Financial Statements of

ENGLEHART AND DISTRICT HOSPITAL INC.

Years ended March 31, 2013 and March 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Directors of Englehart and District Hospital Inc.

We have audited the accompanying financial statements of **Englehart and District Hospital Inc.**, which comprise the statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the statements of operations, changes in deficiency in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits 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 Englehart and District Hospital Inc., as at March 31, 2013, March 31, 2012 and April 1, 2011, and its results of operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian public sector accounting standards.

Comparative Information

The financial statements of the Englehart and District Hospital Inc. as at and for the year ended March 31, 2012 were audited by another auditor who expressed a unqualified opinion on those statements on May 23, 2012.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 7, 2013
Sudbury, Canada

ENGLEHART AND DISTRICT HOSPITAL INC.

Statements of Operations

Years ended March 31, 2013 and 2012

	2013	2012
		(restated - note 2)
Revenue:		
Ministry of Health and Long-Term Care / North East Local Health Integration Network	$ 5,579,635	5,682,633
Patient services	206,733	233,927
Preferred accommodation	264,800	301,772
Other	622,994	723,628
Amortization of deferred capital contributions – equipment	116,625	118,751
	6,790,787	7,060,711
Expenses:		
Salaries and wages	3,606,995	3,765,747
Employee benefits	996,289	1,003,996
Medical staff remuneration	244,788	279,641
Drugs	115,994	139,158
Medical and surgical supplies	110,876	127,560
Other supplies and services	1,601,983	1,659,178
Amortization – equipment	250,742	305,602
	6,927,667	7,280,882
Deficiency of revenue over expenses for Ministry purposes	(136,880)	(220,171)
Amortization of deferred capital contributions – buildings, land improvements and building service equipment	92,251	87,335
Amortization – buildings, land improvements and building service equipment	(229,947)	(239,357)
	(137,696)	(152,022)
Deficiency of revenue over expenses	$ (274,576)	(361,193)

See accompanying notes to financial statements.

On behalf of the Board:

______________________________ Director

______________________________ Director

ENGLEHART AND DISTRICT HOSPITAL INC.

Statements of Financial Position

March 31, 2013, March 31, 2012 and April 1, 2011

	March 31, 2013	March 31, 2012 (restated - note 2)	April 1, 2011 (restated - note 2)
Assets			
Current assets:			
Cash	$ 750,023	681,754	765,399
Short-term investments (note 3)	309,970	306,227	517,861
Accounts receivable (note 4)	297,173	212,616	222,228
Inventories	129,671	131,874	108,411
Prepaid expenses	33,654	39,264	40,260
	1,520,491	1,371,735	1,654,159
Restricted assets (note 5)	101,000	–	–
Capital assets (note 6)	4,211,545	4,532,057	4,988,251
	$ 5,833,036	5,903,792	6,642,410

	March 31, 2013	March 31, 2012	April 1, 2011
Liabilities, Deferred Contributions and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities (note 8)	$ 685,806	576,246	613,205
Current portion of long-term debt	–	–	30,000
	685,806	576,246	643,205
Long-term debt	–	–	512,500
Employee post-retirement benefits (note 9)	147,200	132,800	121,800
Deferred capital contributions (note 10)	3,058,184	2,978,324	2,776,290
Total liabilities	3,891,190	3,687,370	4,053,795
Net assets	1,941,846	2,216,422	2,588,615
Contingencies (note 13)			
	$ 5,833,036	5,903,792	6,642,410

See accompanying notes to financial statements.

ENGLEHART AND DISTRICT HOSPITAL INC.

Statement of Changes in Net Assets

Years ended March 31, 2013 and 2012

	2013	2012 (restated - note 2)
Net assets, beginning of year	$ 2,216,422	2,588,615
Deficiency of revenue over expenses	(274,576)	(372,193)
Deficiency in net assets, end of year	$ 1,941,846	2,216,422

See accompanying notes to financial statements.

ENGLEHART AND DISTRICT HOSPITAL INC.

Statements of Cash Flows

Years ended March 31, 2013 and 2012

	2013	2012 (restated - note 2)
Cash flows from operating activities:		
Deficiency of revenue over expenses	$ (274,576)	(372,193)
Items not involving cash:		
Amortization of capital assets	480,689	544,959
Amortization of deferred capital contributions	(208,876)	(206,086)
Increase in employee post-retirement benefits	14,400	11,000
	11,637	(22,320)
Change in non-cash working capital balances (note 11)	32,816	(49,814)
	44,453	(72,134)
Cash flows from capital activities:		
Acquisition of capital assets	(160,177)	(88,765)
Cash flows from financing activities:		
Increase in deferred capital contributions	288,736	408,120
Principal payments on long-term debt	–	(542,500)
	288,736	(134,380)
Net increase (decrease) in cash and cash equivalents	173,012	(295,279)
Cash and cash equivalents, beginning of year	987,981	1,283,260
Cash and cash equivalents, end of year	$ 1,160,993	987,981
Cash and cash equivalents is comprised of:		
Cash	$ 750,023	681,754
Short-term investments	309,970	306,227
Restricted assets	101,000	–
	$ 1,160,993	987,981

See accompanying notes to financial statements.

The Englehart and District Hospital Inc. (the "Hospital") is incorporated under the laws of Ontario. The Hospital is principally involved in providing health care services to the Central Temiskaming Region. The 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.

On April 1, 2012, the Hospital adopted Canadian public sector accounting standards. The Hospital has also elected to apply the 4200 standards for government not-for-profit organizations. These are the first financial statements prepared in accordance with these Canadian public sector accounting standards.

In accordance with the transitional provisions in Canadian public sector accounting standards, the Hospital has adopted the changes retrospectively. The transition date is April 1, 2011 and all comparative information provided has been presented by applying Canadian public sector accounting standards.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations.

(a) Revenue recognition:

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

Under the Health Insurance Act and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-term Care (the "Ministry") and the North East Local Health Integration Network ("NELHIN"). 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 the subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the period in which the related expenses are recognized.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the straight-line basis, at rates corresponding to those of the related capital assets.

Revenue from patient and other services is recognized when the service is provided.

1. Significant accounting policies (continued):

(b) Inventories:

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

(c) Capital assets:

Capital assets are recorded at cost. Assets acquired under capital leases are initially recorded at the present value of the future minimum lease payments and amortized over the useful life of the assets. Minor equipment replacements are expensed in the year of replacement.

Construction in progress is not amortized until construction is complete and the facilities come into use.

Amortization is provided on the straight-line basis over their estimated useful lives at the following range of annual rates:

Land improvements	5.0%
Buildings	2.5% – 20.0%
Furniture and equipment	7.0% – 33.0%
Service equipment	4.0% – 20.0%

In the year of acquisition, amortization is pro-rated based on the date of service.

Long-lived assets, including capital assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Hospital uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statement of financial position.

1. Significant accounting policies (continued):

(d) Employee post-retirement benefits:

The 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) on the accrued benefit obligation arise from changes in actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are 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 9 years.

Past service costs arising from plan amendments are recognized immediately in the period the plan amendments occur.

The Hospital is an employer member of the Health Care of Ontario Pension Plan (the "Plan"), which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. The Hospital records as pension expense the current service cost, amortization of past service costs and interest costs related to the future employer contributions to the Plan for past employee service.

(e) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods specified. Significant items subject to such estimates and assumptions include the carrying amount of capital assets; valuation allowances for receivables, and inventories; valuation of financial instruments; and assets and obligations related to employee future benefits. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

(f) Funding adjustments:

The Hospital receives grants from the NELHIN and MOHLTC for specific services. Pursuant to the related agreements, if the Hospital does not meet specified levels of activity, the MOHLTC or NELHIN may be entitled to seek recoveries. Should any amounts become recoverable, the recoveries would be charged to operations in the period in which the recovery is determined to be payable. Should programs and activities incur a deficit, the Hospital records any recoveries thereon when additional funding is received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

1. Significant accounting policies (continued):

(g) Contributed services:

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

(h) Financial instruments:

All financial instruments are initially recorded on the statement of financial position at fair value.

All investments, if any, held in equity instruments that trade in an active market are recorded at fair value. Management has elected to record investments at fair value as they are managed and evaluated on a fair value basis. Freestanding derivative instruments that are not equity instruments that are quoted in an active market are subsequently measured at fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

All financial assets are assessed for impairment on an annual basis. Where a decline in fair value is determined to be other than temporary, the amount of the loss is recognized in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses. On sale, the statement of remeasurement gains and losses associated with that instrument are reversed and recognized in the statement of operations.

2. Restatement of prior period:

The prior period financial statements have been restated to reflect the Hospital's obligation for employee post-retirement benefits, which were previously not recorded as a liability.

As a result of this restatement, the Hospital has recorded an obligation for employee post-retirement benefits of $121,800 as at April 1, 2011, with a corresponding reduction in its reported net assets as follows:

Net assets as previously reported, March 31, 2011	$	2,710,415
Obligation for employee post-retirement benefits, March 31, 2011		(121,800)
Restated, April 1, 2011	$	2,588,615

The Hospital has also restated its prior year's deficiency of revenues over expenses to reflect the expense for employee post-retirement benefits, as follows:

Deficiency of revenues over expenses as previously reported, year ended March 31, 2012	$	(361,193)
Employee post-retirement benefits expense, year ended March 31, 2012		(11,000)
Restated, year ended March 31, 2012	$	(372,193)

Additional information concerning employee post-retirement benefits is presented in note 9.

3. Short-term investments:

Short-term investments consist of a cashable fixed-term guaranteed income certificate bearing interest at 1.2% and maturing in December 2013. The fair market value of the short-term investments is equal to their cost.

4. Accounts receivable:

		March 31, 2013	March 31 2012	April 1, 2011
NELHIN / MOHLTC	$	59,337	11,000	–
Patients and clients		84,085	51,491	38,507
Other		153,751	150,125	183,721
	$	297,173	212,616	222,228

5. Restricted assets:

Restricted assets consist of a cashable fixed-term guaranteed income certificate bearing interest at 1.2% and maturing in February 2014. Restricted assets related to a donation provided to the Hospital on the condition that the original donation amount is preserved for a period of eight years, with the Hospital entitled to utilize the interest earned on the funds.

6. Capital assets:

March 31, 2013	Cost	Accumulated Amortization	Net book Value
Land	$ 42,728	–	42,728
Land improvements	209,702	184,545	25,157
Buildings and service equipment	6,573,618	3,053,843	3,519,775
Furniture and equipment	5,426,776	4,802,891	623,885
	$ 12,252,824	8,041,279	4,211,545

March 31, 2012	Cost	Accumulated Amortization	Net book Value
Land	$ 42,728	–	42,728
Land improvements	209,702	177,986	31,716
Buildings and service equipment	6,337,499	2,674,182	3,663,317
Furniture and equipment	5,390,582	4,596,286	794,296
	$ 11,980,511	7,448,454	4,532,057

April 1, 2011	Cost	Accumulated Amortization	Net book Value
Land	$ 42,728	–	42,728
Land improvements	209,702	171,427	38,275
Buildings and service equipment	6,287,598	2,441,382	3,846,216
Furniture and equipment	5,351,715	4,290,683	1,061,032
	$ 11,891,743	6,903,492	4,988,251

7. Credit facilities:

The Hospital has arranged for a revolving demand loan of $250,000 to be used for general operating purposes. The credit facility bears interest at the bank's prime rate plus 1.25%. No amount was drawn on this facility at year-end (March 31, 2012 - $Nil; April 1, 2011 - $Nil).

8. Accounts payable and accrued liabilities:

		March 31, 2013	March 31, 2012	April 1, 2011
Accounts payable and accrued liabilities:				
- NELHIN, MOHLTC	$	107,521	–	–
- Other		159,123	127,027	141,825
Payroll accruals:				
- salaries and wages		174,809	189,373	200,511
- vacation pay and other entitlements		244,353	259,846	270,869
	$	685,806	576,246	613,205

9. Employee post-retirement benefits:

The Hospital sponsors a post-retirement defined benefit plan for medical, life insurance and dental benefits for certain employees. The most recent valuation of the employee future benefits was completed as at April 1, 2011. The valuation was updated as of April 1, 2012. The next full valuation of the plan will be as of April 1, 2014.

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

		2013	2012 (restated - note 2)
Balance, beginning of year	$	132,800	121,800
Add: Benefit costs		14,400	11,000
		147,200	132,800
Less: Benefit contributions		–	–
Balance, end of year	$	147,200	132,800

Similar to most post-employment benefit plans (other than pension) in Canada, the Hospital's plan is not pre-funded, resulting in plan deficit equal to the accrued benefit obligation.

9. Employee post-retirement benefits (continued):

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

	March 31, 2013	March 31, 2012	April 1, 2011
Discount rate	4.00%	4.25%	4.75%
Dental cost trend rates	4.50%	4.50%	4.50%
Extended health care trend rates	10.5%, decreasing annually by 1.0% thereafter to 4.5%		

10. Deferred capital contributions:

Deferred capital contributions represent the unamortized and unspent balance of donations and grants received for the purchase of capital assts. Details of the continuity of these funds are as follows:

	2013	2012
Balance, beginning of year	$ 2,978,324	2,776,290
Additional contributions received	288,736	408,120
Less amounts amortized to revenue	208,876	206,086
Balance, end of year	$ 3,058,184	2,978,324

The deferred contributions related to capital assets consist of the following:

	2013	2012
Unamortized	$ 2,649,444	2,626,929
Unspent	408,740	351,395
Balance, end of year	$ 3,058,184	2,978,324

11. Change in non-cash working capital:

		2013	2012
Accounts receivable	$	(84,557)	9,612
Inventories		2,203	(23,463)
Prepaid expenses		5,610	996
Accounts payable and accrued liabilities		109,560	(36,959)
	$	32,816	(49,814)

12. Pension plan:

Substantially all of the employees of the Hospital are members of the Health care of Ontario Pension Plan (the "Plan") which is a multi-employer defined benefit plan. Contributions made to the plan during the year by the Hospital on behalf of its employees amounted to $272,080 (2012 - $281,246) and are included in employee benefits in the statement of operations.

13. Contingencies:

A group of healthcare institutions, including the Hospital, are members of the Health Care Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the liability insurance risk of its members. All members pay annual deposit premiums which are actuarially determined and are subject to further assessment for losses, if any, experienced by the pool for the years in which they are members. As at March 31, 2013 and 2012, no assessments have been received.

14. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to accounts receivable and other investments.

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2013 is the carrying value of these assets.

Management considers credit risk to be minimal as most of the accounts receivable balance is collected in a timely fashion.

The Hospital follows an investment policy approved by the Board of Directors. The maximum exposure to credit risk of the Hospital at March 31, 2013 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2012.

(b) Liquidity risk:

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Hospital manages its liquidity risk by monitoring its operating requirements. The Hospital prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There have been no significant changes to the liquidity risk exposure from 2012.

15. Change in accounting policy:

On April 1, 2012, the Hospital adopted Public Accounting Standards *PS 3450 – Financial Instruments and PS 2601 – Foreign Currency Translation*. The standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions.

Under PS 3450, all financial instruments are included on the statement of financial position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the Hospital's accounting policy choices (see Note 1 - Significant Accounting Policies).

The adoption of these standards did not have a significant effect on the Hospital's financial statements for the year ended March 31, 2013.

16. Comparative figures:

Certain comparative figures have been reclassified to conform with the presentation adopted in 2013.