

Northumberland Hills Hospital

Financial Statements

For the year ended March 31, 2009

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MANAGEMENT'S REPORT (Unaudited)

To the Members of the
Northumberland Hills Hospital

The financial statements of Northumberland Hills Hospital for the year ended March 31, 2009 were prepared by and are the responsibility of the Hospital's management, and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates and judgment.

The mandate of the Audit Committee is to ensure that internal controls and systems safeguard the Hospital's assets and to satisfy itself as to the integrity of the financial reporting of the hospital.

The auditors, KPMG LLP, appointed by the members, have audited these financial statements and have reported thereon.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and according to the accounting policies stated in the notes therein. These statements accurately reflect the financial position of the Hospital at March 31, 2009.

The Hospital completed the year with an operating deficit of approximately \$1 million or 1.9% of total revenues, which was better than the budgeted operating deficit of \$1.5 million. This favourable variance was primarily attributed to additional one-time funding from government agencies and lower costs associated with physician remuneration. In addition, these financial statements include one-time restructuring costs of \$1.056 million associated with Board approved restructuring plans to be implemented in the 2009/2010 fiscal year to address the operating deficit. The total operating deficit for the fiscal year ending March 31, 2009 is \$2.035 million.

As described in the 2008-2010 Hospital Service Accountability Agreement with the Central East Local Health Integration Network, NHH continues to face systemic issues that are beyond its control, which have placed significant pressures on its financial resources. These systemic issues include:

1. A high occurrence of alternative level of care (ALC) patients due to insufficient capacity for community-based services (e.g. long-term care beds);
2. The shortage of health human resources, particularly in the medical profession, resulting in additional payments required to retain individuals to provide services to our community; and,
3. Funding from government agencies that inadequately cover the costs of operating some of the hospital services and programs.

MANAGEMENT'S REPORT (continued) (Unaudited)

Despite these systemic issues of the broader health system and the negative impact on the Hospital's finances, the Hospital is committed to meeting the government's expectation to balance its budget and ensure the long-term viability of the organization. For the fiscal year 2009/2010, the operating deficit was previously projected at \$2.0 million. To address this operating deficit, in December 2008 the Hospital launched a collaborative budget strategy with its stakeholders, referred to as *Shared Challenge, Shared Solution*. The goal of this budget exercise is to pursue and exhaust all operating efficiencies before considering changes to services offered to our community. Phase 1 of the efficiencies exercise was approved by the Board in March 2009, which identified approximately \$1.4 million in operating efficiencies.

To address the remaining operating deficit of \$600,000, Phase 2 of the budget exercise is currently underway in preparation for the 2010/2011 fiscal year. The second phase includes the pursuit of additional operating efficiencies and commencing a community engagement program to consider, if necessary, potential reductions in hospital services that may be required to balance the budget.

The Hospital will continue to collaborate with the Central East Local Health Integration Network and other health service providers in developing strategies to transform the health care system to be more effective and efficient.



Robert F. Biron
President and Chief Executive Officer

Cobourg, Ontario
April 29, 2009



Cheryl A. Turk, B.B.A., C.A.
Vice President and Chief Financial Officer



KPMG LLP
Chartered Accountants
863 Princess Street Suite 400
PO Box 1600 Stn Main
Kingston ON K7L 5C8
Canada

Telephone (613) 549-1550
Telefax (613) 549-6349
www.kpmg.ca

AUDITORS' REPORT

To the Members of the
Northumberland Hills Hospital

We have audited the statement of financial position of the Northumberland Hills Hospital as at March 31, 2009 and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Ontario Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Kingston, Canada

May 8, 2009

Northumberland Hills Hospital

Statement of Financial Position

As at March 31	2009	2008
Assets		
Current assets		
Cash	\$ 4,101,087	\$ 2,649,956
Accounts receivable, net of allowance for doubtful accounts	2,135,837	3,520,573
Mortgage receivable (Note 13)	159,869	-
Inventories	981,480	965,083
Prepaid expenses	579,293	591,102
	7,957,566	7,726,714
Capital assets (Note 2)	64,619,144	65,768,502
	\$ 72,576,710	\$ 73,495,216
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,138,411	\$ 4,046,169
Accrued salaries and benefits	4,532,277	4,272,152
Current portion of long-term debt (Note 4)	284,799	336,275
Current portion of accrued employee benefit liability (Note 5)	188,300	162,600
	11,143,787	8,817,196
Long-term liabilities		
Long-term debt (Note 4)	1,811,578	2,096,377
Accrued employee benefit liability (Note 5)	2,335,900	2,067,000
Deferred capital contributions (Note 6)	60,634,769	61,828,951
	64,782,247	65,992,328
	75,926,034	74,809,524
Contingent liabilities (Note 15)		
Commitments (Note 16)		
Net Assets (Deficiency)		
Investment in capital assets (Note 7)	2,167,309	1,859,409
Unrestricted	(5,516,633)	(3,173,717)
	(3,349,324)	(1,314,308)
	\$ 72,576,710	\$ 73,495,216

Approved by the Board of Directors

Sid Truant Director

Roger O'Brien Director

Northumberland Hills Hospital

Statement of Revenue and Expenses

For the year ended March 31	2009	2008
Revenue		
Base operating funding	\$ 35,060,950	\$ 33,478,738
Interim long-term care funding	435,969	394,022
One-time operating funding (Note 8)	1,002,059	1,059,189
Separately funded programs - other votes (Note 9)	2,791,982	2,451,866
Separately funded programs - priority programs (Note 10)	2,296,907	2,482,022
Patient revenue (Note 11)	8,949,249	7,857,369
Differential and co-payment revenue	1,934,883	1,863,307
Other revenue	2,152,142	2,167,374
Amortization of deferred capital contributions (Note 12)	<u>4,166,006</u>	<u>4,180,939</u>
	58,790,147	55,934,826
Expenses		
Salaries and wages	25,294,561	23,559,190
Employee benefits	6,209,969	5,738,824
One-time lump sum payment for Ontario Nurses Association employees	-	371,998
	<u>31,504,530</u>	<u>29,670,012</u>
Medical remuneration (Note 11)	8,287,414	7,234,113
Medical and surgical supplies	1,825,562	1,594,787
Drugs and medical gases	1,722,684	1,648,426
Supplies	2,748,312	2,757,705
Equipment and maintenance	2,289,420	2,314,819
Professional fees	400,004	305,194
Referred out contracted services	785,750	710,509
Interest (Notes 3 and 4)	99,646	124,453
Sundry	767,792	715,468
Separately funded programs - other votes (Note 9)	2,791,982	2,451,866
Separately funded programs - priority programs (Note 10)	2,396,728	2,710,704
Amortization of capital assets (Note 12)	<u>4,263,314</u>	<u>4,245,250</u>
	59,883,138	56,483,306
Excess (deficiency) of revenue over expenses from operations	(1,092,991)	(548,480)
Gain (loss) on disposal of capital assets (Note 13)	114,179	(11,064)
Restructuring costs (Note 14)	<u>(1,056,204)</u>	<u>-</u>
Deficiency of revenue over expenses	\$ (2,035,016)	\$ (559,544)

Northumberland Hills Hospital**Statement of Changes in Net Assets (Deficiency)**

For the year ended March 31	Invested in Capital Assets	Unrestricted	2009	2008
Net assets (deficiency), beginning of year	\$ 1,859,409	\$ (3,173,717)	\$ (1,314,308)	\$ (754,764)
Deficiency of expenses over revenue (Note 7)	(56,328)	(1,978,688)	(2,035,016)	(559,544)
Net change in investment in capital assets (Note 7)	364,228	(364,228)	-	-
Net assets (deficiency), end of year	\$ 2,167,309	\$ (5,516,633)	\$ (3,349,324)	\$ (1,314,308)

Northumberland Hills Hospital

Statement of Cash Flows

For the year ended March 31	2009	2008
Cash provided by (used in)		
Operating activities		
Deficiency of revenue over expenses	\$ (2,035,016)	\$ (559,544)
Adjustment for items which do not affect cash		
Amortization of deferred capital contributions (Note 12)	(4,166,006)	(4,180,939)
Amortization of capital assets (Note 12)	4,263,314	4,245,250
Gain (loss) on disposal of capital assets (Note 13)	(114,179)	11,064
Post-retirement employee benefits expense for year (Note 5)	457,200	468,300
	<u>(1,594,687)</u>	<u>(15,869)</u>
Net decrease in non-cash working capital	<u>3,572,646</u>	<u>548,973</u>
	<u><u>1,977,959</u></u>	<u><u>533,104</u></u>
Financing activities		
Donations and capital grants (Note 6)	2,971,824	5,280,186
Decrease in long-term debt	(336,275)	(352,695)
Payments for post-retirement employee benefits	(162,600)	(156,700)
	<u>2,472,949</u>	<u>4,770,791</u>
Investing activities		
Proceeds from disposal of capital assets	186,879	400
Purchase of capital assets	(3,186,656)	(5,780,854)
Decrease in short-term investments	-	-
	<u>(2,999,777)</u>	<u>(5,780,454)</u>
Increase (decrease) in cash	1,451,131	(476,559)
Cash at beginning of year	2,649,956	3,126,515
Cash at end of year	\$ 4,101,087	\$ 2,649,956

Northumberland Hills Hospital

Summary of Significant Accounting Policies

March 31, 2009

Revenue Recognition	<p>Northumberland Hills Hospital ("Hospital") is funded primarily by the Province of Ontario in accordance with accountability and contractual arrangements entered into with the Ministry of Health and Long-Term Care ("Ministry") and the Central East Local Health Integration Network ("CE LHIN"). 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 that subsequent period. One-time funding is recognized when the terms and conditions of the grant are met.</p> <p>The Hospital follows the deferral method of accounting for contributions which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.</p> <p>Revenue from the Ontario Health Insurance Plan, preferred accommodation and marketed services is recognized when the goods are sold or the service is provided.</p>
Contributed Services	A substantial number of volunteers contribute a significant amount of their time each year. The fair value of these contributed services is not recorded in the financial statements.
Inventories	Inventories are measured at the lower of cost and net realizable value by using first-in, first-out inventory and/or weighted average costing methodology.
Capital Assets	<p>Capital assets are recorded at cost. Betterments which extend the estimated life of an asset are capitalized. Repairs and maintenance costs are charged to expense. Gains and losses on the disposal of capital assets are credited or charged to operations in the year of disposal. Interest costs incurred on assets under construction are capitalized until the asset is placed in service.</p> <p>Equipment under leases that effectively transfer substantially all of the benefits and risks of ownership to the Hospital as lessee is recorded as a capital asset at the present value of the minimum payments under the lease with a corresponding liability for the related lease obligation. Charges to expenses are made for amortization of the equipment and interest inherent in the lease obligation. Leases not meeting the conditions of a capital lease are treated as operating leases.</p>

Northumberland Hills Hospital

Summary of Significant Accounting Policies

March 31, 2009

Capital Assets (continued) Capital assets are amortized according to Ministry guidelines on a straight-line basis using the following annual rates:

Buildings	2.5%
Building service equipment	5%
Land improvements	5% to 20%
Major equipment	5% to 20%
Software licences and related costs	20%

Employee Future 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 salary escalation (where applicable), retirement ages of employees and expected health care costs.

Actuarial gains and losses in a year are combined with the unamortized balance of gains or losses from prior years. The Hospital has adopted an accounting policy that amortizes the portion of the total that exceeds 10% of the accrued benefit obligation into future years' expenses over the average remaining service period of active employees.

Prior service costs, if any, arising from a plan amendment are amortized over future years of service to full eligibility of active employees.

Financial Instruments The Hospital's financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable and long-term debt. It is management's opinion that the Hospital is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values.

Use of Estimates In preparing the financial statements in accordance with Canadian generally accepted accounting principles, management is required to make estimates and assumptions to determine the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Northumberland Hills Hospital

Notes to the Financial Statements

March 31, 2009

1. Economic Environment

a. Nature of Business

The Hospital is engaged in the provision of various health care services within Northumberland County. The Hospital is a registered charity under the *Income Tax Act* (Canada) and accordingly is exempt from income taxes, provided certain requirements of the *Income Tax Act* (Canada) are met.

b. Economic Dependence

The Hospital is dependent on an on-going basis on the Ministry and/or CE LHIN as the primary funding source for operating activities. This year, provincial funding was equivalent to 83% of the total operating revenue (2008 - 82%).

2. Capital Assets

	2009		
	Cost	Accumulated Amortization	Net Book Value
Land and land improvements	\$ 1,112,878	\$ 21,562	\$ 1,091,316
Buildings and building service equipment	56,857,994	7,675,004	49,182,990
Equipment	28,390,813	14,544,259	13,846,554
Software licences and related costs	2,292,664	1,794,380	498,284
	<u>\$ 88,654,349</u>	<u>\$ 24,035,205</u>	<u>\$ 64,619,144</u>
	2008		
	Cost	Accumulated Amortization	Net Book Value
Land and land improvements	\$ 1,002,309	\$ 9,893	\$ 992,416
Buildings and building service equipment	56,656,114	6,228,295	50,427,819
Equipment	25,729,401	11,954,822	13,774,579
Software licences and related costs	2,261,662	1,687,974	573,688
	<u>\$ 85,649,486</u>	<u>\$ 19,880,984</u>	<u>\$ 65,768,502</u>

Northumberland Hills Hospital

Notes to the Financial Statements

March 31, 2009

3. Bank Operating Line of Credit

The Hospital has a bank operating line of credit of \$3.5 million at March 31, 2009 (\$3.5 million at March 31, 2008) which is unsecured at the lender's prime rate less 0.5%. This arrangement is reviewed annually with the bank.

Interest expense incurred during the year on the operating line of credit was \$212 (2008 - \$8,280).

4. Long-term Debt

	2009	2008
Bank non-revolving term loan secured by telephone system equipment, repayable monthly with blended payments including interest at a rate of 4.77% per annum due November 2008	\$ -	\$ 63,741
Bank non-revolving term loan secured by diagnostic imaging equipment, repayable monthly with blended payments including interest at a rate of 4.41% per annum due September 2015	<u>2,096,377</u>	<u>\$ 2,368,911</u>
	2,096,377	2,432,652
Less current portion	<u>284,799</u>	<u>336,275</u>
	<u>\$ 1,811,578</u>	<u>\$ 2,096,377</u>

Interest expense incurred on these loans during the year was \$99,434 (2008 - \$116,173).

The long-term debt has the following principal repayments:

	2009	2008
2009	-	336,275
2010	284,799	284,799
2011	297,615	297,615
2012	311,009	311,009
2013	325,005	325,005
2014	339,631	339,631
Thereafter	<u>538,318</u>	<u>538,318</u>
	<u>\$ 2,096,377</u>	<u>\$ 2,432,652</u>

Northumberland Hills Hospital

Notes to the Financial Statements

March 31, 2009

5. Accrued Employee Benefit Liability

The Hospital provides extended health care, dental and life insurance benefits to certain employees upon retirement. Costs for employee future benefits are accrued over the periods in which employees earn the benefits through service.

The date of the most recent actuarial valuation used to measure the accrued benefit obligation was April 1, 2006. The following actuarial assumptions were used in estimating the Hospital's post-retirement benefits expense and the accrued benefit liability:

Discount rate for calculation of net benefit costs	5.75% per annum
Discount rate for disclosure at end of period	7.75% per annum
General inflation	3.00% per annum
Dental benefits cost escalation	4.00% per annum
Medical benefits cost escalation - extended health care	9.00% in 2008; decreasing by 0.5% per annum to an ultimate rate of 5.0% in 2016 and thereafter

Total employee-future-benefits expense for the year is as follows:

	2009	2008
Current service cost	\$ 180,400	\$ 189,600
Interest on accrued employee benefits	199,300	176,100
Actuarial (gains) losses during year	(562,200)	(252,500)
Plan amendments during year	240,800	-
Adjustment for experience (gains) losses	614,600	330,000
Amortization of prior service costs	<u>(215,700)</u>	<u>25,100</u>
	<u>\$ 457,200</u>	<u>\$ 468,300</u>

Information with respect of the Hospital's post-retirement and post-employment employee benefit liabilities is as follows:

	2009	2008
Accrued employee benefit liability, beginning of year	\$ 2,229,600	\$ 1,918,000
Expense for the year	457,200	468,300
Employee benefits paid for the year	<u>(162,600)</u>	<u>(156,700)</u>
Accrued employee benefit liability, end of year	\$ 2,524,200	\$ 2,229,600
Less current portion	<u>(188,300)</u>	<u>(162,600)</u>
	<u>\$ 2,335,900</u>	<u>\$ 2,067,000</u>

Accrued employee benefit liabilities at year-end include the following components:

	2009	2008
Accrued employee benefit obligation	\$ 3,263,200	\$ 3,367,500
Unamortized experience losses	(403,600)	(1,018,200)
Unamortized prior service costs	<u>(335,400)</u>	<u>(119,700)</u>
Accrued employee benefit liability	<u>\$ 2,524,200</u>	<u>\$ 2,229,600</u>

Northumberland Hills Hospital

Notes to the Financial Statements

March 31, 2009

6. Deferred Capital Contributions

Deferred capital contributions related to capital assets represent the unamortized amount of donations and grants received for the purchase of capital assets. The continuity of deferred capital contributions is as follows:

	2009	2008
Capital contributions received in year from:		
Northumberland Hills Hospital Foundation (note 18):		
Campaign fundraising contributions towards 2003 new hospital project	\$ 24,621	\$ 91,592
Contributions towards current capital equipment needs	2,526,953	4,833,423
Northumberland Hills Hospital Auxiliary	161,516	75,000
Ministry of Health and Long-Term Care	<u>258,734</u>	<u>280,171</u>
	2,971,824	5,280,186
Less amortization of deferred capital contributions (Note 12)	(4,166,006)	(4,180,939)
Less amounts related to capital assets disposed of in year	<u>-</u>	<u>(1,107)</u>
Increase (decrease) in year	(1,194,182)	1,098,140
Balance at beginning of year	<u>61,828,951</u>	<u>60,730,811</u>
Balance at end of year	<u>\$ 60,634,769</u>	<u>\$ 61,828,951</u>

Included in the year end balance is \$279,310 (2008 - \$352,508) which will be used to fund future interest costs related to the capital cost of the 2003 new hospital project.

7. Investment in Capital Assets

a. Investment in Capital Assets	2009	2008
Capital assets	\$ 64,619,144	\$ 65,768,502
Amount funded by:		
Deferred contributions used for capital asset acquisition	(60,355,459)	(61,476,443)
Long-term debt	<u>(2,096,377)</u>	<u>(2,432,652)</u>
	<u>\$ 2,167,308</u>	<u>\$ 1,859,407</u>

Northumberland Hills Hospital

Notes to the Financial Statements

March 31, 2009

7. Investment in Capital Assets (continued)

b. Changes in Net Assets Invested in Capital Assets	2009	2008
Excess of revenue over expenses:		
Amortization of deferred capital contributions related to capital assets (Note 12)	\$ 4,092,807	\$ 4,094,112
Amortization of capital assets (Note 12)	(4,263,314)	(4,245,250)
Gain (loss) on disposal of capital assets	114,179	(11,064)
	<u>\$ (56,328)</u>	<u>\$ (162,202)</u>
Net change in investment in capital assets:		
Purchase of capital assets	\$ 3,186,656	\$ 5,780,854
Amounts funded by:		
Deferred contributions	(2,971,824)	(5,280,186)
Repayment of long-term debt	336,275	-
Proceeds from disposal of capital assets	(186,879)	(400)
	<u>\$ 364,228</u>	<u>\$ 500,268</u>

8. One-Time Operating Funding

One-time operating funding is recognized when the terms and conditions of the grants received are met. These grants are largely conditional on performing incremental activity. The related expenses would not be incurred if the funding was not received.

	2009	2008
Nursing late career strategy funding	\$ -	\$ 53,824
Nursing new graduate strategy funding	249,794	147,635
Cataract wait time strategy funding	123,800	99,700
CT wait time strategy funding	115,000	60,000
MRI wait time strategy funding	336,700	-
Systemic chemotherapy funding	-	32,000
Cancer surgery funding	121,492	95,920
Colonoscopy funding	14,400	128,000
Wait time improvement funding	-	10,000
Critical care training funding	23,000	-
ONA lump sum payment reimbursement funding	-	371,998
Growth funding	-	39,006
Geriatric Emergency Management program funding	22,171	-
Health Outcomes for Better Information and Care funding	(4,298)	21,106
	<u>\$ 1,002,059</u>	<u>\$ 1,059,189</u>

Northumberland Hills Hospital

Notes to the Financial Statements

March 31, 2009

9. Separately Funded Programs - Other Votes

The Ministry separately funds the operating expenses of the programs listed below. The arrangement provides that any surplus arising from each program's actual operating results for the year is refundable to the Ministry; however, any deficit arising from each program's actual operating results for the year is not recoverable from the Ministry and is included in the Hospital's expenses. The surplus recoverable for the Community Mental Health Program of \$68,898 (2008 - \$308,254) is included in accounts payable and accrued liabilities.

	2009	2008
Funding		
Community Mental Health Program	\$ 2,415,274	\$ 2,084,819
Lakeshore Diabetes Education Program	364,858	355,197
Municipal Taxes	<u>11,850</u>	<u>11,850</u>
	<u><u>\$ 2,791,982</u></u>	<u><u>\$ 2,451,866</u></u>
Expenses		
Community Mental Health Program	\$ 2,415,274	\$ 2,084,819
Lakeshore Diabetes Education Program	364,858	355,197
Municipal Taxes	<u>11,850</u>	<u>11,850</u>
	<u><u>\$ 2,791,982</u></u>	<u><u>\$ 2,451,866</u></u>

10. Separately Funded Programs - Priority Programs

The Hospital operates a dialysis program as a satellite of the Peterborough Regional Health Centre. Ministry funding of this program is separately provided to the Hospital by the Peterborough Regional Health Centre. Any deficit arising from this program is not recoverable from the Ministry and is absorbed by the Hospital.

	2009	2008
Funding		
Expenses	\$ 2,296,907 <u>2,396,728</u>	\$ 2,482,022 <u>2,710,704</u>
Deficit absorbed by the Hospital	<u><u>\$ (99,821)</u></u>	<u><u>\$ (228,682)</u></u>

11. Patient Revenue and Medical Remuneration

a. Patient Revenue	2009	2008
Hospital On-Call Coverage Program	\$ 1,140,932	\$ 1,114,730
Emergency Alternate Funding Agreement	2,406,753	2,280,227
OHIP professional and technical fees	<u>4,855,466</u>	<u>4,018,061</u>
Total provincial transfer funding for physicians	8,403,151	7,413,018
Other patient revenue	546,098	444,351
Total patient revenue	<u>\$ 8,949,249</u>	<u>\$ 7,857,369</u>

Northumberland Hills Hospital

Notes to the Financial Statements

March 31, 2009

11. Patient Revenue and Medical Remuneration (continued)

b. Medical Remuneration	2009	2008
Hospital On-Call Coverage Program	\$ 1,130,932	\$ 1,114,730
Emergency Alternate Funding Agreement	2,382,582	2,244,884
OHIP professional fees	<u>3,733,367</u>	<u>2,934,770</u>
Total provincial transfer payments to physicians	7,246,881	6,294,384
Other medical remuneration paid by the Hospital	<u>1,040,533</u>	<u>939,729</u>
Total medical remuneration	<u>\$ 8,287,414</u>	<u>\$ 7,234,113</u>

12. Amortization

a. Amortization of Deferred Capital Contributions	2009	2008
Amortization of deferred capital contributions related to capital assets:		
Major equipment and software licences	\$ 2,649,373	\$ 2,683,432
Buildings	<u>1,443,434</u>	<u>1,410,680</u>
	<u>4,092,807</u>	<u>4,094,112</u>
Amortization of deferred capital contributions related to interest expense for hospital construction:		
Interest	<u>73,199</u>	<u>86,827</u>
	<u>73,199</u>	<u>86,827</u>
	<u>\$ 4,166,006</u>	<u>\$ 4,180,939</u>
b. Amortization of Capital Assets	2009	2008
Major equipment and software licences	\$ 2,804,937	\$ 2,797,292
Land improvements	11,668	3,044
Buildings and building service equipment	<u>1,446,709</u>	<u>1,444,914</u>
	<u>\$ 4,263,314</u>	<u>\$ 4,245,250</u>

Northumberland Hills Hospital

Notes to the Financial Statements

March 31, 2009

13. Gain (Loss) on Disposal of Capital Assets

	2009	2008
Gain on sale of former hospital premises	\$ 146,154	\$ -
Loss on disposal of capital assets	<u>\$ (31,975)</u>	<u>\$ (11,064)</u>
	<u><u>\$ 114,179</u></u>	<u><u>\$ (11,064)</u></u>

The Hospital sold the former hospital premises on September 17, 2004. As part of the conditions of sale, the Hospital took back a second mortgage in the amount of \$146,154 plus interest at 6.0% per annum. This mortgage principal and interest was originally payable on maturity at September 10, 2007 but last year, the Hospital granted an extension of the maturity date. The conditions of the mortgage have now been fulfilled and receipt of the mortgage principal and interest is expected in May 2009. The estimated amount of interest receivable to March 31, 2009 is \$13,715 (received in 2008 - \$26,337), which is included in revenue.

14. Restructuring Costs

To meet its obligations under the Hospital Service Accountability Agreement with the CE LHIN, on March 26, 2009, the Board of Directors of the Hospital approved the 2009/10 operating plan. Included in that operating plan were restructuring strategies to reduce the Hospital's operating deficit in future years. This restructuring plan includes costs associated with early retirement allowances, potential severance costs, professional fees, and community engagement.

15. Contingent Liabilities

a. Potential Claims

The nature of the Hospital's activities is such that there is usually litigation pending or in prospect at any time. With respect of claims at March 31, 2009 management believes the Hospital has valid defenses and appropriate insurance coverages in place. In the event any claims are successful, management is of the opinion that such claims will not have a material effect on the Hospital's financial position.

b. Health Insurance Reciprocal of Canada ("HIROC")

A group of health care organizations, ("subscribers"), including the Hospital, make up HIROC. HIROC is licensed as a reciprocal pursuant to Part XIII of the *Insurance Act* (Ontario) which permits persons to form groups to insure each other against all recognized hazards of hospital operations. The Act requires that reciprocals maintain an excess of cash over liabilities of a specified amount and provides further that, in the event of a deficiency, the subscribers shall be assessed to make up such deficiency. No such assessments have ever been made by HIROC during the time the Hospital has been a subscriber.

Northumberland Hills Hospital

Notes to the Financial Statements

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16. Commitments

The Hospital is committed to a minimum of annual lease payments relating to separately funded programs (note 9) under various property and vehicle leases to the end of the lease term as follows:

	2009	2008
2009		135,411
2010	130,071	136,398
2011	130,071	136,398
2012	36,774	39,460

17. Guarantees

In the normal course of business, the Hospital enters into agreements that may contain guarantees. The Hospital's significant outstanding guarantees include:

- a. Indemnity is provided to all directors and/or officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Hospital. The maximum amount of any potential future obligation cannot be reasonably estimated.
- b. In the normal course of business, the Hospital enters into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Hospital from making an estimate of the maximum exposure owing to the difficulties in assessing the amount of liability from unpredictable future events as well as from the unlimited coverage offered to counterparties. Historically, the Hospital has not made any significant payments nor are any currently anticipated under such or similar agreements. Therefore, no amount has been accrued with respect of these agreements.

Northumberland Hills Hospital

Notes to the Financial Statements

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18. Northumberland Hills Hospital Foundation

The Northumberland Hills Hospital Foundation (the Foundation), which raises funds for the Hospital, is a separate corporate entity and disburses funds at the discretion of its own Board of Directors. The accounts of the Foundation have not been included in these financial statements. In addition to donations made for capital purchases of \$2,551,574 (2008 - \$4,925,015), the foundation donated \$NIL (\$2008 - \$5,073) towards non-capital items including education and minor equipment, which is included in revenue. Transactions for reimbursement of salaries, benefits and other expenses in the amount of \$259,241 (2008 - \$275,672) are recorded on a cost recovery basis.

19. Adoption of New Accounting Standards

(a) Inventories

Effective April 1, 2008, the Hospital adopted the new accounting standards for inventories in accordance with the Canadian Institute of Chartered Accountants ("CICA 3031") Handbook Section 3031, *Inventories*, which provides new guidance on the recognition, measurement and disclosure of inventories. The recognition and measurement changes include the requirement to measure inventories at the lower of cost and net realizable value, the use of the specific cost method for inventories and the review of previous write-down to net realizable value, if any, when there is a subsequent increase in a value of inventories. The adoption of this section did not have a material effect on the Hospital's financial statements for the year ended March 31, 2009. The Hospital retrospectively adopted the CICA 3031 requirements without restatement.

(b) Capital Disclosures

Effective April 1, 2008, the Hospital adopted the CICA Handbook Section 1535, *Capital Disclosures*, which establishes standards for disclosing information about an entity's capital and how it is managed. Adoption of these recommendations had no effect on the financial statements for the year ended March 31, 2009.

(c) Financial Instruments

On December 31, 2006, the CICA issued new accounting standards: Handbook Section 3862, *Financial Instruments - Disclosures*, and Handbook Section 3863, *Financial Instruments - Presentation*. These standards were expected to be effective for the Hospital's financial statements for the year ended March 31, 2009. However, in December 2008, the CICA eliminated the requirement for not-for-profit entities to adopt these standards. The Hospital has continued to disclose and present financial instruments under Handbook Section 3861, *Financial Instruments - Disclosure and Presentation* for the year ended March 31, 2009.

Northumberland Hills Hospital

Notes to the Financial Statements

March 31, 2009

20. Future Accounting Standards

The CICA has issued the following new accounting standards that will come into effect for the Hospital's fiscal year beginning April 1, 2009: *Amendments to Accounting Standards that Apply Only to Not-For-Profit Organizations*.

In September 2008, the CICA issued amendments to the existing accounting standards applicable to not-for-profit organizations. The amendments affect the financial statement presentation and disclosure requirements for not-for-profit organizations.

The Hospital is currently assessing the impact of these new accounting standards on future financial statements.

21. Comparative Figures

Certain 2008 amounts have been restated to conform with the current year presentation.