
REPORT OF THE ANNUAL
FINANCIAL AFFAIRS
YEAR ENDED MARCH 31, 2010

KINGSTON GENERAL HOSPITAL
Report of the Annual Financial Affairs
For the year ended March 31, 2010

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KINGSTON GENERAL HOSPITAL

Management Discussion and Analysis (unaudited) For the year ended March 31, 2010

As management of Kingston General Hospital, we offer readers of the hospital's financial statements this narrative overview and financial analysis of the hospital for the fiscal year ended March 31, 2010 to assist with your review. We encourage readers to consider the information presented here in conjunction with the audited financial statements and the accompanying notes to the statements.

It is the responsibility of management for the existence of appropriate information systems, procedures and controls to ensure that information is complete and reliable. This is done under the oversight of the Board of Directors and the Audit Committee of the hospital.

Overview

Kingston General Hospital (KGH) has been suffering financial difficulties for several years. It has been thirteen years since the hospital operated with a positive working capital position and annual operational surplus. Subsequent to the Investigators' Report in June 2008, the organization embarked on its Performance Improvement Plan (PIP). Under the direction of changed leadership and with the help of the entire management team, the hospital has begun to restore the basic principles of good financial and operational management.

KGH ended the fiscal year with a total surplus position of \$731,000. This accomplishment was achieved as a result of significant efforts of our management, staff, and physicians. As a result we were able to advance many of our performance improvement plans earlier than expected to increase savings and also realized some one-time revenue sources, including some new Ministry funding.

Although the overall results are positive, our operating challenges are not over. When we remove the impact of the one-time non-operating activities, the hospital ended the 2010 fiscal year with a deficit from hospital operations of \$7 million compared to its approved planned deficit budget of \$14.5 million. The reality is that KGH still has expenditures that are exceeding our funding; a gap which we have committed to address before the end of fiscal 2012.

Programs and services have found efficiencies, maintained activity levels, and are focused on finding new innovative approaches to delivering quality care. Improvements have been made in reducing overtime and sick time replacement costs as compared to the previous year. New policies and improvements in the budgeting and reporting processes have been put into place which requires management validation and action plans for

operational variances. New working groups were established to encourage and monitor the identification and implementation of savings and performance relative to our peers. These activities will continue to produce year-over-year improvements in the financial operating performance and ensure that the hospital's annual operating position meets the established requirement target of a balanced operating position by fiscal 2012.

Financial Analysis of the Hospital

Net assets serve over time as a useful indicator of the hospital's financial position.

Kingston General Hospital's total liabilities exceeded its total assets by \$54.1 million at the close of the most recent fiscal year and by \$54.9 million at the end of the prior reported year.

KINGSTON GENERAL HOSPITAL
Statement of Change in Net Assets
For the year ended March 31, 2010
(000's)

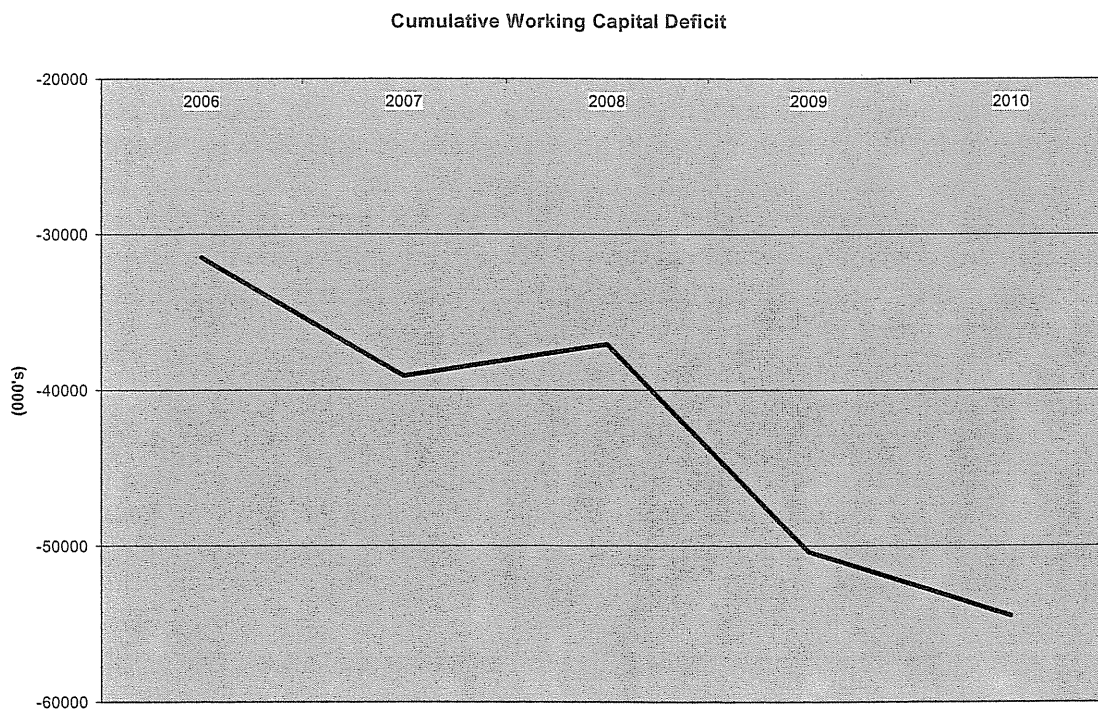
	Unrestricted	Invested in Capital Assets	2010	2009
Balance, beginning of year	(\$86,893)	\$32,008	(\$54,885)	(\$36,948)
Excess of expenses over revenues	9,633	(8,902)	731	(17,863)
Net change in investment in capital assets	(14,746)	14,746	-	-
Net change in fair value of other investments	63	-	63	(74)
Balance, end of year	(91,943)	37,852	(54,091)	(54,885)

The primary reason for the increase in net assets during the fiscal 2010 year is the hospital operating with a total excess of operating revenue over expenses of \$731K. The increase in investment in capital assets and the reduction in unrestricted net assets reflects the purchase of capital expenditures during the year including the redevelopment project, which as at March 31, 2010 is 58% complete. Please see note 7 in the accompanying Notes to Financial Statements for the details of the net change in net assets attributable to the investment in capital assets.

Working Capital

The working capital deficit (defined as an excess of current liabilities over current assets) increased \$4 million from \$50.4 million at the end of fiscal 2009 to \$54.4 million at the end of fiscal 2010. The main component of this increase was the change in the current portion of long-term debt which reflects a \$3.5 million liability due March 2011. The audited Statement of Cash Flows reflects the changes in the cash components of working capital. Changes in non-cash working capital items are detailed in note 17 of the accompanying Notes to Financial Statements and include the retirement of \$5 million in demand loans.

Included in Cash and short-term investments in the Statement of Financial Position (one component of the working capital calculation) is \$13 million of funds received from the Ministry of Health and Long-Term Care (MOHLTC) to be used for specific capital investments planned to be completed over the upcoming year. As these funds are utilized a corresponding decrease in the working capital position will occur as the offsetting expenditure will reflect an increase in Capital assets; not part of the working capital calculation. Similarly in 2009 March 31st cash and short term investments included \$15 million of funds held for redevelopment (funds which are now reflected as at March 31, 2010 in other investments – restricted capital). This leaves the two years comparable, but highlights that working capital will deteriorate by the end of 2011 as the capital funds held in cash are expended.



Working capital deficit:

2006	(\$31,502K)	2008	(\$37,072K)	2010	(\$54,494K)
2007	(\$39,090K)	2009	(\$50,412K)		

The working capital deficit as at March 31, 2010 can be translated into a current ratio (assets divided by liabilities) of 0.51:1. The acceptable Ministry target for this ratio is between 0.8:1 and 2.0:1.

During the year, KGH's cash needs were supported by a \$32 million cash advance supported by the South East Local Health Integration Network (SE-LHIN) and the hospital's line of credit. At the end of the year the cash advance was repaid and additional debt assumed to bridge the hospital into April 2010 at which time a new cash advance for the next fiscal was received for \$32 million from the SE-LHIN. The existence of the advance reduces the financing costs of the Hospital by approximately \$720,000. a year. Ontario hospitals as at March 31, 2010 are estimated to have approximately \$1.7 billion in working capital deficits (at March 31, 2009 it was estimated to be \$1.5 billion). The 2010 Ontario Provincial Budget has highlighted hospital working capital and the existence of cash advances required by hospitals as an issue that needs to be addressed and a process has been mandated to look at how to address this growing problem. KGH is working with the South East Local Health Integration Network and the Ministry of Health and Long-Term Care to find solutions to our working capital shortage. In addition to the existing performance improvement plan to address the operating deficit, management is currently undertaking the development of a Financial Recovery Plan (FRP) to address our working capital, debt, aging capital infrastructure, and to build capacity to meet future obligations.

Included in the accrued compensation figure in the Statement of Financial Position, is a \$10 million vacation pay liability. This obligation could be set aside when reviewing the working capital deficit position of the hospital and the associated current ratio calculation as the entire liability for this amount would only become current upon the complete closure of the hospital. Further, the annual operating budget addresses the current year costs for employees taking their annual vacation entitlement. The hospital has also recently revised the vacation policy which will end the accumulation of excessive vacation entitlement and address the majority of the current accumulated excesses in this regard by the end of fiscal 2013. Removing this amount from the calculation would improve the current ratio as at March 31, 2010 to 0.56:1.

Investment in Capital Assets

Based on the hospital's current fiscal position, the annual capital budget is being limited to the amount of net amortization expense (a non-cash item included in the annual operating budget) less payment requirements of its current long-term debt obligations. For fiscal 2010 this amounted to approximately \$3 million.

In recognition of the limited capacity of KGH to support capital needs, the Ministry of Health and Long-Term Care provided Kingston General Hospital \$15 million in one-time capital funding in the fiscal year. This will enable KGH to address investment to support the Performance Improvement Plan as well as some urgent infrastructure needs. Additional funding for capital investment was also received from the Kingston General

Hospital Foundation and the Kingston General Hospital Auxiliary (please see note 18 in the accompanying Notes to Financial Statements).

Construction continued during the year on the major redevelopment Infrastructure Ontario \$196 million project, the electrical infrastructure upgrade, the intensive care unit expansion and the satellite dialysis relocation to Providence Care. A portion of the funding required for these projects is provided by the MOHLTC with the remainder being raised through the “Together We Can” campaign led by the University Hospitals Kingston Foundation.

During the fiscal year, the hospital accounted for the purchase of \$14.4 million of capital assets. Expenditures were split between the following categories:

Clinical and non-clinical equipment	\$4.3 million
Building systems	\$3.9 million
Information management systems	\$1.2 million
Redevelopment project	\$5.0 million

External funds received for capital investment but unspent during the year are recorded as deferred contributions.

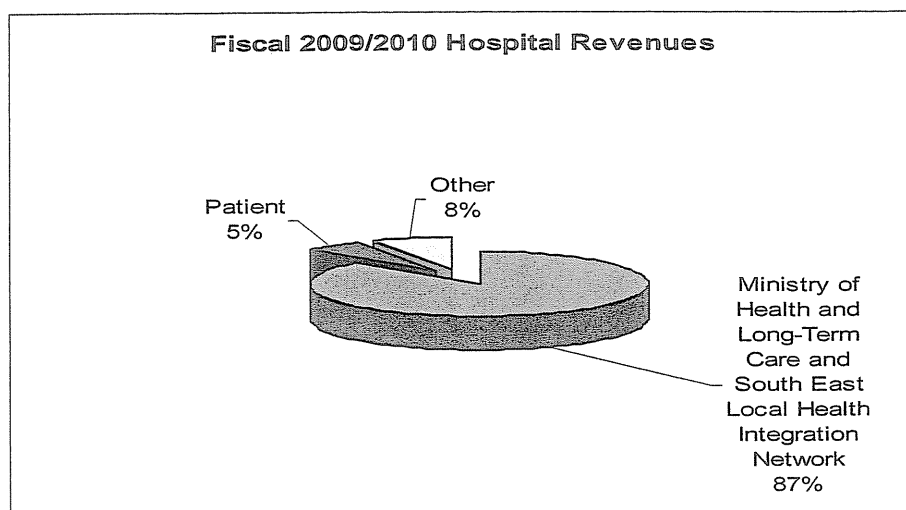
Hospital Revenues

Kingston General Hospital is funded primarily by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care and the South East Local Health Integration Network.

The hospital is required to execute the Hospital Services Accountability Agreement with the SE-LHIN. This agreement sets out the rights and obligations of the two parties in respect of funding provided to the hospital and performance standards and obligations. If the hospital does not meet certain performance standards or obligations, the MOHLTC has the right to adjust some funding streams received by the Hospital. Given that the Ministry is not required to communicate funding adjustments until after the submission of year-end data, the amount of revenue recognized in these financial statements includes management’s best estimates of amounts that may become payable.

The hospital received a base funding increase of \$6.6 million for fiscal 2010 to help offset inflationary cost pressures for salaries and benefits, patient care supplies and services, and general operating expenses. The hospital also received post-construction operating funding (PCOP) in the amount of \$6.8 million. The PCOP revenue provides operational and start-up funding for three new intensive care beds and incremental paediatric patient care volume. The funding also supports associated facilities costs (e.g. housekeeping, plant maintenance, utilities). As the funding was not received until March, no increase to patient care activity occurred in the fiscal year. As such, \$6 million was recognized in revenue without offsetting expenses. In the next fiscal year these funds will be used to offset the new costs of these services.

Also included in the current year financial results was the recognition of \$9.7 million in revenue related to amounts reported in prior fiscal years for which there is no longer an associated financial liability to the hospital.



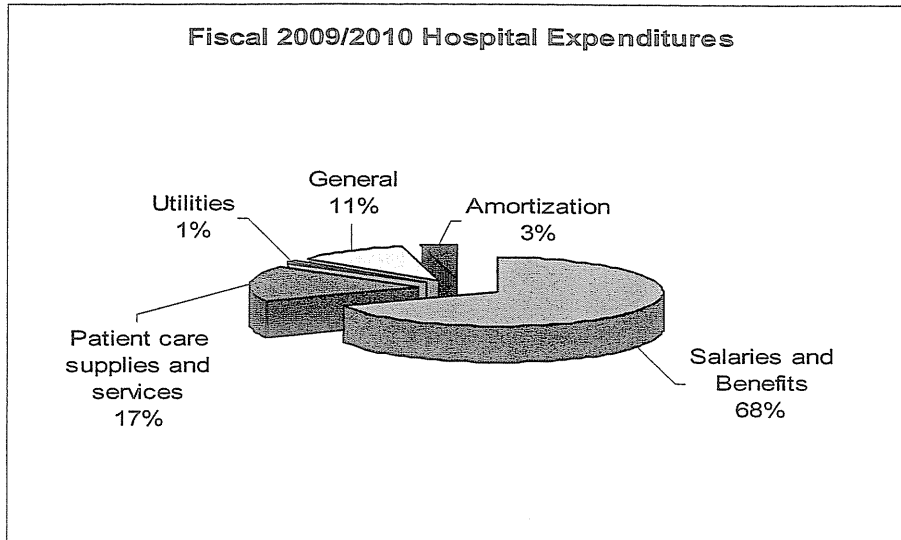
Revenues:

Ministry of Health and Long-Term Care and South East Local Health Integration Network	\$340,975K
Patient	20,373K
Other	<u>30,306K</u>
Total	\$391,654K

The hospital's total percentage of funding from Ministry sources at 87% of total revenues is consistent with prior year results. Funding for hospital operations only is 79% which is comparable to the provincial average of 80% (based on Ministry reporting as at Q3 – December 31, 2009).

Hospital Expenditures

The fiscal 2010 budget incorporated a total of \$13 million of revenue generating/cost savings initiatives from the Performance Improvement Plan. The majority of the initiatives were implemented. Some activities were enacted sooner than anticipated and some delays were experienced due to requiring capital investment.



Expenditures:

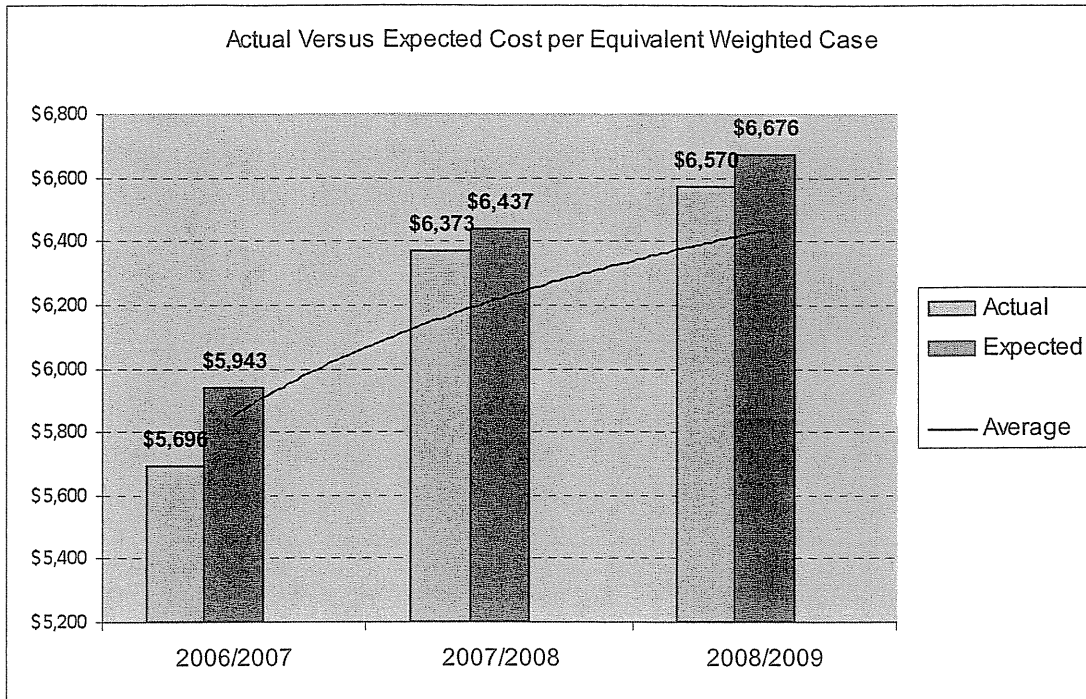
Salaries and benefits	\$263,220K
Patient care and supplies	66,162K
Utilities	5,214K
General	40,715K
Amortization	<u>13,215K</u>
Total	\$388,526K

Included in the current year financial results was a one-time expense of \$4.5 million for the write-off of “abandoned” costs and scoping fees related to the redevelopment project.

Overall we are a people business with 68 % of our costs in compensation. Inflationary cost pressures for the fiscal year amounted to approximately \$7.8 million with \$5.7 million attributed to salaries and benefits cost increases.

Operational Efficiency

One of the key performance metrics of operational efficiency is the comparison between actual and expected cost per equivalent weighted case. Kingston General Hospital’s actual performance in each of the last three years, for which complete data is available, has been below the target set by the Ministry of Health and Long-Term Care. The hospital has however for the past two years incurred costs per case 2% higher than the Ontario teaching hospital average. In this regard, KGH is participating in the Hay Group/CIHI benchmarking comparison of Canadian hospitals and undertaking its own analysis in conjunction with peer facilities to identify opportunities for further cost reduction.



Note: fiscal 2010 data not available

Activity Volumes

Patient activity volumes are a key cost driver in the organization. The following highlights changes in key statistical levels over the prior year.

	2009/2010	2008/2009
Admissions	19,092	19,450
Ambulatory Visits	92,001	100,169
Cancer Centre Visits	71,645	70,141
Emergency Department Visits	46,872	44,992
Births	2,039	2,131
Operative Cases	8,605	8,488
Average Length of Stay	6.8*	7.97

* December 31, 2009

Of particular note is the decrease in ambulatory visits reflecting the transfer of clinics to Hotel Dieu and the reduction in the average length of inpatient stay.

Prospective Analysis

A crucial component in the hospital's pursuit of meeting its established target of a balanced operating position by March 2012 is attaining the \$8 million deficit from hospital operations in alignment with year 2 of the Performance Improvement Plan while maintaining clinical service levels. The fiscal 2011 budget has incorporated

approximately \$8 million of additional revenue generating or operational efficiencies in order to achieve this target under the assumption of a 0% base funding increase.

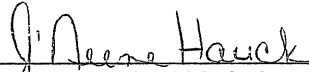
The hospital is also facing increasing demands for equipment, infrastructure, and information systems replacement while at the same time being presented with new opportunities for enhancing these investments and the future redevelopment of the hospital site. In recognizing this vital need, the Board of Directors has given approval for the organization to increase its approved fiscal 2011 capital budget by an amount equivalent to any base funding increase received up to 2%.

Summary

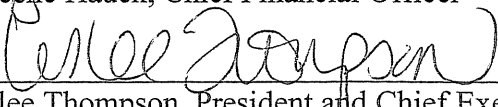
Kingston General Hospital has shown in a relatively short time since the Investigator's appointment the ability to make positive steps in restoring financial and operational management and addressing challenging cost reduction targets. The hospital is committed to giving its financial targets due priority and putting into place the processes necessary to question financial and operational performance and achieve the level of cost reductions required to ensure that its future financial health is soundly based.

Financial Summary

\$ millions	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2006
Operating Results					
Revenue	391.6	365.1	353.0	324.1	302.1
Expense	<u>-388.5</u>	<u>-380.4</u>	<u>-366.1</u>	<u>(330.1)</u>	<u>(306.1)</u>
Deficiency of revenue over expenses – operations	3.1	(15.3)	(13.1)	(6.0)	(4.0)
Building Amortization					
Revenue	3.8	3.0	3.6	3.2	3.2
Expense	<u>(6.2)</u>	<u>(5.6)</u>	<u>(5.9)</u>	<u>(8.7)</u>	<u>(7.0)</u>
Deficiency of revenue over expenses - building amortization	<u>(2.4)</u>	<u>(2.6)</u>	<u>(2.3)</u>	<u>(5.5)</u>	<u>(3.8)</u>
Total deficit position	<u>0.7</u>	<u>(17.9)</u>	<u>(15.4)</u>	<u>(11.5)</u>	<u>(7.8)</u>


 J'Neene Hauck, Chief Financial Officer


 Jim Flett, Chief Operating Officer


 Leslee Thompson, President and Chief Executive Officer



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AUDITORS' REPORT

To the Board of Directors of the Kingston General Hospital

We have audited the statement of financial position of Kingston General Hospital as at March 31, 2010 and the statements of revenues and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants
Kingston, Canada
April 30, 2010

KINGSTON GENERAL HOSPITAL
Statement of Financial Position

as at March 31, 2010
(000's)

	2010	2009
Assets		
Current assets		
Cash and short-term investments (note 4)	\$ 32,393	\$ 32,180
Accounts receivable	13,379	13,370
Due from Ministry of Health and Long-Term Care and South East Local Health Integration Network	3,265	1,021
Inventories	5,891	6,404
Other current assets	2,221	5,262
	57,149	58,237
Other investments (note 5)		
Operations	242	227
Restricted capital	53,002	35,133
Other restricted	485	479
Investments in Joint Ventures (note 6)	9,494	9,494
Capital assets, net (note 7)	158,581	163,629
	\$ 278,953	\$ 267,199
Liabilities and Net Assets		
Current liabilities		
Short term borrowings	\$ 40,894	\$ 37,979
Bank loans (note 8)	-	5,000
Accounts payable and accrued liabilities	34,081	30,007
Accrued compensation	29,046	28,086
Note payable - KGH Auxiliary (note 18)	550	698
Gift annuities (note 9)	110	125
Agency obligations (note 10)	2,638	3,836
Current portion of long-term debt (note 11)	4,324	2,918
	111,643	108,649
Long-term debt (note 11)	8,184	12,338
Employee future benefits (note 12)	16,027	14,825
Deferred contributions (note 13, 14 and 15)	197,190	186,272
Net assets		
Invested in capital assets (note 9)	37,852	32,008
Unrestricted	(91,943)	(86,893)
	(54,091)	(54,885)
Commitments (note 16)		
Contingencies (notes 19, 20 and 21)		
	\$ 278,953	\$ 267,199

See accompanying notes.

On behalf of the board:



Member



Member

KINGSTON GENERAL HOSPITAL
Statement of Revenues and Expenses

for the year ended March 31, 2010
(000's)

	2010	2009
Revenues		
Inpatients		
Ministry of Health and Long-Term Care and South East Local Health Integration Network	\$ 309,217	\$ 287,733
Other	8,692	9,287
Outpatients		
Clinical education and other programs	11,681	11,533
Marketed services	31,758	30,236
Recoveries and other revenue	5,626	6,648
Investment income	17,896	13,314
Amortization of deferred capital contributions-major equipment	74	18
Amortization of deferred capital contributions-major equipment	6,710	6,388
Total revenues	391,654	365,157
Expenses		
Salaries and benefits	263,220	260,799
Patient care supplies and services	66,162	63,423
Utilities	5,214	5,183
General	40,715	38,020
Amortization of major equipment	13,215	13,015
Total expenses	388,526	380,440
Surplus (deficiency) of revenue over expenses before the following	3,128	(15,283)
Amortization of deferred capital contributions-building and land improvements	3,822	2,987
Amortization of building and land improvements	(6,219)	(5,567)
Surplus (deficiency) of revenues over expenses	\$ 731	\$ (17,863)

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Statement of Changes in Net Assets

for the year ended March 31, 2010
(000's)

	Unrestricted	Invested in Capital Assets	Total	
			2010	2009
Balance, beginning of year	\$ (86,893)	\$ 32,008	\$ (54,885)	\$ (36,948)
Surplus (deficiency) of expenses over revenues (note 7)	9,633	(8,902)	731	(17,863)
Net change in investment in capital assets (note 7)	(14,746)	14,746	-	-
Net change in fair value of other investments	63	-	63	(74)
Balance, end of year	\$ (91,943)	\$ 37,852	\$ (54,091)	\$ (54,885)

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Statement of Cash Flows

for the year ended March 31, 2010
(000's)

	Total	
	2010	2009
Operating activities		
Surplus (deficiency) of revenues over expenses	\$ 731	\$ (17,863)
Add (deduct) non-cash items		
Amortization of capital assets	19,434	18,582
Amortization of deferrred capital contributions	(10,532)	(9,375)
Change in fair value of other investments	63	(74)
Change in non-cash working capital balances (note 17)	122	(5,674)
Increase in employee future benefits	1,202	2,328
Increase (decrease) in deferred contributions	(8,643)	4,451
	2,377	(7,625)
Financing activities		
Increase in deferred capital contributions	30,093	15,936
Repayment of obligations under capital leases	-	(3)
Issuance of long-term debt	-	700
Repayment of long-term debt	(2,748)	(2,772)
Decrease in other long term liabilities	-	(28)
Note payable-Kingston General Hospital Auxiliary	(148)	78
Decrease in long-term receivable	-	126
	27,197	14,037
Investing activities		
Purchase of capital assets	(14,386)	(29,546)
Purchase of investments	(17,890)	4,458
	(32,276)	(25,088)
Decrease in cash during the year	(2,702)	(18,676)
Cash, beginning of year	(5,799)	12,877
Cash, end of year	\$ (8,501)	\$ (5,799)

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Notes to Financial Statements

For the year ended March 31, 2010
(\$000's)

1. Nature of Operations

Kingston General Hospital (the "Hospital") provides a selected range of patient-centered programs and services primarily to the people of Southeastern Ontario, supports the education and development of health care providers and advances health care services through related research activities. The provision of sub-specialty care to the critically ill residents of Southeastern Ontario and those who may be temporarily present in our region is a particular responsibility. Kingston General Hospital serves as a provincial resource in specific programs and strives to be a national health care resource in selected areas of expertise. Kingston General Hospital also provides primary and secondary care to the population of the Kingston area. Effective January 1, 2004 Kingston General Hospital assumed under contract the governance and management of the operations of the Cancer Program previously governed by Cancer Care Ontario and which operated as Kingston Regional Cancer Center.

The Board of Governors of the Kingston Hospital commonly referred to as "Kingston General Hospital" was incorporated under statutes of Province of Canada, Chapter 103, 1849. Kingston General Hospital is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

2. Summary of Significant Accounting Policies

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The more significant accounting policies are summarized as follows:

Ministry of Health and Long-Term Care and South East Local Health Integration Network Funding

Kingston General Hospital is funded primarily by the Province of Ontario. These financial statements reflect agreed funding arrangements approved by the Ministry of Health and Long-Term Care and the South East Local Health Integration Network with respect to the year ended March 31, 2010.

Revenue Recognition

Kingston General Hospital follows the deferral method of accounting for contributions. 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. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions received for capital assets are deferred and amortized into revenue over the same term and on the same basis as the related capital assets.

Realized investment income is recorded in deferred contributions to the extent there are external restrictions on the related investments. Unrestricted investment income is recognized as revenue when earned on the statement of revenues and expenses.

Revenue from the Ontario Hospital Insurance Plan, inpatient services, outpatient services, preferred accommodation, Clinical Education and other programs, marketed services and recoveries and other revenue is recognized when the goods are sold or the service is provided.

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

KINGSTON GENERAL HOSPITAL
Notes to Financial Statements

For the year ended March 31, 2010
(\$000's)

Investments

Investments are designated as available-for-sale and are recorded at fair value. Unrealized gains and losses from the change in fair value are recorded in deferred contributions to the extent there are external restrictions on the related investments or in the statement of changes in net assets where they are unrestricted. Transaction costs related to the acquisition of investments are recorded against investment income. Sales and purchases of investments are recorded on the settlement date.

Fair value is determined at quoted market prices. The calculation of fair value is based upon market conditions at a specific point in time and may not be reflective of future fair value.

Capital Assets

Purchased capital assets are recorded at original cost. The original cost does not reflect replacement cost or market value upon liquidation. Contributed capital assets are recorded at fair value at the date of contribution. Assets acquired under capital leases are amortized over the estimated life of the assets or over the lease term, as appropriate. Repairs and maintenance costs are expensed. Betterments, which extend the estimated life of an asset, are capitalized. 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.

Capital assets are amortized on a straight-line basis using the following annual rates:

Land improvements	4% - 10%
Buildings and building service equipment	2% - 10%
Major equipment	5% - 20%

Costs of work in progress are capitalized. Amortization is not recognized until project completion.

Contributed Services

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

Inventories

Inventories are valued at the lower of average cost and net realizable value.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the year. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

KINGSTON GENERAL HOSPITAL
Notes to Financial Statements

For the year ended March 31, 2010
(\$000's)

Investments in Joint Ventures

The Hospital accounts for its investments in joint ventures using the equity method of accounting whereby the investments are carried at cost and adjusted for any contributions or withdrawals. Its share of the net earnings or losses of the joint ventures are reported in the Hospital's statement of revenues and expenses.

Financial Instruments

(a) Fair Value

The carrying values of cash and short-term investments, accounts receivable, due from Ministry of Health and Long-Term Care and South East Local Health Integration Network, accounts payable and accrued liabilities, accrued compensation and agency obligations approximate their fair values due to the relatively short periods to maturity of the instruments. The fair values of bank loans approximate their carrying values as the associated interest rates are variable. The fair value of the note payable – KGH Auxiliary approximates its carrying value as the terms and conditions of the borrowing arrangement is comparable to current market terms and conditions for similar items. The fair value of the long-term debt is \$12,963.

(b) Interest Rate Risk

The Hospital has interest bearing bank loans on which general interest rate fluctuations apply. Assuming the bank loans on hand at March 31, 2010, were to remain on hand until maturity or settlement without any action by the Hospital to alter the interest rate risk exposure, a 1% change in market interest rates across all maturities would affect the Statement of Revenues and Expenses in the following year by approximately \$409.

Employee Benefit Plans

(a) Multi-Employer Pension Plan

Kingston General Hospital participates in a defined benefit multi-employer pension plan. As there is not sufficient information available, the plan is accounted for on a defined contribution plan basis. Contributions to the multi-employer defined benefit plan are expensed when due.

(b) Accrued Post-Employment Benefits

Kingston General Hospital accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs.

Actuarial gains (losses) arise from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the accrued benefit obligation is amortized over the average remaining service period of active employees.

The average remaining service period of the active employees covered by the employee benefit plan is 15 years (2009 – 14 years). The average remaining service period for employees of other benefit plans is 15 years (2009 – 19 years).

KINGSTON GENERAL HOSPITAL
Notes to Financial Statements

For the year ended March 31, 2010
(\$000's)

3. Adoption of New Accounting Standards

Amendments to Accounting Standards that Apply Only to Not-For-Profit Organizations:

Effective April 1, 2009, the Hospital adopted the Canadian Institute of Chartered Accountants ("CICA") amendments to the 4400 Sections of the CICA Handbook. These amendments eliminate the requirement to show net assets invested in capital assets as a separate component of net assets, clarify the requirement for revenues and expenses to be presented on a gross basis when the not-for-profit organization is acting as principal and require a statement of cash flow. Adoption of these recommendations had no significant impact on the financial statements for the year ended March 31, 2010.

Amendments to Section 1000 Financial Statement Concepts

Effective April 1, 2009 the Hospital adopted the Canadian Institute of Chartered Accountants ("CICA") amendments to section 1000 of the CICA Handbook. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching of revenue and expense items. Adoption of these recommendations had no effect on the financial statements for the year ended March 31, 2010.

4. Cash and Short-term Investments

Cash and short-term investments include amounts that cannot be used for operations working capital purposes as \$26,692 (2009: \$31,898) is for restricted capital or other restricted purposes.

5. Other Investments

	2010	2009
Historical cost	53,517	35,539
Fair value	53,729	35,839

Included in fair value are investments in the amount of \$33,529 (2009: \$25,656) from the Ministry of Health and Long-Term Care restricted to specific capital use for the redevelopment project.

The Hospital is required to fund a portion of the cost of the Kingston General Hospital redevelopment project. An agreement has been entered into with Bank of Montreal (BMO)Trust Company ("Trust Company") whereby the Trust Company has been nominated as the trustee of the sinking fund into which the Hospital's share of the project costs are deposited and from which disbursements are made. Included in fair value of other investments are investments in the amount of \$19,473 (2009: \$9,477) restricted to specific capital use from the Sinking Fund Trust for redevelopment.

KINGSTON GENERAL HOSPITAL
Notes to Financial Statements

For the year ended March 31, 2010
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6. Investments in Joint Ventures

(a) Investment in Parking Commission

Kingston General Hospital has entered into a long-term agreement, as equal partner with Queen's University, for the operations of the Parking Commission. This capital investment was repaid from the Parking Commission over a twenty-five year period which ended on December 31, 2007. Kingston General Hospital's share of the Parking Commissions' excess of revenue over expense for 2010 amounts to \$626 (2009: \$722) and has been included in the Statement of Revenues and Expenses.

(b) Investment in Cogeneration Facility

Kingston General Hospital participates in a joint venture with Queen's University for the operation of a cogeneration facility governed by a Management Board consisting of representatives of Queen's University at Kingston and the Hospital. The purpose of the facility is to produce electricity and steam. The Hospital's capital investment in the joint venture is \$9,494 (2009: \$9,494). Kingston General Hospital's proportionate share of the joint venture is 40% and Queen's University's proportionate share is 60%. Kingston General Hospital's share of the facility's excess of expense over revenue is \$150 (2009: \$0) and has been included in the Statement of Revenues and Expenses.

7. Capital Assets

Capital assets consist of the following:

	2010	2009
Land & land improvements	1,519	1,519
Buildings & building service equipment	192,540	140,067
Major equipment	158,861	140,534
Work in process	22,904	79,520
	<u>375,824</u>	<u>361,640</u>
Less accumulated amortization		
Land & land improvements	867	867
Buildings & building service equipment	94,320	88,102
Major equipment	122,056	109,042
	<u>217,243</u>	<u>198,011</u>
Net capital assets	<u>158,581</u>	<u>163,629</u>

Net assets invested in capital assets are calculated as follows:

	2010	2009
Balance, end of the year	158,581	163,629
Amounts financed by:		
Deferred contributions	(108,221)	(111,365)
Bank loans	0	(5,000)
Long-term debt	(12,508)	(15,256)
	<u>37,852</u>	<u>32,008</u>

KINGSTON GENERAL HOSPITAL
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For the year ended March 31, 2010
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The change in net assets invested in capital assets is as follows:

	2010	2009
Excess of expenses over revenues		
Amortization of deferred contributions related to capital assets	10,532	9,375
Amortization of capital assets	(19,434)	(18,582)
	(8,902)	(9,207)

	2010	2009
Purchase of capital assets	14,461	29,558
Amounts funded by:		
Deferred contributions	(7,388)	(20,454)
Bank loans	0	(2,100)
Long-term debt	0	(700)
Repayment of capital lease	0	3
Repayment of bank loans	5,000	700
Repayment of long-term debt	2,748	2,772
Disposal of capital assets	(75)	(12)
	14,746	9,767

8. Bank Loans

	2010	2009
Infrastructure loan to finance the Hospital's share of major infrastructure projects. Interest only at Bank of Montreal Prime Rate until the loan is fully drawn and then blended payments of principal and interest amortized over 15 years. The loan is due on demand.	0	3,000
Equipment loan for the purchase of patient care equipment. Interest only at Bank of Montreal Prime Rate until the loan is fully drawn and then blended payments of principal and interest amortized over 5 years. The loan is due on demand.	0	2,000
	0	5,000

9. Gift Annuities

Prior to fiscal 1996, Kingston General Hospital had accepted irrevocable gifts, which were subject to the payment of a life annuity to the donor. These are recorded as a liability until the conditions of the annuity have been met, and the donation will be recorded. Government bonds have been purchased to earn income, approximately equal to the annuity obligations and have been included in cash and short-term investments on the Statement of Financial Position.

KINGSTON GENERAL HOSPITAL
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For the year ended March 31, 2010
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10. Agency Obligations

Kingston General Hospital acts as an agent, which holds resources and makes disbursements on behalf of various unrelated individuals or groups. Kingston General Hospital has no discretion over such agency transactions. Resources received in connection with such agency transactions are reported as liabilities not revenue and subsequent distributions are reported as decreases to this liability.

11. Long-Term Debt

	2010	2009
Bank term loan with interest at 4.79%, payable in monthly installments of \$84 on account of principal and interest, due March 2011	0	1,930
Bank term loan with interest at 4.79%, payable in monthly installments of \$26 on account of principal and interest, due March 2011	3,500	3,642
Bank term loan with interest at 4.62%, payable in monthly installments of \$112 on account of principal and interest, due August 2011	0	3,073
Bank term loan with interest at 4.85%, payable in monthly installments of \$8 on account of principal and interest, due January 2017	875	925
Bank term loan with interest at 5.65%, payable in monthly installments of \$39 on account of principal and interest, due June 2017	4,132	4,360
Bank term loan with interest at 5.19%, payable in monthly installments of \$19 on account of principal and interest, due October 2012	0	742
Bank term loan with interest at 4.71%, payable in monthly installments of \$9 on account of principal and interest, due April 2013	0	417
Bank term loan with interest at 4.71%, payable in monthly installments of \$4 on account of principal and interest, due April 2013	129	167
Bank term loan with interest at 4.33%, payable in monthly installments of \$54 on account of principal and interest, due February 2017	3,872	0
	12,508	15,256
Less current portion of long term debt	(4,324)	(2,918)
	8,184	12,338

The principal repayments due of long term debt for each of the five years subsequent to March 31, 2010 are as follows: 2011 - \$4,324; 2012 - \$864; 2013 - \$906; 2014 - \$909 and 2015 - \$949.

KINGSTON GENERAL HOSPITAL
Notes to Financial Statements

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12. Post-Employment Benefits

Pension Plan

Substantially all of the employees of Kingston General Hospital are members of the Hospitals of Ontario Pension Plan. Contributions to the plan made during the year by Kingston General Hospital on behalf of its employees amounted to \$15,225 (2009: \$14,728) and is included in salaries and benefits on the Statement of Revenues and Expenses.

Non-Pension Plans

Kingston General Hospital's post-employment benefit plans are comprised of medical, dental and life insurance coverage. The measurement date used to determine the accrued benefit obligation is March 31, 2010. The most recent actuarial valuation of the non-pension post-employment benefits plan for funding purposes was as of April 1, 2009.

Information about the non-pension post-employment benefit plans is as follows:

	2010	2009
Accrued benefit obligation	28,316	20,476
Unamortized actuarial losses	(10,991)	(3,861)
Unamortized past service costs	731	836
Accrued benefit liability	18,056	17,451

The accrued benefit liability is recorded in the financial statements as follows:

	2010	2009
Accrued compensation	2,029	2,626
Employee future benefits	16,027	14,825
	18,056	17,451

The expense for the year related to these plans is \$2,539 (2009: \$2,343) and employer contributions for these plans is \$718 (2009: \$1,279).

The significant actuarial assumptions adopted in measuring the accrued benefit obligations and expense for the post-employment benefit plans are as follows:

- Discount rate for calculation of net benefit costs of 7.75% (2009 – 6.00%).
- Discount rate to determine accrued benefit obligation for disclosure at end of period 5.50% (2009 – 7.75%).
- Dental and extended health costs in 2010 are based on actual rates. Dental cost increases are assumed to be 4.00% per annum thereafter. Extended health care costs are assumed to be 9.0% in 2010 decreasing by 0.5% per annum to an ultimate rate of 5.0% per annum.

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13. Deferred Contributions Related to Operations

Deferred contributions related to operations represent grants provided for specific operating purposes that have not yet been actualized. These grants have not been taken into revenue.

	2010	2009
Balance, beginning of year	13,205	6,851
Less amount recognized as revenue in the year	(8,771)	(1,940)
Add amount received related to future periods	2,579	8,294
	7,013	13,205

14. Deferred Contributions Related to Capital Assets

Deferred contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets.

Externally restricted contributions and investment income related to special capital funding are included in deferred contributions related to capital assets.

	2010	2009
Balance beginning of year	168,386	161,862
Additional contributions received	29,189	14,082
Additional revenue on unspent contributions	783	1,582
Unrealized gain on other investments	121	272
Less amounts related to disposal of capital assets	0	(37)
Less amounts amortized to revenue	(10,532)	(9,375)
	187,947	168,386

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

	2010	2009
Unamortized capital contributions used to purchase assets	108,221	111,365
Unspent contributions	79,726	57,021
	187,947	168,386

Included in unspent contributions is \$55,721 (2009: \$35,133) in special capital funding in support of redevelopment.

KINGSTON GENERAL HOSPITAL
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For the year ended March 31, 2010
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15. Deferred Contributions Related to Externally Restricted Funds

Deferred contributions related to externally restricted funds represent grants, donations and other revenue provided for specific restricted purposes that have not yet been actualized. These grants, donations and other revenues have not been taken into revenue.

	2010	2009
Balance, beginning of year	4,681	6,584
Less amount recognized as revenue in the year	(3,259)	(3,007)
Unrealized loss on other investments	(1)	2
Add amount received related to future periods	809	1,102
	2,230	4,681

16. Commitments

Cost to complete construction in progress and major equipment purchase

As at March 31, 2010 the estimated cost to complete work in progress and major equipment purchases is approximately \$176,278 (2009: \$150,341).

Lease commitments

Kingston General Hospital is committed under certain operating lease agreements to minimum lease payments as follows:

	2010
Year ending March 31,	
2011	997
2012	708
2013	215
2014	36
2015	1
Total minimum lease payments	1,957

KINGSTON GENERAL HOSPITAL
Notes to Financial Statements

For the year ended March 31, 2010
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17. Net Change in Non-Cash Working Capital Balances Related to Operations

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

	2010	2009
Accounts receivable	(2,244)	2,834
Due from Ministry of Health and Long-Term Care and South East Local Health Integration Network	(9)	2,040
Inventories	513	(3)
Other current assets	3,041	(876)
Bank loan	(5,000)	1,400
Accounts payable and accrued liabilities	4,074	(4,564)
Accrued compensation	960	637
Gift annuity	(15)	
Deferred revenue	0	(7,336)
Agency obligations	(1,198)	194
Net decrease	122	(5,674)

18. Related Entities

This section addresses disclosure requirements regarding the hospital's relationships with related entities. The relationship can be one of economic interest, significant influence, joint control or control.

(a) Kingston General Hospital Foundation

Kingston General Hospital has an economic interest in the Kingston General Hospital Foundation. Kingston General Hospital Foundation is a separate corporation without share capital and with its own Board of Directors. The Foundation receives and grants funds for the benefit of Kingston General Hospital. During the year, Kingston General Hospital received \$3,189 (2009: \$3,610) to fund capital redevelopment, equipment purchases and special program costs.

(b) University Hospitals Kingston Foundation

Kingston General Hospital has an economic interest in University Hospitals Kingston Foundation (formally Kingston Hospitals Joint Advancement Foundation). The Foundation was established to raise funds for Kingston General Hospital, Providence Care Centre operating as Providence Care and the Hotel Dieu Hospital.

(c) Kingston General Hospital Auxiliary

Kingston General Hospital has an economic interest in Kingston General Hospital Auxiliary. Kingston General Hospital Auxiliary promotes and extends the interests of Kingston General Hospital throughout the city and surrounding counties. It provides volunteer auxiliary services as requested by Kingston General Hospital administration through liaison with the Director of Volunteers and the President of the organization. Kingston General Hospital Auxiliary also raises funds for Kingston General Hospital to be allocated to special gifts in a manner satisfactory to the administration of Kingston General Hospital and in harmony with the planning of the community. During the year, Kingston General Hospital Auxiliary granted \$785 (2009: \$812) to Kingston General Hospital to fund equipment purchases and special program costs. Kingston General Hospital holds a note payable to Kingston General Hospital Auxiliary for \$550 (2009: \$698) which is payable on demand.

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(d) Shared Support Services South Eastern Ontario

The Hospital is a member of a group of six hospitals with the South East Local Health Integration Network which have voluntarily agreed to enter into a joint project for the purposes of planning, development, implementation and operation of a shared regional supply chain project, consisting of procurement, warehousing, logistics and contract management activities. Shared Support Services South Eastern Ontario ("3SO"), a non-profit corporation, has been created to manage the services and provide procurement oversight on the part of the member hospitals. The project has received start-up funding from the Ministry of Finance. The three-year project implementation period commenced with the signing of a transfer payment agreement in March of 2008 and is targeted for completion by 2011.

Each of the participating hospitals is a voting member of 3SO. Therefore, the Hospital has an economic interest, but not control, over 3SO. The assets, liabilities, net assets and results of operation of the 3SO are not included in the financial statements. During the year, Kingston General Hospital paid \$489 (2009: \$0) to 3SO for governance/operating costs. These costs are included in general expenses on the Statement of Revenues and Expenses.

Kingston General Hospital has signed a ten year commitment to the project and has provided a limited guarantee to a maximum of \$2,474 of a \$5,000 line of credit secured by 3SO, representing the Hospital's proportionate share of 49.5%. As at March 31, 2010, 3SO has drawn \$1,110 (2009: \$0) on this line of credit, of which \$549 is guaranteed by the Hospital.

(e) Kingston Regional Hospital Laundry Incorporated

Kingston General Hospital has significant influence in Kingston Regional Hospital Laundry Incorporated. Kingston Regional Hospital Laundry Incorporated, a Corporation incorporated under the laws of the Province of Ontario, provides laundry services, linen replacement, uniforms, dry cleaning and other related laundry services to the five hospitals in the Kingston region. Kingston Regional Hospital Laundry Incorporated is exempt from income taxes, provided certain requirements of the Income Tax Act are met. Kingston Regional Hospital Laundry Incorporated provides laundry services to Kingston General Hospital based on rates reflecting the costs, expenses and disbursements incurred by them in the normal course of business relating to the provision of laundry services. Kingston General Hospital is under contract with the Kingston Regional Hospital Laundry Incorporated to provide management services. Kingston General Hospital contributes towards approved capital improvement and replacement costs incurred by Kingston Regional Hospital Laundry Incorporated. During the year, Kingston General Hospital paid \$2,545 (2009: \$2,458) to Kingston Regional Hospital Laundry Incorporated for laundry services. These costs are included in general expenses on the Statement of Revenues and Expenses.

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19. Liability Insurance

On July 1, 1987, a group of health care organizations formed the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. Subscribers pay annual premiums that are actuarially determined. Subscribers are subject to assessment for losses, if any, experienced by the pool for the years in which they were a subscriber. No assessments have been made to March 31, 2010.

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. Each subscriber which has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There are no distributions receivable from HIROC as of March 31, 2010.

20. Letters of Credit

Kingston General Hospital has outstanding letters of credit of \$657 for capital construction.

21. Contingencies

Kingston General Hospital's activities are such that there are usually claims pending or in progress at any time. With respect to claims at March 31, 2010, management believes that reasonable provisions have been made in the accounts.

22. Clinical Education Program:

During the year, the Hospital's Clinical Education Program incurred expenses of \$25,439 (2009: \$23,673) and received \$25,832 (2009: \$23,788) in funding from the Ministry of Health and Long-Term Care. Under the terms of the arrangement, the excess of this funding of \$393 (2009: \$114) must be returned to the Ministry of Health and Long-Term Care, and, as such, a payable of \$393 (2009: \$114) has been recorded as at March 31, 2010 and is included in accounts payable and accrued liabilities.

23. Comparative Figures

Certain comparative figures have been restated to conform to financial statement presentation adopted in 2010.