Financial Statements

Woodstock General Hospital Trust

March 31, 2013 and 2012

Ernst & Young
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INDEPENDENT AUDITORS' REPORT

To the Members of
Woodstock General Hospital Trust

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Woodstock General Hospital Trust**, which comprise the statements of financial position as at March 31, 2013 and 2012, and April 1, 2011, and the statements of operations, changes in net assets, and cash flows for the years ended March 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

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

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our 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 audits 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 the auditors' 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, the auditors 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 **Woodstock General Hospital Trust** as at March 31, 2013 and 2012, and April 1, 2011, and the results of its operations and its cash flows for the years ended March 31, 2013 and 2012 in accordance with Canadian public sector accounting standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian public sector accounting standards have been applied on a basis consistent with the preceding year.

Ernst & Young LLP

London, Canada,
May 23, 2013.

Chartered Accountants
Licensed Public Accountants

Woodstock General Hospital Trust

STATEMENTS OF FINANCIAL POSITION

As at	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
ASSETS			
Current			
Cash and cash equivalents *[note 6]*	**9,605,069**	21,317,518	3,910,793
Restricted cash and investments *[note 17]*	**1,525,986**	2,358,917	12,735,885
Ministry of Health and Long-Term Care accounts receivable	**1,892,605**	67,106	5,242,469
Other accounts receivable	**3,238,403**	2,818,973	2,511,603
Inventories	**375,680**	254,962	274,820
Prepaid expenses	**817,713**	560,080	182,148
Current portion of long-term receivable *[note 17]*	**2,145,084**	2,007,871	2,649,630
Total current assets	**19,600,540**	29,385,427	27,507,348
Investments *[note 7]*	**8,703,212**	15,105,202	21,226,150
Long-term investments *[note 8]*	**44,441**	49,441	54,441
Long-term receivable *[note 17]*	**160,133,070**	162,278,159	161,494,764
Capital assets, net *[note 9]*	**239,456,741**	240,253,502	206,727,960
	427,938,004	447,071,731	417,010,663
LIABILITIES AND NET ASSETS			
Current			
Ministry of Health and Long-Term Care accounts payable	**431,598**	226,981	137,925
Other accounts payable and accrued liabilities	**11,513,105**	16,714,824	7,266,736
Deferred revenue *[note 10]*	**3,792,460**	9,368,604	—
Current portion of deferred contributions *[note 11]*	**7,705,296**	8,171,744	6,451,687
Current portion of long-term obligation *[note 17]*	**2,145,084**	2,007,879	21,440,670
Total current liabilities	**25,587,543**	36,490,032	35,297,018
Post employment benefits *[note 14[b]]*	**1,782,200**	1,332,800	1,073,900
Deferred contributions *[note 11]*	**229,240,676**	235,904,176	210,875,825
Long-term obligation *[note 17]*	**160,133,050**	162,278,131	161,494,765
Total liabilities	**416,743,469**	436,005,139	408,741,508
Commitments and contingencies *[notes 17, 18 and 19]*			
Net assets			
Endowments *[note 12[a]]*	**542,398**	542,398	542,398
Internally restricted *[note 12[b]]*	**1,730,292**	1,713,793	1,708,726
Unrestricted net assets	**8,921,845**	8,810,401	6,018,031
Total net assets	**11,194,535**	11,066,592	8,269,155
	427,938,004	447,071,731	417,010,663

See accompanying notes

On behalf of the Board:

Edward Dow

Director

Director

Woodstock General Hospital Trust

STATEMENTS OF CHANGES IN NET ASSETS

Years ended

	Endowments	Internally restricted	Unrestricted	March 31, 2013 Total	March 31, 2012 Total	April 1, 2011 Total
	$	$	$	$	$	$
	[note 12[a]]	*[note 12[b]]*				
Balance, beginning of year	**542,398**	**1,713,793**	**8,810,401**	**11,066,592**	8,269,155	4,309,328
Surplus for the year	**—**	**—**	**127,943**	**127,943**	2,797,437	3,959,827
Interfund transfers, net *[note 12]*	**—**	**16,499**	**(16,499)**	**—**	—	—
Balance, end of year	**542,398**	**1,730,292**	**8,921,845**	**11,194,535**	11,066,592	8,269,155

See accompanying notes

Woodstock General Hospital Trust

STATEMENTS OF OPERATIONS

Years ended March 31

	2013 $	**2012** $
REVENUES		
Ministry of Health and Long-Term Care/Local Health Integration Network		
Global funding	**61,474,850**	57,018,564
Funding for financing of new hospital *[note 17]*	**11,221,584**	8,950,163
Fee for services	**4,764,518**	3,977,593
Other patient	**1,068,253**	859,493
Preferred accommodation	**430,186**	513,419
Investment income	**183,195**	237,854
Other revenue *[note 13]*	**14,732,874**	14,292,768
Amortization of deferred contributions *[note 11]*	**7,969,438**	6,095,963
Gain on disposal of capital assets	**48,923**	304,195
	101,893,821	92,250,012
EXPENSES		
Salaries, wages and other remuneration	**45,974,426**	38,967,185
Employee benefits *[notes 3 and 14[b]]*	**7,645,348**	6,738,507
Supplies and other *[note 13]*	**22,774,268**	23,651,169
Medical and surgical supplies	**3,758,707**	3,461,572
Drug	**1,948,315**	1,368,180
Interest on long-term obligation	**11,221,584**	8,950,163
Amortization of equipment *[note 9]*	**4,024,001**	2,686,335
Amortization of buildings and improvements *[note 9]*	**4,419,229**	3,629,464
	101,765,878	89,452,575
Surplus for the year	**127,943**	2,797,437

See accompanying notes

Woodstock General Hospital Trust

STATEMENTS OF CASH FLOWS

Years ended March 31

	2013 $	2012 $
OPERATING ACTIVITIES		
Surplus for the year	**127,943**	2,797,437
Add (deduct) items not involving cash		
Amortization of equipment	**4,024,001**	2,686,335
Amortization of buildings and improvements	**4,419,229**	3,629,464
Amortization of deferred contributions	**(7,969,438)**	(6,095,963)
Gain on disposal of capital assets	**48,923**	304,195
	650,658	3,321,468
Net change in non-cash working capital balances related to operations *[note 16]*	**(12,747,126)**	23,674,567
Net increase in deferred contributions related to expenses of future periods	**3,829**	1,792
Cash (used in) provided by operating activities	**(12,092,639)**	26,997,827
CAPITAL ACTIVITIES		
Purchase of capital assets	**(7,766,754)**	(40,453,219)
Deferred contributions received related to capital assets	**687,773**	32,628,283
Proceeds on sale of capital assets	**71,362**	307,683
Cash used in capital activities	**(7,007,619)**	(7,517,253)
FINANCING ACTIVITIES		
Decrease in long-term obligation	**(2,007,876)**	(18,649,425)
Decrease (increase) in long-term receivable	**2,007,876**	(141,636)
Investment income on unspent capital contributions	**147,888**	214,296
Cash provided by (used in) financing activities	**147,888**	(18,576,765)
INVESTING ACTIVITIES		
Net change in long-term investments	**5,000**	5,000
Loss on sale of investments	—	48,442
Purchase of investments	—	(2,854,743)
Proceeds on sale of investments	**6,401,990**	8,927,249
Cash provided by investing activities	**6,406,990**	6,125,948
Net (decrease) increase in cash during the year	**(12,545,380)**	7,029,757
Cash and cash equivalents, beginning of year	**23,676,435**	16,646,678
Cash and cash equivalents, end of year	**11,131,055**	23,676,435
Represented by		
Cash and cash equivalents	**9,605,069**	21,317,518
Restricted cash and investments	**1,525,986**	2,358,917
	11,131,055	23,676,435

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

1. PURPOSE OF THE ORGANIZATION

The Woodstock General Hospital Trust [the "Hospital"] is a Canadian public hospital dedicated to patient care. The Hospital is incorporated without share capital under the Corporations Act of Ontario. The new 178-bed community hospital is located in the heart of southwestern Ontario. It serves a local catchment of 55,000 and over 100,000 within Oxford County. Services include Maternal/Child Women's Health, Critical Care, Inpatient and Outpatient Rehabilitation and Chemotherapy. The Hospital works closely with its community partners to provide patients with healthcare services, close to home.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

[a] Basis of presentation

These financial statements represent the operations of the Hospital including funds held for special or endowment purposes. The financial statements do not include the assets, liabilities and activities of any other organizations, such as the Woodstock Hospital Foundation [the "Foundation"] and volunteer associations, which, although related to the Hospital, are not controlled by it.

[b] Remeasurement gains and losses

Remeasurement gains and losses are reported according to their nature, including changes in market value for derivatives, portfolio investments in equity instruments and financial instruments. Also included are changes in foreign exchange for items denominated in a foreign currency. As at March 31, 2013 and 2012, there was no change in accumulated surplus attributable to fair value changes and foreign currency translation therefore the surplus is not subject to remeasurement gains and losses.

[c] Revenue recognition

The Hospital 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 reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in endowment net assets.

Externally restricted contributions other than endowment contributions are deferred and recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the same basis as the amortization rate for the related capital assets.

Investment income consists of interest and dividends earned on the Hospital's investments. Investment income on unspent deferred capital contributions, if restricted for future use, is deferred as a component of such contributions. Interest on endowment funds is added to or deducted from endowment net assets. All other investment income is recognized as revenue when earned in the statements of operations.

[d] Cash, restricted cash and cash equivalents

Cash consists of cash on deposit. Restricted cash and cash equivalents consist of cash on deposit and portfolio investments in guaranteed investment certificates which are recorded at fair value. Short-term investments readily convertible to cash included in restricted cash and cash equivalents were $1,525,986 [2012 – $2,358,917; April 1, 2011 – $12,735,885].

[e] Inventories

Inventories are valued at the lower of cost and replacement cost, with cost being determined on a first-in, first-out 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.

[f] Long-term investments

The Hospital has interests in economic activities where there is shared ownership of these activities by the venturers. The accounts of these joint venture activities are included in the accompanying financial statements following the modified equity method. The modified equity method is a basis of accounting for Hospital's business partnerships, whereby the equity method of accounting is only modified to the extent the venturer's accounting policies are not adjusted to conform with those of the Hospital.

[g] Capital assets

Capital assets are valued at the cost incurred by the Hospital 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 estimated useful lives of the assets. Amortization commences in the year an asset is put into use and is discontinued in the year of disposal. The rates of amortization are as follows:

Buildings	2%
Building service equipment	5% to 20%
Equipment and furnishings	5% to 20%
Software	20%

When capital assets are disposed of, the related cost and accumulated amortization are removed from the respective accounts and any gain or loss is reflected in the statement of operations.

No amortization is recorded on construction in progress until construction is substantially complete and the assets are ready for productive use.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the asset no longer has any long-term service potential to the Hospital. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount would be written down to residual value.

[h] Contributed services and materials

A substantial number of volunteers contribute a significant amount of their time each year. Because the fair value of these contributed services is not readily determinable they are not recognized in these financial statements.

[i] Use of estimates

Preparation of the Hospital's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the statement of financial position and the reported amounts of revenue and expenses during the reporting period. The inherent uncertainty involved in making such estimates may impact the actual results reported in future periods.

The amount of revenue recognized from the Ministry of Health and Long-Term Care [the "MOH-LTC"] and the South West Local Health Integration Network [the "SW-LHIN"] requires estimation. The Hospital has entered into a Hospital Service Accountability Agreement [the "H-SAA"] between the Hospital and the SW-LHIN that sets out the rights and obligations of the parties in respect of funding provided to the Hospital by the SW-LHIN and the MOH-LTC covering fiscal 2014.

The H-SAA sets out certain performance standards and obligations that establish acceptable results for the Hospital's performance in a number of areas. If the Hospital does not meet its performance standards or obligations, the SW-LHIN and/or the MOH-LTC have the right to adjust funding received by the Hospital. The SW-LHIN and the MOH-LTC are not required to communicate certain funding adjustments until after the submission of the year end data. Since this data is not submitted until after the completion of the financial statements, the amount of the funding received during the year from the SW-LHIN and the MOH-LTC may be increased or decreased subsequent to the year end.

Other significant items subject to such estimates and assumptions include the valuation of accounts receivable, the carrying amount of property and equipment and the employee future benefits liability.

[j] Financial instruments

All financial instruments are initially recorded at fair value. They are subsequently carried at fair value, cost, or amortized cost as follows:

a. Investments, which consist of fixed-income investments, measured at amortized cost.
b. Current and long-term receivables, accounts payable and accrued liabilities at cost.
c. Long-term obligations are measured at amortized cost.

Transaction costs related to financial assets and financial liabilities are expensed to interest and other expenses, net as incurred.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price at the trade date, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

A change in the fair value of a financial instrument in the fair value category is recognized in the statement of remeasurement gains and losses as a remeasurement gain or loss until the financial instrument is derecognized. In the reporting period that a financial instrument in the fair value category is derecognized, the accumulated remeasurement gain or loss associated with the derecognized item is reversed and reclassified to the statement of operations. There were no changes in fair value of financial instruments in the year therefore no requirement for a remeasurment gains and losses statement.

At each financial statement date, the Hospital assesses financial assets or groups of financial assets to determine whether there is any objective evidence of impairment. When there has been a loss in value of a portfolio investment that is other than a temporary decline, the investment is written down to recognize the loss. A loss in value of a portfolio investment that is other than a temporary decline occurs when the actual value of the investment to the Hospital 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 statements of operations. A write-down of a portfolio investment to reflect a loss in value is not to be reversed if there is a subsequent increase in value.

[k] Post-employment benefits

The Hospital accounts for its defined benefit plan using the immediate recognition approach. The Hospital accrues its obligations and the related costs under employee benefit plans net of plan assets. The cost of employee future benefits earned by employees is actuarially determined using the projected accrued benefit cost 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 represents the Hospital's cost of borrowing. 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 the statement of operations on a straight line basis over the expected average remaining active service life of employees.

[l] Multi-employer plans

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

3. FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS

These financial statements are the first financial statements which the Hospital has prepared in accordance with the Public Sector Handbook, which constitutes GAAP for GNPOs in Canada. In preparing its opening statement of financial position as at April 1, 2011 [the "Transition Date"], the Hospital has applied PS 2125, *First-time Adoption by Government Organizations.*

The accounting policies that the Hospital has used in the preparation of its opening statement of financial position have resulted in certain adjustments to balances which were presented in the statements of financial position prepared in accordance with Part V of the CICA Handbook – Accounting ["Previous GAAP"]. These adjustments were recorded directly to the Hospital's net assets at the Transition Date using the transitional provisions set out in PS 2125 and are described below.

PS 2125 provides a number of elective exemptions related to standards in the Public Sector Handbook. The Hospital has elected to use the transition exemption to recognize all cumulative actuarial losses at the Transition Date directly in unrestricted net assets. The Hospital has elected not to use any other exemptions.

The following table provides a reconciliation of net assets as at April 1, 2011 and the surplus for the year ended March 31, 2012 as presented under Previous GAAP with those computed under GAAP:

	Surplus for the year ended March 31, 2012 $	Net assets as at April 1, 2011 $
Surplus and net assets – Previous GAAP	2,982,237	8,155,155
Adjustments:		
Recognition of cumulative actuarial losses (i)	(93,700)	(59,600)
Recognition of changes in funded status due to change in discount rate (ii)	(4,400)	173,600
Recognition of unamortized past service costs (iii)	(86,700)	—
Subtotal	(184,800)	114,000
Surplus and net assets – GAAP	2,797,437	8,269,155

(i) Election to recognize cumulative actuarial losses

Using an elective exemption available at the Transition Date, the Hospital has recognized unamortized actuarial losses related to employee future benefits in opening net assets as at the Transition Date.

(ii) Discount rate for valuing accrued benefit obligation

Under Previous GAAP, GNPOs used a discount rate based on corporate bonds to value the accrued benefit obligation. PS 3250 requires that the discount rate used to value the accrued benefit obligation be either the Hospital's cost of borrowing or the expected return on plan assets. This adjustment is due to the use of the Hospital's cost of borrowing as the discount rate for the post-retirement benefit plan. The change in the discount rate resulted in an adjustment to opening net assets as at the Transition Date and an adjustment to the surplus for the year end March 31, 2012.

(iii) Past service costs

Under Previous GAAP, a portion of past service cost related to plan amendments had not been recognized in the financial statements. Unamortized past service costs must be expensed under PS 3250 therefore this amount is recognized as an expense as an adjustment to the opening net assets and surplus for the year ended March 31, 2012.

4. CHANGE IN ACCOUNTING POLICY

On April 1, 2012, the Hospital adopted PS 1201 – Financial Statement Presentation, PS 3041 – Portfolio Investments, PS 3450 – Financial Instruments and PS 2601 – Foreign Currency Translation. The standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions. Accordingly, financial statements of prior periods including comparative information have not been restated and no comparative information is presented for the first time presentation on the statement of remeasurement gains and losses.

Under PS 3450, all financial instruments including derivatives, are included on the statements of financial position and are measured at either fair value or amortized cost based on the characteristics of the instrument and the Hospital's accounting policy choices.

The Hospital did not record any adjustments associated with the adoption of these standards.

5. WOODSTOCK HOSPITAL FOUNDATION

The Foundation is an organization without share capital under the laws of Ontario that engages in fundraising activities on behalf of the Hospital. The Foundation relies on the Hospital to provide payroll, facilities and other administrative support and reimburses the Hospital for costs incurred on its behalf. In addition, the Foundation transferred funds of $2,506 [March 31, 2012 - $18,264,893; April 1, 2011 - $2,717,418] for capital purposes to the Hospital during the year.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	March 31, 2013 $	**March 31, 2012** $	**April 1, 2011** $
Cash (bank indebtedness)	**1,940,094**	9,024,225	(1,269,591)
Treasury account for operations	**7,664,975**	12,293,293	5,180,384
	9,605,069	21,317,518	3,910,793

The credit facility established with the Hospital's bankers consists of a credit line of $5,000,000 [March 31, 2012 - $5,000,000; April 1, 2011 - $5,000,000] bearing interest at the bank's prime rate to be used for general operating purposes. No amount was drawn on this facility as at March 31, 2013 [March 31, 2012 – nil; April 1, 2011 - nil].

7. INVESTMENTS

Investments consist of the following:

	March 31, 2013		**March 31, 2012**		**April 1, 2011**	
	Cost	**Market value**	**Cost**	**Market value**	**Cost**	**Market value**
	$	$	$	$	$	$
Cash	**598,388**	**598,388**	778,749	778,749	117,106	117,106
Treasury accounts for capital	**4,959,104**	**4,959,104**	11,471,710	11,471,710	16,423,483	16,423,483
High interest savings account	**3,145,720**	**3,145,720**	2,854,743	2,854,743	4,685,561	4,653,010
	8,703,212	**8,703,212**	15,105,202	15,105,202	21,226,150	21,193,599

The market value of the investments was derived from quoted market values at year end.

Treasury accounts for capital are restricted accounts for unspent deferred contributions.

8. LONG-TERM INVESTMENTS

[a] Oxford ProResp Inc.

Effective January 1, 1995, Oxford ProResp Inc. was incorporated as a joint venture between the Hospital and a third party for the purposes of providing home care services to clients in Oxford County. In fiscal 2004, the common shares were then exchanged share for share for Class A common shares at an amount equal to the original value. The Hospital also received 100 special Class A shares in exchange for a promissory note in the amount of $100,000 which was fully repaid in fiscal 2001. The investment is being accounted for according to the modified equity method and, as such, is stated at cost plus income less dividends since acquisition.

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Special Class A shares	**100,000**	100,000	100,000
Class A common shares	**50**	50	50
Share of income since incorporation	**617,891**	617,891	617,891
Dividends received since incorporation	**(673,500)**	(668,500)	(663,500)
	44,441	49,441	54,441

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Hospital's share of total assets	**331,480**	327,946	324,606
Hospital's share of total liabilities	**140,741**	129,679	125,407

	2013 $	2012 $
Hospital's share of cash used in operating activities	**(938)**	32,256
Hospital's share of cash used in investing activities	**(29,085)**	(16,842)
Hospital's share of cash used in financing activities	**(102,500)**	(103,000)
Hospital's share of cash used in operating, investing and financing activities	**(132,523)**	(87,586)

[b] Information Technology Purchased Services ["ITPS"]

Information Technology Purchased Services is an unincorporated joint venture established to develop and operate a shared electronic health information management system. Services include information systems related to electronic patient records, Picture Archiving and Communication System and general ledger applications. The Hospital's interest in ITPS is nominal. The Hospital purchased $856,215 of services from ITPS during the year [2012 - $933,692].

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

9. CAPITAL ASSETS

Capital assets consist of the following:

	March 31, 2013		March 31, 2012	
	Cost $	**Accumulated amortization** $	**Cost** $	**Accumulated amortization** $
Land and land improvements – Riddell	**703,889**	**353,757**	703,889	353,757
Land and land improvements – Juliana	**1,785,345**	**—**	1,785,345	—
Building and building service equipment - Riddell	**15,717,502**	**15,717,502**	15,717,502	15,717,502
Decommissioning costs *[b]*	**1,982,505**	**—**	—	—
Building and building service equipment – Juliana *[a]*	**217,763,426**	**7,824,033**	217,014,464	3,468,764
Building and building service equipment – Athlone	**6,396,018**	**63,960**	—	—
Equipment and furnishings	**30,104,233**	**11,706,855**	29,882,470	8,791,784
Software	**3,098,068**	**2,924,780**	2,953,126	2,831,062
	277,550,986	**38,590,887**	268,056,796	31,162,869
Less accumulated amortization	**38,590,887**		31,162,869	
	238,960,099		236,893,927	
Construction and projects in process	**496,642**		3,359,575	
Net book value	**239,456,741**		240,253,502	

	April 1, 2011	
	Cost $	**Accumulated amortization** $
Land and land improvements - Riddell	523,731	353,758
Land and land improvements – Juliana	1,785,345	—
Building and building service equipment – Riddell	15,717,502	15,556,802
Building and building service equipment – Juliana	—	—
Equipment and furnishings	22,675,343	16,785,548
Software	2,771,497	2,753,570
	43,473,418	35,449,678
Less accumulated amortization	35,449,678	
	8,023,740	
Construction and projects in progress	198,704,220	
Net book value	206,727,960	

[a] The increase in buildings and building service equipment relates to the construction of a new hospital that was approved by the MOH-LTC on September 26, 2008 *[note 16]*. During the year, the Hospital disposed of $1,037,650 [2012 - $10,606,970] of building service equipment and equipment and furnishings.

[b] The decommissioning cost of approximately $2.0 million included in the above capital assets list is related to the demolition and environmental expenditure of the former hospital site on Riddell Street. MOH-LTC has funded a portion of this cost *[note 16]*.

10. DEFERRED REVENUE

Deferred revenue represents revenue collected but not earned as at March 31, 2013. This income will be brought into revenue when earned. This is composed of payments received from MOH-LTC and the SW- LHIN.

	March 31, 2013 $	**March 31, 2012** $	**April 1, 2011** $
Post Construction Operating Plan ["PCOP"] income	**3,492,460**	2,752,476	—
MOH-LTC capital payment	**—**	6,616,128	—
Oxford Hospitals' Joint Services Plan Project	**300,000**	—	—
	3,792,460	9,368,604	—

11. DEFERRED CONTRIBUTIONS

Deferred contributions consist of the following:

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Expenses of future periods [a]	**1,209,306**	1,205,477	1,203,685
Capital assets [b]	**235,736,666**	242,870,443	216,123,827
	236,945,972	244,075,920	217,327,512

[a] Deferred contributions related to expenses of future periods

Deferred contributions related to expenses of future periods represents investment income earned on unspent externally restricted donations for nursing education and palliative care.

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Balance, beginning of year	**1,205,477**	1,203,685	1,183,313
Add investment income restricted for other operating purposes	**3,829**	1,792	20,372
Balance, end of year	**1,209,306**	1,205,477	1,203,685

[b] Deferred contributions related to capital assets

Deferred contributions related to capital assets are as follows:

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Balance, beginning of year	**242,870,443**	216,123,827	145,290,046
Additional contributions received *[note 14]*	**687,773**	32,628,283	76,818,110
Investment income on unspent capital contributions	**147,888**	214,296	301,475
Less amounts amortized to revenue	**(7,969,438)**	(6,095,963)	(6,285,804)
Balance, end of year	**235,736,666**	242,870,443	216,123,827

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

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Unamortized capital contributions used to purchase capital assets	**221,301,273**	226,487,814	36,875,833
Unspent contributions	**14,435,393**	16,382,629	179,247,994
	235,736,666	242,870,443	216,123,827

12. RESTRICTIONS ON NET ASSETS

[a] All of the net assets restricted for endowment purposes are subject to externally imposed restrictions stipulating that the principal be maintained intact, and that investment income on endowment fund be restricted for capital purposes.

[b] Income earned on internally restricted funds is recorded as revenue in the statement of operations. Transfers to and from these funds are at the discretion of the Board of Directors on an annual basis. Income transferred to these funds in the current year from the unrestricted fund amounted to $16,499 [2012 - $5,067].

13. CONTRACT WITH THE MINISTRY OF COMMUNITY AND SOCIAL SERVICES AND THE MINISTRY OF CHILDREN AND YOUTH SERVICES

The Hospital has a service contract with the Ministry of Community and Social Services, and the Ministry of Children and Youth Services. One requirement of the contract is the production by management of an Annual Program Expenditure Reconciliation Report, which shows a summary by service of all revenue and expenditures and any resulting surplus or deficit that relate to the contract. During the year, the Hospital received revenue and incurred costs as follows:

	2013 $	2012 $
Revenue	**7,417,211**	7,364,450
Expenses	**7,465,250**	7,415,224
Deficit	**(48,039)**	(50,774)

14. EMPLOYEE FUTURE BENEFITS

[a] Pension plan

Pension benefit costs are expensed as related contributions are made to the Healthcare of Ontario Pension Plan ["HOOPP"]. Substantially all of the employees of the Hospital are members of HOOPP, which is a multi-employer, defined benefit, final average earnings and contributory pension plan. Plan members will receive benefits based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement, termination or death that provides the highest earnings. The Hospital's contributions to HOOPP during the year amounted to $3,521,151 [2012 - $3,182,771].

The most recent actuarial valuation for financial reporting purposes completed by HOOPP as at December 31, 2012, disclosed net assets available for benefits of $47.414 million [2011 - $40.321 million] with pension obligations of $39.919 million [2011 - $36.782 million] resulting in a surplus of $7.495 million [2011 - $3.539 million].

[b] Other post-employment benefits

Retirees are eligible for life insurance, medical and dental benefits covered under the non-pension post-retirement benefit plan after they turn 55. The plan is funded on a pay-as -you-go basis and the Hospital funds on a cash basis as benefits are paid. During the year benefits paid totaled $64,730 [2012 - $47,504].

Effective July 19, 2012, there was a plan amendment which resulted in enhanced benefits within the plan. This amendment resulted in an increase to the total benefit obligation of $340,600 during the year.

The most recent actuarial evaluation was completed on April 22, 2013 and significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligations for post-employment benefits are as follows:

	March 31, 2013	**March 31, 2012**	**April 1, 2011**
Accrued benefit obligation			
Discount rate	**3.6%**	3.9%	5%
Health care trend rate inflation increase	**7.4%**	7.5%	7.5%
Accrued benefit cost			
Discount rate	**3.9%**	5%	5%

The health care inflation increase is expected to decrease to an ultimate rate of 4.5% in 2033 and thereafter.

The following table presents information related to the Hospital's post-retirement benefits as at March 31, 2013 including the amounts recorded on the statement of financial position, and components of net periodic benefit cost:

	2013 $	**2012** $
Accrued benefit obligation		
Balance, beginning of year	**1,463,700**	1,073,900
Current service cost	**122,100**	69,400
Interest cost	**72,700**	65,600
Benefits paid	**(97,600)**	(91,000)
Plan amendment	**340,600**	214,900
Actuarial loss	**51,400**	130,900
Balance, end of year	**1,952,900**	1,463,700
Unamortized net actuarial loss	**(170,700)**	(130,900)
Post-employment benefit liability	**1,782,200**	1,332,800

During the year employees contributed $72,816 [2012 - $66,765]. Unamortized actuarial losses are amortized over the average remaining service period. The Hospital's benefit plan expense was as follows:

	2013 $	**2012** $
Current service costs	**122,100**	69,400
Interest cost	**72,700**	65,600
Amortization of net actuarial losses	**11,600**	—
Plan amendment	**340,600**	214,900
Net benefit plan expense	**547,000**	349,900

15. RELATED PARTY TRANSACTIONS

Amounts due (to) from related entities not consolidated in the Hospital's financial statements are as follows:

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Oxford Pro Resp	**194,975**	192,000	200,000
Woodstock Hospital Foundation	**25,381**	12,458	42,086
	220,356	204,458	242,086

16. STATEMENTS OF CASH FLOWS

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

	2013 $	2012 $
Decrease (increase) in current assets		
Accounts receivable	**(2,244,929)**	4,867,993
Inventories	**(120,718)**	19,858
Prepaid expenses	**(257,633)**	(377,932)
	(2,623,280)	4,509,919
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities, deferred revenue and employee future benefits	**(10,123,846)**	19,164,648
	(12,747,126)	23,674,567

17. LONG-TERM OBLIGATION

The Hospital entered into an alternative financing and procurement ["AFP"] project agreement under Infrastructure Ontario for the construction, financing and maintenance of a new hospital in Woodstock. The project was built and financed during the construction period by an unrelated joint venture created to carry out the construction within the AFP agreement. Construction commenced in October 2008 and was substantially complete in June 2011. Under terms of the project agreement, payments that total approximately $584 million will be made by the Hospital over a 30-year period with payments having commenced after the substantial completion date. Of this total amount, payments for principal and interest are expected to be $397 million. As at March 31, 2013, a long-term obligation for $162 million [March 31, 2012 - $164 million; April 1, 2011 - $183 million] has been recorded related to outstanding principal amounts. Based on the agreement signed with the MOH-LTC, the Hospital has recognized the share of MOH-LTC funding for the new hospital as a long-term receivable in the amount of $162 million [March 31, 2012 - $165 million; April 1, 2011 - $164 million] and a corresponding deferred contribution. The Hospital, through its Local Share Plan, will continue to receive funding to satisfy its obligations from the Foundation and the City of Woodstock, with the balance of funding (if any) coming from the Hospital.

Over the 30-year period, payments related to facilities and lifecycle maintenance are expected to be $141 million and $45 million, respectively *[note 17]*. Payments related to facilities maintenance and lifecycle costs will be indexed over the term of the agreement to provide for changes in certain operating costs. The Hospital has entered into an agreement with the MOH-LTC to share in these project costs based on MOH-LTC funding policy. The MOH-LTC shares in these project costs at various rates with its share of eligible construction costs being 90%.

In addition, a Sinking Fund Trust Account was opened by the Hospital according to requirements under the Development Accountability Agreement with the MOH-LTC. The primary purpose of this fund was to hold amounts equal to the Hospital's share of the construction project in trust for future disbursement to other parties. It currently holds approximately $1.5 million in cash and investments [March 31, 2012 - $2.4 million; April 1, 2011 - $12.7 million].

Unspent capital funds received or receivable of $7.3 million [March 31, 2012 - $20.2 million; April 1, 2011 - $169.3 million] from the MOH-LTC for new hospital development costs are restricted by the MOH-LTC and have been shown in the financial statements as part of unspent deferred contributions *[note 10]* and included in the Hospital's investments *[note 7]*.

18. COMMITMENTS

Future annual service principal payments to pay for operating facility obligations are as follows:

	$
2014	2,204,262
2015	2,313,606
2016	2,759,046
2017	2,767,799
2018	3,246,065
Thereafter	194,292,368

A portion of these future obligations are to be funded by the MOH-LTC over the length of the contract.

19. CONTINGENCIES

The Hospital is subject to certain actual and potential legal claims that have arisen in the normal course of operations. In management's opinion, insurance coverage is sufficient to offset the cost of unfavorable settlements, if any, which may result from such claims.

The Hospital is a member in the Healthcare Insurance Reciprocal of Canada ["HIROC"] and therefore has an economic interest in HIROC. HIROC is a pooling of the public liability insurance risks of its hospital members. All members of the HIROC pool pay annual premiums, which are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the years in which they were members. No assessments have been made for the year ended March 31, 2013.

Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income, less the obligation for claims reserves and expenses and operating expenses.

In 2012, the Hospital entered into an agreement with HIROC whereby HIROC continues to provide indemnity insurance to hospitals, however, the cost of investigating and defending any litigation claims, previously included in the insurance premium, will be borne by the Hospital. Under the agreement, the Hospital provides deposits to HIROC Management Limited which acts as an agent to pay legal expenses on behalf of the Hospital. During the year, no deposits were paid to HIROC [2012 - $nil].

20. FINANCIAL INSTRUMENTS

The Hospital is exposed to various financial risks through transactions in financial instruments.

The Hospital's financial instruments are exposed to certain financial risks, including interest rate risk, credit risk, and liquidity risk. There have been no significant changes from the previous year in the exposure to risk, policies or procedures used to manage financial instrument risk.

Interest Rate Risk

Interest rate risk refers to the effect on the fair value or future cash flows of an investment due to fluctuations in interest rates. The Hospital is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its cash and cash equivalents, investments and long-term debt. Changes in variable interest rates could cause unanticipated fluctuations in the Hospital's operating results.

To manage the risks identified for its investments, the Hospital has an investment policy setting out a target mix of investments designed to provide optimal rate of return within reasonable risk tolerances. The investment policy is renewed annually.

Interest rate risk is minimal as excess cash is held in high interest savings accounts with minimal changes to interest rates.

Credit Risk

Credit risk is the risk of financial loss occurring as a result of default or insolvency of borrower on its obligations to the Hospital. The Hospital monitors the credit risk on a regular basis. The Hospital is exposed to credit risk through the possibility of non-collection of its accounts and contributions receivable. The majority of the Hospitals receivables are from government entities which minimizes the risk of non-collection. The maximum credit risk is the fair value of accounts receivables.

Liquidity Risk

Liquidity risk is the risk of the Hospital being unable to meet its cash requirements in a timely and cost effective manner. The Hospital has a planning and budgeting process in place to help determine the funds required to support the Hospital's normal operating requirements on an ongoing basis. The Hospital also 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.