
REPORT OF THE ANNUAL
FINANCIAL AFFAIRS
YEAR ENDED MARCH 31, 2011



Kingston
General
Hospital

Outstanding care, always™

KINGSTON GENERAL HOSPITAL
Report of the Annual Financial Affairs
For the year ended March 31, 2011

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KINGSTON GENERAL HOSPITAL

Management Discussion and Analysis (unaudited) For the year ended March 31, 2011

As management of Kingston General Hospital (KGH), 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, 2011 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) embarked on its three year Performance Improvement Plan (PIP) subsequent to the Investigators' Report in June 2008. Our financial position presented immense challenges but in difficult times it is important to keep things in perspective. Fiscal 2011 marks the second year of the PIP plan. The organization met the financial challenge head-on. Operational efficiencies were identified and implemented while activity levels were maintained. The focus on performance management and measurable results continued. Resources were targeted for investment in needed capital expenditures. The entire KGH community supported this accomplishment; management, staff, physicians, and volunteers.

KGH ended the fiscal year with a total surplus position of \$8.1 million. Excluding the impact of building amortization, the surplus of revenue over expenses was \$11.3 million. Included in this surplus is \$11.3 million of funding that was not confirmed until March 2011. Therefore, excluding the impact of this funding, the hospital achieved a balanced operating position compared to its approved planned operating deficit budget of \$4 million.

In spite of a successful year, our financial challenges are not yet over. The reality is that the next fiscal year will be as difficult. Inflationary costs will exert pressure on the organization and we will be required to manage within the operating resources provided. Achievement of benchmarking targets is critical to sustaining services and ensuring that future operational funding is not at risk.

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 \$45.9 million at the close of 2011 fiscal year and by \$54.1 million at the end of the prior year.

KINGSTON GENERAL HOSPITAL Statement of Change in Net Assets For the year ended March 31, 2011 (000's)

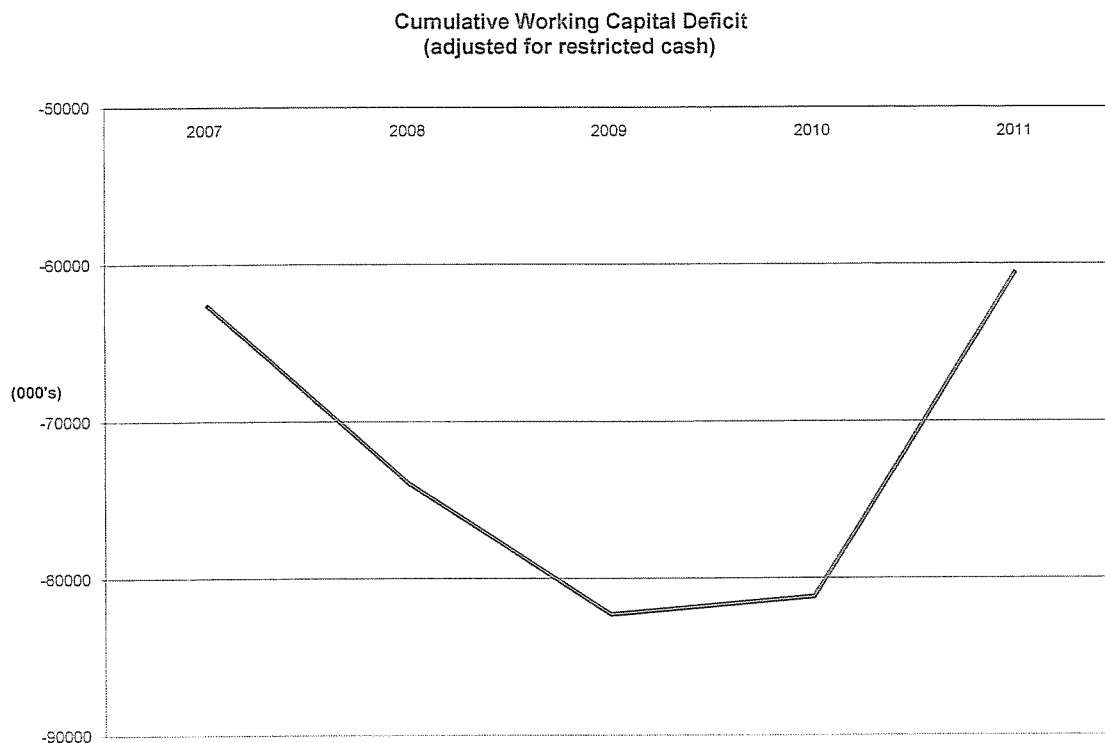
	Unrestricted	Invested in Capital Assets	2011	2010
Balance, beginning of year	(\$91,943)	\$37,852	(\$54,091)	(\$54,885)
Excess of expenses over revenues	17,474	(9,345)	8,129	731
Net change in investment in capital assets	(5,199)	5,199	-	-
Net change in fair value of other investments	46	-	46	63
Balance, end of year	(79,622)	33,706	(45,916)	(54,091)

The primary reason for the increase in net assets during the fiscal 2011 year is the hospital operating with a total surplus of operating revenue over expenses of \$8.1 million. The decrease 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, 2011 is 90% complete. Refer to note 5 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) decreased \$25.1 million from \$54.5 million at the end of fiscal 2010 to \$29.4 million at the end of fiscal 2011. The majority of this decrease results from the receipt of amounts provided as one-time funding recognized as revenue in fiscal 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 14 of the accompanying Notes to Financial Statements.

To accurately represent the hospital's working capital deficit an adjustment should be made to reflect amounts that cannot be used for operations working capital purposes as this cash is held restricted for capital expenditure or other restricted purposes.



Working capital deficit adjusted for restricted cash:

2007	(\$62,583K)	2009	(\$82,310K)	2011	(\$60,482K)
2008	(\$73,950K)	2010	(\$81,186K)		

During the year, KGH's cash needs were supported by a \$40 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 an equivalent amount of debt assumed to bridge the hospital into April 2012 at which time a new cash advance in the amount of \$40 million was again received from the SE-LHIN.

The 2010 Ontario Provincial Budget highlighted hospital working capital deficits and the existence of cash advances required by hospitals as an issue that needs to be addressed. Ontario hospitals are estimated to have approximately \$1.7 billion in working capital deficits as at March 31, 2011; the same balance as last year.

The Working Committee on Hospital Working Fund Deficits and Sub-Committee on Hospital Borrowing and Investments were formed. Deloitte was engaged by the Ministry to quantify the "true" value of the working funds for hospitals and assist the government in understanding the root causes and contributors to hospital working fund deficits.

The 2011 Ontario Provincial Budget pledged \$600 million to \$800 million in additional cash flow over the next three years to assist with working capital problems at the most seriously impacted hospitals. Strengthened accountability frameworks will also be introduced for all hospitals to help ensure that they keep on the right track.

In the absence of confirmation that KGH will receive any assistance in this regard, the hospital continues to work with the South East Local Health Integration Network and the Ministry of Health and Long-Term Care (MOHLTC) to find solutions to our working capital shortage. In addition to the existing performance improvement plan to address the operating deficit, management undertook 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. In the past two fiscal years the hospital has been successful in eliminating \$5 million of demand debt, decreasing the average daily draw upon its operating line of credit and finding the capacity to invest an additional annual amount of \$6 million in capital expenditures.

Included in the accrued compensation figure in the Statement of Financial Position, is an \$8.7 million vacation pay liability. This obligation would only become current upon the complete closure of the hospital. The annual operating budget addresses the current year costs for employees taking their annual vacation entitlement. The hospital revised the vacation policy in fiscal 2010. The revised policy 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. For fiscal 2011 the hospital was successful in reducing this liability by \$1.2 million. Removing this amount from the calculation would improve the current ratio as at March 31, 2011 to 0.80:1 (adjusted for restricted cash – 0.49:1).

Investment in Capital Assets

Kingston General Hospital has a significant backlog in capital investment that resulted from years of financial constraint and operating deficits prior to fiscal 2010. In fiscal 2010 the annual capital budget was 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; approximately \$3 million. In 2011 the KGH Board made a strategic decision to allocate the 2011 base funding increase of \$3.9M to investment in capital expenditures. The hospital was also successful in renegotiating existing long-term debt obligations which, when added to the base funding increase, increased the annual capital budget to \$9 million for 2011. Based on existing capital equipment and systems infrastructure and life cycle, KGH requires approximately \$20 million per year in capital investment. Our goal is to achieve this investment capacity by fiscal 2015. Transitional support from the Ministry of Health and Long-Term Care and the Southeast Local Health Integration Network have assisted in addressing some of the hospital capital funding needs.

Additional funding for capital investment was also received from the Kingston General Hospital Foundation and the Kingston General Hospital Auxiliary (refer to note 15 in the accompanying Notes to Financial Statements).

Construction proceeded during the year on the major redevelopment Infrastructure Ontario \$196 million project (including the 7 bed intensive care unit expansion), and the electrical infrastructure upgrade. 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 \$19 million of capital assets. Expenditures were split between the following categories:

Clinical and non-clinical equipment	\$4 million
Building systems and equipment	\$6 million
Information management systems	\$2 million
Redevelopment project	\$7 million

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

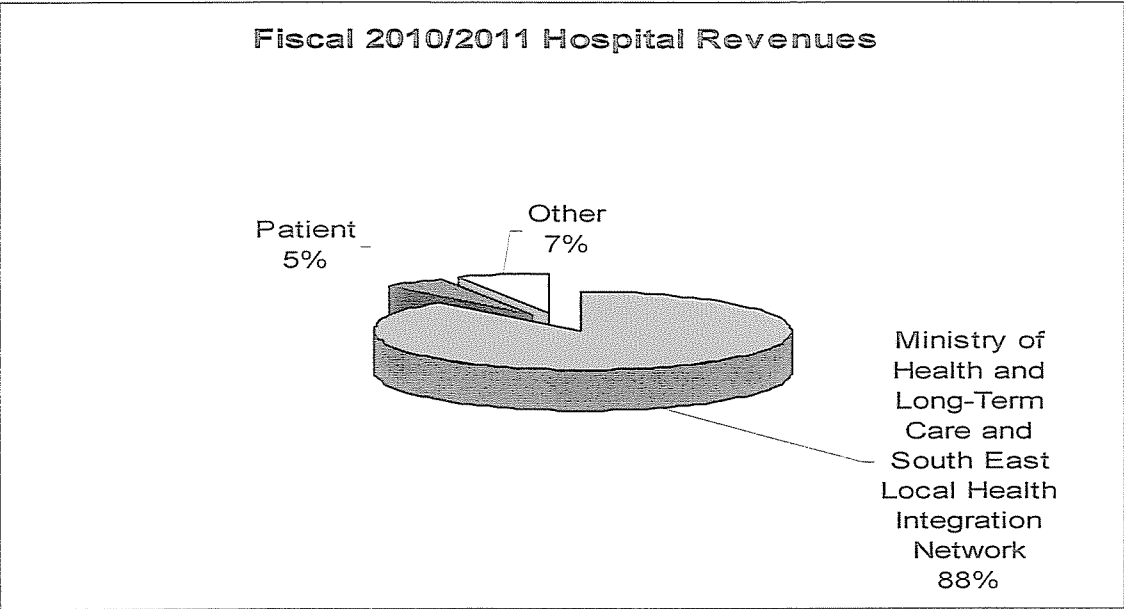
Hospital Revenues

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 (H-SAA) 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 \$3.9 million for fiscal 2011. Due to the implementation of initiatives identified in the PIP which helped to offset inflationary cost pressures for salaries and benefits, patient care supplies and services, and general operating expenses, the hospital was able to direct this funding increase to capital investment.

The hospital also received post-construction operating funding (PCOP) in the amount of \$12.6 million. The PCOP revenue provides operational and start-up funding for 4.5 new intensive care beds, 3 new intensive observation beds for the acute inpatient mental health service that will transfer in fiscal 2012 to KGH from Hotel Dieu, and incremental medical/surgical patient care volume (approximately 400 cases). The funding also supports associated facilities costs for new space (e.g. housekeeping, plant maintenance, utilities). The funding was received in late March 2011 and was recognized in revenue.



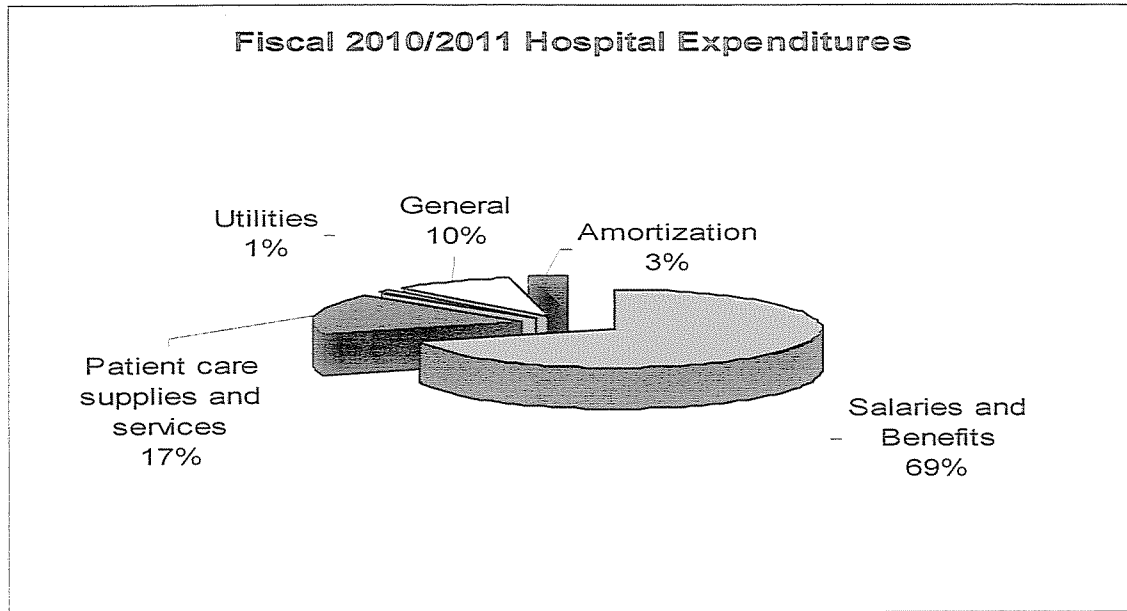
Revenues:	<u>\$000's</u>
Ministry of Health and Long-Term Care and South East Local Health Integration Network	\$356,977
Patient	20,206
Other	<u>29,554</u>
Total	\$406,737

The hospital's total percentage of funding from Ministry sources at 88% of total revenues is consistent with prior year results. Funding for hospital operations only is 80% which is comparable to the provincial average.

Hospital Expenditures

The fiscal 2011 budget incorporated a total of \$10 million of revenue generating and cost savings initiatives. Savings occurred mainly in various Corporate and Support departments. Some Information Management initiatives previously planned for fiscal 2011 did not transpire due to an inability to secure appropriate external human resources for these projects. Savings were realized through lower expenses for utilities, plant maintenance, security and general administration costs.

Salaries and benefits represent the most significant operating expense at KGH. These costs accounted for 69% of total operating costs in fiscal 2011. In alignment with the Public Sector Compensation Restraint to Protect Public Service Act, 2010, the hospital imposed a wage freeze on the compensation plans of all non-union employees in fiscal 2011. This wage freeze will continue for the upcoming year.



Expenditures:	<u>\$000's</u>
Salaries and benefits	\$274,290
Patient care and supplies	67,601
Utilities	4,789
General	37,235
Amortization	<u>11,563</u>
Total	\$395,478

Operational Efficiency

The H-SAA contains two financial performance indicators. The current ratio is a measure of liquidity and is calculated by dividing current assets by current liabilities. A current ratio less than 1.0:1 could point to the hospital being at risk of not being able to meet its current commitments and having limited opportunity to invest in the future. The working capital deficit as at March 31, 2011 can be translated into a current ratio of 0.73:1 (more accurately, if restricted cash is excluded the ratio is 0.45:1). The acceptable Ministry target for this ratio is between 0.8:1 and 2.0:1. The hospital will need to continue to draw upon its operating line of credit and support from the SE-LHIN as it continues to address its financial challenges and develop a solid fiscal foundation.

The second financial performance indicator is the total margin percentage. The total margin measures the hospital's ability to live within available resources during a specific operating fiscal year. The margin percentage is calculated as operating surplus/ (deficit) divided by total operating revenue. The acceptable Ministry target for this indicator is 0% - 3%. KGH's total margin at March 31, 2011 was 2.95%. After adjusting for the PCOP revenue included in the operating surplus the revised total margin would become 0.18%. This positive result indicates a growing capacity at KGH to live within available

resources and over time, surpluses allow the hospital to pay down its debt and invest more resources in supporting patient care.

Outcomes

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

	2010/2011	2009/2010
Admissions	19,484	19,063
Ambulatory Visits	153,839	148,198
Cancer Centre Visits	70,286	71,645
Emergency Department Visits	49,329	46,876
Births	2,040	2,026
Operative Cases	8,765	8,608
Average Length of Stay	7.34	7.78

With increasing focus on comprehensive performance reporting for hospitals, KGH has produced three new tools to communicate our performance. We have 129 Performance Indicators that are distributed across 3 domains of performance, The Key Performance Indicators (KIP), The Quality Improvement Plan (QIP), and the Strategic Scorecard (SSC). In some cases there are indicators that overlap domains. These domains represent Corporate Performance that supports Ministry of Health and Long-Term Care and SE-LHIN reporting. These indicators support our Hospital Services Accountability Agreement and various funding letters. We have, with all other hospitals in Ontario, introduced the required Quality Performance Indicator reporting effective March 31, 2011. In addition we also have a strategy dashboard that tracks our overall progress on achieving the milestones and outcomes in our long-term organization strategy (KGH 2015). Our financial results are just one dimension of our overall results and we welcome your review of our overall performance. All of these reports will be available on our web site ([www. KGH.on.ca](http://www.KGH.on.ca)) following annual review and approval by the Board of Directors.

2011/12

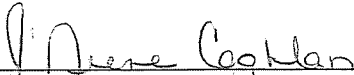
Next year, in the face of a difficult fiscal climate, KGH will complete the last year of the Performance Improvement Plan; targeting a balanced financial position. We will be faced with inflationary cost pressures as well as demands for equipment, infrastructure, and information systems replacement while at the same time striving to enable our strategic plan – KGH 2015. Vigilant monitoring of financial results and timely response to operational variances will ensure that the hospital’s annual operating position meets the established required target of a balanced operating position by fiscal 2012 and beyond.

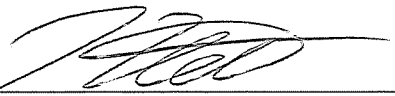
Summary

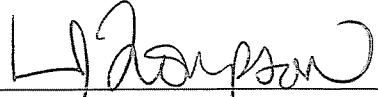
Kingston General Hospital demonstrated sound fiscal management in meeting its commitments to the MOHLTC and the SE-LHIN in fiscal 2011. Careful management of our financial resources will allow our staff, physicians, and volunteers to focus on our primary aim; achieving Outstanding Care, Always.

Financial Summary

\$ millions	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007
Operating Results					
Revenue	406.9	391.6	365.1	353.0	324.1
Expense	<u>(395.5)</u>	<u>(388.5)</u>	<u>(380.4)</u>	<u>(366.1)</u>	<u>(330.1)</u>
Excess/(Deficiency) of revenue over expenses - operations	11.4	3.1	(15.3)	(13.1)	(6.0)
Building Amortization					
Revenue	3.7	3.8	3.0	3.6	3.2
Expense	<u>(7.0)</u>	<u>(6.2)</u>	<u>(5.6)</u>	<u>(5.9)</u>	<u>(8.7)</u>
Deficiency of revenue over expenses - building amortization	<u>(3.2)</u>	<u>(2.4)</u>	<u>(2.6)</u>	<u>(2.3)</u>	<u>(5.5)</u>
Total surplus/(deficit) position	<u>8.1</u>	<u>.7</u>	<u>(17.9)</u>	<u>(15.4)</u>	<u>(11.5)</u>


 J. Neene Coghlan, Chief Financial Officer


 Jim Flett, Chief Operating Officer


 Leslee Thompson, President and Chief Executive Officer



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INDEPENDENT AUDITORS' REPORT

To Board of Directors of the Kingston General Hospital

We have audited the accompanying consolidated financial statements of Kingston General Hospital, which comprise the consolidated financial position as at March 31, 2011, the consolidated statements of revenue and expenses, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kingston General Hospital as at March 31, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

May 31, 2011

Kingston, Canada

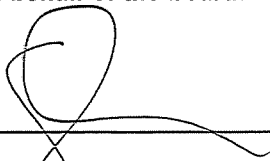
KINGSTON GENERAL HOSPITAL
Consolidated Statement of Financial Position

as at March 31, 2011
(000's)

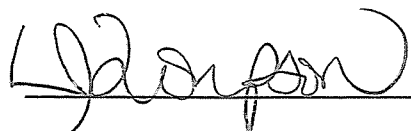
	2011	2010
Assets		
Current assets		
Cash	\$ 17,170	\$ 5,701
Restricted cash	31,117	26,692
Accounts receivable	14,983	13,379
Due from Ministry of Health and Long-Term Care and South East Local Health Integration Network	8,781	3,265
Inventories	5,895	5,891
Other current assets	2,293	2,221
	80,239	57,149
Other investments (note 3)		
Restricted capital	64,081	53,002
Other	728	727
Investments in joint ventures (note 4)	9,344	9,494
Interest rate swaps (note 8)	136	-
Capital assets, net (note 5)	159,429	158,581
	\$ 313,957	\$ 278,953
Liabilities and Net Assets		
Current liabilities		
Short term borrowings	\$ 40,000	\$ 40,894
Accounts payable and accrued liabilities	39,579	34,081
Accrued compensation	25,559	29,046
Note payable - KGH Auxiliary (note 15)	700	550
Gift annuities (note 6)	110	110
Agency obligations (note 7)	2,619	2,638
Current portion of long-term debt (note 8)	1,037	4,324
	109,604	111,643
Long-term debt (note 8)	10,497	8,184
Employee future benefits (note 9)	17,621	16,027
Deferred contributions (note 10, 11 and 12)	222,151	197,190
Net assets		
Invested in capital assets (note 5)	33,706	37,852
Unrestricted	(79,622)	(91,943)
	(45,916)	(54,091)
Commitments (note 13)		
Contingencies (notes 16, 17 and 18)		
	\$ 313,957	\$ 278,953

See accompanying notes.

On behalf of the board:



Member



Member

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Revenues and Expenses

for the year ended March 31, 2011
(000's)

	2011	2010
Revenues		
Inpatients		
Ministry of Health and Long-Term Care and South East Local Health Integration Network	\$ 322,801	\$ 309,217
Other	7,784	8,692
Outpatients	12,422	11,681
Clinical education and other programs	34,176	31,758
Marketed services	5,661	5,626
Recoveries and other revenue	18,194	17,896
Investment income	215	74
Amortization of deferred capital contributions-major equipment	5,484	6,710
Total revenues	406,737	391,654
Expenses		
Salaries and benefits	274,290	263,220
Patient care supplies and services	67,601	66,162
Utilities	4,789	5,214
General	37,235	40,715
Amortization of major equipment	11,563	13,215
Total expenses	395,478	388,526
Surplus of revenue over expenses before the undernoted item	11,259	3,128
Unrealized gain on interest rate swaps	136	-
Surplus of revenues over expenses before building amortization	11,395	3,128
Amortization of deferred capital contributions-building and land improvements	3,708	3,822
Amortization of building and land improvements	(6,974)	(6,219)
Surplus of revenues over expenses	\$ 8,129	\$ 731

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Changes in Net Assets

for the year ended March 31, 2011
(000's)

	Unrestricted	Invested in Capital Assets	Total	
			2011	2010
Balance, beginning of year	\$ (91,943)	\$ 37,852	\$ (54,091)	\$ (54,885)
Surplus (deficiency) of expenses over revenues (note 5)	17,474	(9,345)	8,129	731
Net change in investment in capital assets (note 5)	(5,199)	5,199	-	-
Net change in fair value of other investments	46	-	46	63
Balance, end of year	\$ (79,622)	\$ 33,706	\$ (45,916)	\$ (54,091)

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Cash Flows

for the year ended March 31, 2011
(000's)

	Total	
	2011	2010
Operating activities		
Surplus of revenues over expenses	\$ 8,129	\$ 731
Add (deduct) non-cash items		
Amortization of capital assets	18,537	19,434
Amortization of deferred capital contributions	(9,192)	(10,532)
Change in fair value of other investments	46	63
Unrealized gain on interest rate swaps	(136)	-
Loss on disposition of capital assets	14	75
Change in non-cash working capital balances (note 14)	(5,204)	122
Increase in employee future benefits	1,594	1,202
Increase (decrease) in deferred contributions	1,429	(8,643)
	<u>15,217</u>	<u>2,452</u>
Financing activities		
Increase in deferred capital contributions	32,724	30,093
Issuance of long-term debt	3,351	-
Repayment of long-term debt	(4,325)	(2,748)
Note payable - KGH Auxiliary	150	(148)
	<u>31,900</u>	<u>27,197</u>
Investing activities		
Purchase of capital assets	(19,399)	(14,461)
Purchase of investments	(11,080)	(17,890)
Decrease in investments in joint ventures	150	-
	<u>(30,329)</u>	<u>(32,351)</u>
Increase (decrease) in cash during the year	16,788	(2,702)
Cash, beginning of year	(8,501)	(5,799)
Cash, end of year	<u>\$ 8,287</u>	<u>\$ (8,501)</u>

Cash, end of year is represented by:

Cash	\$ 17,170	\$ 5,701
Restricted cash	31,117	26,692
Short term borrowings	-40,000	-40,894
	<u>\$ 8,287</u>	<u>\$ -8,501</u>

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Notes to Consolidated Financial Statements

For the year ended March 31, 2011
(\$000's)

1. Nature of Operations

Kingston General Hospital (the "Hospital") provides a range of patient-centered programs and select specialty and complex acute care services primarily to the people of Southeastern Ontario. The Hospital also provides primary and secondary care to the population of the Kingston area and serves as a provincial resource in specific programs. The hospital supports the education and development of health care providers and advances health care services through related research activities.

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.

The Kingston General Hospital Research Institute was incorporated without share capital under the laws of the Province of Ontario in November 2010. The Kingston General Hospital Research Institute carries on or promotes medical scientific research and experimental development in conjunction with Kingston General Hospital.

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, 2011.

Principles of Consolidation

The consolidated financial statements of Kingston General Hospital include the accounts of the Kingston General Hospital and the Kingston General Hospital Research Institute which is controlled by Kingston General Hospital. All intercompany accounts and transactions are eliminated in consolidation.

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.

KINGSTON GENERAL HOSPITAL
Notes to Consolidated Financial Statements

For the year ended March 31, 2011
(\$000's)

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.

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% - 33%

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.

Interest Rate Swaps

The Hospital is party to interest rate swap agreements used to manage the exposure to market risks from changing interest rates. Interest rate swaps are derivative financial instruments and are recorded on the Statement of Financial Position as assets or liabilities and are measured at fair value. Changes in the fair value of interest rate swap agreements are recorded in the Statement of Revenues and Expenses.

KINGSTON GENERAL HOSPITAL
Notes to Consolidated Financial Statements

For the year ended March 31, 2011
(\$000's)

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.

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, restricted cash, accounts receivable, due from Ministry of Health and Long-Term Care and South East Local Health Integration Network, short-term borrowings, 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 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 \$12,136.

(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, 2011, 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 \$410.

Employee Benefit Plans

(a) Multi-Employer Pension Plan

Kingston General Hospital participates in a defined benefit multi-employer pension plan. The plan is accounted for on a defined contribution plan basis. Contributions to the multi-employer defined benefit plan are expensed when due. The most recent regulatory funding valuation of this multi-employer pension plan conducted as at December 31, 2009 disclosed actuarial assets of \$32,556 million with accrued pension liabilities of \$32,020 million, resulting in a surplus of \$536 million. This filing valuation also confirmed that the plan was fully funded on a solvency basis as at December 31, 2009 based on the assumptions and methods adopted for the valuation.

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For the year ended March 31, 2011
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(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 (2010 – 15 years). The average remaining service period for employees of other benefit plans is 15 years (2010 – 15 years).

3. Other Investments

	2011	2010
Historical cost	64,493	53,517
Fair value	64,809	53,729

Included in fair value are investments in the amount of \$44,428 (2010: \$33,529) 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 \$19,652 (2010: \$19,473) restricted to specific capital use from the Sinking Fund Trust for redevelopment.

4. 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 at Kingston, for the operations of the Parking Commission. The principal business activities include the operation of an underground parking garage. The underground garage is currently undergoing renovations for which the capital investment required is being repaid over a twenty year period from the results of operations. Kingston General Hospital's share of the Parking Commission's excess of revenue over expense for 2011 amounts to \$541 (2010: \$626) 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 at Kingston 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 \$9,344 (2010: \$9,494). Kingston General Hospital's proportionate share of the joint venture is 40% and Queen's University at Kingston's proportionate share is 60%. Kingston General Hospital's share of the facility's excess of expense over revenue is \$0 (2010: \$150) and has been included in the Statement of Revenues and Expenses.

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Notes to Consolidated Financial Statements

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5. Capital Assets

Capital assets consist of the following:

	2011	2010
Land & land improvements	1,519	1,519
Buildings & building service equipment	193,774	192,540
Major equipment	167,776	158,861
Work in process	32,015	22,904
	395,084	375,824
Less accumulated amortization		
Land & land improvements	867	867
Buildings & building service equipment	101,293	94,320
Major equipment	133,495	122,056
	235,655	217,243
Net capital assets	159,429	158,581

Net assets invested in capital assets are calculated as follows:

	2011	2010
Balance, end of the year	159,429	158,581
Amounts financed by:		
Deferred contributions	(114,189)	(108,221)
Long-term debt	(11,534)	(12,508)
	33,706	37,852

The change in net assets invested in capital assets is as follows:

	2011	2010
Excess of expenses over revenues		
Amortization of deferred contributions related to capital assets	9,192	10,532
Amortization of capital assets	(18,537)	(19,434)
	(9,345)	(8,902)

	2011	2010
Purchase of capital assets	19,399	14,461
Amounts funded by:		
Deferred contributions	(15,174)	(7,388)
Long-term debt	(3,351)	0
Repayment of bank loans	0	5,000
Repayment of long-term debt	4,325	2,748
Disposal of capital assets	0	(75)
	5,199	14,746

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6. 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 other investments on the Statement of Financial Position.

7. 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.

8. Long-Term Debt

	2011	2010
Bank term loan with interest at 4.79%, payable in monthly installments of \$26 on account of principal and interest, due March 2011	0	3,500
Bank term loan with interest at 4.85%, payable in monthly installments of \$8 on account of principal and interest, due January 2017	822	875
Bank term loan with interest at 5.65%, payable in monthly installments of \$39 on account of principal and interest, due June 2017	3,891	4,132
Bank term loan with interest at 4.71%, payable in monthly installments of \$4 on account of principal and interest, due April 2013	89	129
Bank term loan with interest at 4.33%, payable in monthly installments of \$54 on account of principal and interest, due February 2017	3,381	3,872
Bank term loan with floating interest, payable in monthly installments of \$24 on account of principal and interest, due March 2016 (a)	3,351	0
	11,534	12,508
Less current portion of long term debt	(1,037)	(4,324)
	10,497	8,184

(a) The outstanding loan amount is subject to an interest rate swap agreement on an original notional principal of \$3,351 with the banker whereby the Hospital receives a floating interest rate while paying a fixed rate of 3.50%.

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- (b) During the year, a second bank loan was entered into that is also subject to an interest rate swap agreement. The effective date of this bank loan and swap agreement is March 1, 2012 with an original notional value of \$7,800 with the banker whereby the Hospital will receive a floating interest rate while paying a fixed rate of 4.14%.
- (c) The Hospital has in place two interest rate swap agreements. The first agreement is for 5 years and expires in 2016, while the second agreement is for 10 years and expires in 2022. Under the terms of the first agreement, the Hospital agrees to receive a floating interest rate on the loan (note 8(a)) for a fixed rate of 3.50%. Under the terms of the second agreement, the Hospital agrees to receive a floating interest rate on the loan (note 8(b)) while paying a rate of 4.14%. The use of the agreement effectively enables the Hospital to convert the floating rate interest obligations of the loans into fixed rate obligations and thus manage its exposure to interest rate risk. The fair value of the interest rate swaps will vary based on prevailing market interest rates and the remaining term to maturity. The change in fair value of the interest rate swaps that were entered into during the year to March 31, 2011 was \$136 (2010 - \$0).
- (d) The principal repayments due of long term debt for each of the five years subsequent to March 31, 2011 are as follows: 2012 - \$1,037; 2013 - \$1,086; 2014 - \$1,094; 2015 - \$1,141; and 2016 -\$3,617.

9. Post-Employment Benefits

Pension Plan

Substantially all of the employees of Kingston General Hospital are members of the Healthcare of Ontario Pension Plan. Contributions to the plan made during the year by Kingston General Hospital on behalf of its employees amounted to \$15,343 (2010: \$15,225) 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, 2011. 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:

	2011	2010
Accrued benefit obligation	28,296	28,316
Unamortized actuarial losses	(11,660)	(10,991)
Unamortized past service costs	2,154	731
Accrued compensation	(1,169)	(2,029)
Employee future benefits	17,621	16,027

The expense for the year related to these plans is \$2,718 (2010: \$2,539) and employer contributions for these plans is \$810 (2010: \$718).

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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 5.5% (2010 – 7.75%).
- Discount rate to determine accrued benefit obligation for disclosure at end of period 5.00% (2010 – 5.50%).
- Dental and extended health costs in 2011 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 8.0% in 2011 decreasing by 0.5% per annum to an ultimate rate of 5.0% per annum.

10. 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.

	2011	2010
Balance, beginning of year	7,013	13,205
Less amount recognized as revenue in the year	(2,333)	(8,771)
Add amount received related to future periods	3,607	2,579
	8,287	7,013

11. 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.

	2011	2010
Balance beginning of year	187,947	168,386
Additional contributions received	31,855	29,189
Additional revenue on unspent contributions	704	783
Unrealized gain on other investments	179	121
Less amounts related to disposal of capital assets	(14)	0
Less amounts amortized to revenue	(9,192)	(10,532)
	211,479	187,947

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

	2011	2010
Unamortized capital contributions used to purchase assets	114,189	108,221
Unspent contributions	97,290	79,726
	211,479	187,947

Included in unspent contributions is \$72,691 (2010: \$55,721) in special capital funding in support of redevelopment.

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12. 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.

	2011	2010
Balance, beginning of year	2,230	4,681
Less amount recognized as revenue in the year	(521)	(3,259)
Unrealized loss on other investments	(1)	(1)
Add amount received related to future periods	677	809
	2,385	2,230

13. Commitments

Cost to complete construction in progress and major equipment purchase

The estimated commitment to complete work in progress and major equipment purchases at March 31, 2011 is approximately \$163,637 (2010: \$176,278).

Lease commitments

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

	2011
Year ending March 31,	
2012	807
2013	302
2014	49
2015	1
2016	0
Total minimum lease payments	1,159

14. 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:

	2011	2010
Accounts receivable	(1,604)	(2,244)
Due from Ministry of Health and Long-Term Care and South East Local Health Integration Network	(5,516)	(9)
Inventories	(4)	513
Other current assets	(72)	3,041
Bank loan	0	(5,000)
Accounts payable and accrued liabilities	5,498	4,074
Accrued compensation	(3,487)	960
Gift annuity	0	(15)
Agency obligations	(19)	(1,198)
Net increase (decrease)	(5,204)	122

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15. 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/ University Hospitals Kingston Foundation

Kingston General Hospital has an economic interest in the Kingston General Hospital Foundation. The Foundation receives substantially all of its revenue from the University Hospital Kingston Foundation and receives, accumulates and distributes funds and/or the income therefrom for the benefit of Kingston General Hospital. Kingston General Hospital Foundation is a separate corporation without share capital and with its own Board of Directors. During the year, Kingston General Hospital received \$5,215 (2010: \$3,189) to fund capital redevelopment, equipment purchases and special program costs.

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.

(b) 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 \$578 (2010: \$785) 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 \$700 (2010: \$550) which is payable on demand.

(c) 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 could be required to contribute towards approved capital improvement and replacement costs incurred by Kingston Regional Hospital Laundry Incorporated. During the year, Kingston General Hospital paid \$2,088 (2010: \$2,545) 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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(d) Shared Support Services South Eastern Ontario

The Hospital is a member of a group of seven hospitals within 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 project implementation period commenced with the signing of a transfer payment agreement in March of 2008 and is targeted for completion by 2012.

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 \$1,636 (2010: \$489) 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, 2011, 3SO has drawn \$3,810 (2010: \$1,110) on this line of credit, of which \$1,886 (2010: \$549) is guaranteed by the Hospital.

16. 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, 2011.

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, 2011.

17. Letters of Credit

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

18. 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, 2011, management believes that reasonable provisions have been made in the accounts.

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19. Clinical Education Program

During the year, the Hospital's Clinical Education Program incurred expenses of \$27,079 (2010: \$25,439) and received \$27,415 (2010: \$25,832) in funding from the Ministry of Health and Long-Term Care. Under the terms of the arrangement, the excess of this funding of \$336 (2010: \$393) must be returned to the Ministry of Health and Long-Term Care, and, as such, a payable of \$336 (2010: \$393) has been recorded as at March 31, 2011 and is included in accounts payable and accrued liabilities.

20. Comparative Figures

Certain comparative figures have been restated to conform to financial statement presentation adopted in 2011.