Huron Perth Healthcare Alliance

Combined financial statements

March 31, 2023

Independent auditor's report

To the Board of Directors of
Huron Perth Healthcare Alliance

Opinion

We have audited the combined financial statements of **Huron Perth Healthcare Alliance** [the "Alliance"], which comprise the combined statement of financial position as at March 31, 2023, and the combined statement of changes in net assets, combined statement of operations and combined statement of cash flows for the year then ended, and notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Alliance as at March 31, 2023, and its combined results of operations and its combined cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the combined financial statements* section of our report. We are independent of the Alliance in accordance with the ethical requirements that are relevant to our audit of the combined financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the combined financial statements

Management is responsible for the preparation and fair presentation of the combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is responsible for assessing the Alliance's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Alliance or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Alliance's financial reporting process.

Auditor's responsibilities for the audit of the combined financial statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Alliance's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Alliance's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Alliance to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Alliance to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

London, Canada
June 23, 2023

Huron Perth Healthcare Alliance

Combined statement of financial position

As at March 31

	2023	2022
	$	$
		[restated – note 2]
Assets		
Current		
Cash	**23,541,905**	27,176,658
Accounts receivable *[notes 3 and 13]*	**12,404,754**	10,651,639
Grants receivable	**—**	307,290
Inventories *[note 4]*	**2,182,398**	2,284,706
Prepaid expenses	**2,519,092**	2,331,065
Total current assets	**40,648,149**	42,751,358
Long-term investments *[note 5]*	**461,716**	461,716
Property and equipment, net *[note 6]*	**106,838,595**	102,981,031
	147,948,460	146,194,105
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities *[note 15]*	**27,690,132**	26,400,495
Accrued salaries and wages	**14,926,309**	12,197,842
Current portion of post-employment benefits *[note 8[b]]*	**432,800**	582,700
Deferred contributions, expenses of future periods *[note 10]*	**1,403,988**	1,175,903
Demand loans and current portion of term debt *[note 7]*	**10,395,500**	7,250,500
Total current liabilities	**54,848,729**	47,607,440
Term debt *[note 7]*	**1,689,823**	2,025,323
Post-employment benefits *[note 8[b]]*	**9,306,700**	9,078,900
Deferred contributions, capital *[note 9]*	**68,148,475**	67,699,380
Asset retirement obiligation *[note16]*	**3,019,115**	2,929,674
Total liabilities	**137,012,842**	129,340,717
Commitments and contingencies *[note 12]*		
Net assets		
Endowments *[note 11]*	**119,719**	119,719
Unrestricted	**10,815,899**	16,733,669
Total net assets	**10,935,618**	16,853,388
	147,948,460	146,194,105

See accompanying notes

On behalf of the Board:

Board Chair

Treasurer

Huron Perth Healthcare Alliance

Combined statement of changes in net assets

Year ended March 31

	2023			2022
	Endowments	**Unrestricted**	**Total**	**Total**
	$	$	$	$
	[note 11]			*[restated – note 2]*
Net assets, beginning of year, as previously reported	**119,719**	**19,532,491**	**19,652,210**	19,593,307
Adjustment for opening balance of asset retirement obligation adjustment *[note 2]*	**—**	**(2,798,822)**	**(2,798,822)**	(2,691,377)
Balance, beginning of the year, as restated	**119,719**	**16,733,669**	**16,853,388**	16,901,930
Deficiency of revenue over expenses for the year	**—**	**(5,917,770)**	**(5,917,770)**	(48,542)
Net assets, end of year	**119,719**	**10,815,899**	**10,935,618**	16,853,388

See accompanying notes

Huron Perth Healthcare Alliance

Combined statement of operations

Year ended March 31

	2023	2022
	$	$
		[restated – note 2]
Revenue		
Ontario Health funding	**142,416,440**	139,020,372
In-patient services	**473,180**	510,885
Out-patient services	**16,335,416**	15,576,044
Preferred accommodation	**436,493**	540,966
Chronic co-payment	**286,048**	243,141
Other revenue *[note 5]*	**12,921,071**	10,527,532
Unrestricted donations and bequests	**148,579**	65,802
Amortization of deferred contributions, capital – equipment	**2,111,196**	2,152,500
	175,128,423	168,637,242
Expenses		
Salaries and wages	**84,970,571**	77,770,531
Medical staff remuneration	**21,718,959**	21,059,480
Employee benefits	**23,526,901**	22,776,399
Supplies and other expenses	**28,112,534**	26,237,146
Medical and surgical supplies	**7,344,635**	6,830,422
Drugs	**8,286,589**	7,490,974
Amortization of equipment	**4,143,823**	3,850,433
Interest – non-building *[note 7]*	**135,428**	27,552
	178,239,440	166,042,937
Excess (deficiency) of revenue over expenses before the following	**(3,111,017)**	2,594,305
Amortization of deferred contributions, capital – buildings and land improvements	**3,591,837**	3,554,442
Amortization of buildings and land improvements	**(6,135,870)**	(6,024,104)
Interest expense *[note 7]*	**(173,279)**	(86,405)
Accretion expense	**(89,441)**	(86,780)
	(2,806,753)	(2,642,847)
Deficiency of revenue over expenses for the year	**(5,917,770)**	(48,542)

See accompanying notes

Huron Perth Healthcare Alliance

Combined statement of cash flows

Year ended March 31

	2023	2022
	$	$
		[restated – note 2]
Operating activities		
Deficiency of revenue over expenses for the year	**(5,917,770)**	(48,542)
Add (deduct) items not involving cash		
Amortization of equipment	**4,143,823**	3,850,433
Amortization of buildings and land improvements	**6,135,870**	6,024,104
Loss (gain) on disposal of equipment	**30,429**	(6,390)
Amortization of deferred contributions, capital – equipment	**(2,111,196)**	(2,152,500)
Amortization of deferred contributions, capital – buildings and land improvements	**(3,591,837)**	(3,554,442)
Accreiton of asset retirement obligation	**89,441**	86,780
Interest on investments	**—**	(1,483)
Post-employment benefits	**77,900**	172,000
	(1,143,340)	4,369,960
Net change in non-cash working capital balances related to operations *[note 14]*	**2,714,645**	22,632,256
Cash provided by operating activities	**1,571,305**	27,002,216
Capital activities		
Purchase of property and equipment	**(14,167,686)**	(13,242,555)
Proceeds on disposal of property and equipment	**—**	86,987
Cash used in capital activities	**(14,167,686)**	(13,155,568)
Financing activities		
Proceeds of demand loans	**4,888,400**	5,284,696
Repayment of demand loans	**(1,743,401)**	(10,347,791)
Repayment of term debt	**(335,499)**	(144,000)
Contributions received related to capital	**6,152,128**	6,667,267
Cash provided by financing activities	**8,961,628**	1,460,172
Net increase (decrease) in cash during the year	**(3,634,753)**	15,306,820
Cash, beginning of year	**27,176,658**	11,869,838
Cash, end of year	**23,541,905**	27,176,658

See accompanying notes

Notes to combined financial statements

March 31, 2023

1. Purpose of the organization

On July 1, 2003, Clinton Public Hospital, Seaforth Community Hospital, St. Marys Memorial Hospital and Stratford General Hospital [the "Hospitals"] entered into an Alliance Agreement to form the Huron Perth Healthcare Alliance [the "Alliance"]. Under the Alliance Agreement, the four hospitals maintain their separate corporate status, but operate as one entity with regard to human resources, financial resources, clinical services, recruitment and governance. The Alliance was created to maintain and improve health care services primarily within the region of Huron and Perth counties.

The Alliance is funded primarily by Ontario Health. Any excess of revenue over expenses earned during a fiscal year may be retained by the Alliance. There is no commitment that deficits incurred by the Alliance will be funded. Therefore, to the extent that deficits are incurred and not funded, future operations may be affected.

The Hospitals operate under Hospital Service Accountability Agreements ["H-SAAs"] with Ontario Health. Stratford General Hospital also operates under a Multi-Service Accountability Agreement ["M-SAA"] with Ontario Health. These agreements set out the rights and obligations of the two parties in respect of funding provided to the Hospitals by Ontario Health. The H-SAAs and M-SAA set out the funding provided to the Hospitals together with performance standards and obligations of the Hospitals that establish acceptable results for the Hospitals' performance.

If any of the Hospitals in the Alliance do not meet certain performance standards and obligations, Ontario Health has the right to adjust some funding streams received by the Hospitals. Given that Ontario Health is not required to communicate funding adjustments until after the submission of the year-end data, the amount of revenue recognized in these combined financial statements represents management's best estimate of amounts earned during the year.

The Alliance's combined operating surplus/deficiency of revenue over expenses is shared based on the percentage interest identified in the Alliance Agreement. Ontario Health revenue is adjusted between the four Hospitals within the Alliance through a "Paymaster" account, to reflect the appropriate operating surplus/deficiency of revenue over expenses.

Property and equipment expenditures, which are not funded by the local Foundations, are shared by all four Hospitals based on the percentage interest identified in the Alliance Agreement.

Post-employment benefits are shared by all four Hospitals based on the percentage interest identified in the Alliance Agreement.

The Alliance's liabilities are joint and several for all the Hospitals within the Alliance arrangement including the bank facilities as further explained in note 7.

2. Summary of significant accounting policies

These combined financial statements are prepared in accordance with the *CPA Canada Public Sector Accounting Handbook*, which sets out generally accepted accounting principles for government not-for-profit organizations in Canada. The Alliance has chosen to use the standards specific to government not-for-profit organizations as set out in PS 4200 to PS 4270. The significant accounting policies are summarized as follows:

[a] Basis of presentation and use of estimates

The combined financial statements of the Alliance include the accounts of the Hospitals. All intercompany accounts and transactions have been eliminated in the accompanying combined financial statements. The combined financial statements represent the operations of the Alliance and do not include the assets, liabilities and activities of affiliated organizations such as foundations and volunteer associations that, although affiliated with the Hospitals within the Alliance, are not operated or controlled by them.

The preparation of the combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the combined financial statements, and the reported amounts of revenue and expenses during the reporting period. The significant estimation processes relate to employee future benefits, asset retirement obligations, revenue recognized from Ontario Health, valuation of accounts receivable and grants receivable, and the useful life of property and equipment. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Although some variability is inherent in these estimates, management believes that the amounts recorded are appropriate. Actual results could differ from those estimates.

[b] Revenue recognition

The Alliance follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be estimated and collection is reasonably assured. Externally restricted contributions other than endowment contributions are initially deferred when recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Endowment contributions are recognized as direct increases in net assets. Contributions restricted for the purchase of property and equipment are initially deferred and amortized to revenue on the same basis as the amortization rate for the related property and equipment.

Revenue from patient services, non-patient services and preferred accommodation is recognized when the services have been provided or when the goods have been sold. Working capital funding is recognized as revenue during the period in which the funding notice is provided by Ontario Health.

Investment income consists of interest earned on the Alliance’s investments. Investment income on unspent deferred capital contributions, if restricted for future use, is deferred as a component of such contributions. Investment income earned on endowment funds is added to deferred capital contributions during the year. All other investment income is recognized as revenue when earned in the combined statement of operations.

Notes to combined financial statements

March 31, 2023

[c] Inventories

Inventories are valued at the lower of replacement cost and net realizable value on a weighted average basis. Reviews for obsolete, damaged and expired items are done on a regular basis, and any items that are found to be obsolete, damaged or expired are written off when such determination is made.

[d] Investments

Investments are recorded initially at fair value and subsequently at amortized cost, and where there is a reduction in value that is considered other than temporary, the investment is written down. A loss in value of investment that is other than temporary decline occurs when the actual value of the investment to the Alliance becomes lower than its cost or amortized cost, adjusted for any write-downs recorded in previous reporting periods, and the impairment is expected to remain for a prolonged period. The write-down is included in the statement of operations. A write-down of an investment to reflect a loss in value is not to be reversed if there is a subsequent increase in value. Investments in joint ventures are accounted for using the modified equity method and, as such, are stated at cost plus earnings since acquisition. Transactions are recorded on a trade-date basis.

[e] Property and equipment

Property and equipment are valued at the cost incurred by the Hospitals at the date of acquisition. All direct costs and interest related to building and equipment projects are capitalized during the period of construction until the project is complete.

Amortization is provided on a straight-line basis over the following estimated useful lives of the assets:

Tangible	
Land improvements	10–40 years
Buildings	10–50 years
Furnishings and equipment	3–25 years
Computer hardware	3–5 years
Intangible	
Computer software	3–5 years

No amortization is recorded on construction in progress until the related assets are put into productive use.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the assets no longer have any long-term service potential for the Alliance. When property and equipment no longer contribute to the Alliance’s ability to provide services, their carrying amounts are written down to residual value.

[f] Asset retirement obligations

Asset retirement obligations are recorded in the period during which a legal obligation associated with the retirement of a capital asset is incurred and when a reasonable estimate of this amount can be made. The asset retirement obligation is initially measured at the best estimate of the amount required to retire a capital asset at the financial statement date. A corresponding amount is added to the carrying amount of the related capital asset and is then amortized over its remaining useful life. Changes in the liability due to the passage of time are recognized as an interest expense in the statement of operations, with a corresponding increase in the liability.

The estimated amounts of future costs to retire the assets are reviewed annually and adjusted to reflect the current best estimate of the liability. Adjustments may result from changes in the assumptions used to estimate the undiscounted cash flows required to settle the obligation, including changes in estimated probabilities, amounts and timing of settlement as well as changes in the legal requirements of the obligation, and in the discount rate. These changes are recognized as an increase or decrease in the carrying amount of the asset retirement obligation, with a corresponding adjustment to the carrying amount of the related asset. If the related capital asset is no longer in productive use, all subsequent changes in the estimate of the liability for asset retirement obligations are recognized as an expense in the period incurred.

A liability continues to be recognized until it is settled or otherwise extinguished.

[g] Contributed materials and services

Volunteers contribute a significant amount of time each year. Due to the difficulty of determining the fair value, these contributed services are not recognized or disclosed in the combined financial statements and related notes. Contributed materials are recognized in the combined financial statements at their fair market value if the fair value can be reasonably estimated.

[h] Post-employment benefits

The Alliance accrues its obligations for post-employment benefits and the related costs, net of plan assets measured at fair value. The cost of post-employment benefits earned by employees is actuarially determined using the projected accrued benefit method pro-rated on service using best estimates of salary escalation, retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation was determined by reference to the Alliance's cost of borrowing rate. Differences arising from past service costs are expensed in the period of plan amendment. Differences arising from changes in assumptions and actuarial gains and losses are recognized in income on a straight-line basis over the expected average remaining service life of active employees, which is equal to 16.6 years.

[i] Multi-employer defined benefit plan

Defined contribution plan accounting is applied to the multi-employer defined benefit plan, whereby contributions are expensed on an accrual basis, as the Alliance has insufficient information to apply defined benefit plan accounting.

[j] Financial instruments

All financial instruments are initially recorded on the combined statement of financial position at fair value. They are subsequently valued at fair market value, cost or amortized cost as follows:

[i] Accounts receivable are carried at amortized cost, net of any provision for impairment.
[ii] Long-term investments and grants receivable are carried at amortized cost, net of any provision for impairment.
[iii] Accounts payable and accrued liabilities, accrued salaries and wages and demand loans are carried at cost.

[iv] Term debt is carried at amortized cost

Transaction costs related to financial assets and financial liabilities measured at amortized cost are capitalized with the value of the instrument and amortized to income using the effective interest rate method. All other transaction costs are expensed as incurred.

[k] Remeasurement gains or losses

Remeasurement gains or losses are reported according to their nature, including changes in market value for derivatives, portfolio investments in equity instruments and financial instruments that have been designated to the fair value category. Also included are gains or losses in foreign exchange for items denominated in a foreign currency. As at March 31, 2023, there was no change in the accumulative deficiency of revenue over expenses for the fair value changes or foreign currency translation. Therefore, a statement of remeasurement gains and losses has not been disclosed.

[l] Adoption of new accounting standard

Effective April 1, 2022, the Alliance adopted the new accounting standard PS 3280, Asset Retirement Obligations, issued by the Canadian Public Sector Accounting Board. This standard provides guidance over the reporting of legal obligations associated with the retirement of capital assets that are either currently in productive use or no longer in productive use and controlled by the entity, and the costs associated with the retirement of these assets.

The Alliance has adopted the standard using the modified retrospective approach, which uses assumptions and discount rates as of April 1, 2022. The asset retirement obligation liabilities and the related increase to capital assets are measured as of the date the legal obligations were incurred, adjusted for the accumulated interest and amortization as of that date. The comparative figures have been restated with the cumulative effect of applying the new standard recorded to the opening balance of unrestricted net assets on April 1, 2021. As a result of the application of the new standard, the previously reported excess of revenue over expenses for the year ending March 31, 2022 was reduced by $86,780 of accretion expense and $20,665 of additional amortization expense for a total reduction of $107,445. The opening balance of unrestricted net assets as at April 1, 2021 was decreased by $2,691,377. The balance sheet as at March 31, 2022 reflected an increase in the previously reported capital assets of $130,852 and the creation of an asset retirement obligation of $2,929,674.

3. Accounts receivable

Accounts receivable consist of the following:

	2023	2022
	$	$
Ontario Health	**5,999,960**	5,973,411
Insurers and patients	**2,542,482**	2,226,092
Other	**4,126,562**	2,695,236
	12,669,004	10,894,739
Less allowance for doubtful accounts	**264,250**	243,100
	12,404,754	10,651,639

4. Inventories

During the year, the Alliance expensed $12,785,404 [2022 – $12,276,806] of inventories. There were no write-downs of inventories to net realizable value or any reversals of any write-downs during the year or prior year.

5. Long-term investments

Long-term investments consist of the following:

	2023	2022
	$	$
Guaranteed investment certificate – restricted	**119,719**	119,719
Guaranteed investment certificate – unrestricted	**1,483**	1,483
Horizon ProResp Inc.	**340,514**	340,514
	461,716	461,716

Horizon ProResp Inc.

Effective January 1, 1996, Horizon ProResp Inc. was incorporated as a joint venture between Stratford General Hospital and a third party for the purposes of providing home care services to patients in Huron and Perth counties. Stratford General Hospital received 50 common shares, representing 50% of the voting equity of the joint venture, in exchange for equipment, inventories and supplies relating to the home oxygen program that were transferred to the joint venture. The investment is being accounted for according to the modified equity method and, as such, the investment in Horizon ProResp Inc. is stated at cost plus earnings since acquisition.

	2023	2022
	$	$
Common share investment – 50% of common share capital	**55,657**	55,657
Share of income since incorporation	**284,857**	284,857
	340,514	340,514

Management fees in the amount of $215,000 [2022 – $225,000] from Horizon ProResp Inc. have been recorded as other revenue. Transactions are in the normal course of business and recorded at the exchange amount, which is the amount agreed upon by both parties.

6. Property and equipment

Property and equipment consist of the following:

	2023		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Tangible			
Land	**345,841**	**—**	**345,841**
Other non-amortized assets	**147,010**	**—**	**147,010**
Land improvements	**2,007,826**	**1,641,791**	**366,035**
Buildings	**169,939,187**	**97,615,062**	**72,324,125**
Furnishings and equipment	**65,207,216**	**48,460,134**	**16,747,082**
Computer hardware	**7,863,964**	**6,784,493**	**1,079,471**
Construction in progress	**14,949,999**	**—**	**14,949,999**
	260,461,043	**154,501,480**	**105,959,563**
Intangible			
Computer software	**13,296,835**	**12,417,803**	**879,032**
	273,757,878	**166,919,283**	**106,838,595**

	2022		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
	[restated]	*[restated]*	*[restated]*
Tangible			
Land	345,841	—	345,841
Other non-amortized assets	147,010	—	147,010
Land improvements	2,007,826	1,592,056	415,770
Buildings	166,501,876	91,528,927	74,972,949
Furnishings and equipment	61,632,353	47,047,555	14,584,798
Computer hardware	7,643,416	6,340,479	1,302,937
Construction in progress	10,020,869	—	10,020,869
	248,299,191	146,509,017	101,790,174
Intangible			
Computer software	12,939,637	11,748,780	1,190,857
	261,238,828	158,257,797	102,981,031

Notes to combined financial statements

March 31, 2023

7. Demand loans and term debt

The various facilities are presented as follows on the combined statement of financial position:

	2023	2022
	$	$
Demand loans [a]	**10,060,000**	6,915,000
Current portion of term debt [b]	**335,500**	335,500
Total demand loans and current portion of term debt	**10,395,500**	7,250,500
Term debt [b]	**1,689,823**	2,025,323

[a] Demand loans

The Alliance has a $7,000,000 revolving demand facility [the "Facility"] with the Royal Bank of Canada ["RBC"] to finance general operating requirements. The Facility bears interest at the bank's prime rate [6.70%] minus 0.65%. As at March 31, 2023, nil [2022 – nil] has been drawn on the Facility.

The Alliance has a $25,000,000 [2022 – $25,000,000] revolving demand facility with RBC to finance the acquisition of capital assets, including property and equipment [the "Capital Facility"]. The Capital Facility bears interest at various rates depending on the term. As at March 31, 2023, $10,060,000 [2022 – $6,915,000] has been drawn on the Capital Facility.

[b] Term debt

The Alliance has a term facility with RBC that was used to finance the completion of the Stratford Site Redevelopment Project [the "SSRP Facility"]. The SSRP Facility bears interest at the bank's prime rate [6.70%] minus 0.65%. As at March 31, 2023, $1,144,418 is outstanding on the SSRP Facility [2022 – $1,288,418]. Interest payments are made monthly on the 26th day of each month and annual principal payments are due March 31 of the respective year. Subsequent to year end, the maturity date of the SSRP Facility was amended to March 31, 2029 from March 31, 2024, as such this amount has been classified as long term.

The Alliance has a committed instalment loan with the Canadian Imperial Bank of Commerce ["CIBC"] that is being used to finance the Energy Co-Generation Project at the Stratford site [the "Co-Gen Facility"]. The Co-Gen Facility bears interest at the bank's prime rate [6.70%] minus 0.75% and is due on demand. As at March 31, 2023, $880,905 [2022 – $1,072,405] is outstanding. The commitment period of the Co-Gen Facility will expire on April 30, 2025.

Loans that the lender can require to be repaid on demand are classified as current liabilities. Management does not believe that the demand features will be exercised in the current year. Principal repayments required on term debt over the next five years and thereafter are as follows:

	$
2024	335,500
2025	833,405
2026	144,000
2027	144,000
2028	144,000
Thereafter	424,418
	2,025,323

[c] Other facility

The Alliance also has access to a $9,000,000 revolving lease line of credit [the “Lease Facility”] with RBC, by way of lease agreements with RBC. The purpose of the Lease Facility is to fund the acquisition of capital assets, including equipment and software. The Lease Facility bears interest at the applicable rate contained in the respective lease agreement entered. As at March 31, 2023, nil [2022 – nil] has been drawn on the Lease Facility.

8. Post-employment benefits

[a] Pension plan

Substantially all of the full-time employees of the Alliance are members of the Healthcare of Ontario Pension Plan [the “HOOPP”]. As the HOOPP is a multi-employer, defined benefit pension plan, no actuarial liability has been recorded on the Alliance’s combined financial statements. Employer contributions to the HOOPP are expensed as contributions are due.

Employer contributions to the HOOPP on behalf of employees amounted to $7,043,347 [2022 – $6,299,009]. The most recent actuarial valuation for financial reporting purposes completed by the HOOPP as at December 31, 2022 disclosed net assets available for benefits of $103,674 million [2021 – $114,414 million] with pension obligations of $92,721 million [2021 – $85,902 million], resulting in a surplus of $10,953 million [2021 – $28,512 million]. The cost of pension benefits is determined by the HOOPP at $1.26 per every dollar of employee contributions. As at December 31, 2022, the HOOPP was 117% funded [2021 – 120%].

[b] Post-employment benefits

Retirees and surviving spouses of retirees are eligible for life insurance, drug, other medical, dental and hospital benefits covered under the non-pension, post-employment benefit plan [the “Plan”] after they turn 55. The Plan is funded on a pay-as-you-go basis and the Hospitals fund on a cash basis as benefits are paid. During the year, benefits paid totalled $410,832 [2022 – $226,172].

The most recent full actuarial valuation for funding purposes was completed by the Alliance’s independent actuaries as at March 31, 2023.

Notes to combined financial statements

March 31, 2023

The following table presents information related to the Alliance’s post-employment benefits as at March 31, including the amounts recorded on the combined statement of financial position and components of net periodic benefit cost:

	2023	2022
	$	$
Accrued benefit obligation		
Balance, beginning of year	**7,346,400**	7,776,600
Current service cost	**477,900**	519,300
Interest cost	**277,900**	230,800
Benefits paid	**(504,800)**	(453,300)
Actuarial gain	**(907,400)**	(727,000)
Balance, end of year	**6,690,000**	7,346,400
Unamortized net actuarial gain	**3,049,500**	2,315,200
Post-employment benefits	**9,739,500**	9,661,600
Less current portion	**432,800**	582,700
	9,306,700	9,078,900

The accrued benefit obligation for non-pension post-employment benefits is included in the long-term liabilities as post-employment benefits, with the current portion of post-employment benefits separately disclosed. Unamortized actuarial gains are amortized over the expected average remaining service life of employees of the Alliance.

The Alliance’s benefit plan expense is as follows:

	2023	2022
	$	$
Current service cost	**477,900**	519,300
Interest cost	**277,900**	230,800
Amortization of net actuarial gain	**(173,100)**	(124,800)
Post-employment benefits expense	**582,700**	625,300

The significant actuarial assumptions adopted in measuring the Alliance’s accrued benefit obligation and the expense for post-employment benefits are as follows:

	2023	2022
	%	%
Discount rate – net accrued benefit expense	**3.67**	2.86
Discount rate – accrued benefit obligation	**4.55**	3.67
Extended health care premium increases	**4.60**	6.00
Dental premium increases	**5.14**	4.50

The extended health care premiums are expected to decrease by 0.1% per annum to an ultimate rate of 4.0%. The expected average remaining service life of active employees is 16.57 years.

9. Deferred contributions, capital

Deferred contributions related to property and equipment are as follows:

	2023 $	2022 $
Balance, beginning of year	**67,699,380**	67,052,254
Additional contributions received		
Ontario Health, net	**4,436,592**	4,379,726
Foundations *[note 13]*	**1,745,009**	2,252,476
Other	**—**	35,065
Amounts amortized to revenue	**(5,703,033)**	(5,706,942)
Amounts reduced due to disposal of equipment	**(29,473)**	(313,199)
Balance, end of year	**68,148,475**	67,699,380

There were unspent contributions included in the balance of unamortized capital contributions related to property and equipment of $1,891,619 [2022 – $1,074,852].

10. Deferred contributions, expenses of future periods

Deferred contributions, expenses of future periods represent unspent externally restricted contributions, grants and donations. Changes in the deferred contributions, expenses of future periods balance are as follows:

	2023 $	2022 $
Balance, beginning of year	**1,175,903**	520,662
Contributions, grants and donations	**1,784,710**	2,527,052
Amounts earned	**(1,556,625)**	(1,871,811)
Balance, end of year	**1,403,988**	1,175,903

The deferred contributions will be spent as follows:

	2023	2022
	$	$
Mental health programs	**17,325**	29,726
Change Foundation	**—**	2,325
Trillium Gift of Life	**13,585**	23,772
Transformational Funding	**148,331**	—
Med Lab Training Cambrian College	**8,621**	—
LHSC Stroke Rehab Equipment	**12,028**	11,207
Physicians	**450**	25,450
Provincial Supply of Personal Protection Equipment	**7,581**	43,207
South Western Ontario Public Health Infection Prevention and Control	**—**	40,211
Ontario Health Teams	**633,922**	443,921
Crisis Mental Health	**562,145**	556,083
	1,403,988	1,175,902

11. Endowments

All of the net assets restricted for endowment purposes are subject to externally imposed restrictions stipulating that the principal be maintained intact in perpetuity. Investment income on the assets restricted for endowment purposes is externally restricted for capital purposes. The total investment income earned on endowments during the year was nil [2022 – $1,395] and was included in deferred contributions, capital during the year.

12. Commitments and contingencies

The Alliance from time to time enters into multi-year service contracts in the normal course of operations. The amounts committed to these service contracts for the next five years and thereafter are as follows:

	$
2024	17,063,668
2025	6,944,338
2026	4,728,903
2027	1,984,356
2028	1,437,338
Thereafter	2,182,585
	34,341,188

The Alliance is involved from time to time as plaintiff or defendant in various legal actions that arise in the normal course of operations. Any contingent gains arising on such actions are included in income when they are assured. Provisions for contingent losses are provided at such time as management concludes that a loss is likely and can be estimated. As at March 31, 2023, management believes adequate provision for losses has been made in the accounts.

The Alliance routinely engages in collective bargaining and is subject to various human rights matters under provincial legislation when employees or groups within the bargaining units file grievances against the Alliance or when the collective bargaining agreements are negotiated, which may result in retroactive pay. Any such amounts are accrued when an amount can be reasonably estimated.

On November 8, 2019, the Ontario legislature passed Bill 124. The legislation imposed a series of 3 year “moderation periods”. During moderation periods, increases to salaries and total compensation were capped at 1% per year subject to certain exceptions. On November 29, 2022, Bill 124 was repealed by the Superior Court of Justice of Ontario. As a result, the Alliance has accrued retroactive wages and benefits related to unionized and non-unionized employees in the amount of $4.5 million within accounts payable and accrued liabilities.

13. Related party transactions

Related party transactions during the year not separately disclosed in the combined financial statements include the following:

[a] The Alliance receives donations from the member hospitals’ Foundations [the “Foundations”]. Each Foundation has its own Board of Directors and is independent of the Alliance. The individual Foundations are incorporated under the laws of Ontario. They are registered as public foundations and, as such, are exempt from income taxes and able to issue donation receipts for income tax purposes. The assets, liabilities, revenue and expenses of the Foundations have not been included in these combined financial statements.

Donations of $1,745,009 [2022 – $2,252,476] were received from the Foundations for equipment purchases and capital projects. These amounts have been included in deferred contributions, capital.

During the year, the Alliance provided administrative services including payroll processing at no cost to three of the Foundations.

As at March 31, 2023, an amount of 48,294 [2022 – $37,399] was due from the Foundations. The amount is non-interest-bearing and due on demand.

[b] Alliance operations – Stratford General Hospital is acting as the central financial processing entity for the Alliance, processing all accounts payable and payroll distributions for all four Hospitals in the Alliance from its bank account.

Transactions are in the normal course of business and are recorded at their exchange amount, which is the amount agreed upon by both parties.

Notes to combined financial statements

March 31, 2023

14. Combined statement of cash flows

The net change in non-cash working capital balances related to operations consists of the following:

	2023	2022
	$	$
Decrease (increase) in current assets		
Accounts receivable	**(1,753,115)**	11,302,795
Grants receivable	**307,290**	(196,469)
Inventories	**102,308**	263,196
Prepaid expenses	**(188,027)**	(818,135)
	(1,531,544)	10,551,387
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**1,289,637**	9,351,240
Accrued salaries and wages	**2,728,467**	2,074,388
Deferred contributions, expenses of future periods	**228,085**	655,241
	4,246,189	12,080,869
	2,714,645	22,632,256

Interest of $308,665 [2022 – $113,957] related to the demand and term facilities of the Alliance was paid during the year.

15. Midwifery programs

Stratford General Hospital acts as a transfer payment agency for a midwifery program funded through Ontario Health Community Health and Prevention Branch – Ontario Midwifery Program ["OMP"]. The gross revenue and expenses of the OMP of $7,112,227 [2022 – $7,003,366] are included in the combined statement of operations. The excess of OMP funding over OMP allowed expenses for 2023 is $552,378 [2022 – $589,795], which is due to the Ontario Health OMP and is included in accounts payable and accrued liabilities as at March 31, 2023.

16. Asset retirement obligation

The asset retirement obligation relates to the Alliance's buildings and is based on internal expert assessments and third-party engineering reports that estimate the costs of remediation. The buildings have no set retirement date, however, the remaining useful lives are 1–20 years and the asset retirement obligation is amortized over the remaining period, on a straight-line basis.

The estimated total undiscounted expenditures are $5,484,364 and they are expected to be incurred and settled at the end of the building's useful lives. The liability is calculated using discount rates of 2.92%–3.40%. No amounts were paid during the year ended March 31, 2023 or 2022 towards the liability. The Alliance does not anticipate that it will be able to recover any asset retirement costs from a third party. In addition, it has no legal requirement to fund this obligation and, as such, has not set aside any assets designated for payment of this liability.

The changes in the asset retirement obligation are as follows:

	2023	2022
	$	$
		[restated]
Asset retirement obligation, beginning of year	**2,929,674**	2,842,894
Accretion expense	**89,411**	86,780
Asset retirement obligation, end of year	**3,019,115**	2,929,674

17. Financial instruments and risk management

Financial instrument classification

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the reliability of the data used to determine fair value. The fair value hierarchy is made up of the following levels:

Level 1 – Valuation based on quoted prices [unadjusted] in active markets for identical assets or liabilities;
Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data [unobservable inputs].

The fair value hierarchy requires the use of observable data from the market each time such data exists. A financial instrument is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value.

The guaranteed investment certificate held by the Alliance is classified as Level 2 according to the fair value hierarchy described above. There were no material transfers between Levels 1 and 2 for the year ended March 31, 2023.

Risks and uncertainties

The Alliance is exposed to a range of financial risks including market risk, interest rate risk, credit risk and liquidity risk. The Alliance manages these risks in accordance with its internal policies. The Alliance’s results and operations have been and will continue to be impacted by the COVID-19 pandemic. The adverse effects include but are not limited to fluctuations in interest rates, increase in counterparty credit risk, volatility in financial markets and disruptions of operations. Significant uncertainty remains regarding the breadth and depth of these events and the long-term impact on the Alliance and its affiliates.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual instrument or factors affecting all securities traded in the market. The Alliance’s exposure to market risk is limited as a result of the investment portfolio comprising only long-term, fixed-income securities.

Notes to combined financial statements

Interest rate risk

Interest rate risk refers to the effect on the fair value or future cash flows of a financial instrument due to fluctuations in interest rates. The Alliance is exposed to financial risk that arises from fluctuations in the interest rate on its credit facilities because the interest rate is linked to the bank's prime rate, which changes from time to time. Changes in variable interest rates could cause unanticipated fluctuations in the Alliance's operating results and cash flows.

Credit risk

Credit risk arises from the possibility that the entities from which the Alliance receives funding may experience financial difficulty and be unable to fulfill their obligations to the Alliance. The majority of the Alliance's accounts receivable are owed by government agencies with good credit standing. As at year-end, patient and other accounts receivable total $6,669,044 [2022 – $4,921,328]. As a result, the requirement for credit-risk-related reserves for accounts receivable is minimal. The Alliance has no significant concentration of credit risk with any one individual customer. There are no significant past due or impaired balances as at March 31, 2023.

Liquidity risk

Liquidity risk is the risk of the Alliance being unable to meet its obligations as they fall due. The Alliance manages its liquidity risk by forecasting cash flows from operations and anticipated investing, capital and financing activities, and maintaining credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements.

The majority of accounts payable and accrued liabilities and accrued salaries and wages are expected to be settled in the next fiscal year. The maturities of other financial liabilities are provided in the notes to the combined financial statements related to those liabilities.