

Financial Statements of

CHATHAM-KENT HEALTH ALLIANCE

Year ended March 31, 2015

CHATHAM-KENT HEALTH ALLIANCE

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Year ended March 31, 2015

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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 statement of financial position as at March 31, 2015, the statement of operations, changes in net assets, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Chatham-Kent Health Alliance as at March 31, 2015 and its results of operations and its cash flows for the year then ended, and its remeasurement gains and losses for the year ended March 31, 2015 in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

May 28, 2015

London, Canada

CHATHAM-KENT HEALTH ALLIANCE

Statement of Financial Position

March 31, 2015, with comparative information for 2014

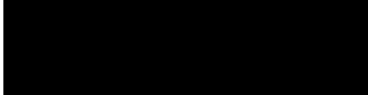
	2015	2014
Assets		
Current assets:		
Cash (note 3)	\$ 3,731,089	\$ 7,717,508
Accounts receivable (note 4)	4,963,634	3,885,154
Inventories	689,452	726,610
Prepaid expenses	1,329,621	1,076,871
	<u>10,713,796</u>	<u>13,406,143</u>
Investments (note 5)	731,128	711,993
Capital assets (note 6)	84,267,449	83,853,116
	<u>\$ 95,712,373</u>	<u>\$ 97,971,252</u>

Liabilities, Deferred Contributions and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 15,534,670	\$ 15,089,058
Deferred grants	874,209	2,397,620
Scheduled cash repayment of callable debt (note 7)	325,952	314,193
Current liabilities before callable debt	<u>16,734,831</u>	<u>17,800,871</u>
Callable debt (note 7)	<u>4,417,444</u>	<u>4,743,396</u>
Total current liabilities	21,152,275	22,544,267
Employee future benefit liability (note 8)	6,962,600	6,444,200
Deferred capital contributions (note 9)	53,250,619	53,308,788
Net assets:		
Restricted (note 10)	3,843,806	3,829,516
Unrestricted	10,503,073	11,844,481
	<u>14,346,879</u>	<u>15,673,997</u>
Commitments (note 12)		
Contingent liabilities (note 13)		
	<u>\$ 95,712,373</u>	<u>\$ 97,971,252</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

CHATHAM-KENT HEALTH ALLIANCE

Statement of Operations

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Hospital Operations:		
Revenue:		
Ministry of Health and Long-Term Care	\$ 116,736,167	\$ 115,809,846
Patient revenue from other payers	15,244,510	15,257,029
Differential and co-payment	2,090,379	2,449,127
Recoveries and miscellaneous	3,926,009	3,817,879
Amortization of deferred capital contributions	417,050	549,887
Settlement of Post Construction Operating Plan (note 16)	-	5,330,000
	<u>21,677,948</u>	<u>27,403,922</u>
	138,414,115	143,213,768
Expenses:		
Salaries and wages	66,091,933	65,409,525
Employee benefits	18,525,821	20,943,983
Supplies and expenses	18,160,141	19,071,042
Medical staff remuneration	17,097,401	17,076,719
Medical and surgical supplies	6,918,947	7,359,069
Drugs and medical supplies	4,767,971	4,493,493
Contracted services	3,775,885	3,411,121
Amortization of equipment, computer hardware and software	2,783,833	2,912,711
Interest	13,173	15,217
Bad debts	173,885	128,114
	<u>138,308,990</u>	<u>140,820,994</u>
Excess of revenue over expenses from hospital operations	105,125	2,392,774
Other votes:		
Revenue	3,793,115	6,231,637
Expenses	<u>3,793,115</u>	<u>6,180,991</u>
	-	50,646
Other funding sources:		
Revenue	18,808	19,379
Expenses	<u>400</u>	<u>400</u>
	18,408	18,979
Building Operations:		
Amortization of deferred capital contributions	1,845,759	1,849,754
Loss on disposal of capital assets	(65,569)	(49,077)
Interest on callable debt	(180,855)	(192,190)
Amortization of land improvements and buildings	<u>(3,049,986)</u>	<u>(3,247,800)</u>
	(1,450,651)	(1,639,313)
Excess (deficiency) of revenue over expenses	\$ (1,327,118)	\$ 823,086

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Statement of Changes in Net Assets

Year ended March 31, 2015, with comparative information for 2014

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

<u>March 31, 2014</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, beginning of year	\$ 3,810,937	\$ 11,039,974	\$ 14,850,911
Excess of revenue over expenses	-	823,086	823,086
Transfer to restricted	18,579	(18,579)	-
Balance, end of year	\$ 3,829,516	\$ 11,844,481	\$ 15,673,997

See accompanying notes to financial statements

CHATHAM-KENT HEALTH ALLIANCE

Statement of Cash Flows

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ (1,327,118)	\$ 823,086
Items not involving cash:		
Amortization of equipment, computer hardware and software	2,868,448	2,940,896
Amortization of land improvements and buildings	3,098,084	3,294,898
Change in employee future benefit liability	518,400	2,063,200
Amortization of deferred capital contributions	(2,395,522)	(2,474,756)
Settlement of Due to Ministry of Health and Long-Term Care	-	(5,330,000)
Loss on disposal of capital assets	65,569	49,077
Changes in non-cash working capital balances:		
Accounts receivable	(1,078,480)	1,191,810
Inventories	37,158	2,170
Prepaid expenses	(252,750)	189,169
Accounts payable and accrued liabilities	445,612	1,888,953
Deferred grants	(1,523,411)	(676,922)
	455,989	3,961,581
Capital activities:		
Purchase of capital assets	(6,482,819)	(3,701,998)
Proceeds on disposition of capital assets	36,385	3,650
Receipt of deferred capital contributions	2,337,353	1,145,486
	(4,109,081)	(2,552,862)
Investing activities:		
Net increase in investments	(19,135)	(16,574)
Financing activities:		
Repayment of callable debt	(314,193)	(302,859)
Increase (decrease) in cash	(3,986,420)	1,089,286
Cash, beginning of year	7,717,508	6,628,222
Cash, end of year	\$ 3,731,089	\$ 7,717,508

See accompanying notes to financial statements.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements

Year ended March 31, 2015

Chatham-Kent Health Alliance (the "Alliance") is a partnership between The Public General Hospital Society of Chatham, St. Joseph's Health Services Association of Chatham, Incorporated and Sydenham District Hospital. The Alliance was formed in 1998 as a result of the report issued by the Health Services Restructuring Commission ("HSRC"). The Alliance is operated and governed by the terms and conditions contained in the Alliance agreement. Under the terms of the Alliance agreement the three hospitals have made substantially all of their operating assets available to the Alliance including land, buildings, equipment, and revenue from the Ministry of Health and Long-Term Care and other services. The three hospitals share, in proportion to their 1998 revenues, in the financial results and specified capital additions of the Alliance. The Alliance is 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 LHIN provides operating funding including base funding which is expected to be received on an annual basis, and special funding, which is non-recurring in nature, and consequently is unconfirmed for future years.

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

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

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

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2015

1. Significant accounting policies:

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

(a) Revenue recognition:

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

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

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

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

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

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

Revenue from the Provincial Insurance Plan 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)

Year ended March 31, 2015

1. Significant accounting policies (continued):

(d) Capital assets:

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

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

Asset	Rate
Land improvements	10.0 to 33.3%
Buildings	2.5 to 10.0%
Equipment	4.0 to 33.3%
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)

Year ended March 31, 2015

1. Significant accounting policies (continued):

(f) Financial instruments:

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

Unrealized changes in fair value are recognized in the Statement of Remeasurement Gains and Losses until they are realized, when they are transferred to the Statement of Operations.

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

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the Statement of Operations and any unrealized gain is adjusted through the Statement of Remeasurement Gains and Losses.

When the asset is sold, the unrealized gains and losses previously recognized in the Statement of Remeasurement Gains and Losses are reversed and recognized in the Statement of Operations.

Long-term debt is recorded at cost.

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

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

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

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2015

1. Significant accounting policies (continued):

(g) Restricted net assets:

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

(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, 2015, and the next required valuation will be completed as of March 31, 2018.

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 10.9 years (2014 – 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, 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)

Year ended March 31, 2015

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 amount of revenue recorded for specific types of funding, and obligations related to employee future benefits. Actual results could differ from those estimates.

2. Change in accounting policy

The Alliance adopted Public Sector Accounting Board Standard *PS 3260 Liability for Contaminated Sites* effective April 1, 2014. Under PS 3260, contaminated sites are defined as the result of contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard. This standard relates to sites that are not in productive use and sites in productive use where an unexpected event resulted in contamination. The Alliance adopted this standard on a retroactive basis and there were no adjustments as a result of the adoption of this standard

3. Cash:

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 bank's prime rate minus four tenths of one percent. The amount available under the credit facility is \$4,000,000. The Alliance has drawn nil on this facility as at March 31, 2015 (2014 – nil).

4. Accounts receivable:

	2015	2014
MoHLTC and other hospitals	\$ 1,403,389	\$ 837,584
Patient and other	3,783,052	3,205,035
	5,186,441	4,042,619
Less: allowance for doubtful accounts	222,807	157,465
	\$ 4,963,634	\$ 3,885,154

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2015

5. Investments:

	2015	2014
Savings accounts	\$ 132,384	\$ 335,492
Bonds and fixed income securities	598,744	376,501
	\$ 731,128	\$ 711,993

Investments are recorded at cost or amortized cost. Bonds and fixed income securities have interest rates ranging from 2.45% to 4.40% (2014 – 1.50% to 4.50%) and mature between 2015 and 2020.

6. Capital assets:

	Cost	Accumulated amortization	2015 Net book value	2014 Net book value
Land	\$ 4,670,740	\$ -	\$ 4,670,740	\$ 4,766,842
Land improvements	2,366,396	2,077,459	288,937	65,532
Buildings	112,222,282	41,208,342	71,013,940	70,025,102
Equipment	48,838,698	42,019,493	6,819,205	7,199,818
Computer hardware and software	4,768,776	4,768,776	-	480,630
Construction-in-progress	1,474,627	-	1,474,627	1,315,192
	\$ 174,341,519	\$ 90,074,070	\$ 84,267,449	\$ 83,853,116

During the period, assets of \$456,732, having \$175,735 net book value remaining, were removed from cost and accumulated amortization.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2015

7. 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.

	2015	2014
Instalment loan – with monthly blended payments of \$41,254, bearing interest at 3.68% and maturing in January, 2017	\$ 4,743,396	\$ 5,057,589
Less: current portion	325,952	314,193
	<u>\$ 4,417,444</u>	<u>\$ 4,743,396</u>

Accounting standards require loans which can be repaid on demand at the option of the lender to 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 two years are as follows:

2016	\$ 325,952
2017	4,417,444
	<u>\$ 4,743,396</u>

8. Employee future benefits:

(a) Pension plan:

Healthcare of Ontario Pension Plan (the "Plan"), provides pension services to more than 295,000 active and retired members and approximately 478 employers. Each year an independent actuary determines the funding status the Plan by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan for accounting purposes was completed at December 31, 2014. The effective date of the next required actuarial valuation is December 31, 2017. The audited financial statements of the Plan at December 31, 2014 disclose a net assets value of \$60.848 billion with accrued going concern liabilities relating to pension obligations of \$46.923 billion, resulting in a going concern surplus of \$13.925 billion (2014 - \$10.148 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 \$5,297,413 (2014 - \$5,465,353) and are included in employee benefits in the Statement of Operations for the Alliance.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2015

8. Employee future benefits (continued):

(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.

Information about the Alliance's obligation is as follows:

	2015	2014
Accrued benefit obligation	\$ 5,724,900	\$ 6,801,600
Unamortized actuarial loss	1,237,700	(357,400)
	<u>\$ 6,962,600</u>	<u>\$ 6,444,200</u>

The Alliance's current benefit cost is as follows:

	2015	2014
Current service cost	\$ 513,500	\$ 474,200
Amortization of past service cost	-	1,488,400
Amortization of net actuarial loss	42,400	72,800
Interest cost	311,300	256,000
	<u>\$ 867,200</u>	<u>\$ 2,291,400</u>

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 10.9 years (2014 – 11 years).

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

Discount rate	3.31%
Medical benefits cost escalation - extended health care	7.8% grading down over 17 years to an ultimate rate of 4.50%

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2015

9. Deferred capital contributions:

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

	2015	2014
Unamortized capital contributions used to purchase assets	\$ 52,740,752	\$ 51,767,331
Unspent contributions	509,867	1,541,457
	<u>\$ 53,250,619</u>	<u>\$ 53,308,788</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.

	2015	2014
Balance, beginning of year	\$ 53,308,788	\$ 54,638,058
Contributions received	2,337,353	1,145,486
Less: amounts amortized to revenue	(2,395,522)	(2,474,756)
Balance, end of year	<u>\$ 53,250,619</u>	<u>\$ 53,308,788</u>

10. Restricted net assets:

The restricted net assets of The Public General Hospital Society consist of funds held in trust that may be used for certain hospital activities and educational development. The funds as at March 31, 2015 amount to \$106,123 (2014 - \$105,334).

The restricted net assets of St. Joseph's Health Services Association of Chatham, Incorporated at the end of the year consist of funds restricted for working capital. The funds as at March 31, 2015 is \$3,000,000 (2014 - \$3,000,000).

The restricted net assets of Sydenham District Hospital consist of funds internally restricted for the purchase of educational aids and operating room equipment. The funds as at March 31, 2015 amount to \$737,683 (2014 - \$724,182).

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2015

11. Capital disclosure:

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

12. Commitments:

The Alliance has entered into contracts for various building improvements. The projects are expected to cost \$1,823,856 (2014 - \$1,871,250), of which \$414,614 (2014 - \$1,007,180) has been spent as of March 31, 2015.

13. 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, 2015, 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 TransForm Shared Service Organization ("TSSO"), a not-for-profit organization without share capital under the laws of the Province of Ontario. The organization has been established to purchase and manage supplies on behalf of the hospital. The Alliance has issued a guarantee in the amount of \$948,940 (2014 - \$750,000) on behalf of TSSO.

14. Related party transactions:

(a) Foundations:

The Foundation of Chatham-Kent Health Alliance, Public General Hospital Foundation of Chatham, St. Joseph's Hospital Foundation of Chatham and Sydenham District Hospital Foundation 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, 2015 is \$51,374 (2014 - \$54,760) and has been included in accounts receivable. During the year, the Alliance received donations of \$289,481 (2014 - \$895,607) from the Foundations to assist with capital and other initiatives. In addition, the Foundation paid \$12,604 on behalf of the Alliance for capital expenses.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2015

14. Related party transactions (continued):

(a) Foundations (continued):

The Alliance provides certain services to the Foundation and pays certain expenses on behalf of the Foundation. During the year, the Foundation reimbursed the Alliance for all direct costs associated with services provided and expenses paid, in the amount of \$497,723 (2014 - \$478,850).

(b) TransForm Shared Service Organization

TransForm Shared Service Organization (TSSO) provides information technology and system ("IT/IS") services and a regional supply chain management (procurement, logistics and contract management) to the five member hospitals in the Erie St. Clair Local Health Integration Network. These services are provided at rates designed to reflect the costs and expenses incurred by TSSO in the normal course of business. Annual operating expenses are allocated between the hospitals based on the provincial government funding provided to each hospital as of the most recent fiscal year. TSSO provides IT/IS service to other Alliances, which is based on a fee by project basis. In addition, the Alliance contributes toward approved capital improvements and other costs incurred by TSSO.

During the year, the Alliance paid \$2,717,851 (2014 - \$2,882,394) to TSSO for IT/IS and supply chain management services that are included in supplies and expenses on the Statement of Operations. During the year, the Alliance paid nil (2014 - \$11,541) to TSSO primarily for IT software and hardware that have been recorded as capital assets.

15. Financial risks and concentration of credit risk:

(a) Credit risk:

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

The Alliance assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Alliance at March 31, 2015 is the carrying value of these assets.

Included in accounts receivable are patient receivables in the amount of \$1,696,007 (2014 - \$1,676,435) of which 5.3% (2014 - 8.5%) is over 90 days. All other accounts receivables and long-term receivables are current. As at March 31, 2015 an amount of \$222,807 (2014 - \$157,465) has been provided for an impairment allowance.

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

There have been no significant changes to the credit risk exposure from 2014.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2015

15. 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 7.

There have been no significant changes to the liquidity risk exposure from 2014.

(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 2014.

(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, 2015.

There has been no change to the interest rate risk exposure from 2014.

16. Post Construction Operating Plan:

During 2014, the Alliance accrual for Post Construction Operating Plan targets from 2008 to 2010 was settled in full by the MoHLTC, resulting in \$5,330,000 being reversed into revenue in the Statement of Operations.

CHATHAM-KENT HEALTH ALLIANCE

Notes to Financial Statements (continued)

Year ended March 31, 2015

17. Other information, Diabetes Education Program:

During the year, the Hospital received \$695,591 (2014 - \$695,995) to support the Diabetes Education Program. Expenses for the program during the year totalled \$670,080 (2014 - \$668,776). Any excess funds are repayable as of March 31, 2015.

18. Comparative Information:

Certain comparative information has been reclassified to conform to this year's financial statement presentation.