

Consolidated Financial Statements of

**KIRKLAND AND DISTRICT HOSPITAL**

Year ended March 31, 2014



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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 statement of financial position as at March 31, 2014, the consolidated statement of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained 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, 2014, and its results of operations and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

June 13, 2014  
Sudbury, Canada

# KIRKLAND AND DISTRICT HOSPITAL

## Consolidated Statement of Operations

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
<b>Revenue:</b>		
Ministry of Health and Long-Term Care /		
North East Local Health Integration Network	\$ 20,379,770	19,750,140
Patient services	717,153	716,881
Preferred accommodations	213,217	186,816
Other	2,688,672	2,397,416
Amortization of deferred capital contributions - equipment	157,402	179,503
	<u>24,156,214</u>	<u>23,230,756</u>
<b>Expenses:</b>		
Salaries and wages	12,032,005	11,940,242
Supplies and other	4,636,081	3,976,333
Employee benefits	3,452,783	3,387,185
Medical staff remuneration	1,948,906	1,555,211
Amortization - equipment	793,306	771,559
Drugs	772,471	786,103
Medical and surgical supplies	543,042	524,663
	<u>24,178,594</u>	<u>22,941,296</u>
Excess (deficiency) of revenue over expenses for Ministry purposes	(22,380)	289,460
Amortization - deferred capital contributions for buildings, land improvements and building service equipment	179,780	179,780
Amortization - buildings, land improvements and building service equipment	(422,378)	(420,399)
Excess (deficiency) of revenue over expenses before undernoted items	(264,978)	48,841
Specifically funded programs:		
Revenue	63,032	591,214
Expenses	63,032	591,214
Excess of revenue over expenses - specifically funded programs	-	-
<b>Excess (deficiency) of revenue over expenses</b>	<b>\$ (264,978)</b>	<b>48,841</b>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

 Director

 Director

# KIRKLAND AND DISTRICT HOSPITAL

## Consolidated Statement of Financial Position

March 31, 2014, with comparative information for 2013

	2014	2013
<b>Assets</b>		
Current assets:		
Cash	\$ 567,542	1,463,185
Cash - restricted	41,447	8,354
Short-term investments	-	573,952
Accounts receivable (note 2)	2,127,579	767,784
Inventories	454,323	478,100
Prepaid expenses	263,474	229,371
	<u>3,454,365</u>	<u>3,520,746</u>
Long-term receivables	427,742	234,978
Capital assets (note 3)	10,873,391	9,370,465
	<u>\$ 14,755,498</u>	<u>13,126,189</u>
<b>Liabilities, Deferred Contributions and Net Assets</b>		
Current liabilities:		
Bank indebtedness - restricted	\$ -	85,770
Accounts payable and accrued liabilities (note 5)	4,915,813	4,465,984
Current portion of long-term obligations (note 6)	30,681	-
	<u>4,946,494</u>	<u>4,551,754</u>
Long-term debt (note 6)	124,258	-
Employee post-retirement benefits (note 7)	2,241,300	2,051,900
Deferred capital contributions (note 8)	4,930,402	3,744,513
Total liabilities	<u>12,242,454</u>	<u>10,348,167</u>
Net assets	2,513,044	2,778,022
Commitments (note 12)		
Contingencies (note 13)		
	<u>\$ 14,755,498</u>	<u>13,126,189</u>

See accompanying notes to consolidated financial statements.

# KIRKLAND AND DISTRICT HOSPITAL

## Consolidated Statement of Changes in Net Assets

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Net assets, beginning of year	\$ 2,778,022	2,729,181
Excess (deficiency) of revenue over expenses	(264,978)	48,841
<b>Net assets, end of year</b>	<b>\$ 2,513,044</b>	<b>2,778,022</b>

See accompanying notes to consolidated financial statements.

# KIRKLAND AND DISTRICT HOSPITAL

## Consolidated Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
<b>Cash flows from operating activities:</b>		
Excess (deficiency) of revenue over expenses	\$ (264,978)	48,841
Items not involving cash:		
Amortization of capital assets	1,215,684	1,191,958
Amortization of deferred capital contributions	(337,182)	(359,283)
Increase in employee post-retirement benefits	189,400	134,800
Loss on disposal of capital assets	-	16,771
	802,924	1,033,087
Change in non-cash working capital balances (note 9)	(920,292)	151,004
	(117,368)	1,184,091
<b>Cash flows from capital activities:</b>		
Purchase of capital assets	(2,718,610)	(2,608,814)
Proceeds on disposal of capital assets	-	4,646
Additions to deferred capital contributions	1,523,071	155,088
	(1,195,539)	(2,449,080)
<b>Cash flows from financing activities:</b>		
Increase in long-term debt	154,939	-
<b>Cash flows from investing activities:</b>		
Decrease in long-term receivables	(192,764)	(158,064)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,350,732)</b>	<b>136,795</b>
Cash and cash equivalents, beginning of year	1,959,721	1,822,926
<b>Cash and cash equivalents, end of year</b>	<b>\$ 608,989</b>	<b>1,959,721</b>
<b>Cash and cash equivalents consist of:</b>		
Cash	\$ 567,542	1,463,185
Cash - restricted	41,447	8,354
Bank indebtedness – restricted	-	(85,770)
Short-term investments	-	573,952
	\$ 608,989	1,959,721

See accompanying notes to consolidated financial statements.

# KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Year ended March 31, 2014

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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.

## 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

Year ended March 31, 2014

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## 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:

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

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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

Year ended March 31, 2014

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## 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

Year ended March 31, 2014

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## 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

Year ended March 31, 2014

## 2. Accounts receivable:

	2014	2013
NELHIN / MOHLTC	\$ 543,080	94,505
Patients and clients	228,266	137,974
Other	1,356,233	535,305
	<b>\$ 2,127,579</b>	<b>767,784</b>

## 3. Capital assets:

March 31, 2014	Cost	Accumulated Amortization	Net book Value
Land	\$ 46,876	—	46,876
Land improvements	458,075	384,492	73,583
Buildings and service equipment	18,295,015	10,816,938	7,478,077
Furniture and equipment	15,508,668	12,233,813	3,274,855
	<b>\$ 34,308,634</b>	<b>23,435,243</b>	<b>10,873,391</b>

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

# KIRKLAND AND DISTRICT HOSPITAL

## Notes to Consolidated Financial Statements

Year ended March 31, 2014

### 4. Credit facilities:

The Hospital has arranged for a revolving demand loan of \$1,500,000 to be used for general operating purposes. The credit facility bears interest at the bank's prime rate less 0.85%. No amount was drawn on this facility at year-end (March 31, 2013 - \$Nil).

### 5. Accounts payable and accrued liabilities:

	2014	2013
Accounts payable and accrued liabilities:		
- NELHIN, MOHLTC	\$ 145,671	102,868
- Other	2,632,537	1,802,731
Payroll accruals:		
- salaries and wages	928,126	645,790
- vacation pay and other entitlements	856,096	960,830
Deferred revenue	353,383	953,765
	<u>\$ 4,915,813</u>	<u>4,465,984</u>

### 6. Long-term debt

	2014	2013
Long-term debt, unsecured, payable in monthly installments of \$2,825, bearing interest at 2.296%, final installment due January 2019	\$ 154,939	-
Current portion of long-term obligations	30,681	-
	<u>\$ 124,258</u>	<u>-</u>

Scheduled principal repayments in each of the next five years and thereafter are as follows:

2015	\$ 30,681
2016	31,389
2017	32,114
2018	32,856
2019	27,899
	<u>\$ 154,939</u>

# KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Year ended March 31, 2014

## 7. 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:

	2014	2013
Balance, beginning of year	\$ 2,051,900	1,917,100
Add: Benefit costs	238,300	207,800
	2,290,200	2,124,900
Less: Benefit contributions	(48,900)	(73,000)
Balance, end of year	\$ 2,241,300	2,051,900

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:

	2014	2013
Discount rate	4.00%	4.00%
Dental cost trend rates	4.50%	4.50%
Extended health care trend rates	10.5%, decreasing annually by 1.0% thereafter to 4.5%	

# KIRKLAND AND DISTRICT HOSPITAL

## Notes to Consolidated Financial Statements

Year ended March 31, 2014

### 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:

	2014	2013
Balance, beginning of year	\$ 3,744,513	3,948,708
Additional contributions received	1,523,071	155,088
Less amounts amortized to revenue	(337,182)	(359,283)
Balance, end of year	\$ 4,930,402	3,744,513

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

	2014	2013
Unamortized	\$ 4,104,734	2,896,650
Unspent	825,668	847,863
	\$ 4,930,402	3,744,513

### 9. Change in non-cash working capital:

	2014	2013
Accounts receivable	\$ (1,359,795)	42,787
Inventories	23,777	(75,651)
Prepaid expenses	(34,103)	(47,560)
Accounts payable and accrued liabilities	449,829	231,428
	\$ (920,292)	151,004

# KIRKLAND AND DISTRICT HOSPITAL

## Notes to Consolidated Financial Statements

Year ended March 31, 2014

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### 10. Pension Plan:

Substantially all of the employees of the Hospital are members of 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 \$1,004,535 (2013 - \$931,079) and are included in employee benefits in the statement of operations.

### 11. Related entity:

The Hospital has an economic interest in the Kirkland and District Hospital Foundation (the "Foundation"). The 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 \$23,760 (2013 - \$113,240) from the Foundation, with a further \$560,000 owing from the Foundation to the Hospital at year-end.

### 12. 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"). During the current year, the Hospital contributed \$4,475 towards the operations of the KDFHT (2013 - \$56,103).

### 13. 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, 2014, no assessments have been received.



# KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Year ended March 31, 2014

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## 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, 2014 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, 2014 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2013.

### (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 2013.

## 15. Comparative information:

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