

Financial Statements of

TRANSFORM SHARED SERVICE ORGANIZATION

Year ended March 31, 2014 and the three months ended March 31, 2013

Mission: *As a strategic partner, we are dedicated to delivering exceptional service and creating new opportunities to improve value to the health system; Vision: Lead innovation and change to achieve health system transformation; Values: Collaboration, Accountability, Respect, Teamwork*

TRANSFORM SHARED SERVICE ORGANIZATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of TransForm Shared Service Organization

We have audited the accompanying financial statements of TransForm Shared Service Organization, which comprise the statements of financial position as at March 31, 2014 and March 31, 2013 the statements of revenue and expenses and cash flows for the year ended March 31, 2014 and the three month period ended March 31, 2013, 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 accounting standards for not-for-profit organizations, 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 TransForm Shared Service Organization as at March 31, 2014 and March 31, 2013, and its results of operations and its cash flows for the year ended March 31, 2014 and the three month period ended March 31, 2013 in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants, Licensed Public Accountants

June 18, 2014
Windsor, Canada

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TRANSFORM SHARED SERVICE ORGANIZATION

Statements of Financial Position

March 31, 2014 and March 31, 2013

	March 31, 2014	March 31, 2013
Assets		
Current assets:		
Cash	\$ 5,607,653	\$ 1,506,832
Accounts receivable	3,071,651	4,089,314
Prepaid expenses	179,803	168,474
Work in process - projects	-	1,259,687
	<u>8,859,107</u>	<u>7,024,307</u>
Capital assets (note 2)	1,433,687	2,240,293
	<u>\$ 10,292,794</u>	<u>\$ 9,264,600</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 3)	\$ 2,575,484	\$ 2,585,922
Advances - projects	1,959,154	-
Unearned revenue	3,704,114	3,623,696
Current portion of capital leases	199,382	158,342
Current portion of long-term debt (note 4)	974,047	870,580
	<u>9,412,181</u>	<u>7,238,540</u>
Capital leases	-	109,777
Long-term debt (note 4)	298,012	1,230,310
Deferred capital contributions related to capital assets (note 5)	343,363	546,958
Unspent deferred capital contributions	239,238	139,015

Net Assets

Unrestricted	-	-
Commitments (note 6)		
	<u>\$ 10,292,794</u>	<u>\$ 9,264,600</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

TRANSFORM SHARED SERVICE ORGANIZATION

Statements of Revenue and Expenses

Year ended March 31, 2014 and for the three months ended March 31, 2013

	Year ended March 31, 2014	Three months ended March 31, 2013
Revenue:		
Contributions from member hospitals (note 7)	\$ 15,345,379	\$ 3,123,580
Recoveries	41,920	27,790
Investment income	108,757	29,864
Amortization of deferred contributions related to capital assets	364,646	-
Project revenues	5,902,589	831,496
	<u>21,763,291</u>	<u>4,012,730</u>
Expenses:		
Salaries, wages and benefits	14,188,402	2,760,121
Computer licenses and maintenance	1,520,581	239,974
Data processing	1,399,206	88,965
Professional fees	1,395,992	345,413
Amortization of capital assets	958,611	154,649
Rent	755,675	176,939
Administrative fees	310,943	2,708
Telephone	244,504	56,839
Minor equipment	221,593	64,538
Travel	209,114	26,265
Supplies	180,046	37,398
Interest	104,539	29,839
Other	86,774	3,227
Insurance	76,808	19,875
Training	68,002	4,469
Membership fees	42,501	1,511
	<u>21,763,291</u>	<u>4,012,730</u>
Excess of revenue over expenses	\$ -	\$ -

See accompanying notes to financial statements.

TRANSFORM SHARED SERVICE ORGANIZATION

Statements of Cash Flows

Year ended March 31, 2014 and for the three months ended March 31, 2013

	March 31, 2014	March 31, 2013
Operating activities:		
Excess of revenue over expenses	\$ -	\$ -
Items not involving cash:		
Amortization of capital assets	958,611	154,649
Amortization of deferred contributions related to capital assets	(364,646)	-
	593,965	154,649
Changes in non-cash working capital balances:		
Accounts receivable	1,017,663	48,548
Work in process - projects	1,259,686	(135,304)
Prepaid expenses	(11,329)	155,059
Other	-	6,538
Accounts payable and accrued liabilities	(10,438)	617,741
Unearned revenue	80,418	2,781,267
Advances - projects	1,959,154	-
Payable to member hospitals	-	(159,575)
	4,889,119	3,468,923
Investing activities:		
Purchase of capital assets	(152,005)	(12,513)
Loan receivable from member hospitals	-	1,418,786
	(152,005)	1,406,273
Financing activities:		
Capital leases	(68,737)	-
Long-term debt	(828,830)	(311,139)
Capital sinking fund	100,223	139,015
Deferred capital contributions related to capital assets	161,051	(3,336,349)
	(636,293)	(3,508,473)
Increase in cash position	4,100,821	1,366,723
Cash position, beginning of period	1,506,832	140,109
Cash position, end of period	\$ 5,607,653	\$ 1,506,832

See accompanying notes to financial statements.

TRANSFORM SHARED SERVICE ORGANIZATION

Notes to Financial Statements

Year ended March 31, 2014 and the three month period ended March 31, 2013

TransForm Shared Service Organization ("the Organization") is a not-for-profit organization resulting from the amalgamation of PROcure Healthcare and Consolidated Health Information Systems on January 1, 2013 and as such the comparative period for revenue and expense items is comprised of three months (Jan. 1, 2013-March 31, 2013). The Organization is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

The objective of the Organization is to provide;

- i. Specialty Information Management/Information Technology services;
- ii. Supply chain and specialized contract services;
- iii. Project Management Services to address local, regional and provincial health priorities and initiatives.

All divisions work with various health service providers and government officials to lead transformational change. Specifically all divisions are focused on providing value, improving the patient experience, achieving better health outcomes and utilizing health resources more effectively. All three divisions work to support their customers in the delivery of exceptional patient care by ensuring efficiencies, service excellence and cost savings. The Organization is currently owned by the five Erie St. Clair hospitals and is governed by a Board of Directors comprising of senior executives from each hospital, namely: Bluewater Health, Chatham-Kent Health Alliance, Hôtel-Dieu Grace Healthcare (formerly Hôtel-Dieu Grace Hospital), Leamington District Memorial Hospital and Windsor Regional Hospital as well as five independent Directors.

Services are provided to member organizations at rates designed to reflect the costs and expenses incurred by the Corporation in the normal course of business. Annual operating expenses are to be allocated to the members based primarily on the public sector funding provided to each member as of the most recent fiscal year end. Any surplus of revenue over expenses is to be retained by the Corporation for provision of future services. Any deficiency of revenue over expenses is recoverable from the individual members in accordance with the allocation formula previously described. Additional funds for capital projects or additional expenses outside the annual operating plan are shared based on the number of users impacted by these projects at each member hospital.

These financial statements have been prepared in accordance with Canadian accounting standards for not for profit corporations

1. Significant accounting policies:

(a) Revenue recognition:

The Organization follows the deferral method of accounting for contributions which include government contributions.

Operating contributions are recorded as revenue in the period to which they relate. Contributions approved but not received at the end of an accounting period are accrued. Where a portion of a contribution relates to a future period, it is deferred and recognized in that subsequent period.

TRANSFORM SHARED SERVICE ORGANIZATION

Notes to Financial Statements (continued)

Year ended March 31, 2014, and the three month period ended March 31, 2013

1. Significant accounting policies (continued):

(a) Revenue recognition (continued):

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.

(b) Capital assets:

Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives, at the following rates:

Asset	Rate
Software licences and software development	20% - 33%
Hardware	3 to 5 years
Major equipment	10 years
Leasehold improvements	7 years

Amortization of a specific asset is not recorded until the asset has been placed into use.

(c) Deferred capital contributions

The Organization records deferred capital contributions using the deferral method. Deferred capital contributions are amortized on the straight-line basis over the estimated useful life of the corresponding capital asset acquired.

TRANSFORM SHARED SERVICE ORGANIZATION

Notes to Financial Statements (continued)

Year ended March 31, 2014 and the three month period ended March 31, 2013

1. Significant accounting policies:

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured 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. The Organization has not elected to carry any such financial instruments at fair value.

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.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Organization determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Organization expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(e) Capital disclosure:

The Organization considers its capital to be its deferred contributions, deferred contributions related to capital assets and unrestricted net assets. The Organization's primary objective of capital management is to ensure that it has sufficient resources to continue to provide the full continuum of supply chain and IT services. Annual budgets are developed and monitored to ensure the Organization's capital is maintained at an appropriate level.

(f) 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 include the valuation of accounts receivable and capital assets. Actual results could differ from those estimates.

TRANSFORM SHARED SERVICE ORGANIZATION

Notes to Financial Statements (continued)

Year ended March 31, 2014, and the three month period ended March 31, 2013

2. Capital assets:

	Cost	Accumulated amortization	March 31, 2014 Net book value	March 31, 2013 Net book value
Software licences and software development	\$ 2,388,465	\$ 1,830,011	\$ 558,454	\$ 839,575
Hardware	6,798,736	6,266,867	531,869	853,759
Major equipment	1,930,070	1,628,534	301,536	487,703
Leasehold improvements	88,670	46,842	41,828	59,256
	<u>\$ 11,205,941</u>	<u>\$ 9,772,254</u>	<u>\$ 1,433,687</u>	<u>\$ 2,240,293</u>

3. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities, are government remittances payable of \$755,290 (2013 - \$389,994) which include amounts payable for HST and payroll related remittances.

4. Long-term debt:

	March 31, 2014	March 31, 2013
Term loan secured by a general security agreement, blended payments of \$77,245, interest payable at 3.37%	\$ 1,272,059	\$ 2,100,890
Less: current portion	974,047	870,580
<u>Long-term debt</u>	<u>\$ 298,012</u>	<u>\$ 1,230,310</u>

Principal due within each of the next 2 years is as follows:

2015	\$ 974,047
2016	298,012
	<u>\$ 1,272,059</u>

TRANSFORM SHARED SERVICE ORGANIZATION

Notes to Financial Statements (continued)

Year ended March 31, 2014 and the three month period ended March 31, 2013

5. Deferred contributions related to capital assets:

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

	March 31, 2014	March 31, 2013
Balance, beginning of period	\$ 546,958	\$ 546,958
Additional contributions received	161,051	-
Less: amounts amortized to revenue	(364,646)	-
Balance, end of period	\$ 343,363	\$ 546,958

6. Contracts and commitments:

The Organization has entered into a building lease for the premises at 770 Richmond St., Chatham. The lease term is seven years from April 1, 2010, with rent of \$128,951 in calendar year 2014, \$129,373 in 2015, \$129,836 in 2016 and \$32,489 in 2017.

The Organization has leased photocopier equipment for a period of 60 months commencing April 1, 2010, with quarterly payments based on a rate of \$0.0319 per copy.

7. Related party transactions:

The Organization has been granted permission to use the member hospitals' facilities and equipment as considered necessary to carryout the services.

Chatham-Kent Health Alliance

At March 31, 2014, the Organization received from Chatham-Kent Health Alliance \$3,168,536 (2013 - \$564,996) in transaction funding comprising \$2,232,059 (2013 - \$498,578) in Operational Funding and \$936,477 (2013 - \$66,418) in Computer Licenses, Maintenance and Leasing Expense Funding.

Windsor Regional Hospital

At March 31, 2014, the Organization received from Windsor Regional Hospital \$5,084,621 (2013 - \$1,016,796) in transaction funding comprising \$4,016,825 (2013 - \$897,267) in Operational Funding and \$1,067,796 (2013 - \$119,529) in Computer Licenses, Maintenance and Leasing Expense Funding.

TRANSFORM SHARED SERVICE ORGANIZATION

Notes to Financial Statements (continued)

Year ended March 31, 2014 and the three month period ended March 31, 2013

7. Related party transactions (continued):

Bluewater Health

At March 31, 2014, the Organization received from Bluewater Health \$2,960,536 (2013 - \$631,674) in transaction funding comprising \$2,495,410 (2013 - \$557,418) in Operational Funding and \$465,126 (2013 - \$74,256) in Computer Licenses and Maintenance Expense Funding.

Hôtel-Dieu Grace Healthcare

At March 31, 2014, the Organization received from Hôtel-Dieu Grace Healthcare \$3,261,719 (2013 - \$720,241) in transaction funding comprising \$2,845,296 (2013 - \$635,574) in Operational Funding and \$416,423 (2013 - \$84,667) in Computer Licenses and Maintenance Expense Funding.

Leamington District Memorial Hospital

At March 31, 2014, the Organization received from Leamington District Memorial Hospital \$869,967 (2013 - \$189,873) in transaction funding comprising of \$750,089 (2013 - \$167,553) in Operational Funding and \$119,878 (2013 - \$22,320) in Computer Licenses and Maintenance Expense Funding.

8. Economic dependence:

The Organization is financially dependent on the member hospitals as it does not provide significant services to any other parties at this time.

9. Pension plan:

Substantially all of the full-time employees of the Organization, as well as those part-time employees who chose to participate, are members of the Healthcare of Ontario Pension Plan ("HOOPP"), which is a multi-employer final average pay contributory pension plan. Contributions to the plan made during the year (three month period in 2013) on behalf of its employees amounted to \$1,679,223 (2013 - \$345,099) and are included in salaries, wages and benefits in the statement of operations. The most recent actuarial valuation of the plan as at December 31, 2013 indicates that the plan is fully funded.

TRANSFORM SHARED SERVICE ORGANIZATION

Notes to Financial Statements (continued)

Year ended March 31, 2014 and the three month period ended March 31, 2013

10. Connecting Southwest Ontario:

The connecting Southwest Ontario (cSWO) is a Program of eHealth (Enabling Technologies) Ontario which constitutes the delivery of regional technology solutions, change management support and clinical transformation initiatives that, once fully implemented, will result in the availability of secure, integrated electronic health records for all residents of Southwest Ontario, across the continuum of care (hospital, community, primary care, etc.). These records will be available electronically to all health care providers who are authorized to access them and are within the patient's circle of care, regardless of where the patient presents for care in the Southwest region.

In June 2013, the Organization entered into a Transfer Payment Agreement (TPA) with London Health Sciences (LHSC) to deliver Phase 2D of the cSWO Program in the Erie St Clair LHIN (ESC LHIN). LHSC is the Program Manager for cSWO in Southwest Ontario which encompasses its four LHINs including ESC LHIN. TransForm is the Change Management and Adoption delivery partner for the ESC LHIN. The Phase 2D agreement ended on March 31, 2014 and TransForm has entered into a new TPA with LHSC in order to deliver the Phase 3 Program in ESC LHIN. Total funding for cSWO Phase 2D was \$829,317 in 2014 (\$21,736 - 2013).

