

Consolidated Financial Statements of

KIRKLAND AND DISTRICT HOSPITAL

Year ended March 31, 2017



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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, 2017, 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 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, 2017, 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 20, 2017
Sudbury, Canada

KIRKLAND AND DISTRICT HOSPITAL



Consolidated Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
North East Local Health Integration Network and Ministry of Health and Long-Term Care	\$ 20,943,875	\$ 20,813,265
Patient services	832,249	709,916
Preferred accommodations	270,539	219,275
Other	3,004,687	2,789,858
Amortization - deferred capital contributions for equipment	222,283	195,794
	<u>25,273,633</u>	<u>24,728,108</u>
Expenses:		
Salaries and wages	12,700,268	12,548,114
Employee benefits	4,105,771	3,590,076
Medical staff remuneration	2,047,546	1,996,142
Drugs	691,878	881,473
Medical and surgical	570,912	544,084
Supplies and other	4,332,764	4,390,186
Amortization - equipment	720,525	722,857
	<u>25,169,664</u>	<u>24,672,932</u>
Excess of revenue over expenses for Ministry purposes	103,969	55,176
Amortization - deferred capital contributions for buildings, land improvements and building service equipment	311,209	318,545
Amortization - building, land improvements and building service equipment	(651,334)	(697,037)
Deficiency of revenue over expenses before undernoted items	(236,156)	(323,316)
Specifically funded programs:		
Revenue	90,059	95,248
Expenses	90,059	95,248
Excess of revenue over expenses - specifically funded programs	-	-
Deficiency of revenue over expenses	<u>\$ (236,156)</u>	<u>\$ (323,316)</u>

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, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash	\$ 429,391	\$ -
Cash - restricted	22,171	19,216
Accounts receivable (note 2)	1,609,243	1,275,362
Inventories	451,457	472,662
Prepayments	176,617	191,948
	<u>2,688,879</u>	<u>1,959,188</u>
Long-term receivables (note 4)	550,000	468,439
Capital assets (note 3)	12,356,379	10,766,616
	<u>\$ 15,595,258</u>	<u>\$ 13,194,243</u>
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Bank indebtedness (note 4)	\$ -	\$ 493,557
Accounts payable and accrued liabilities (note 5)	5,127,353	3,950,437
Current portion of long-term debt (note 6)	113,373	114,274
	<u>5,240,726</u>	<u>4,558,268</u>
Long-term debt (note 6)	146,476	171,050
Employee post-retirement benefits (note 7)	2,487,794	2,435,027
Deferred capital contributions (note 8)	6,992,971	5,066,451
	<u>14,867,967</u>	<u>12,230,796</u>
Net assets	727,291	963,447
Commitments (note 12)		
Contingencies (note 13)		
	<u>\$ 15,595,258</u>	<u>\$ 13,194,243</u>

See accompanying notes to consolidated financial statements

KIRKLAND AND DISTRICT HOSPITAL

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Net assets, beginning of year	\$ 963,447	\$ 1,286,763
Deficiency of revenue over expenses	(236,156)	(323,316)
Net assets, end of year	\$ 727,291	\$ 963,447

See accompanying notes to consolidated financial statements

KIRKLAND AND DISTRICT HOSPITAL

Consolidated Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash flows from operating activities:		
Deficiency of revenue over expenses	\$ (236,156)	\$ (323,316)
Adjustments for:		
Amortization of capital assets	1,371,859	1,419,894
Amortization of deferred capital contributions	(533,492)	(514,339)
Loss on sale of capital assets	3,166	-
Increase in employee post-retirement benefits	52,767	103,327
	<u>658,144</u>	<u>685,566</u>
Change in non-cash working capital (note 9)	<u>879,571</u>	<u>(193,560)</u>
	1,537,715	492,006
Cash flows from capital activities:		
Purchase of capital assets	(2,964,788)	(962,840)
Increase in deferred capital contributions	2,460,012	498,940
	<u>(504,776)</u>	<u>(463,900)</u>
Cash flows from financing activities:		
Increase (decrease) in long-term debt	(25,475)	(111,772)
	<u>(25,475)</u>	<u>(111,772)</u>
Cash flows from investing activities:		
Decrease (increase) in long-term receivables	(81,561)	18,914
	<u>(81,561)</u>	<u>18,914</u>
Net increase (decrease) in cash	925,903	(64,752)
Bank indebtedness and cash equivalents, beginning of year	(474,341)	(409,589)
Cash (bank indebtedness) and cash equivalents, end of year	<u>\$ 451,562</u>	<u>\$ (474,341)</u>

See accompanying notes to consolidated financial statements

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements

Year ended March 31, 2017

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.

(b) Inventories:

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

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

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 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 consolidated 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 consolidated statement of financial position.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(d) Related entities:

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

Kirkland and District Hospital Foundation ("KDH Foundation")
Blanche River Health Partners ("BRHP")

(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 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.

(f) 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 (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(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.

(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 consolidated financial statements.

(i) 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.

(j) Financial instruments:

All financial instruments are initially recorded on the consolidated 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 consolidated statement of operations.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

2. Accounts receivable:

	2017	2016
NELHIN / MOHLTC	\$ -	\$ 96,491
Patients and clients	321,814	304,637
Other	1,287,429	874,234
	<u>\$ 1,609,243</u>	<u>\$ 1,275,362</u>

3. Capital assets:

2017	Cost	Accumulated Amortization	Net book Value
Land	\$ 46,876	\$ -	\$ 46,876
Land improvements	461,117	435,409	25,708
Buildings and service equipment	20,746,455	11,500,856	9,245,599
Furniture and equipment	12,671,351	9,633,155	3,038,196
	<u>\$ 33,925,799</u>	<u>\$ 21,569,420</u>	<u>\$ 12,356,379</u>

2016	Cost	Accumulated Amortization	Net book Value
Land	\$ 46,876	\$ -	\$ 46,876
Land improvements	458,075	413,319	44,756
Buildings and service equipment	18,913,976	10,892,561	8,021,415
Furniture and equipment	11,649,465	8,995,896	2,653,569
	<u>\$ 31,068,392</u>	<u>\$ 20,301,776</u>	<u>\$ 10,766,616</u>

4. Bank indebtedness:

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 (2016 - \$Nil).

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

5. Accounts payable and accrued liabilities:

	2017	2016
Accounts payable and accrued liabilities:		
- NELHIN, MOHLTC	\$ 46,673	\$ 96,799
- Other	3,170,254	1,539,893
Payroll accruals:		
- Salaries and wages	822,793	1,004,602
- Vacation pay and other entitlements	915,143	1,129,693
Deferred revenue	172,490	179,450
	\$ 5,127,353	\$ 3,950,437

6. Long-term debt:

	2017	2016
Long-term obligation, unsecured, payable in monthly instalments of \$2,825, bearing interest at 2.296%, final instalment due January 2019	\$ 60,804	\$ 92,907
Long-term obligation, unsecured, payable in monthly instalments of \$1,059, bearing interest at 2.269%, final instalment due July 2019	28,833	40,753
Long-term obligation, unsecured, payable in monthly instalments of \$1,632 bearing interest at 2.084%, final instalment due August 2017	8,143	27,319
Long-term obligation, unsecured, payable in monthly instalments of \$2,849, bearing interest at 2.084%, final instalment due November 2017	22,606	55,951
Long-term obligation, unsecured, payable in monthly instalments of \$1,583, bearing interest at 2.146%, final instalment due December 2019	50,675	68,394
Long-term obligation, unsecured, payable in monthly instalments of \$1,743, bearing interest at 1.79%, final instalment due August 2021	88,788	-
	259,849	285,324
Current portion of long-term debt	(113,373)	(114,274)
	\$ 146,476	\$ 171,050

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

6. Long-term debt (continued):

Scheduled principal repayments are as follows:

2018	\$ 113,373
2019	78,702
2020	38,519
2021	20,566
2022	8,689
	<u>\$ 259,849</u>

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 March 31, 2016. The next full valuation of the plan will be as of April 1, 2018.

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

	2017	2016
Balance, beginning of year	\$ 2,435,027	\$ 2,331,700
Add: Benefit costs	130,386	155,100
	<u>2,565,413</u>	<u>2,486,800</u>
Less: Benefit contributions	(77,619)	(51,773)
Balance, end of year	<u>\$ 2,487,794</u>	<u>\$ 2,435,027</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:

	2017	2016
Discount rate	3.56%	3.76%
Dental cost trend rates	4.00%	4.00%
Extended health care trend rates	8%, decreasing annually by 0.5% thereafter to 5%	

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

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:

	2017	2016
Balance, beginning of year	\$ 5,066,451	\$ 5,081,850
Additional contributions received	2,460,012	498,940
Less amounts amortized to revenue	(533,492)	(514,339)
Balance, end of year	\$ 6,992,971	\$ 5,066,451

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

	2017	2016
Unamortized	\$ 6,992,971	\$ 4,966,451
Unspent	—	100,000
	\$ 6,992,971	\$ 5,066,451

9. Change in non-cash working capital:

	2017	2016
Accounts receivable	\$ (333,881)	\$ 237,572
Inventories	21,205	8,299
Prepaid expenses	15,331	20,516
Accounts payable and accrued liabilities	1,176,916	(459,947)
	\$ 879,571	\$ (193,560)

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

10. 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 \$1,146,559 (2016 - \$1,112,828) and are included in employee benefits in the statement of operations.

11. Related entities:

(a) KDH Foundation:

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 \$115,775 (2016 - \$153,009).

(b) BRHP

The Hospital and Englehart and District Hospital Inc. ("EDH") have established BRHP, the purpose of which is to facilitate collaboration and integration of the Hospital and EDH through the employment by BRHP of shared positions for both hospitals. 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 as at March 31, 2017.

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 was not required to contribute towards the operations of the KDFHT (2016 - \$Nil).

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.

KIRKLAND AND DISTRICT HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

13. Contingencies (continued):

(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, 2017, 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, 2017, 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, 2017, is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2016.

(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 2016.

15. Comparative information:

Certain comparative information have been reclassified to conform with the presentation adopted in 2017.

