

Consolidated Financial Statements of

KIRKLAND AND DISTRICT HOSPITAL

Years ended March 31, 2013 and 2012



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INDEPENDENT AUDITORS' REPORT

To the Directors of Kirkland and District Hospital

We have audited the accompanying consolidated financial statements of **Kirkland and District Hospital**, which comprise the consolidated statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the consolidated statements of operations, changes 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kirkland and District Hospital, 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 consolidated financial statements of Kirkland and District Hospital as at and for the year ended March 31, 2012 were audited by another auditor who expressed an unqualified opinion on those statements on June 7, 2012.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 6, 2013
Sudbury, Canada

KIRKLAND AND DISTRICT HOSPITAL



Consolidated 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 | \$ 19,750,140 | 19,795,569 |
| Patient services | 716,881 | 687,357 |
| Preferred accommodations | 186,816 | 240,634 |
| Other | 2,397,416 | 2,493,922 |
| Amortization of deferred capital contributions - equipment | 179,503 | 168,342 |
| | <u>23,230,756</u> | <u>23,385,824</u> |
| Expenses: | | |
| Salaries and wages | 11,940,242 | 12,364,523 |
| Employee benefits | 3,387,185 | 3,601,408 |
| Medical staff remuneration | 1,555,211 | 1,581,304 |
| Drugs | 786,103 | 716,702 |
| Medical and surgical supplies | 524,663 | 480,439 |
| Supplies and other | 3,976,333 | 4,478,526 |
| Amortization - equipment | 771,559 | 738,455 |
| | <u>22,941,296</u> | <u>23,961,357</u> |
| Excess (deficiency) of revenue over expenses for Ministry purposes | 289,460 | (575,533) |
| Amortization - deferred capital contributions for buildings, land improvements and building service equipment | 179,780 | 209,198 |
| Amortization - buildings, land improvements and building service equipment | (420,399) | (459,713) |
| Excess (deficiency) of revenue over expenses before undernoted items | 48,841 | (826,048) |
| Specifically funded programs: | | |
| Revenue | 591,214 | 480,980 |
| Expenses | 591,214 | 480,980 |
| Excess of revenue over expenses - specifically funded programs | - | - |
| Excess (deficiency) of revenue over expenses | \$ 48,841 | (826,048) |

See accompanying notes to consolidated financial statements.

On behalf of the Board:


 _____ Director

 _____ Director

KIRKLAND AND DISTRICT HOSPITAL

Consolidated 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 | \$ 1,463,185 | 1,798,713 | 846,458 |
| Cash - restricted | 8,354 | 24,213 | 54,247 |
| Short-term investments (note 3) | 573,952 | — | 412,395 |
| Accounts receivable (note 4) | 767,784 | 810,571 | 989,773 |
| Inventories | 478,100 | 402,449 | 386,615 |
| Prepaid expenses | 229,371 | 181,811 | 262,453 |
| | <u>3,520,746</u> | <u>3,217,757</u> | <u>2,951,941</u> |
| Long-term investments - restricted | — | — | 1,000,000 |
| Long-term investments - unrestricted | — | 1,559,848 | — |
| Long-term receivables | 234,978 | 76,914 | 210,312 |
| Capital assets (note 5) | 9,370,465 | 7,975,026 | 7,646,599 |
| | <u>\$ 13,126,189</u> | <u>12,829,545</u> | <u>11,808,852</u> |
| Liabilities, Deferred Contributions and Net Assets | | | |
| Current liabilities: | | | |
| Bank indebtedness - restricted | \$ 85,770 | — | — |
| Accounts payable and accrued liabilities (note 7) | 4,465,984 | 4,234,556 | 3,109,211 |
| | <u>4,551,754</u> | <u>4,234,556</u> | <u>3,109,211</u> |
| Employee post-retirement benefits (note 9) | 2,051,900 | 1,917,100 | 1,794,300 |
| Deferred capital contributions (note 8) | 3,744,513 | 3,948,708 | 3,350,112 |
| | <u>10,348,167</u> | <u>10,100,364</u> | <u>8,253,623</u> |
| Total liabilities | 10,348,167 | 10,100,364 | 8,253,623 |
| Net assets | 2,778,022 | 2,729,181 | 3,555,229 |
| Commitments (note 13) | | | |
| Contingencies (note 14) | | | |
| | <u>\$ 13,126,189</u> | <u>12,829,545</u> | <u>11,808,852</u> |

See accompanying notes to consolidated financial statements.

KIRKLAND AND DISTRICT HOSPITAL

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2013 and 2012

| | 2013 | 2012 |
|----------------------------------------------|---------------------|------------------------|
| | | (restated - note 2) |
| Net assets, beginning of year | \$ 2,729,181 | 3,555,229 |
| Excess (deficiency) of revenue over expenses | 48,841 | (826,048) |
| Net assets, end of year | \$ 2,778,022 | 2,729,181 |

See accompanying notes to consolidated financial statements.

KIRKLAND AND DISTRICT HOSPITAL

Consolidated Statements of Cash Flows

Years ended March 31, 2013 and 2012

| | 2013 | 2012 |
|-------------------------------------------------------|---------------------|------------------------|
| | | (restated - note 2) |
| Cash flows from operating activities: | | |
| Excess (deficiency) of revenue over expenses | \$ 48,841 | (826,048) |
| Items not involving cash: | | |
| Amortization of capital assets | 1,191,958 | 1,198,168 |
| Amortization of deferred capital contributions | (359,283) | (377,540) |
| Increase in employee post-retirement benefits | 134,800 | 122,800 |
| Loss (gain) on disposal of capital assets | 16,771 | (70,533) |
| | 1,033,087 | 46,847 |
| Change in non-cash working capital balances (note 10) | 151,004 | 1,369,355 |
| | 1,184,091 | 1,416,202 |
| Cash flows from capital activities: | | |
| Purchase of capital assets | (2,608,814) | (1,538,562) |
| Proceeds on disposal of capital assets | 4,646 | 82,500 |
| Additions to deferred capital contributions | 155,088 | 976,136 |
| | (2,449,080) | (479,926) |
| Cash flows from investing activities: | | |
| Decrease (increase) in long-term investments | 1,559,848 | (559,848) |
| Increase (decrease) in long-term receivables | (158,064) | 133,398 |
| | 1,401,784 | (426,450) |
| Net increase in cash and cash equivalents | 136,795 | 509,826 |
| Cash and cash equivalents, beginning of year | 1,822,926 | 1,313,100 |
| Cash and cash equivalents, end of year | \$ 1,959,721 | 1,822,926 |
| Cash and cash equivalents consist of: | | |
| Cash | \$ 1,463,185 | 1,798,713 |
| Cash - restricted | 8,354 | 24,213 |
| Bank indebtedness - restricted | (85,770) | - |
| Short-term investments | 573,952 | - |
| | \$ 1,959,721 | 1,822,926 |

See accompanying notes to consolidated financial statements.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

The Kirkland and District Hospital (the "Hospital") was incorporated under the laws of Ontario. The Hospital is principally involved in providing health care services to Kirkland Lake and the surrounding area. 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 consolidated 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, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying public sector accounting standards.

A summary of transitional adjustments recorded to net assets and deficiency of revenue over expenses is provided in note 2.

1. Significant accounting policies:

The consolidated 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.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

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.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

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 7 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 consolidated 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 consolidated 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.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

1. Significant accounting policies (continued):

(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.

(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 consolidated financial statements.

(h) Investment in Joint Venture:

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

(i) 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.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

2. Restatement of prior period:

(a) Net assets:

The following table summarizes the impact of the transition to Canadian public sector accounting standards on the Hospital's net assets as of April 1, 2011:

| | |
|------------------------------------------------------------------------------------------------|---------------------|
| Net assets: | |
| As previously reported under Canadian generally accepted accounting principles, March 31, 2011 | \$ 3,462,429 |
| Impact of transition to Canadian public sector accounting standards | 92,800 |
| Restated, April 1, 2011 | \$ 3,555,229 |

The impact of the transition to Canadian public sector accounting standards is comprised of three components.

(i) Transitional provisions

In accordance with transitional provisions of Canadian public sector accounting standards, the Hospital has elected to recognize actuarial gains and losses at the date of transition to public sector accounting standards directly in net assets. As a result, the Hospital has recognized an increased liability and a charge to net assets.

(ii) Past service costs

Canadian public sector accounting standards require past service costs arising from plan amendments to be recognized immediately in the period the plan amendments occur. As a result, the Hospital has recognized an increased liability and a charge to net assets for unamortized past service costs at the transition to Canadian public sector accounting standards.

(iii) Discount rate used to calculate employee post-retirement benefits

Canadian public sector accounting standards require these liabilities to be calculated with a discount rate that is equal to either the Hospital's rate of borrowing or the rate of return on the plan assets. Prior to transition to these new standards, the discount rate to be equal to the yield on high quality corporate bonds. Under the public sector accounting standards, the Hospital has adopted a discount rate that is indicative of its long-term cost of borrowing. The change in the discount rate resulted in changes to the related liability and a corresponding adjustment to net assets at the transition to public sector accounting standards.

Additional information concerning employee post-retirement benefits is presented in note 8.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

2. Restatement of prior period (continued):

(b) Statement of Operations:

As a result of the retrospective application of Canadian public sector accounting standards, the Hospital recorded the following adjustments to deficiency of revenue over expenses for the year ended March 31, 2012, with a corresponding increase to liabilities:

| | |
|--------------------------------------------------------------------------------------------------------------|---------------------|
| Deficiency of revenue over expenses: | |
| As previously reported under Canadian generally accepted accounting principles for year ended March 31, 2012 | \$ (782,848) |
| Impact of transition to Canadian public sector accounting standards | (43,200) |
| Restated for the year ended March 31, 2012 | \$ (826,048) |

3. Short-term investments:

Short-term investments consist of cashable mutual funds. The fair market value of the marketable securities is equal to their cost.

4. Accounts receivable:

| | March 31, 2013 | March 31 2012 | April 1, 2011 |
|----------------------|-------------------|------------------|------------------|
| NELHIN / MOHLTC | \$ 94,505 | - | 190,509 |
| Patients and clients | 137,974 | 220,630 | 190,003 |
| Other | 535,305 | 589,941 | 609,261 |
| | \$ 767,784 | 810,571 | 989,773 |

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

5. Capital assets:

| March 31, 2013 | Cost | Accumulated Amortization | Net book Value |
|---------------------------------|----------------------|--------------------------|------------------|
| Land | \$ 46,876 | — | 46,876 |
| Land improvements | 458,075 | 370,205 | 87,870 |
| Buildings and service equipment | 16,933,663 | 10,408,847 | 6,524,816 |
| Furniture and equipment | 14,366,252 | 11,655,349 | 2,710,903 |
| | \$ 31,804,866 | 22,434,401 | 9,370,465 |

| March 31, 2012 | Cost | Accumulated Amortization | Net book Value |
|----------------------------|----------------------|--------------------------|------------------|
| Land | \$ 46,876 | — | 46,876 |
| Land improvements | 377,026 | 355,058 | 21,968 |
| Building service equipment | 15,327,232 | 10,003,596 | 5,323,636 |
| Furniture and equipment | 13,594,549 | 11,012,003 | 2,582,546 |
| | \$ 29,345,683 | 21,370,657 | 7,975,026 |

| April 1, 2011 | Cost | Accumulated Amortization | Net book Value |
|---------------------------------|---------------------|--------------------------|------------------|
| Land | \$ 50,876 | — | 50,876 |
| Land improvements | 377,026 | 345,404 | 31,622 |
| Buildings and service equipment | 15,314,569 | 10,348,078 | 4,966,491 |
| Furniture and equipment | 12,984,867 | 10,387,257 | 2,597,610 |
| | \$28,727,338 | 21,080,739 | 7,646,599 |

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

6. Credit facilities:

The Hospital has arranged for 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 (March 31, 2012 - \$Nil; April 1, 2011 - \$Nil).

7. Accounts payable and accrued liabilities:

| | March 31, 2013 | March 31, 2012 | April 1, 2011 |
|-------------------------------------------|-------------------|-------------------|------------------|
| Accounts payable and accrued liabilities: | | | |
| - NELHIN, MOHLTC | \$ 102,868 | 158,385 | 101,015 |
| - Other | 2,756,496 | 2,622,811 | 1,563,023 |
| Payroll accruals: | | | |
| - salaries and wages | 645,790 | 469,086 | 391,867 |
| - vacation pay and other entitlements | 960,830 | 984,274 | 1,053,306 |
| | \$ 4,465,984 | 4,234,556 | 3,109,211 |

8. Deferred capital contributions:

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

| | March 31, 2013 | March 31, 2012 | April 1, 2011 |
|-----------------------------------|-------------------|-------------------|------------------|
| Balance, beginning of year | \$ 3,948,708 | 3,350,112 | 3,424,123 |
| Additional contributions received | 155,088 | 976,136 | 307,980 |
| Less amounts amortized to revenue | 359,283 | 377,540 | 381,991 |
| Balance, end of year | \$ 3,744,513 | 3,948,708 | 3,350,112 |

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

| | March 31, 2013 | March 31, 2012 | April 1, 2011 |
|-------------|-------------------|-------------------|------------------|
| Unamortized | \$ 2,896,650 | 3,100,845 | 2,849,328 |
| Unspent | 847,863 | 847,863 | 500,784 |
| | \$ 3,744,513 | 3,948,708 | 3,350,112 |

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

9. Employee post-retirement benefits:

The Hospital sponsors a post-retirement defined benefit plan for medical, life insurance and dental benefits for substantially all unionized full time employees with various cost-sharing arrangements as determined by their collective agreements. 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 consolidated financial statements as follows:

| | 2013 | 2012 (restated - note 2) |
|-----------------------------|--------------|--------------------------------|
| Balance, beginning of year | \$ 1,917,100 | 1,794,300 |
| Add: Benefit costs | 207,800 | 191,800 |
| | 2,124,900 | 1,986,100 |
| Less: Benefit contributions | (73,000) | (69,000) |
| Balance, end of year | \$ 2,051,900 | 1,917,100 |

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.

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. Change in non-cash working capital:

| | 2013 | 2012 |
|------------------------------------------|------------|-----------|
| Accounts receivable | \$ 42,787 | 179,202 |
| Inventories | (75,651) | (15,834) |
| Prepaid expenses | (47,560) | 80,642 |
| Accounts payable and accrued liabilities | 231,428 | 1,125,345 |
| | \$ 151,004 | 1,369,355 |

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

11. 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 \$931,079 (2012 - \$964,540) and are included in employee benefits in the statement of operations.

12. Related entity:

The Hospital has an economic interest in the KDH Foundation. The KDH Foundation was created for the purposes of promoting and participating in fundraising programs in order to raise money for capital projects, training and medical research. During the year, the Hospital received donations amounting to \$113,240 (2012 - \$157,901).

13. Commitments:

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 operating deficit is yet to be determined (2012 - \$27,030; 2011 - \$36,725)

14. Contingencies:

(a) Legal matters and litigation:

The Hospital is involved in certain legal matters and litigation, 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.

(b) Employment matters:

During the normal course of business, the Hospital is involved in certain employment related negotiations and has recorded accruals based on management's estimate of potential settlement amounts where these amounts are reasonably determinable.

(c) Insurance:

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.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

15. 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.

Accounts payable and accrued liabilities are generally due within 60 days of receipt of an invoice.

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

16. 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 consolidated financial statements for the year ended March 31, 2013.

17. Comparative figures:

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