

Financial Statements

Woodstock General Hospital Trust

March 31, 2014



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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 statement of financial position as at March 31, 2014, and the statements of operations, changes in net assets and cash flows for the year then ended, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 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, 2014, and the results of its operations and its cash flows for the year then ended 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

Chartered Accountants
Licensed Public Accountants

London, Canada,
May 27, 2014.



A member firm of Ernst & Young Global Limited

Woodstock General Hospital Trust

STATEMENT OF FINANCIAL POSITION

As at March 31

| | 2014 | 2013 |
|--|--------------------|--------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents <i>[note 4]</i> | 6,237,902 | 9,605,069 |
| Restricted cash <i>[notes 4 and 15]</i> | 14,501,971 | 10,229,198 |
| Ministry of Health and Long-Term Care / South West Local | | |
| Health Integration Network accounts receivable | 4,570,791 | 1,892,605 |
| Other accounts receivable | 3,566,698 | 3,238,403 |
| Inventories | 435,565 | 375,680 |
| Prepaid expenses | 963,803 | 817,713 |
| Current portion of long-term receivable <i>[note 15]</i> | 1,699,672 | 2,145,084 |
| Total current assets | 31,976,402 | 28,303,752 |
| Long-term investments <i>[note 5]</i> | 39,441 | 44,441 |
| Long-term receivable <i>[note 15]</i> | 157,851,658 | 160,133,070 |
| Capital assets, net <i>[note 6]</i> | 235,865,147 | 239,456,741 |
| | 425,732,648 | 427,938,004 |
| LIABILITIES AND NET ASSETS | | |
| Current | | |
| Ministry of Health and Long-Term Care / South West Local | | |
| Health Integration Network accounts payable | 260,013 | 431,598 |
| Other accounts payable and accrued liabilities | 9,585,662 | 11,513,105 |
| Deferred revenue <i>[note 7]</i> | 3,546,396 | 300,000 |
| Post Construction Operating Plan payable | 4,859,179 | 3,492,460 |
| Current portion of long-term obligation <i>[note 15]</i> | 2,281,392 | 2,145,084 |
| Total current liabilities | 20,532,642 | 17,882,247 |
| Post-employment benefits liability <i>[note 12[b]]</i> | 1,890,100 | 1,782,200 |
| Deferred contributions <i>[note 8]</i> | 227,214,586 | 236,945,972 |
| Ministry of Health capital payable | 9,592,472 | — |
| Long-term obligation <i>[note 15]</i> | 157,851,658 | 160,133,050 |
| Total liabilities | 417,081,458 | 416,743,469 |
| Commitments and contingencies <i>[notes 15, 16 and 17]</i> | | |
| Net assets | | |
| Endowments <i>[note 9[a]]</i> | 542,398 | 542,398 |
| Internally restricted <i>[note 9[b]]</i> | 1,738,447 | 1,730,292 |
| Unrestricted net assets | 6,370,345 | 8,921,845 |
| Total net assets | 8,651,190 | 11,194,535 |
| | 425,732,648 | 427,938,004 |

See accompanying notes

On behalf of the Board:



Director



Director



Woodstock General Hospital Trust

STATEMENT OF CHANGES IN NET ASSETS

Year ended March 31

| | 2014 | | | 2013 |
|--------------------------------------|----------------|--------------------------|------------------|-------------------|
| | Endowments | Internally restricted | Unrestricted | Total |
| | \$ | \$ | \$ | \$ |
| | [note 9[a]] | [note 9[b]] | | |
| Balance, beginning of year | 542,398 | 1,730,292 | 8,921,845 | 11,194,535 |
| (Deficit) surplus for the year | — | — | (2,543,345) | 127,943 |
| Interfund transfers, net [note 9[b]] | — | 8,155 | (8,155) | — |
| Balance, end of year | 542,398 | 1,738,447 | 6,370,345 | 8,651,190 |

See accompanying notes



Woodstock General Hospital Trust

STATEMENT OF OPERATIONS

Year ended March 31

| | 2014 | 2013 |
|---|--------------------|--------------------|
| | \$ | \$ |
| REVENUE | | |
| Ministry of Health and Long-Term Care / | | |
| South West Local Health Integration Network | | |
| Global funding | 62,235,637 | 61,474,850 |
| Funding for financing of new hospital <i>[note 15]</i> | 11,085,444 | 11,221,584 |
| Fee for services | 5,312,783 | 4,764,518 |
| Other patient | 928,711 | 1,068,253 |
| Preferred accommodation | 483,637 | 430,186 |
| Investment income | 123,701 | 183,195 |
| Other revenue | 9,166,474 | 7,456,363 |
| Other votes funding <i>[note 10]</i> | 8,112,203 | 7,276,511 |
| Amortization of deferred contributions <i>[note 8]</i> | 8,137,363 | 7,969,438 |
| (Loss) gain on disposal of capital assets | (280,725) | 48,923 |
| | 105,305,228 | 101,893,821 |
| EXPENSES | | |
| Salaries, wages and other remuneration | 48,080,742 | 45,974,426 |
| Employee benefits <i>[notes 2 and 12[b]]</i> | 7,799,506 | 7,645,348 |
| Supplies and other | 16,478,280 | 15,449,718 |
| Other votes expense <i>[note 10]</i> | 8,116,183 | 7,324,550 |
| Medical and surgical supplies | 4,124,086 | 3,758,707 |
| Drug | 3,123,062 | 1,948,315 |
| Interest on long-term obligation | 11,085,444 | 11,221,584 |
| Amortization of equipment, furnishings and software <i>[note 6]</i> | 4,529,219 | 4,024,001 |
| Amortization of buildings and building service | | |
| equipment <i>[note 6]</i> | 4,512,051 | 4,419,229 |
| | 107,848,573 | 101,765,878 |
| (Deficit) surplus for the year | (2,543,345) | 127,943 |

See accompanying notes



Woodstock General Hospital Trust

STATEMENT OF CASH FLOWS

Year ended March 31

| | 2014 \$ | 2013 \$ |
|---|--------------------|---------------------|
| OPERATING ACTIVITIES | | |
| (Deficit) surplus for the year | (2,543,345) | 127,943 |
| Add (deduct) items not involving cash | | |
| Amortization of equipment, furnishings and software | 4,529,219 | 4,024,001 |
| Amortization of buildings and building service equipment | 4,512,051 | 4,419,229 |
| Amortization of deferred contributions | (8,137,363) | (7,969,438) |
| (Gain) loss on disposal of capital assets | (280,725) | 48,923 |
| | (1,920,163) | 650,658 |
| Net change in non-cash working capital balances related to operations [note 14] | 9,002,003 | (12,747,126) |
| Net increase in deferred contributions related to expenses of future periods | 2,753 | 3,829 |
| Cash provided by (used in) operating activities | 7,084,593 | (12,092,639) |
| CAPITAL ACTIVITIES | | |
| Purchase of capital assets | (5,761,490) | (7,766,754) |
| Deferred contributions received related to capital assets | (1,693,310) | 687,773 |
| Proceeds on sale of capital assets | 592,539 | 71,362 |
| Cash used in capital activities | (6,862,261) | (7,007,619) |
| FINANCING ACTIVITIES | | |
| Decrease in long-term obligation | (2,145,084) | (2,007,876) |
| Decrease in long-term receivable | 2,726,824 | 2,007,876 |
| Investment income on unspent capital contributions | 96,534 | 147,888 |
| Cash provided by financing activities | 678,274 | 147,888 |
| INVESTING ACTIVITIES | | |
| Net change in long-term investments [note 5[a]] | 5,000 | 5,000 |
| Proceeds on sale of investments | — | 15,105,202 |
| Cash provided by investing activities | 5,000 | 15,110,202 |
| Net increase (decrease) in cash during the year | 905,606 | (3,842,168) |
| Cash position, beginning of year | 19,834,267 | 23,676,435 |
| Cash position, end of year | 20,739,873 | 19,834,267 |
| Cash position consists of | | |
| Cash and cash equivalents | 6,237,902 | 9,605,069 |
| Restricted cash | 14,501,971 | 10,229,198 |
| | 20,739,873 | 19,834,267 |

See accompanying notes



Woodstock General Hospital Trust

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

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. The Hospital is a registered charity under the Income Tax Act (Canada) and, as such, is not subject to income tax.

The Hospital operates under a Hospital Service Accountability Agreement ["H-SAA"] and a Multi-Sector Service Accountability Agreement ["M-SAA"] with the South West Local Health Integration Network ["SW-LHIN"]. These agreements set out the rights and obligations of the two parties in respect of funding provided to the Hospital. The H-SAA and M-SAA set out the funding provided to the Hospital together with performance standards and obligations that establish acceptable results for the Hospital's performance. The Hospital retains any excess or deficiency of revenue over expenses during the year in accordance with the H-SAA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with the Chartered Professional Accountants of Canada ["CPA Canada"] Public Sector ["PS"] Accounting Handbook, which sets out generally accepted accounting principles 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.

Woodstock General Hospital Trust

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

[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 designated at fair value. Also included are changes in foreign exchange for items denominated in a foreign currency. As at March 31, 2014, 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 to revenue on the same basis as the amortization 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 and items restricted for future use are 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 statement 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 investments in guaranteed investment certificates which are recorded at fair value at the year-end. Short-term investments readily convertible to cash included in restricted cash and cash equivalents were \$5,174,362 [2013 – \$4,675,043].

Woodstock General Hospital Trust

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

[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 the 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:

Tangible

| | |
|----------------------------|-----------|
| Buildings | 2% |
| Building service equipment | 5% to 20% |
| Equipment and furnishings | 5% to 20% |
| HUGO | 20% |

Intangible

| | |
|----------|-----|
| 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.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2014

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 is written down to its 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 SW-LHIN requires estimation.

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 capital assets and the employee future benefits liability.

Woodstock General Hospital Trust

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

[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, are measured at amortized cost. Transaction costs for portfolio investments are expensed while transaction costs incurred on debt are capitalized.
- b. Current and long-term receivables, accounts payable and accrued liabilities are measured at cost, net of any provisions for impairment.
- c. Long-term obligations are measured at amortized cost using the effective interest rate method, net of any provisions for impairment.

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 during the year; therefore, no requirement for a statement of remeasurement gains and losses was required.

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 an investment that is other than a temporary decline, the investment is written down to recognize the loss. A loss in value of an 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 statement of operations. A write-down

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NOTES TO FINANCIAL STATEMENTS

March 31, 2014

of an 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 accrues its obligations and the related costs under employee benefit plans. 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 benefit 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. 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 \$1,001,799 [2013 - \$2,506] for capital purposes to the Hospital during the year.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2014

4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents consist of the following:

| | 2014 \$ | 2013 \$ |
|---------------------------------|------------------|------------------|
| Cash | 2,420,122 | 1,940,094 |
| Treasury account for operations | 3,817,780 | 7,664,975 |
| | 6,237,902 | 9,605,069 |

Restricted cash consists of the following:

| | 2014 \$ | 2013 \$ |
|--------------------------------|-------------------|-------------------|
| Internally restricted cash [a] | 5,710,847 | 4,975,508 |
| Sinking Fund Trust [b] | 5,361,493 | 1,525,986 |
| Externally restricted cash [b] | 3,429,631 | 3,727,704 |
| | 14,501,971 | 10,229,198 |

[a] Internally restricted cash is restricted by the Hospital's board and management for non-operating purposes.

[b] The Sinking Fund Trust and the externally restricted cash are restricted by the Ministry of Health and Long-Term Care for the construction and financing of the new hospital.

As at March 31, 2014, the credit facility established with the Hospital's bankers consisted of a credit line of \$5,000,000 [2013 - \$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, 2014 [2013 - nil].

5. 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

Woodstock General Hospital Trust

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

modified equity method and, as such, is stated at cost plus income less dividends since inception.

| | 2014 \$ | 2013 \$ |
|--|-----------------|------------------|
| Special Class A shares | 100,000 | 100,000 |
| Class A common shares | 50 | 50 |
| Share of income since inception | 617,891 | 617,891 |
| Dividends received since inception | (678,500) | (673,500) |
| | 39,441 | 44,441 |
| | 2014 \$ | 2013 \$ |
| Hospital's share of total assets | 314,452 | 331,480 |
| Hospital's share of total liabilities | 123,011 | 140,741 |
| | 2014 \$ | 2013 \$ |
| Hospital's share of cash provided by (used in) operating activities | 90,465 | (938) |
| Hospital's share of cash used in investing activities | (23,289) | (29,085) |
| Hospital's share of cash used in financing activities | (106,500) | (102,500) |
| Hospital's share of cash used in operating, investing and financing activities | (39,324) | (132,523) |

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

ITPS 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 \$1,151,555 of services from ITPS during the year [2013 - \$856,215].

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NOTES TO FINANCIAL STATEMENTS

March 31, 2014

6. CAPITAL ASSETS

Capital assets consist of the following:

| | 2014 | | 2013 | |
|---|-------------|--------------------------|-------------|--------------------------|
| | Cost | Accumulated amortization | Cost | Accumulated amortization |
| | \$ | \$ | \$ | \$ |
| Tangible | | | | |
| Land and land improvements – Riddell | 2,758,142 | — | 2,686,394 | 353,757 |
| Land and land improvements – Juliana | 1,785,345 | — | 1,785,345 | — |
| Building and building service equipment – Riddell [a] | — | — | 15,717,502 | 15,717,502 |
| Building and building service equipment – Juliana | 218,566,429 | 12,195,361 | 217,763,426 | 7,824,033 |
| Building and building service equipment – Athlone | 7,676,245 | 204,683 | 6,396,018 | 63,960 |
| Equipment and furnishings | 31,393,774 | 15,673,482 | 30,104,233 | 11,706,855 |
| HUGO | 1,686,551 | 337,310 | — | — |
| | 263,866,486 | 28,410,836 | 274,452,918 | 35,666,107 |
| Less accumulated amortization | 28,410,836 | | 35,666,107 | |
| | 235,455,650 | | 238,786,811 | |
| Construction and projects in progress | — | | 496,642 | |
| | 235,455,650 | | 239,283,453 | |
| Intangible | | | | |
| Software | 3,398,830 | 2,989,333 | 3,098,068 | 2,924,780 |
| Less accumulated amortization | 2,989,333 | | 2,924,780 | |
| | 409,497 | | 173,288 | |
| Net book value | 235,865,147 | | 239,456,741 | |

[a] The building which was located on the Riddell property has been disposed of during the 2014 fiscal year with a net book value of nil.

Woodstock General Hospital Trust

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

7. DEFERRED REVENUE

Deferred revenue represents revenue collected but not earned as at March 31, 2014. This income will be brought into revenue when earned. This is composed of payments received from MOH-LTC and the SW-LHIN.

| | 2014 \$ | 2013 \$ |
|---|------------------|----------------|
| MOH-LTC capital payment | 3,546,396 | — |
| Oxford Hospitals' Joint Services Plan Project | — | 300,000 |
| | 3,546,396 | 300,000 |

8. DEFERRED CONTRIBUTIONS

Deferred contributions consist of the following:

| | 2014 \$ | 2013 \$ |
|--------------------------------|--------------------|--------------------|
| Expenses of future periods [a] | 1,212,059 | 1,209,306 |
| Capital assets [b] | 226,002,527 | 235,736,666 |
| | 227,214,586 | 236,945,972 |

[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.

| | 2014 \$ | 2013 \$ |
|---|------------------|------------------|
| Balance, beginning of year | 1,209,306 | 1,205,477 |
| Add investment income restricted for other operating purposes | 2,753 | 3,829 |
| Balance, end of year | 1,212,059 | 1,209,306 |

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NOTES TO FINANCIAL STATEMENTS

March 31, 2014

[b] Deferred contributions related to capital assets

Deferred contributions related to capital assets are as follows:

| | 2014 \$ | 2013 \$ |
|--|--------------------|-------------|
| Balance, beginning of year | 235,736,666 | 242,870,443 |
| Additional contributions received <i>[note 13]</i> | 1,777,585 | 687,773 |
| Capital contributions reallocated | (3,470,895) | — |
| Investment income on unspent capital contributions | 96,534 | 147,888 |
| Less amounts amortized to revenue | (8,137,363) | (7,969,438) |
| Balance, end of year | 226,002,527 | 235,736,666 |

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

| | 2014 \$ | 2013 \$ |
|---|--------------------|-------------|
| Unamortized capital contributions used to purchase capital assets | 220,636,033 | 221,301,273 |
| Unspent contributions | 5,366,494 | 14,435,393 |
| | 226,002,527 | 235,736,666 |

9. 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 in perpetuity, and that investment income on endowment funds be restricted for capital purposes and added to deferred capital contributions.
- [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 \$8,155 [2013 - \$16,499].

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March 31, 2014

10. 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 expenses and any resulting surplus or deficit that relates to the contract. During the year, the Hospital received revenue and incurred costs as follows:

| | 2014 | 2013 |
|----------------|------------------|-------------|
| | \$ | \$ |
| Revenue | 8,112,203 | 7,276,511 |
| Expenses | 8,116,183 | 7,324,550 |
| Deficit | (3,980) | (48,039) |

11. AGREEMENT WITH THE MINISTRY OF HEALTH AND LONG TERM CARE – DIABETIC EDUCATION PROGRAM

The Hospital has an agreement with the Ministry of Health and Long-Term Care to provide diabetes education services. One requirement of the agreement is the production by management of an Annual Program Expenditure Reconciliation Report, which shows a summary of all revenue and expenses and any resulting surplus or deficit that relates to the agreement. During the year, the Hospital received revenue and incurred costs as follows:

| | 2014 | 2013 |
|----------------|----------------|-------------|
| | \$ | \$ |
| Revenue | 249,275 | 236,039 |
| Expenses | 249,275 | 236,039 |
| Surplus | — | — |

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12. 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 \$3,772,533 [2013 - \$3,521,151].

The most recent actuarial valuation for financial reporting purposes completed by HOOPP as at December 31, 2013 disclosed net assets available for benefits of \$51,626 million [2012 - \$47,414 million] with pension obligations of \$41,478 million [2012 - \$39,919 million] resulting in a surplus of \$10,148 million [2012 - \$7,495 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 totalled \$64,281 [2013 - \$64,730].

The most recent actuarial valuation was completed as at March 31, 2014 and significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligation for post-employment benefits are as follows:

| | 2014 | 2013 |
|---|------|------|
| Accrued benefit obligation | | |
| Discount rate | 4.3% | 3.6% |
| Health care trend rate inflation increase | 7.2% | 7.4% |
| Accrued benefit expense | | |
| Discount rate | 3.6% | 3.9% |

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

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

| | 2014 \$ | 2013 \$ |
|---|------------------|------------------|
| Accrued benefit obligation | | |
| Balance, beginning of year | 1,952,900 | 1,463,700 |
| Current service cost | 132,400 | 122,100 |
| Interest cost | 72,200 | 72,700 |
| Benefits paid | (112,900) | (97,600) |
| Plan amendment | — | 340,600 |
| Actuarial (gain) loss | (107,300) | 51,400 |
| Balance, end of year | 1,937,300 | 1,952,900 |
| Unamortized net actuarial loss | (47,200) | (170,700) |
| Post-employment benefits liability | 1,890,100 | 1,782,200 |

During the year employees contributed \$75,190 [2013 - \$72,816]. Unamortized actuarial losses are amortized over the average remaining service period. The Hospital's benefit plan expense was as follows:

| | 2014 \$ | 2013 \$ |
|--------------------------------------|----------------|----------------|
| Current service costs | 132,400 | 122,100 |
| Interest cost | 72,200 | 72,700 |
| Amortization of net actuarial losses | 16,200 | 11,600 |
| Plan amendment | — | 340,600 |
| Net benefit plan expense | 220,800 | 547,000 |

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13. RELATED PARTY TRANSACTIONS

Amounts due from related entities are as follows:

| | 2014 \$ | 2013 \$ |
|---|----------------|----------------|
| Oxford ProResp Inc. <i>[note 5[a]]</i> | 202,996 | 194,975 |
| Woodstock Hospital Foundation <i>[note 3]</i> | 16,281 | 25,381 |
| | 219,277 | 220,356 |

14. STATEMENT OF CASH FLOWS

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

| | 2014 \$ | 2013 \$ |
|---|--------------------|---------------------|
| Decrease (increase) in current assets | | |
| Accounts receivable | (3,006,481) | (2,244,929) |
| Inventories | (59,885) | (120,718) |
| Prepaid expenses | (146,090) | (257,633) |
| | (3,212,456) | (2,623,280) |
| Increase (decrease) in current liabilities | | |
| Accounts payable and accrued liabilities | (2,099,028) | (4,997,102) |
| Deferred revenue | 3,246,396 | (6,316,128) |
| Post-employment benefits | 107,900 | 449,400 |
| PCOP payable | 1,366,719 | 739,984 |
| Ministry of Health payable | 9,592,472 | — |
| | 9,002,003 | (12,747,126) |

15. 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 the terms of the project agreement, payments that total approximately \$584 million will be made by the Hospital

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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, 2014, a long-term obligation for \$160 million [2013 - \$162 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 \$160 million [2013 - \$162 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 16]. 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 \$5 million in cash and restricted cash [2013 - \$1.5 million].

Unspent capital funds received or receivable of \$3.5 million [2013 - \$7.3 million] from the MOH-LTC for new hospital development costs are restricted by the MOH-LTC for that purpose and have been shown in the financial statements as part of unspent deferred contributions [note 8] and included in the Hospital's cash and restricted cash [note 4].

16. COMMITMENTS

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

| | \$ |
|------------|--------------------|
| 2015 | 2,313,606 |
| 2016 | 2,759,046 |
| 2017 | 2,767,799 |
| 2018 | 3,246,065 |
| 2019 | 3,201,898 |
| Thereafter | <u>191,090,470</u> |

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

17. 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 of 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, 2014.

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 [2013 - nil].

18. 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,

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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 a 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 Hospital's receivables are from government entities which minimizes the risk of non-collection. The maximum credit risk is the fair value of accounts receivable.

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.

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].

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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 hierarchy for which significant input has been considered in measuring fair value.

The cash and investments held by the Hospital are classified as Level 1 according to the fair value hierarchy described above. There have been no material transfers between Levels 1 and 2 for the year ended March 31, 2014.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

