

Financial Statements of

**ENGLEHART AND DISTRICT
HOSPITAL INC.**

Year ended March 31, 2016



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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 statement of financial position as at March 31, 2016, the statements 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 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 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 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 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, 2016, and its results of operations, changes in net assets 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 2, 2016
Sudbury, Canada

ENGLEHART AND DISTRICT HOSPITAL INC.

Statement of Operations

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Ministry of Health and Long-Term Care / North East Local Health Integration Network	\$ 6,514,726	\$ 5,670,609
Patient services	266,014	325,351
Preferred accommodation	153,797	194,598
Other	838,336	598,052
Amortization of deferred capital contributions – equipment	63,221	117,255
	<u>7,836,094</u>	<u>6,905,865</u>
Expenses:		
Salaries and wages	4,185,374	3,956,374
Employee benefits	1,097,186	967,287
Medical staff remuneration	261,208	264,270
Drugs	124,782	138,802
Medical and surgical supplies	194,180	132,728
Other supplies and services	1,750,339	1,874,892
Amortization – equipment	171,873	193,556
	<u>7,784,942</u>	<u>7,527,909</u>
Excess (deficiency) of revenue over expenses for Ministry purposes	51,152	(622,044)
Amortization of deferred capital contributions – buildings, land improvements and building service equipment	124,919	115,320
Amortization – buildings, land improvements and building service equipment	(217,386)	(208,019)
	<u>(92,467)</u>	<u>(92,699)</u>
Deficiency of revenue over expenses	\$ (41,315)	\$ (714,743)

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

ENGLEHART AND DISTRICT HOSPITAL INC.

Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash	\$ 152,733	\$ 263,635
Short-term investments (note 2)	2,445	2,629
Accounts receivable (note 3)	286,155	280,432
Inventories	137,059	150,371
Prepaid expenses	41,350	78,428
	<hr/>	<hr/>
	619,742	775,495
Restricted assets (note 4)	101,000	101,000
Capital assets (note 5)	4,001,652	4,193,377
	<hr/>	<hr/>
	\$ 4,722,394	\$ 5,069,872
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 758,898	\$ 829,484
Employee post-retirement benefits (note 8)	161,407	160,757
Deferred capital contributions (note 9)	3,229,094	3,465,321
	<hr/>	<hr/>
Total liabilities	4,149,399	4,455,562
Net assets	572,995	614,310
Contingencies (note 13)		
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	\$ 4,722,394	\$ 5,069,872

See accompanying notes to financial statements.

ENGLEHART AND DISTRICT HOSPITAL INC.

Statement of Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Net assets, beginning of year	\$ 614,310	\$ 1,329,053
Deficiency of revenue over expenses	(41,315)	(714,743)
Net assets, end of year	\$ 572,995	\$ 614,310

See accompanying notes to financial statements.

ENGLEHART AND DISTRICT HOSPITAL INC.

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash flows from operating activities:		
Deficiency of revenue over expenses	\$ (41,315)	\$ (714,743)
Items not involving cash:		
Amortization of capital assets	389,259	401,575
Amortization of deferred capital contributions	(188,140)	(232,575)
Change in employee post-retirement benefits	650	(2,943)
	160,454	(548,686)
Change in non-cash working capital balances (note 10)	(25,919)	97,088
	134,535	(451,598)
Cash flows from capital activities:		
Acquisition of capital assets	(197,534)	(217,197)
Cash flows from financing activities:		
Increase (decrease) in deferred capital contributions	(48,087)	367,905
Net decrease in cash and cash equivalents	(111,086)	(300,890)
Cash and cash equivalents, beginning of year	367,264	668,154
Cash and cash equivalents, end of year	\$ 265,178	\$ 367,264
Cash and cash equivalents are comprised of:		
Cash	\$ 152,733	\$ 263,635
Short-term investments	2,445	2,629
Restricted assets	101,000	101,000
	\$ 256,178	\$ 367,264

See accompanying notes to financial statements.

ENGLEHART AND DISTRICT HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2016

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.

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.

(b) Inventories:

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

ENGLEHART AND DISTRICT HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2016

1. Significant accounting policies (continued):

(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 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.

(d) Related entity:

The notes to financial statements include information of the following entity (note 11):

Blanche River Health Partners ("BRHP")

ENGLEHART AND DISTRICT HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2016

1. Significant accounting policies (continued):

(e) 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.

(f) 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.

(g) 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.

ENGLEHART AND DISTRICT HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2016

1. Significant accounting policies (continued):

(h) 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.

(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.

2. Short-term investments:

Short-term investments consist of a cashable escalating rate fixed-term guaranteed income certificate bearing interest at 0.75% and maturing in March 2020. The fair market value of the short-term investments is equal to their cost.

3. Accounts receivable:

	2016	2015
NELHIN / MOHLTC	\$ -	\$ 4,420
Patients and clients	133,601	192,674
Other	152,554	83,338
	<u>\$ 286,155</u>	<u>\$ 280,432</u>

ENGLEHART AND DISTRICT HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2016

4. Restricted assets:

Restricted assets consist of a cashable escalating rate fixed-term guaranteed income certificate bearing interest at 0.75% and maturing in March 2020. 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.

5. Capital assets:

2016	Cost	Accumulated Amortization	Net book Value
Land	\$ 42,728	\$ -	\$ 42,728
Land improvements	242,266	203,271	38,995
Buildings and service equipment	6,992,821	3,511,701	3,481,120
Furniture and equipment	5,844,955	5,406,146	438,809
	<u>\$ 13,122,770</u>	<u>\$ 9,121,118</u>	<u>\$ 4,001,652</u>

2015	Cost	Accumulated Amortization	Net book Value
Land	\$ 42,728	\$ -	\$ 42,728
Land improvements	209,702	197,664	12,038
Buildings and service equipment	6,851,842	3,299,942	3,551,900
Furniture and equipment	5,824,968	5,238,257	586,711
	<u>\$ 12,929,240</u>	<u>\$ 8,735,863</u>	<u>\$ 4,193,377</u>

6. 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 (2015 - \$Nil).

ENGLEHART AND DISTRICT HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2016

7. Accounts payable and accrued liabilities:

	2016	2015
Accounts payable and accrued liabilities:		
- NELHIN, MOHLTC	\$ -	\$ 13,836
- Other	355,453	318,357
Payroll accruals:		
- salaries and wages	77,044	233,543
- vacation pay and other entitlements	326,401	263,748
	<u>\$ 758,898</u>	<u>\$ 829,484</u>

8. 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 March 31, 2015. The next full valuation of the plan will be as of March 31, 2018.

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

	2016	2015
Balance, beginning of year	\$ 160,757	\$ 163,700
Add: Benefit costs	3,750	167
	<u>164,507</u>	<u>163,867</u>
Less: Benefit contributions	(3,100)	(3,110)
Balance, end of year	<u>\$ 161,407</u>	<u>\$ 160,757</u>

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:

	2016	2015
Discount rate	3.76%	3.31%
Dental cost trend rates	4.00%	4.00%
Extended health care trend rates	8%, decreasing annually by 0.5% thereafter to 5%	

ENGLEHART AND DISTRICT HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2016

9. 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:

	2016	2015
Balance, beginning of year	\$ 3,465,321	\$ 3,329,924
Additional contributions received	159,156	367,971
Less amounts amortized to revenue	(188,140)	(232,574)
Less transfer from deferred capital contributions	(207,243)	-
Balance, end of year	\$ 3,229,094	\$ 3,465,321

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

	2016	2015
Unamortized	\$ 2,862,528	\$ 2,972,621
Unspent	366,566	492,700
Balance, end of year	\$ 3,229,094	\$ 3,465,321

10. Change in non-cash working capital:

	2016	2015
Accounts receivable	\$ (5,723)	\$ 131,389
Inventories	13,312	(19,698)
Prepaid expenses	37,078	(38,359)
Accounts payable and accrued liabilities	(70,586)	23,756
	\$ (25,919)	\$ 97,088

ENGLEHART AND DISTRICT HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2016

11. Related entity:

During the current year, the Hospital and Kirkland and District Hospital Inc. ("KDH") established Blanche River Health Partners ("BRHP"), the purpose of which is to facilitate collaboration and integration of the Hospital and KDH through the employment by BRHP of shared positions for both hospitals. In September 2015, BRHP recruited an individual to serve as Chief Executive Officer for the Hospital, KDH and BRHP.

Costs incurred by BRHP are funded by the Hospital and KDH based on a cost sharing formula outlined in the BRHP partnership agreement. BRHP operates on a full cost-recovery model, with treasury functions provided by the Hospital. As such, BRHP has no reported assets, liabilities or net assets at March 31, 2016.

12. 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 \$288,317 (2015 - \$247,189) 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, 2016, no assessments have been received.

ENGLEHART AND DISTRICT HOSPITAL INC.

Notes to Financial Statements

Year ended March 31, 2016

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, 2016, 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, 2016, is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2015.

(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 2015.

15. Comparative information:

Certain comparative information have been reclassified to conform with the presentation adopted in 2016.