additional contributions received	2,310,854	1,049,054
Less: amounts amortized to revenue	(3,164,101)	(3,118,994)
	<u>\$ 54,638,058</u>	<u>\$ 55,491,305</u>

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

11. Deferred capital contributions (continued):

(a) Unamortized capital contributions used to purchase assets:

	March 31, 2013	March 31, 2012	April 1, 2011
Balance, beginning of year	\$ 55,302,077	\$ 57,561,245	\$ 58,869,878
Contributions received	1,366,180	859,826	1,726,193
Less: amounts amortized to revenue	(3,164,101)	(3,118,994)	(3,034,826)
Balance, end of year	\$ 53,504,156	\$ 55,302,077	\$ 57,561,245

(b) Unspent contributions:

	March 31, 2013	March 31, 2012	April 1, 2011
Balance, beginning of year	\$ 189,228	\$ -	\$ 465,366
Contributions received	1,111,381	426,077	-
Less: capital assets purchased	(166,707)	(236,849)	(465,366)
Balance, end of year	\$ 1,133,902	\$ 189,228	\$ -

12. 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 amount to \$104,957 (March 31, 2012 - \$103,790, April 1, 2011 - \$103,049).

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 balance at March 31, 2013 is \$3,000,000 (March 31, 2012 - \$3,000,000, April 1, 2011 - \$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 at March 31, 2013 amount to \$705,980 (March 31, 2012 - \$690,123, April 1, 2011 - \$673,663).

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

13. Capital disclosure:

The Alliance considers its capital to be its net assets, restricted and unrestricted. Its restricted net assets consist of amounts for certain hospital activities and educational development and of 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.

14. Commitment:

The Alliance has entered into a contract for building and building equipment upgrades in order to reduce energy and operation costs. The project is expected to cost \$6,913,535 (March 31, 2012 - \$6,826,904, April 1, 2011 - \$6,089,148), of which \$6,775,495 (March 31, 2012 - \$5,997,543, April 1, 2011 - \$4,076,291) has been spent to March 31, 2013.

15. Contingent liabilities:

The nature of the Alliance's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2013, management believes the Alliance has valid defences 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 Alliance's financial position.

Chatham-Kent Health Alliance is a member of PROcure Healthcare, 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 \$779,438 (March 31, 2012 - \$779,438, April 1, 2011 - \$779,438) on behalf of PROcure.

The Alliance and Windsor Regional Hospital (WRH) established a not-for-profit organization, Consolidated Health Information Services (CHIS), without share capital under the laws of the Province of Ontario. On August 1, 2008, Bluewater Health and, in 2011, Leamington District Memorial Hospital and Hotel Dieu Grace Hospital, joined the Alliance. CHIS currently carries a \$250,000 operating line of credit through a chartered bank. The Alliance, Bluewater Health and WRH have provided separate guarantees in support of that operating line.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

16. Related party transactions:

(a) Foundations:

The Foundation of Chatham-Kent Health Alliance, Public General Hospital Foundation, St. Joseph's Foundation and Sydenham District Hospital Foundation 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, 2013 is \$581,000 (March 31, 2012 - \$63,766, April 1, 2011 - nil) and has been included in accounts receivable. The Alliance received \$602,671 (2012 - \$379,847) in deferred capital donations during the year and \$623,711 (2012 - \$578,919) for physician recruitment and foundation operating expenses.

(b) Consolidated Health Information Services (CHIS):

CHIS provides information technology and system (IT/IS) services to the five member hospitals in the Erie St. Clair Local Health Integration Network. These services are provided at rates designed to reflect the costs and expenses incurred by CHIS 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. CHIS provides IT/IS service to other Alliances, which is based on a fee by project basis. In addition, the Alliance contributes toward approved capital improvements and other costs incurred by CHIS.

During the year, the Alliance paid \$2,022,669 (2012 - \$2,576,208) to CHIS for IT/IS services that are included in supplies and expenses on the statement of operations. During the year, the Alliance paid \$301,345 (2012 - \$943,332) to CHIS primarily for IT software and hardware that have been recorded as capital assets.

The Alliance received a credit of \$755,801 in 2011 that has been applied against IT related projects. As at March 31, 2013, the balance of this credit was nil (March 31, 2012 - \$641,048, April 1, 2011 - \$755,801). The credit has been fully applied against purchases from CHIS during 2013.

During the year, the Alliance made working capital advances to CHIS. The balance receivable from CHIS at March 31, 2013 is \$547 (March 31, 2012 - \$8,260, April 1, 2011 - \$88,684) and has been included in accounts receivable.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

16. Related party transactions (continued):

(c) PROcure Healthcare:

Chatham-Kent Health Alliance is a member of a group of five hospitals within the Erie St. Clair Local Health integration Network (ESC LHIN) which have voluntarily agreed to enter into a joint project for the purpose of planning, developing, implementing and operating a shared regional supply chain project (procurement, logistics and contract management). The initiative enables timely and efficient access to medical-surgical supplies and services while supporting quality outcomes for patients and providing financial savings. A non-profit corporation (PROcure Healthcare) has been created to manage and provide oversight of the services. Each of the participating hospitals is a voting member of PROcure Healthcare and elects two independent board of directors from within the ESC LHIN geographic area. The project received start-up funding from the Ministry of Finance (OntarioBuys).

The Alliance's share of operational funding provided to PROcure for the current year was \$814,355 (2012 - \$634,049).

The receivable from the PROcure Healthcare at March 31, 2013 is nil (March 31, 2012 – nil, April 1, 2011 - \$77,023) and has been included in accounts receivable.

17. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The 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, 2013 is the carrying value of these assets.

Included in accounts receivable are patient receivables in the amount of \$1,638,121 of which 5.4% is over 90 days. All other accounts receivables and long-term receivables are current. As at March 31, 2013 an amount of \$125,447 (March 31, 2012 - \$80,808, April 1, 2011 - \$436,013) has been provided for an impairment allowance.

The Alliance's investments in high interest savings accounts and bonds are held with reputable financial institutions.

There have been no significant changes to the credit risk exposure from 2012.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

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

(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 debt are disclosed in note 9.

There have been no significant changes to the liquidity risk exposure from 2012.

(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 2012.

(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, 2013.

There has been no change to the interest rate risk exposure from 2012.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

18. Transitional adjustments:

(a) Net Assets:

The following table summarizes the impact of the transition to Public Sector Accounting Standards on the Alliance's net assets as of April 1, 2011:

Net assets:	
As previously reported under Canadian generally accepted accounting principles, March 31, 2011	\$ 23,227,570
Transition election to recognize all cumulative actuarial gains and losses on employee future benefits	(628,750)
Restated, April 1, 2011	\$ 22,598,820

In accordance with transitional provisions of Public Sector Accounting Standards, the Alliance has elected to use the exemption for employee future benefits. The Alliance has elected to recognize all cumulative actuarial gains and losses and past services costs in opening net assets.

(b) Statement of Operations:

As a result of the above noted elections and the retrospective application of Public Sector Accounting Standards, the Alliance recorded the following adjustments to excess (deficiency) of revenue over expenses for the year ended March 31, 2012:

Deficiency of revenue over expenses:	
As previously reported under Canadian generally accepted accounting principles for year ended March 31, 2012	\$ (2,807,988)
Increase to employee future benefit expense as a result of electing to recognize all cumulative actuarial gains and losses and past service costs	(2,205,450)
Restated for the year ended March 31, 2012	\$ (5,013,438)

19. Comparative figures:

Certain comparative figures have been reclassified to conform to this year's financial statement presentation.