

**Chatham-Kent  
Health Alliance  
Financial Statements  
For the year ended March 31, 2010**

**Chatham-Kent Health Alliance  
Financial Statements  
For the year ended March 31, 2010**

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**Auditors' Report**

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**To the Members of  
Chatham-Kent Health Alliance**

We have audited the balance sheet of Chatham-Kent Health Alliance as at March 31, 2010 and the statements of changes in net assets, revenue and expense and cash flow for the year then ended. These financial statements are the responsibility of the Alliance's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Alliance as at March 31, 2010 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants

Sarnia, Ontario  
May 6, 2010

**Chatham-Kent Health Alliance  
Balance Sheet**

**March 31** **2010** **2009**

**Assets**

**Current**

Cash (Note 1)	\$ 5,170,406	\$ 893,082
Accounts receivable	4,625,873	4,785,633
Inventories	826,628	786,664
Prepaid expenses	1,508,745	1,292,394
	12,131,652	7,757,773

**Investments**

Intangible properties (Note 2)	657,669	638,188
Capital assets (Note 3)	1,927,917	1,173,641
Loans receivable (Note 4)	88,385,419	91,157,940
	49,350	67,610

**\$ 103,152,007** **\$ 100,795,152**

**Liabilities and Net Assets**

**Current**

Accounts payable and accrued liabilities	\$ 17,840,209	\$ 13,608,734
Deferred grants	795,003	507,153
Deferred contributions related to expenditures of future periods (Note 8(a))	465,366	335,996
	19,100,578	14,451,883

Employee future benefit liability (Note 7)	478,968	478,968
Deferred contributions related to capital assets (Note 8(b))	58,869,986	60,522,145
	78,449,532	75,452,996

**Contingent liabilities (Note 12)**

**Net assets**

Net assets invested in capital assets (Note 9)	29,515,433	30,635,795
Net assets internally restricted (Note 10)	3,763,344	3,746,630
Unrestricted net assets (deficiency)	(8,576,302)	(9,040,269)
	24,702,475	25,342,156

**\$ 103,152,007** **\$ 100,795,152**

On

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Director

\_\_\_\_\_

Director

**Chatham-Kent Health Alliance  
Statement of Changes in Net Assets**

**For the year ended March 31, 2010**

	Invested in Capital Assets	Restricted	Unrestricted	2010 Total	2009 Total
Balance, beginning of year	\$ 30,635,795	\$ 3,746,630	\$ (9,040,269)	\$ 25,342,156	\$ 28,785,155
Excess (deficiency) of revenue over expense (Note 9)	(3,599,649)	-	2,959,968	(639,681)	(3,442,999)
Investment in capital assets (Note 9)	2,479,287	-	(2,479,287)	-	-
Transfer to restricted	-	16,714	(16,714)	-	-
<b>Balance, end of year</b>	<b>\$ 29,515,433</b>	<b>\$ 3,763,344</b>	<b>\$ (8,576,302)</b>	<b>\$ 24,702,475</b>	<b>\$ 25,342,156</b>

**Chatham-Kent Health Alliance  
Statement of Revenue and Expense**

For the year ended March 31	2010	2009
<b>Hospital Operations</b>		
<b>Revenue</b>		
Ministry of Health and Long-Term Care		
Base allocation	\$ 98,355,283	\$ 95,148,550
One-time payments	4,303,951	6,452,867
Cancer care	2,136,518	1,771,404
Paymaster	594,900	918,807
	105,390,652	104,291,628
Patient revenue from other payors	14,592,121	15,302,542
Differential and co-payment	3,246,231	3,206,232
Recoveries and miscellaneous	4,722,248	4,478,553
Amortization of deferred capital contributions	1,222,194	1,321,112
	129,173,446	128,600,067
<b>Expenses</b>		
Salaries and wages	64,131,994	64,489,812
Employee benefits	16,996,923	17,134,945
Supplies and expenses	18,731,871	20,241,707
Medical staff remuneration	14,140,663	13,982,837
Medical and surgical supplies	6,327,281	6,527,127
Drugs and medical gases	4,389,630	4,498,736
Amortization of equipment	4,155,382	4,327,322
Interest	588	6,326
Bad debts	233,311	283,142
	129,107,643	131,491,954
<b>Excess (deficiency) of revenue over expenses from hospital operations</b>	<b>65,803</b>	<b>(2,891,887)</b>
<b>Other votes</b>		
Revenue	6,220,386	5,947,132
Expenses	6,271,169	6,122,776
	(50,783)	(175,644)
<b>Other funding sources</b>		
Revenue	59,091	58,921
Expenses	47,352	56,355
	11,739	2,566
<b>Building operations</b>		
Amortization of deferred capital contributions	1,831,434	2,103,349
Gain on sale of capital assets	76,252	3,654
Amortization	(2,574,126)	(2,485,037)
	(666,440)	(378,034)
<b>Deficiency of revenue over expenses</b>	<b>\$ (639,681)</b>	<b>\$ (3,442,999)</b>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**Chatham-Kent Health Alliance  
Statement of Cash Flow**

<b>For the year ended March 31</b>	<b>2010</b>	<b>2009</b>
<b>Cash resources provided by (used in)</b>		
<b>Operating activities</b>		
Deficiency of revenue over expense	\$ (639,681)	\$ (3,442,999)
Items not involving cash		
Amortization of equipment	4,187,443	4,438,017
Amortization of land improvements and buildings	2,621,224	2,485,037
Amortization of intangible properties	667,991	452,169
Amortization of deferred capital contributions	(3,178,498)	(3,530,210)
Loss (gain) on sale of capital assets	(30,520)	72,239
	<u>3,627,959</u>	<u>474,253</u>
Changes in non-cash working capital balances		
Accounts receivable	159,760	(1,060,325)
Inventories	(39,964)	1,603
Prepaid expenses	(216,351)	9,732
Accounts payable and accrued liabilities	4,231,475	(6,286,062)
Deferred grants	287,850	324,516
Deferred contributions related to expenditures of future periods	129,370	(1,327,458)
	<u>8,180,099</u>	<u>(7,863,741)</u>
<b>Investing activities</b>		
Purchase of capital assets	(4,094,878)	(6,396,523)
Net proceeds on sale of capital assets	89,252	85,655
Net increase in investments	(19,481)	(19,779)
Loan receivable repayment	18,260	57,255
Purchase of intangible properties	(1,422,267)	(1,009,034)
	<u>(5,429,114)</u>	<u>(7,282,426)</u>
<b>Financing activities</b>		
Deferred capital contributions	1,526,339	3,775,745
<b>Increase (decrease) in cash resources during the year</b>	<b>4,277,324</b>	<b>(11,370,422)</b>
<b>Cash, beginning of year</b>	<b>893,082</b>	<b>12,263,504</b>
<b>Cash, end of year</b>	<b>\$ 5,170,406</b>	<b>\$ 893,082</b>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

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**Chatham-Kent Health Alliance  
Summary of Significant Accounting Policies**

**March 31, 2010**

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**Nature of Business**

The Chatham-Kent Health 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 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.

**Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

**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 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.

Investment income on unspent deferred contributions, if restricted for future use, is deferred as a component of such contributions.

Externally restricted 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 Provincial Insurance Plan and marketed services is recognized when the goods are sold or the service is provided.



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**Chatham-Kent Health Alliance  
Summary of Significant Accounting Policies**

**March 31, 2010**

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<b>Contributed Services</b>	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. Contributed materials are also not recognized in these financial statements.						
<b>Ministry of Health and Long-Term Care Funding</b>	Under the Health Insurance Act and the regulations thereto, the Alliance is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care. These financial statements reflect agreed funding arrangements approved by the Ministry with respect to the year ended March 31, 2010.						
<b>Inventories</b>	Inventory is valued at the lower of cost and net realizable value.						
<b>Capital Assets</b>	<p>Capital assets are stated at cost and amortized on a straight-line basis over their estimated useful lives at the following annual rates:</p> <table><tr><td>Land improvements</td><td style="text-align: right;">6.67%</td></tr><tr><td>Buildings</td><td style="text-align: right;">2.5 - 5%</td></tr><tr><td>Equipment</td><td style="text-align: right;">4 - 100%</td></tr></table> <p>Amortization of a specific asset is not recorded until the asset has been placed into use.</p>	Land improvements	6.67%	Buildings	2.5 - 5%	Equipment	4 - 100%
Land improvements	6.67%						
Buildings	2.5 - 5%						
Equipment	4 - 100%						
<b>Intangible Properties</b>	Intangible properties consist of amounts incurred for specific information technology hardware and software projects. It has been determined that the benefit of these amounts will go beyond the current fiscal year and thus will be amortized based on the estimated useful life of the asset.						
<b>Compensated Absences</b>	Compensated absences are accrued for all employees as entitlement to the payments is earned, in accordance with Chatham-Kent Health Alliance's benefit plans for vacation, sick leave, and retirement allowances.						
<b>Financial Instruments</b>	<p>The Alliance utilizes various financial instruments.</p> <p>All transactions related to financial instruments are recorded on a settlement date basis. Transaction costs for all categories are expensed as incurred</p> <p>The Alliance classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Alliance's accounting policy for each category is as follows:</p> <p><b>Held-for-trading</b></p> <p>This category is comprised of cash. It is recorded in the balance sheet at fair value with changes in fair value recognized in the statement of revenue and expense.</p>						

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**Chatham-Kent Health Alliance**  
**Summary of Significant Accounting Policies**

**March 31, 2010**

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**Financial Instruments**  
**Continued**

**Loans and receivables**

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for the promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to customers, but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment.

**Held-to-maturity investments**

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Alliance's management has the positive intention and ability to hold to maturity and comprises certain investments in debt securities. These assets are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment.

**Other financial liabilities**

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprises trade payables, other short-term monetary liabilities and bank borrowings. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.

**Restricted Net Assets**

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

**Employee Future Benefit Liability**

Employee future benefit liability is actuarially determined and reflects management's best estimate of future cost trends associated with such benefits and interest rates. Adjustment to these costs arising from changes in estimates and experience gains and losses are amortized to income over the estimated average remaining service life of the employee groups on a straight line basis.

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**Chatham-Kent Health Alliance**  
**Summary of Significant Accounting Policies**

**March 31, 2010**

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**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 objectives when managing its capital are 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.

**Chatham-Kent Health Alliance  
Notes to Financial Statements**

**March 31, 2010**

**1. Cash/Bank Indebtedness**

The Alliance's bank accounts are maintained at one chartered bank. The bank accounts earn interest from .09% to 4.3%. The Alliance has a demand operating credit facility that bears interest at the bank's prime rate minus .75%. The amount available under the credit facility is \$4,000,000.

**2. Intangible Properties**

	2010	2009
Software and license costs	\$ 3,536,192	\$ 2,113,925
Less accumulated amortization	(1,608,275)	(940,284)
	\$ 1,927,917	\$ 1,173,641

**3. Capital Assets**

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land and land improvements	\$ 6,818,180	\$ 1,615,639	\$ 6,897,015	\$ 1,534,143
Buildings	98,743,218	27,477,799	96,577,307	25,321,864
Equipment	92,946,431	81,028,972	91,462,366	76,922,741
	\$ 198,507,829	\$ 110,122,410	\$ 194,936,688	\$ 103,778,748
Net book value		\$ 88,385,419		\$ 91,157,940

**4. 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 hospital. The loans are interest free and are repayable from 2011 to 2012.

March 31, 2010

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**5. Ministry of Health and Long-Term Care Funding Accrual**

The Alliance has not yet achieved the targets set out in the Hospital Service Accountability Agreement for 2008 to 2010. The Alliance has provided for the repayment of a portion of the base funding as a result of the failure to achieve the targets. The amount accrued is \$1,700,000 for the March 31, 2010 year end. The Alliance is in the process of settling the Ministry of Health and Long-term care funding for the years ended March 31, 2008 and March 31, 2009 for which \$1,800,000 has been accrued for each of the years and is included in accounts payable and accrued liabilities. It is possible that the actual settlement for the three years will vary from the amounts accrued in the financial statements, although the estimates are based on management's best information and judgment at the time.

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**6. Pension Plan**

Substantially all of the full-time employees of the Alliance are members of the Hospitals of Ontario Pension Plan as well as those part-time employees who chose to participate. Contributions to the plan made during the year on behalf of its employees amounted to \$5,513,131 (\$5,273,143 in 2009 ) and are included in employee benefits in the statement of revenue and expense.

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**7. Employee Future Benefit Liability**

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.

Accrued benefit obligation	\$	<u>478,968</u>	\$	<u>478,968</u>
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The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit obligation are as follows:

Discount rate	5.75%
Dental benefits escalation	4.5%
Medical benefits cost escalation - extended health care	7.87% grading down over 19 years to to an ultimate rate of 4.5%

**Chatham-Kent Health Alliance  
Notes to Financial Statements**

**March 31, 2010**

**8. Deferred Contributions**

(a) Expenditures of future periods

Deferred contributions related to expenditures of future periods represent unspent donations and unspent Ministry of Health and Long-term Care funding for capital assets.

	2010	2009
Balance, beginning of year	\$ 335,996	\$ 1,663,454
Contributions received	465,366	335,996
Capital assets purchased	(335,996)	(1,680,634)
Interest	-	17,180
	<b>\$ 465,366</b>	<b>\$ 335,996</b>

**8. Deferred Contributions (continued)**

(b) Capital assets

Deferred capital contributions related to capital assets represent the unamortized amount of donations and grants received for capital assets acquired. The amortization of capital contributions is recorded in the statement of revenue and expense.

	2010	2009
Balance, beginning of year	\$ 60,522,145	\$ 60,276,610
Additional capital contributions	1,526,339	3,775,745
Less: amounts amortized to revenue	(3,178,498)	(3,530,210)
Balance, end of year	<b>\$ 58,869,986</b>	<b>\$ 60,522,145</b>

**9. Net Assets Invested in Capital Assets**

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

	2010	2009
Capital assets	\$ 88,385,419	\$ 91,157,940
Amounts financed by:		
Deferred capital contributions	(58,869,986)	(60,522,145)
	<b>\$ 29,515,433</b>	<b>\$ 30,635,795</b>

**March 31, 2010**

**9. Net Assets Invested in Capital Assets (continued)**

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

	2010	2009
Excess of expenses over revenue:		
Amortization of deferred capital contributions	\$ 3,178,498	\$ 3,530,210
Amortization of capital assets	(6,808,667)	(6,923,054)
Gain (loss) on sale of capital assets	30,520	(72,239)
	<b>\$ (3,599,649)</b>	<b>\$ (3,465,083)</b>
Net change in investment in capital assets:		
Purchase of capital assets	\$ 4,094,878	\$ 6,396,523
Amount funded by:		
Deferred capital contributions	(1,526,339)	(3,775,745)
Proceeds on sale of capital assets	(89,252)	(85,655)
	<b>\$ 2,479,287</b>	<b>\$ 2,535,123</b>

**10. Net Assets Internally Restricted**

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 \$102,543 (\$100,185 in 2009 ).

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, 2010 is \$3,000,000 (\$3,000,000 in 2009 ).

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, 2010 amount to \$660,801 (\$644,445 in 2009 ).

**11. Commitments**

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 \$5,656,900, of which \$1,414,225 has been spent to March 31, 2010.

March 31, 2010

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**12. 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, 2010 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 corporation 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 Alliance. The Alliance has issued a guarantee in the amount of \$779,438 on behalf of PROcure.

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**13. Related Party Transactions**

**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, 2010 is \$40,208 (\$52,497 in 2009 ) and has been included in accounts receivable. The Alliance received \$1,164,769 (\$1,211,764 in 2009 ) in deferred capital donations during the year.

**Consolidated Health Information Services (CHIS)**

The Chatham-Kent Health Alliance (CKHA) and Windsor Regional Hospital (WRH) established a not-for-profit corporation without share capital under the laws of the Province of Ontario. On August 1, 2008, Bluewater Health joined the organization. CHIS provides information technology and system (IT/IS) services to CKHA, WRH and Bluewater Health. 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 organizations, which is based on a fee by project basis. In addition, CKHA contributes toward approved capital improvements and other costs incurred by CHIS.



March 31, 2010

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**13. Related Party Transactions (continued)**

**Consolidated Health Information Services (CHIS)**

During the year, CKHA paid \$1,933,339 (\$1,535,702 in 2009 ) to CHIS for IT/IS services that are included in supplies and expenses on the Statement of Revenue and Expense. During the year, CKHA paid \$1,462,267 to CHIS for IT software and hardware contracts under capital lease that have been recorded as intangible assets.

During the year, CKHA made working capital advances to CHIS. The balance receivable from CHIS at March 31, 2010 is \$91,867 (\$336,250 in 2009 ) and has been included in accounts receivable.

CHIS currently carries a \$250,000 operating line of credit through a chartered bank. CKHA, Bluewater Health and Windsor Regional Hospital have provided separate guarantees in support of that operating line.

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**14. Comparative Amounts**

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.