

Stratford General Hospital

Financial statements

March 31, 2022



Independent auditor's report

To the Board of Directors of
Stratford General Hospital

Opinion

We have audited the financial statements of **Stratford General Hospital** [the "Hospital"], which comprise the statement of financial position as at March 31, 2022, and the statement of changes in net assets, statement of operations and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2022, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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



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

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

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

Ernst & Young LLP

London, Canada
June 7, 2022

Chartered Professional Accountants
Licensed Public Accountants



Stratford General Hospital

Incorporated without share capital under the laws of Ontario

Statement of financial position

As at March 31

	2022	2021
	\$	\$
Assets		
Current		
Cash	20,651,004	9,863,254
Accounts receivable [notes 3 and 14]	9,338,444	19,790,495
Grants receivable	273,804	63,236
Inventories [note 5]	1,963,617	2,287,629
Prepaid expenses	2,120,535	1,360,901
Total current assets	34,347,404	33,365,515
Long-term investments [note 6]	461,716	460,233
Property and equipment, net [note 7]	73,894,510	71,966,081
	108,703,630	105,791,829
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities [note 16]	23,169,592	15,676,430
Due to other Alliance entities [note 4]	1,724,195	2,890,382
Accrued salaries and wages	9,594,628	8,042,307
Current portion of post-employment benefits [note 9[b]]	378,755	406,445
Deferred contributions, expenses of future periods [note 11]	1,150,903	520,662
Demand loans and current portion of term debt [note 8]	4,447,650	7,845,175
Total current liabilities	40,465,723	35,381,401
Term debt [note 8]	1,144,418	3,280,018
Post-employment benefits [note 9[b]]	5,901,285	5,761,795
Deferred contributions, capital [note 10]	48,028,654	47,951,462
Total liabilities	95,540,080	92,374,676
Commitments and contingencies [note 13]		
Net assets		
Endowments [note 12]	119,719	119,719
Unrestricted	13,043,831	13,297,434
Total net assets	13,163,550	13,417,153
	108,703,630	105,791,829

See accompanying notes

On behalf of the Board:



Board Chair



Treasurer

Stratford General Hospital

Statement of changes in net assets

Year ended March 31

	2022			2021
	Endowments	Unrestricted	Total	Total
	\$	\$	\$	\$
	<i>[note 12]</i>			
Balance, beginning of year	119,719	13,297,434	13,417,153	2,080,340
Excess (deficiency) of revenue over expenses for the year	—	(253,603)	(253,603)	11,336,813
Balance, end of year	119,719	13,043,831	13,163,550	13,417,153

See accompanying notes

Stratford General Hospital

Statement of operations

Year ended March 31

	2022	2021
	\$	\$
Revenue		
Ontario Health funding <i>[note 4]</i>	105,224,689	103,448,384
In-patient services	474,406	291,009
Out-patient services	10,394,053	8,973,300
Preferred accommodation	420,701	461,114
Chronic co-payment	74,258	45,390
Other revenue <i>[note 6]</i>	9,776,844	9,027,926
Unrestricted donations and bequests	59,266	82,241
Amortization of deferred contributions, capital – equipment	1,512,348	1,487,022
	127,936,565	123,816,386
Expenses		
Salaries and wages	57,699,819	57,475,437
Medical staff remuneration	16,076,870	13,967,295
Employee benefits	16,928,881	16,223,680
Supplies and other expenses	19,948,182	19,762,268
Medical and surgical supplies	5,977,904	6,360,476
Drugs	6,942,373	5,836,065
Amortization of equipment	2,635,556	2,511,270
Interest – non-building <i>[note 8]</i>	20,593	22,965
	126,230,178	122,159,456
Excess of revenue over expenses before the following	1,706,387	1,656,930
Working capital funding <i>[note 4]</i>	—	11,507,251
Amortization of deferred contributions, capital – buildings and land improvements	2,620,988	2,669,770
Amortization of buildings and land improvements	(4,520,399)	(4,463,253)
Interest expense <i>[note 8]</i>	(65,782)	(88,975)
Gain on disposal of equipment	5,203	55,090
	(1,959,990)	(1,827,368)
Excess (deficiency) of revenue over expenses for the year	(253,603)	11,336,813

See accompanying notes

Stratford General Hospital

Statement of cash flows

Year ended March 31

	2022	2021
	\$	\$
Operating activities		
Excess (deficiency) of revenue over expenses for the year	(253,603)	11,336,813
Add (deduct) items not involving cash		
Amortization of equipment	2,635,556	2,511,270
Amortization of buildings and land improvements	4,520,399	4,463,253
Gain on disposal of equipment	(5,203)	(55,090)
Amortization of deferred contributions, capital – equipment	(1,512,348)	(1,487,022)
Amortization of deferred contributions, capital – buildings and land improvements	(2,620,988)	(2,669,770)
Interest on investments	(1,483)	—
Post-employment benefits	111,800	96,395
	<u>2,874,130</u>	<u>14,195,849</u>
Net change in non-cash working capital balances related to operations <i>[note 15]</i>	<u>18,315,398</u>	<u>(6,913,681)</u>
Cash provided by operating activities	<u>21,189,528</u>	<u>7,282,168</u>
Capital activities		
Purchase of property and equipment	(9,136,772)	(7,133,682)
Proceeds on disposal of property and equipment	57,591	59,298
Cash used in capital activities	<u>(9,079,181)</u>	<u>(7,074,384)</u>
Financing activities		
Repayment of demand loans	(9,970,575)	(1,685,975)
Proceeds of demand loans and term debt	4,581,450	1,749,200
Repayment of term debt	(144,000)	(144,000)
Contributions received related to capital	4,210,528	4,564,573
Cash provided by (used in) financing activities	<u>(1,322,597)</u>	<u>4,483,798</u>
Net increase in cash during the year	<u>10,787,750</u>	<u>4,691,582</u>
Cash, beginning of year	<u>9,863,254</u>	<u>5,171,672</u>
Cash, end of year	<u>20,651,004</u>	<u>9,863,254</u>

See accompanying notes

Stratford General Hospital

Notes to financial statements

March 31, 2022

1. Purpose of the organization

Stratford General Hospital [the "Hospital"] was incorporated without share capital under the *Corporations Act* (Ontario). The Hospital is a registered charity under the *Income Tax Act* (Canada) and, as such, is exempt from income tax. The Hospital is funded primarily by Ontario Health. Any excess of revenue over expenses earned during a fiscal year may be retained by the Hospital. There is no commitment that deficits incurred by the Hospital will be funded. Therefore, to the extent that deficits are incurred and not funded, future operations may be affected.

The Hospital, along with Clinton Public Hospital, St. Marys Memorial Hospital and Seaforth Community Hospital, is a member of the Huron Perth Healthcare Alliance [the "Alliance"] and the individual hospitals' financial results are influenced by this membership [note 4].

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

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

2. Summary of significant accounting policies

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

[a] Basis of presentation and use of estimates

The financial statements represent the operations of the Hospital and do not include the assets, liabilities and activities of affiliated organizations such as the Stratford General Hospital Foundation [the "Foundation"] and volunteer associations, which, although affiliated with the Hospital, are not operated or controlled by it.

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

Stratford General Hospital

Notes to financial statements

March 31, 2022

COVID-19 global pandemic

The Hospital's results and operations have been and will continue to be impacted by the outbreak of COVID-19. The COVID-19 pandemic gives rise to heightened uncertainty as it relates to accounting estimates and increases the need to apply judgment in evaluating the economic and market environment and its impact on significant estimates. The impact of COVID-19 has led to significant volatility in the global equity and fixed income markets. It is uncertain how this volatility may impact the valuation and income of portfolio investments. Additionally, there is a higher degree of uncertainty related to revenue recognition including the treatment of government reimbursement for hospital incurred incremental expenses. The duration and impact of the COVID-19 outbreak remains unknown at this time, as does the ongoing efficacy of the government and central bank monetary and fiscal interventions designed to stabilize economic conditions and slow the spread of the disease. As a result, it is not possible to reliably estimate the length and severity of these developments nor the impact on the financial position and financial results of the Hospital in future years.

[b] Revenue recognition

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

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

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

[c] Inventories

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

[d] Investments

Investments are recorded initially at fair value and subsequently at amortized cost, and where there is a reduction in value that is considered other than temporary, the investment is written down. Investments in joint ventures are accounted for using the modified equity method and as such are stated at cost plus earnings since acquisition. Transactions are recorded on a trade-date basis.

Stratford General Hospital

Notes to financial statements

March 31, 2022

[e] Property and equipment

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

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

Tangible

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

Intangible

Computer software	3–5 years
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No amortization is recorded on construction in progress until the related assets are put into productive use.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the asset no longer has any long-term service potential to the Hospital. When an item of property and equipment no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to residual value.

[f] Contributed materials and services

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

[g] Post-employment benefits

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

[h] Multi-employer defined benefit plan

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

Stratford General Hospital

Notes to financial statements

March 31, 2022

[i] Financial instruments

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

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

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

[j] Remeasurement gains or losses

Remeasurement gains or losses are reported according to their nature, including changes in market value for derivatives, portfolio investments in equity instruments and financial instruments that have been designated to the fair value category. Also included are gains or losses in foreign exchange for items denominated in a foreign currency. As at March 31, 2022, there was no change in the accumulative deficiency of revenue over expenses for the fair value changes or foreign currency translation. Therefore, a statement of remeasurement gains and losses has not been disclosed.

[k] Going concern

Management has made an assessment of the Hospital's ability to continue as a going concern and is satisfied that the Hospital has the resources to continue its operations for the foreseeable future. Management considered the impact of COVID-19 in its assessment of the Hospital's ability to continue as a going concern. Although COVID-19 has had an impact on the Hospital's operations, as well as the funding and operations of its related entities, the Hospital has sufficient liquidity to maintain current operations as well as the additional operational demands relating to the Hospital's continued COVID-19 response.

3. Accounts receivable

Accounts receivable consist of the following:

	2022	2021
	\$	\$
Ontario Health	5,054,090	16,575,665
Insurers and patients	1,831,222	1,300,788
Other	2,640,632	2,151,042
	<u>9,525,944</u>	<u>20,027,495</u>
Less allowance for doubtful accounts	187,500	237,000
	<u>9,338,444</u>	<u>19,790,495</u>

Stratford General Hospital

Notes to financial statements

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4. Huron Perth Healthcare Alliance

The combined operating surplus/deficit of the Alliance is shared based on the percent interest of each member hospital in the Alliance. Ontario Health revenue is adjusted between the four hospitals within the Alliance through a "Paymaster" account, to reflect the appropriate operating surplus/deficit.

	2022	2021
	\$	\$
Stratford General Hospital provincial funding	108,414,801	107,978,339
Adjustment for the Hospital's share of the Alliance operating surplus/deficit	(3,190,112)	(4,529,955)
Provincial funding adjusted revenue	105,224,689	103,448,384
Stratford General Hospital working capital funding	—	11,507,251
	105,224,689	114,955,635

Working capital funding represents funds received by the Hospital from Ontario Health for the specific purpose of reducing the Hospital's working capital deficit. The working capital funding is excluded from the aforementioned sharing arrangement between the four hospitals within the Alliance.

Property and equipment expenditures not funded by the local foundations and post-employment benefits are shared by all four hospitals based on their respective percent interest in the Alliance.

Amounts due from other Alliance Hospitals per the Alliance agreement are non-interest bearing with no set repayment terms are as follows:

	2022	2021
	\$	\$
Clinton Public Hospital	304,704	132,069

Amounts owing to other Alliance Hospitals per the Alliance agreement are non-interest bearing with no set repayment terms and are as follows:

	2022	2021
	\$	\$
Seaforth Community Hospital	1,037,327	1,609,588
St. Marys Memorial Hospital	991,572	1,412,863
	2,028,899	3,022,451

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

Stratford General Hospital

Notes to financial statements

March 31, 2022

5. Inventories

During the year, the Hospital expensed \$11,097,729 [2021 – \$9,280,731] of inventories. There were no write-downs of inventories to net realizable value or any write-down reversals during the year or prior year.

6. Long-term investments

Long-term investments consist of the following:

	2022	2021
	\$	\$
Guaranteed investment certificate – restricted	119,719	119,719
Guaranteed investment certificate – unrestricted	1,483	—
Horizon ProResp Inc.	340,514	340,514
	461,716	460,233

Horizon ProResp Inc.

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

	2022	2021
	\$	\$
Common share investment – 50% of common share capital	55,657	55,657
Share of income since incorporation	284,857	284,857
	340,514	340,514

Management fees of \$225,000 [2021 – \$261,000] from Horizon ProResp Inc. have been recorded as other revenue. Transactions are in the normal course of business and recorded at the exchange amount, which is the amount agreed upon by both parties.

Stratford General Hospital

Notes to financial statements

March 31, 2022

7. Property and equipment

Property and equipment consist of the following:

	2022		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Tangible			
Land	12,419	—	12,419
Other non-amortized assets	147,010	—	147,010
Land improvements	1,450,058	1,172,080	277,978
Buildings	124,126,424	69,187,829	54,938,595
Furnishings and equipment	42,138,187	31,999,475	10,138,712
Computer hardware	5,056,912	4,223,244	833,668
Construction in progress	6,798,440	—	6,798,440
	179,729,450	106,582,628	73,146,822
Intangible			
Computer software	8,715,347	7,967,659	747,688
	188,444,797	114,550,287	73,894,510
	2021		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Tangible			
Land	12,419	—	12,419
Other non-amortized assets	147,010	—	147,010
Land improvements	1,450,058	1,140,798	309,260
Buildings	122,269,013	64,698,712	57,570,301
Furnishings and equipment	39,634,485	32,583,276	7,051,209
Computer hardware	4,794,020	3,950,306	843,714
Construction in progress	5,198,210	—	5,198,210
	173,505,215	102,373,092	71,132,123
Intangible			
Computer software	8,239,660	7,405,702	833,958
	181,744,875	109,778,794	71,966,081

Stratford General Hospital

Notes to financial statements

March 31, 2022

8. Demand loans and term debt

The Hospital has a joint and several obligation for the borrowings of the Alliance under the following loan facilities with the Canadian Imperial Bank of Commerce ["CIBC"] and Royal Bank of Canada ["RBC"].

- [a] Revolving demand facility [the "Facility"] of \$7,000,000 with RBC to finance general operating requirements. The Facility bears interest at the bank's prime rate [2.70%] minus 0.65%. As at March 31, 2022, nil [2021 – nil] has been drawn on the Facility by the Alliance.
- [b] Revolving demand facility [the "Capital Facility"] of \$25,000,000 [2021 – \$25,000,000] with RBC to finance the acquisition of capital assets including property and equipment. The Capital Facility bears interest at various rates depending on the term. As at March 31, 2022, \$6,915,000 [2021 – \$9,795,000] has been drawn on the Capital Facility by the Alliance, of which \$4,303,650 [2021 – \$7,576,700] is attributable to the Hospital.
- [c] Term facility [the "SSRP Facility"] with RBC that was used to finance the completion of the Stratford Site Redevelopment Project. The SSRP Facility bears interest at the bank's prime rate [2.70%] minus 0.65%. As at March 31, 2022, \$1,288,418 [2021 – \$1,432,418] is outstanding from the Alliance on the SSRP Facility. Interest payments are made monthly on the 26th day of each month, and annual principal payments are due March 31 of the respective year. The maturity date of the SSRP Facility is March 31, 2024.
- [d] A committed instalment loan with CIBC that is being used to finance the Energy Co-Generation Project at the Stratford site [the "Co-Gen Facility"]. The Co-Gen Facility bears interest at the bank's prime rate [2.70%] minus 0.75% and is due on demand. As at March 31, 2022, \$1,072,405 [2021 – \$3,255,500] is outstanding from the Alliance, of which nil [2021 – \$2,116,075] is attributable to the Hospital. The commitment period of the Co-Gen Facility will expire on April 30, 2024.
- [e] Revolving lease line of credit [the "Lease Facility"] of \$9,000,000 with RBC, by way of lease agreements with RBC. The purpose of the Lease Facility is to fund the acquisition of capital assets, including equipment and software. The Lease Facility bears interest at the applicable rate contained in the respective lease agreement entered. As at March 31, 2022, nil [2021 – nil] has been drawn on the Lease Facility by the Alliance.

As at March 31, 2022, the total outstanding borrowings of the Alliance amounted to \$9,275,823 [2021 – \$14,482,918]. Of this amount, the Hospital has the following borrowings outstanding:

	2022	2021
	\$	\$
Demand loans	4,303,650	7,576,700
Current portion of term debt	144,000	268,475
Total demand loans and current portion of term debt	4,447,650	7,845,175
Term debt	1,144,418	3,280,018

Stratford General Hospital

Notes to financial statements

March 31, 2022

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

	\$
2023	144,000
2024	1,144,418
	<u>1,288,418</u>

9. Post-employment benefits

[a] Pension plan

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

Employer contributions to the HOOPP during the year by the Hospital amounted to \$4,611,836 [2021 – \$4,475,470]. The most recent actuarial valuation for financial reporting purposes completed by the HOOPP as at December 31, 2021 disclosed net assets available for benefits of \$114,414 million [2020 – \$103,983 million] with pension obligations of \$85,902 million [2020 – \$79,852 million], resulting in a surplus of \$28,512 million [2020 – \$24,131 million]. The cost of pension benefits is determined by the HOOPP at \$1.26 per every dollar of employee contributions. As at December 31, 2021, the HOOPP was 120% funded [2020 – 119%].

[b] Post-employment benefits

Retirees and surviving spouses of retirees are eligible for life insurance, drug, other medical, dental and hospital benefits covered under the non-pension post-employment benefit plan [the "Plan"] after they turn 55. The Plan is funded on a pay-as-you-go basis, and the Hospital funds on a cash basis as benefits are paid. During the year, benefits paid totalled \$179,780 [2021 – \$255,201].

The most recent full actuarial valuation for funding purposes was completed by the Alliance's independent actuaries as at March 31, 2020.

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

	2022	2021
	\$	\$
Accrued benefit obligation		
Balance, beginning of year	5,054,790	4,724,200
Current service cost	337,545	315,770
Interest cost	150,020	151,905
Benefits paid	(294,645)	(281,450)
Actuarial loss (gain)	(472,550)	144,365
Balance, end of year	4,775,160	5,054,790
Unamortized net actuarial gain	1,504,880	1,113,450
Post-employment benefits	6,280,040	6,168,240
Less current portion	378,755	406,445
	5,901,285	5,761,795

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

The Hospital's benefit plan expense is as follows:

	2022	2021
	\$	\$
Current service cost	337,545	315,770
Interest cost	150,020	151,905
Amortization of net actuarial gain	(81,120)	(89,830)
Post-employment benefits expense	406,445	377,845

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

	2022	2021
	%	%
Discount rate – net accrued benefit expense	2.86	3.10
Discount rate – accrued benefit obligation	3.67	2.86
Extended health care premium increases	6.00	6.10
Dental premium increases	4.50	4.50

The extended health care premiums are expected to decrease by 0.117% per annum to an ultimate rate of 3.9%. The expected average remaining service life of active employees is 16.57 years.

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10. Deferred contributions, capital

Deferred contributions related to property and equipment are as follows:

	2022	2021
	\$	\$
Balance, beginning of year	47,951,462	47,543,681
Additional contributions received		
Ontario Health	2,826,215	3,113,590
Foundation [note 14]	1,552,828	1,423,948
Other	35,065	27,035
Amounts amortized to revenue	(4,133,336)	(4,156,792)
Amounts reduced due to disposal of equipment	(203,580)	—
Balance, end of year	48,028,654	47,951,462

There was \$429,474 in unspent contributions included in the balance of unamortized capital contributions related to property and equipment [2021 – nil].

The Hospital has been approved to carry over \$429,474 of Health Infrastructure Renewal Fund Funding from 2021–2022 into 2022–2023. These funds were unspent in the 2021–2022 fiscal year due to pressures directly related to the COVID-19 pandemic.

11. Deferred contributions, expenses of future periods

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

	2022	2021
	\$	\$
Balance, beginning of year	520,662	51,795
Contributions, grants and donations	2,502,052	1,027,289
Amounts earned	(1,871,811)	(558,422)
Balance, end of year	1,150,903	520,662

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The deferred contributions will be spent as follows:

	2022	2021
	\$	\$
Mental health programs	29,726	11,556
Change Foundation	2,325	4,329
Trillium Gift of Life	23,772	22,500
Patient Oriented Discharge Summary	11,207	3,500
Physicians	450	—
Provincial Supply of Personal Protection Equipment	43,207	—
South Western Ontario Public Health Infection Prevention and Control	40,211	—
Ontario Health Teams	443,921	388,777
Crisis Mental Health	556,084	90,000
	<u>1,150,903</u>	<u>520,662</u>

12. Endowments

All of the net assets restricted for endowment purposes are subject to externally imposed restrictions stipulating that the principal be maintained intact in perpetuity. Investment income on the assets restricted for endowment purposes is externally restricted for capital purposes. The total investment income earned on endowments during the year was \$1,395 [2021 – \$1,555] and was included in deferred contributions, capital during the year.

13. Commitments and contingencies

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

	\$
2023	4,524,034
2024	3,426,996
2025	1,968,183
2026	1,332,043
2027	763,815
Thereafter	1,581,857
	<u>13,596,928</u>

The Hospital is involved from time to time as plaintiff or defendant in various legal actions that arise in the normal course of operations. Any contingent gains arising on such actions are included in income when they are assured. Provisions for contingent losses are provided at such time as management concludes that a loss is likely and can be estimated. As at March 31, 2022, management believes adequate provision for losses has been made in the accounts.

The Hospital routinely engages in collective bargaining and is subject to various human rights matters under provincial legislation when employees or groups within the bargaining units file grievances against the Hospital or when the collective bargaining agreements are negotiated, which may result in retroactive pay.

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The Hospital has a joint and several obligation for the borrowings of the Alliance under various loan facilities with CIBC and RBC. As at March 31, 2022, the total outstanding borrowings of the Alliance amounted to \$9,275,823 [2021 – \$14,482,918]. Of this amount, the Hospital has drawn \$5,592,068 [2021 – \$11,125,193] *[note 8]*.

14. Related party transactions

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

- [a] The Hospital receives donations from the Foundation. The Foundation has its own Board of Directors and is independent of the Hospital. The Foundation is incorporated under the laws of Ontario. It is registered as a public foundation and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes. The assets, liabilities, revenue and expenses of the Foundation have not been included in these financial statements.

Donations of \$1,552,828 [2021 – \$1,423,948] were received from the Foundation for equipment purchases and capital projects. These amounts have been included in deferred contributions, capital.

During the year, the Hospital provided administrative services including payroll processing at no cost to the Foundation.

As at March 31, 2022, an amount of \$37,399 [2021 – \$37,003] was due from the Foundation. The amount is non-interest bearing and due on demand.

- [b] Alliance operations – The Hospital is acting as the central financial processing entity for the Alliance, processing all accounts payable and payroll distributions for all four hospitals in the Alliance from its bank account. The Hospital is reimbursed for the expenditures relating to the other three hospitals on a monthly basis *[note 4]*.

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

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15. Statement of cash flows

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

	2022	2021
	\$	\$
Decrease (increase) in current assets		
Accounts receivable	10,452,051	(13,777,995)
Grants receivable	(210,568)	(63,236)
Inventories	324,012	(625,281)
Prepaid expenses	(759,634)	(77,903)
	9,805,861	(14,544,415)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	7,493,162	4,198,135
Due to other Alliance entities	(1,166,187)	1,140,604
Accrued salaries and wages	1,552,321	1,823,128
Deferred contributions, expenses of future periods	630,241	468,867
	8,509,537	7,630,734
	18,315,398	(6,913,681)

16. Midwifery program

The Hospital acts as a transfer payment agency for a midwifery program funded through Ontario Health Community Health and Prevention Branch – Ontario Midwifery Program [“OMP”]. The gross revenue and expenses of the OMP of \$7,003,366 [2021 – \$6,202,997] are included in the statement of operations. The excess of OMP funding over OMP allowed expenses for 2022 is \$589,795 [2021 – \$717,034], which is due to the Ontario Health OMP and is included in accounts payable and accrued liabilities as at March 31, 2022.

17. Financial instruments and risk management

Financial instrument classification

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

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

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

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The guaranteed investment certificate held by the Hospital is classified as Level 2 according to the fair value hierarchy described above. There were no material transfers between Levels 1 and 2 for the year ended March 31, 2022.

Risk and uncertainties

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

Market risk

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

Interest rate risk

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

Credit risk

Credit risk arises from the possibility that the entities from which the Hospital receives funding may experience difficulty and be unable to fulfill their obligations. The majority of the Hospital's accounts receivable are owed by government agencies with good credit standing. As at year-end, patient and other accounts receivable totalled \$4,471,854 [2021 – \$3,451,830]. As a result, the requirement for credit risk related reserves for accounts receivable is minimal. The Hospital has no significant concentration of credit risk with any one individual customer. There are no significant past due or impaired balances as at March 31, 2022.

Liquidity risk

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

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