

KIRKLAND AND DISTRICT HOSPITAL
Financial Statements
Year Ended March 31, 2012

KIRKLAND AND DISTRICT HOSPITAL

(incorporated under the laws of the Province of Ontario as
a corporation without Share Capital)

BOARD OF DIRECTORS - 2011/2012

Mr. John Sullivan, President
Ms. Patty Quinn, Vice President
Mr. Pat Kiely, Treasurer
Mr. Ted Butt
Ms. Lynda Clowater
Mr. Dan Fenety

Mr. Marcel Joliat
Ms. Paula Mangotich
Mr. Serge Moreau
Mr. Barry Ryan
Dr. Mark Spiller
Dr. James Rumball

Mr. Glenn Scanlan, Secretary

AUDITORS

Ross, Pope & Company LLP, Chartered Accountants
Kirkland Lake, Ontario

KIRKLAND AND DISTRICT HOSPITAL

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Year Ended March 31, 2012

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Ross, Pope & Company LLP

Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Kirkland and District Hospital

We have audited the accompanying financial statements of the Kirkland and District Hospital, which comprise the statement of financial position as at March 31, 2012, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ross, Pope & Company LLP

Kirkland Lake, Ontario
June 7, 2012

ROSS, POPE & COMPANY LLP
CHARTERED ACCOUNTANTS
Licensed Public Accountants

KIRKLAND AND DISTRICT HOSPITAL

Statement of Financial Position

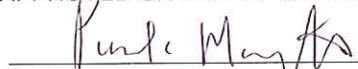

March 31, 2012

	2012	2011
ASSETS		
CURRENT		
Cash	\$ 1,798,713	\$ 846,458
Cash - restricted	24,213	54,247
Short-term investments (Note 5)	-	412,395
Accounts receivable (Note 6)	810,571	989,773
Inventories	402,449	386,615
Prepaid expenses	181,811	262,453
	3,217,757	2,951,941
LONG-TERM INVESTMENTS - RESTRICTED (Notes 4 and 7)	-	1,000,000
LONG-TERM INVESTMENTS - UNRESTRICTED (Note 7)	1,636,762	210,312
PROPERTY, PLANT AND EQUIPMENT (Note 8)	7,975,026	7,646,599
	\$ 12,829,545	\$ 11,808,852
LIABILITIES, DEFERRED CONTRIBUTIONS AND NET ASSETS		
CURRENT		
Accounts payable and accrued liabilities	\$ 4,299,872	\$ 3,171,902
ACCRUED BENEFIT LIABILITY (Note 10)	1,897,700	1,821,300
DEFERRED CONTRIBUTIONS (Note 11)		
Expenses of future periods	3,683	3,109
Property, plant and equipment	3,948,708	3,350,112
	3,952,391	3,353,221
NET ASSETS		
Invested in property, plant and equipment	4,026,318	4,296,487
Internally restricted	-	1,000,000
Unrestricted (deficiency)	(1,346,736)	(1,834,058)
	2,679,582	3,462,429
	\$ 12,829,545	\$ 11,808,852

COMMITMENTS (Note 14)

CONTINGENCIES (Note 18)

APPROVED ON BEHALF OF THE BOARD:

 Member
 Member

See accompanying notes.

KIRKLAND AND DISTRICT HOSPITAL**Statement of Operations****Year Ended March 31, 2012**

	2012	2011
REVENUE		
Ministry of Health and Long-Term Care / Local Health Integration Network (Note 2)		
- Base allocation	\$ 18,398,825	\$ 18,035,500
- Hospital on-call coverage	448,860	426,745
- One-time funding	159,314	464,535
- Paymaster	788,570	842,072
Amortization of deferred contributions		
- shareable (Note 11)	168,342	175,947
Other (Schedule 1)	3,421,913	3,416,605
	23,385,824	23,361,404
EXPENSES		
Salaries and wages	11,916,805	12,082,638
Medical staff fees and remuneration	1,132,486	1,221,955
Nurse practitioner wages	447,718	446,508
Hospital on-call coverage	448,818	426,745
Employee benefits	3,558,208	3,423,201
Medical and surgical supplies	480,439	515,478
Drugs	716,702	716,993
Equipment (Note 12)	1,450,964	1,412,424
Building and grounds	826,257	783,322
Referred out	732,512	641,631
Other supplies and expenses	2,183,821	2,223,094
Bad debts	23,427	28,692
	23,918,157	23,922,681
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR MINISTRY PURPOSES	(532,333)	(561,277)
AMORTIZATION - NON-SHAREABLE		
Amortization - non-shareable	459,713	333,564
Less amortization of deferred contributions - non-shareable (Note 11)	(209,198)	(206,044)
	250,515	127,520
	(782,848)	(688,797)
OTHER FUNDS (Schedule 2)		
Revenue	480,980	472,686
Expenses	480,980	472,686
	-	-
DEFICIENCY OF REVENUE OVER EXPENSES	\$ (782,848)	\$ (688,797)

See accompanying notes.

KIRKLAND AND DISTRICT HOSPITAL

Statement of Changes in Net Assets

Year Ended March 31, 2012

	INVESTED IN PROPERTY, PLANT AND EQUIPMENT	INTERNALLY RESTRICTED	UNRESTRICTED (DEFICIENCY)	2012	2011
NET ASSETS - BEGINNING OF YEAR	\$ 4,296,487	\$ 1,000,000	\$ (1,834,057)	\$ 3,462,430	\$ 4,235,444
Excess (deficiency) of revenue over expenses	(832,597)	-	49,749	(782,848)	(688,797)
Net change in investment in property, plant and equipment (Note 12)	562,428	-	(562,428)	-	-
Net change in internally imposed restrictions (Note 4)	-	(1,000,000)	1,000,000	-	-
Change in realized gains on available for sale securities	-	-	-	-	(84,218)
NET ASSETS - END OF YEAR	\$ 4,026,318	\$ -	\$ (1,346,736)	\$ 2,679,582	\$ 3,462,429

KIRKLAND AND DISTRICT HOSPITAL**Statement of Cash Flows****Year Ended March 31, 2012**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficiency of revenue over expenses	\$ (782,848)	\$ (688,797)
Items not affecting cash:		
Amortization of property, plant and equipment	1,198,168	1,062,041
Amortization of deferred contributions	(377,540)	(381,991)
Increase in accrued benefit liability	76,400	153,800
Increase (decrease) in deferred contributions related to expenses of future periods	574	(53)
Gain on disposal of property, plant and equipment	(70,533)	-
Unrealized gain on available for sale securities	-	(84,218)
	44,221	60,782
Change in non-cash working capital	1,371,984	(847,411)
Cash flow from (used by) operating activities	1,416,205	(786,629)
CASH FLOWS FROM FINANCING AND INVESTING ACTIVITIES		
Increase in deferred contributions <i>(Note 11)</i>	976,136	307,980
Purchase of property, plant and equipment	(1,538,565)	(1,921,675)
Proceeds on disposal of property, plant and equipment	82,500	-
Net (increase) decrease in long-term investments	(426,450)	2,048,397
Cash flow from (used by) financing and investing activities	(906,379)	434,702
INCREASE (DECREASE) IN CASH FLOW	509,826	(351,927)
Cash - beginning of year	1,313,100	1,665,027
CASH - END OF YEAR	\$ 1,822,926	\$ 1,313,100
CASH CONSISTS OF:		
Cash	\$ 1,798,713	\$ 846,458
Cash - restricted	24,213	54,247
Short-term investments	-	412,395
	\$ 1,822,926	\$ 1,313,100

KIRKLAND AND DISTRICT HOSPITAL

Notes to Financial Statements

Year Ended March 31, 2012

1. HOSPITAL ORGANIZATION

The Kirkland and District Hospital is incorporated without share capital by letters patent issued by the Province of Ontario and is regulated by the Public Hospitals Act. The Hospital is a registered charity under the Income Tax Act and accordingly is exempt from income taxes under Section 149.1 of the Income Tax Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Hospital follows the deferral method of accounting for contributions which include donations and government grants.

Since 2006/2007, the Hospital funding is based on the Hospital Service Accountability Agreement (H-SAA) between the Hospital and the North East Local Health Integration Network (NELHIN) which is an agency of the Ministry of Health and Long-Term Care. Operating grants are recorded as revenue in the period to which they relate. 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. These financial statements reflect agreed arrangements approved by the Ministry with respect to the year ended March 31, 2012.

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 other than endowment contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of property, plant and equipment are deferred and amortized to revenue at rates corresponding to those of the related property, plant and equipment.

Unrestricted investment income is recognized as revenue when earned.

Patient related revenue is recognized when the goods are sold or the services are provided.

Inventories

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

Long-Term Investments

The investments are recorded at fair market value.

Investment in Joint Venture

The Hospital accounts for its interest in a joint venture using the proportionate consolidation method. These financial statements include the Hospital's proportionate share of any assets, liabilities, revenues and expenses of the joint venture.

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KIRKLAND AND DISTRICT HOSPITAL

Notes to Financial Statements

Year Ended March 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, Plant and Equipment

Property, Plant and Equipment are recorded at cost. Contributed property, plant and equipment 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 charged to expense. Betterments which extend the estimated life of an asset are capitalized. When property, plant and equipment no longer contribute to the Hospital's ability to provide services, their carrying amounts are written down to their residual value.

Property, Plant and Equipment are amortized on a straight-line basis over their estimated useful lives using the following rates:

Land improvements	20 years	straight-line method
Buildings	5-40 years	straight-line method
Furniture and equipment	3-15 years	straight-line method
Service equipment	5-25 years	straight-line method

The Hospital regularly reviews its property, plant and equipment to eliminate obsolete items.

Property, Plant and Equipment acquired during the year but not placed into use are not amortized until they are placed into use.

Donated Services

The work of the Hospital Board is dependent on the voluntary service of members of the Board. Since these services are not normally purchased by the Hospital and because of the difficulty in determining their fair value, donated services are not recognized in these financial statements.

Compensated Benefits

Compensation expense is accrued for all employees as entitlement to these payments is earned, in accordance with the Hospital's benefit plans for vacation, overtime, and retirement allowances.

Accrued Benefit Liability

The Hospital accrues its obligations under employee benefit plans and the related costs. The following policy has been adopted by the Hospital:

The cost of retirement benefits earned by employees is actuarially determined using the projected unit method pro-rated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange prevailing at year-end. Revenue and expense items are translated at the average rate of exchange for the year.

(continues)

KIRKLAND AND DISTRICT HOSPITAL

Notes to Financial Statements

Year Ended March 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Financial Instruments

Financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments are included on the Statement of Financial Position and are initially measured at fair value. Loans and receivables, held-to-maturity investments and other financial liabilities are subsequently measured at amortized cost. Held-for-trading financial instruments are subsequently measured at fair value, and all gains and losses are included in net income in the period which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired. Transaction costs related to held-for-trading financial instruments, loans and receivables, available-for-sale financial assets and other financial liabilities are expensed when incurred. Transaction costs related to held-to-maturity investments are capitalized to the asset. As a result of adoption of these standards, the Hospital has classified its cash and cash equivalents as held-for-trading. Accounts receivable are classified as loans and receivables. Short-term and long-term investments have been classified as held-to-maturity investments. Accounts payable and accrued liabilities are classified as other financial liabilities.

a) Financial instruments - recognition and measurement

Section 3855 prescribes when a financial instrument is to be recognized on the Statement of Financial Position and at what amount. It also specifies how financial instrument gains and losses are to be presented. This section requires that:

All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;

All financial liabilities be measured at fair value if they are classified as held-for-trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and

All derivative financial instruments be measured at fair value on the Statement of Financial Position, even when they are part of an effective hedging relationship.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Financial Statements

Year Ended March 31, 2012

3. FUTURE CHANGES IN ACCOUNTING POLICIES

For fiscal periods beginning on or after January 1, 2012, government not-for-profit organizations are required to transition from Part V (Pre-changeover accounting standards) of the CICA Handbook - Accounting to the CICA Public Sector Accounting Handbook or the CICA Public Sector Accounting Handbook without Sections PS 4200 to PS 4270. Sections 4400 to 4470 in Part V of the CICA Handbook - Accounting were brought into the CICA Public Sector Accounting Handbook and renumbered as Sections PS 4200 to PS 4270. Sections 4400 to 4470 in Part V of the CICA Handbook - Accounting are standards that specifically address accounting issues commonly encountered by not-for-profit organizations.

The Hospital will evaluate the impact of these standards and will prepare the financial statements for the year ending March 31, 2013 in accordance with these standards.

4. RESTRICTED LONG-TERM INVESTMENTS

The Board of Directors approved a motion to unrestrict the use of long-term investments in the amount of \$1,000,000.

5. SHORT-TERM INVESTMENTS

	2012	2011
Mutual Funds	\$ -	\$ 412,395
Market Value	\$ -	\$ 412,395

6. ACCOUNTS RECEIVABLE

	2012	2011
Ministry of Health and Long-Term Care / Local Health Integration Network	\$ -	\$ 190,599
Insurers and patients	220,630	190,003
Other accounts receivable	648,852	663,902
	869,482	1,044,504
Less allowance for doubtful accounts	(58,911)	(54,731)
	\$ 810,571	\$ 989,773

7. LONG-TERM INVESTMENTS

Long-term investments consist of a money market mutual fund investment savings account in the amount of \$1,559,848, a promissory note of \$32,844 and a loan receivable from the joint venture of \$44,070. The market value of these long-term investments at March 31, 2012 was \$1,636,762 (2011 - \$1,210,312).

KIRKLAND AND DISTRICT HOSPITAL

Notes to Financial Statements

Year Ended March 31, 2012

8. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	2012 Net book value	2011 Net book value
Land	\$ 46,876	\$ -	\$ 46,876	\$ 50,876
Land improvements	377,026	355,058	21,968	31,622
Buildings and service equipment	15,327,232	10,003,596	5,323,636	4,966,491
Furniture and equipment	13,594,549	11,012,003	2,582,546	2,597,610
	<u>\$ 29,345,683</u>	<u>\$ 21,370,657</u>	<u>\$ 7,975,026</u>	<u>\$ 7,646,599</u>

9. CREDIT FACILITIES

The credit facility established with the Hospital's bankers consists of a revolving demand loan of \$500,000 to be used for general operating purposes. The credit facility bears interest at the bank's prime rate. No amount was drawn on this facility at year-end (2011 - \$nil).

KIRKLAND AND DISTRICT HOSPITAL

Notes to Financial Statements

Year Ended March 31, 2012

10. ACCRUED BENEFIT LIABILITY

The Kirkland and District Hospital provides extended health care, dental and life insurance benefits to substantially all full-time employees. The cost of premiums for these benefits is shared by the Hospital and full-time employees. The Hospital's accrued benefit liability related to non-pension future benefits is as follows:

	2012	2011
Current portion - included in accounts payable	\$ 69,000	\$ 65,800
Long-term portion	1,897,700	1,821,300
	\$ 1,966,700	\$ 1,887,100

RECONCILIATION OF ACCRUED BENEFIT OBLIGATION TO ACCRUED BENEFIT LIABILITY

	2012	2011
Accrued benefit obligation	\$ 2,061,000	\$ 2,371,300
Unamortized net actuarial loss	(94,300)	(484,200)
Accrued benefit liability	\$ 1,966,700	\$ 1,887,100

The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit liability are as follows:

Discount rate:		
Beginning of year		4.75%
End of year		4.25%
Dental cost trend rates		4.5%
Extended health care and semi-private trend rates	10.5% per annum for the first year; decreasing by 1.0% each year until an ultimate rate of 4.5% per annum is reached	

Included in employee benefits on the Statement of Operations is an amount of \$158,600 (2011 - \$203,200) regarding employee future benefits. This amount is comprised of:

	2012	2011
Additional benefit expense as a result of actuarial valuation	\$ 87,100	\$ 193,600
Payments made by Hospital during year	71,500	65,800
Amortization of net actuarial loss (gain)	-	(56,200)
	\$ 158,600	\$ 203,200

The accrued benefit liability has been determined by an actuary based on extrapolated results from an actuarial valuation performed as at April 1, 2011. There are no assets associated with the Hospital's Plan. The next required actuarial valuation will be performed as at April 1, 2014.

A 1% increase in the trend rates would result in an increase in the accrued benefit obligation as at March 31, 2012 of \$158,300 (2011 - \$137,800) while a 1% decrease would result in a decrease of \$141,400 (2011 - \$123,100).

KIRKLAND AND DISTRICT HOSPITAL

Notes to Financial Statements

Year Ended March 31, 2012

11. DEFERRED CONTRIBUTIONS

a) EXPENSES OF FUTURE PERIODS

Deferred contributions related to expenses of future periods represent the unspent portion of externally restricted funds for various purposes, including occupational therapy, Christmas dance and property, plant and equipment to be purchased.

	2012	2011
BALANCE, beginning of year	\$ 3,109	\$ 3,162
Less: amount recognized as revenue in the year	(1,001)	(1,026)
Add: amount received related to future periods	1,575	973
BALANCE, end of year	\$ 3,683	\$ 3,109

b) PROPERTY, PLANT AND EQUIPMENT

Deferred capital contributions related to property, plant and equipment represent the unamortized amount and unspent amount of donations and grants received for the purchase of property, plant and equipment. The amortization of capital contributions is recorded as revenue in the Statement of Operations.

	2012	2011
BALANCE, beginning of year	\$ 3,350,112	\$ 3,424,123
Additional contributions received	976,136	307,980
Less: amounts amortized to revenue		
Shareable	(168,342)	(175,947)
Non-shareable	(209,198)	(206,044)
BALANCE, end of year	\$ 3,948,708	\$ 3,350,112

KIRKLAND AND DISTRICT HOSPITAL

Notes to Financial Statements

Year Ended March 31, 2012

12. INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT

a) Investment in property, plant and equipment is calculated as follows:

	2012	2011
Property, plant and equipment	\$ 7,975,026	\$ 7,646,599
Amounts financed by:		
Deferred contributions	(3,948,708)	(3,350,112)
Net assets invested in property, plant and equipment	\$ 4,026,318	\$ 4,296,487

b) Change in net assets invested in property, plant and equipment is calculated as follows:

	2012	2011
Excess of expenses over revenue:		
Amortization of deferred contributions related to property, plant and equipment	\$ 377,540	\$ 381,991
Amortization of property, plant and equipment	(1,198,168)	(1,062,041)
Net book value of property, plant and equipment disposals	(11,969)	-
	\$ (832,597)	\$ (680,050)
Net change in investment in property, plant and equipment:		
Purchase of property, plant and equipment	\$ 1,538,564	\$ 1,921,674
Amounts funded by deferred contributions	(976,136)	(307,980)
	\$ 562,428	\$ 1,613,694

Amortization in the amount of \$738,455 (2011 - \$728,478) has been included in equipment expense.

13. PENSION PLAN

Substantially all of the employees of the Hospital are members of the Hospitals of Ontario Pension Plan. Contributions made to the plan during the year by the Hospital on behalf of its employees amounted to \$964,540 (2011 - \$991,562) and are included in employee benefits in the Statement of Operations. Contributions are related to actuarial requirements established by the trustees of the plan.

14. COMMITMENTS

SHARED LABORATORY SERVICES AGREEMENT

The Hospital has committed to making payments in the amount of approximately \$234,000 per year pursuant to an agreement entered into with the University Health Network.

KIRKLAND DISTRICT FAMILY HEALTH TEAM

The Hospital has agreed to fund one-half of the annual operating deficit of the Kirkland District Family Health Team ("KDFHT"). The current year's support of approximately \$30,000 has been allowed for in previous years.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Financial Statements

Year Ended March 31, 2012

15. RELATED ENTITIES

(i) The Hospital has an economic interest in the Kirkland and District Hospital Foundation whose mandate is to raise funds to purchase property, plant and equipment for the Kirkland and District Hospital. During the year the Foundation donated \$63,036 (2011 - \$261,817) to the Hospital.

(ii) The Hospital has an economic interest in the Kirkland District Family Health Team. It has agreed by contractual agreement to fund one-half of that organization's annual operating deficit.

(iii) The Hospital has entered into a joint venture with the Municipal Corporation of the Town of Kirkland Lake. The Hospital owns 50% of the Kirkland District Health Centre. As such, the Hospital proportionately consolidates 50% of the assets, liabilities, revenues and expenses of this joint venture.

16. INTEREST IN THE UNAPPROPRIATED SURPLUS OF HIROC

The Hospital is a member of the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts which permits persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces and territories where it is licensed. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No such assessments have been made to March 31, 2012.

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 who has an excess of premiums 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, 2012 (2011 - \$nil).

KIRKLAND AND DISTRICT HOSPITAL

Notes to Financial Statements

Year Ended March 31, 2012

17. FINANCIAL INSTRUMENTS

The Hospital's financial instruments consist of cash, accounts receivable, investments, accounts payable and accrued liabilities, and accrued benefit liability. It is management's opinion that the Hospital is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Fair Value

The Hospital's carrying value of cash, accounts receivable, and accounts payable and accrued liabilities approximates its fair value due to the immediate or short-term maturity of these instruments.

The carrying value of the accrued benefit liability approximates the fair value as the interest rate is consistent with the current rates offered to the Hospital for debt with similar terms. The Hospital's carrying cost and market value of its investments are disclosed in Note 7.

Credit Risk

The Hospital does not have significant exposure to any individual or party. A large portion of the Hospital's receivables are due from other levels of government. An allowance for doubtful accounts is established based on factors surrounding the risk related to specific accounts, historical trends and other information. The Hospital has an allowance for doubtful accounts in the amount of \$58,911 (2011 - \$54,731).

Currency Risk

Currency risk is the risk to the Hospital's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Hospital is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. The Hospital does not use derivative instruments to reduce its exposure to foreign currency risk.

Interest Rate

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Hospital manages exposure through its normal operating and financing activities. The Hospital is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities.

Commodity Risk

The Hospital is exposed to fluctuations in commodity prices for natural gas, crude oil and natural gas liquids. Commodity prices are affected by many factors including supply, demand and the Canadian to U.S. dollar exchange rate. The Hospital had no financial hedges or price commodity contracts in place at year-end.

18. CONTINGENCIES

In the normal course of operations, the Hospital is involved in certain legal matters and litigations, the outcomes of which are not presently determinable. The loss, if any, from these contingencies will be accounted for in the periods in which the matters are resolved. Management is of the opinion that these matters are mitigated by adequate insurance coverage.

KIRKLAND AND DISTRICT HOSPITAL**Schedule of Other Revenue****(Schedule 1)****Year Ended March 31, 2012**

	2012	2011
UNDISTRIBUTED AND MISCELLANEOUS REVENUE		
Dietary	\$ 70,386	\$ 73,462
Donations	2,757	1,573
Building rental	108,259	138,112
Interest income	68,497	161,585
Marketed services	1,213,619	1,111,120
Parking lot	106,613	109,511
Expense recoveries	562,698	517,405
Gain on disposal of property, plant and equipment	70,533	-
Gain on disposal of available-for-sale investments	-	84,218
	2,203,362	2,196,986
PATIENT RELATED		
Ambulance co-payment	15,095	11,785
Preferred accommodation	148,305	133,449
Inpatient co-payment	92,329	188,581
Inpatient revenue	94,698	120,782
Outpatient revenue	138,300	95,107
OHIP patient revenue	679,898	637,712
Referred in services	49,926	32,203
	1,218,551	1,219,619
TOTAL	\$ 3,421,913	\$ 3,416,605

KIRKLAND AND DISTRICT HOSPITAL**Schedule of Other Funds****(Schedule 2)****Year Ended March 31, 2012**

	2012	2011
REVENUE		
Diabetes nevada fundraising program	\$ 1,837	\$ 3,193
Municipal taxation	9,900	9,900
Timiskaming diabetes program	469,243	459,593
	480,980	472,686
EXPENSES		
Diabetes nevada fundraising program	1,837	3,193
Municipal taxation	9,900	9,900
Timiskaming diabetes program	469,243	459,593
	480,980	472,686
NET	\$ -	\$ -