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

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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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 18, 2014
Windsor, Canada

# 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 |
| | | 8,859,107 | | 7,024,307 |
| Capital assets (note 2) | | 1,433,687 | | 2,240,293 |
| | $ | 10,292,794 | $ | 9,264,600 |
| **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 |
| | | 9,412,181 | | 7,238,540 |
| 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) | | | | |
| | $ | 10,292,794 | $ | 9,264,600 |

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 |
| | | 21,763,291 | | 4,012,730 |
| 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 |
| | | 21,763,291 | | 4,012,730 |
| 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 ("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.

## 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.

## 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 |
| | $ 11,205,941 | $ 9,772,254 | $ 1,433,687 | $ 2,240,293 |

## 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 |
| Long-term debt | $ 298,012 | $ 1,230,310 |

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

| | |
|---|---|
| 2015 | $ 974,047 |
| 2016 | 298,012 |
| | $ 1,272,059 |

### 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.

## 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.

**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).