Northumberland Hills Hospital

Financial Statements

For the year ended March 31, 2017

Contents

KPMG LLP
863 Princess Street, Suite 400
Kingston ON K7L 5N4
Canada
Telephone 613-549-1550
Fax 613-549-6349

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Northumberland Hills Hospital

We have audited the accompanying financial statements of Northumberland Hills Hospital, which comprise the statement of financial position as at March 31, 2017, the statements of revenue and expenses, changes in net assets (deficiency) 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 the Northumberland Hills Hospital as at March 31, 2017, its results of operations, its changes in net assets (deficiency), its cash flows and the remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 8, 2017

Kingston, Canada

Northumberland Hills Hospital

Statement of Financial Position

As at	March 31, 2017	March 31, 2016
Assets		
Current assets		
Cash	$ **2,278,347**	$ 2,380,064
Accounts receivable, net of allowance for doubtful accounts (Note 2)	**3,794,765**	2,036,960
Inventories	**976,314**	855,896
Prepaid expenses	**916,410**	959,207
	7,965,836	6,232,127
Capital assets (Note 3)	**45,792,575**	47,956,416
	$ **53,758,411**	$ 54,188,543
Liabilities and Net Assets (Deficiency)		
Current liabilities		
Accounts payable and accrued liabilities	$ **4,377,288**	$ 4,402,095
Accrued salaries and benefits	**4,484,708**	4,716,442
Deferred Revenue	**126,000**	-
Current portion of accrued employee benefit liability (Note 5)	**330,300**	305,100
	9,318,296	9,423,637
Long-term liabilities		
Accrued employee benefit liability (Note 5)	**4,365,800**	4,238,300
Deferred capital contributions (Note 6)	**44,846,199**	46,514,679
	49,211,999	50,752,979
	58,530,295	60,176,616
Contingent liabilities (Note 10)		
Commitments (Note 11)		
Net Assets (Deficiency)	**(4,771,884)**	(5,988,073)
	$ **53,758,411**	$ 54,188,543

Approved by the Board of Directors

Director

Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

Northumberland Hills Hospital

Statement of Revenue and Expenses

For the year ended March 31	2017	2016
Revenue		
Base operating funding	$ 43,003,697	$ 40,838,152
Interim long-term care funding (recovery)	-	(2,311)
One-time operating funding	1,973,765	3,503,439
Separately funded programs - other votes	3,905,921	3,915,573
Separately funded programs - satellite renal program	1,697,557	1,872,125
Patient revenue	10,493,009	10,345,061
Differential and co-payment revenue	1,600,988	1,553,632
Other revenue	3,394,764	3,211,840
Amortization of deferred capital contributions related to major equipment and software licences (Note 7)	2,328,551	2,200,846
	68,398,252	67,438,357
Expenses		
Salaries and wages	28,713,394	28,135,716
Employee benefits	7,135,622	7,088,510
	35,849,016	35,224,226
Medical remuneration	9,059,851	9,024,411
Medical and surgical supplies	2,320,662	2,284,157
Drugs and medical gases	2,499,121	3,086,153
Supplies	2,913,263	2,979,804
Equipment and maintenance	3,147,168	2,867,164
Professional fees	624,935	876,059
Referred out contracted services	1,496,524	1,359,656
Interest (Note 4)	10,272	34,526
Sundry	764,851	729,713
Separately funded programs - other votes	3,905,921	3,915,573
Separately funded programs - satellite renal program	1,806,725	1,879,446
Amortization of major equipment and software licences (Note 7)	2,505,681	2,311,825
	66,903,990	66,572,713
Excess of revenue over expenses before the undernoted	1,494,262	865,644
Gain (Loss) on disposal of capital assets	20,344	(59,224)
Restructuring activities (Note 8)	(234,509)	(792,500)
Amortization of deferred capital contributions related to land improvements, buildings and building service equipment (Note 7)	1,448,849	1,502,691
Amortization of land improvements, buildings and building service equipment (Note 7)	(1,512,757)	(1,513,803)
Interest on long term debt	-	(1,960)
Excess of revenue over expenses (Note 9)	$ 1,216,189	$ 848

Northumberland Hills Hospital

Statement of Changes in Net Assets (Deficiency)

For the year ended March 31	2017	2016
Net assets (Deficiency), beginning of year	$ (5,988,073)	$ (5,988,921)
Excess of revenue over expenses	1,216,189	848
Net assets (Deficiency), end of year	$ (4,771,884)	$ (5,988,073)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

Northumberland Hills Hospital

Statement of Cash Flows

For the year ended March 31	2017	2016
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses	$ 1,216,189	$ 848
Adjustment for items which do not affect cash		
Amortization of deferred capital contributions (Note 7)	(3,777,400)	(3,703,537)
Amortization of capital assets (Note 7)	4,018,438	3,825,628
Gain (Loss) on disposal of capital assets	(20,344)	59,224
Post-retirement employee benefits expense for year (Note 5)	457,800	458,100
	1,894,683	640,263
Net increase (decrease) in non-cash working capital	(1,965,967)	1,910,905
	(71,284)	2,551,168
Financing activities		
Decrease in long-term debt	-	(183,403)
Payments for post-retirement employee benefits (Note 5)	(305,100)	(252,400)
	(305,100)	(435,803)
Capital activities		
Proceeds from disposal of capital assets	14,641	900
Purchase of capital assets	(1,859,534)	(1,232,892)
Donations and capital grants (Note 6)	2,119,560	1,265,313
	274,667	33,321
Increase (decrease) in cash	(101,717)	2,148,686
Cash at beginning of year	2,380,064	231,378
Cash at end of year	$ 2,278,347	$ 2,380,064

Northumberland Hills Hospital

Summary of Significant Accounting Policies

Year ended March 31, 2017

Accounting Standards

On April 1, 2012, the Hospital adopted Canadian public sector accounting standards. The Hospital has also elected to apply the 4200 standards for government not-for-profit organizations.

Revenue Recognition

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.

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.

Revenue from the Ontario Health Insurance Plan, preferred accommodation and marketed services is recognized when the goods are sold or the service is provided.

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

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 debt incurred for assets under construction are capitalized until the asset is placed in service.

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.

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%
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 (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the 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 expected average remaining service life to retirement of the active employees covered by the other retirement benefits plan is 12 years (2016 - 12 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 Healthcare of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for the Plan because insufficient information is available to apply defined benefit plan accounting principles. Contributions to the multi-employer defined benefit plan are expenses when due.

Financial Instruments

Financial instruments are recorded at fair value on initial recognition. Financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has not elected to subsequently carry financial instruments at fair value.

Long term debt is recorded at cost.

Use of Estimates

In preparing the financial statements in accordance with Canadian public sector accounting standards, 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.

Statement of Remeasurement Gains and Losses

A statement of remeasurement gains and losses has not been provided as there are no significant unrealized gains or losses at March 31, 2017.

Northumberland Hills Hospital

Notes to the Financial Statements

Year ended March 31, 2017

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, Cancer Care Ontario and/or CE LHIN as the primary funding source for operating activities. This year, provincial funding was equivalent to 88% of the total operating revenue (2016 - 89%).

2. Accounts Receivable

	March 31, 2017	March 31, 2016
Accounts receivable	$ 3,819,844	$ 2,056,345
Less allowance for doubtful accounts	(25,079)	(19,385)
	$ 3,794,765	$ 2,036,960

3. Capital Assets

	March 31, 2017		
	Cost	Accumulated Amortization	Net Book Value
Land and land improvements	$ 1,309,148	$ 231,646	$ 1,077,502
Buildings and building service equipment	57,908,812	19,598,827	38,309,985
Equipment	34,652,219	29,037,727	5,614,492
Software licences and related costs	4,258,000	3,467,404	790,596
	$ 98,128,179	$ 52,335,604	$ 45,792,575

	March 31, 2016		
	Cost	Accumulated Amortization	Net Book Value
Land and land improvements	$ 1,309,148	$ 214,151	$ 1,094,997
Buildings and building service equipment	57,750,058	18,103,564	39,646,494
Equipment	33,751,174	27,218,318	6,532,856
Software licences and related costs	3,850,209	3,168,140	682,069
	$ 96,660,589	$ 48,704,173	$ 47,956,416

4. Bank Operating Line of Credit

The Hospital has an unsecured bank operating line of credit of $4.5 million at March 31, 2017 ($4.5 million at March 31, 2016) at the lender's prime rate less 0.75% . This arrangement is reviewed annually with the bank.

Interest expense incurred during the year on the operating line of credit was $10,272 (2016 - $34,526).

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 March 31, 2015. 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	3.00%	per annum
Discount rate for disclosure at end of period	3.20%	per annum
Dental benefits cost escalation	3.75%	per annum
Medical benefits cost escalation - extended health care	7.00%	in 2016; decreasing by 0.25% per annum to an ultimate rate of 4.75%

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

	2017	2016
Current service cost	$ 298,900	$ 301,600
Interest on accrued employee benefits	144,800	132,000
Amortization of actuarial losses	14,100	24,500
	$ 457,800	$ 458,100

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

	2017	2016
Accrued employee benefit liability, beginning of year	$ 4,543,400	$ 4,337,700
Expense for the year	457,800	458,100
Employee benefits paid for the year	(305,100)	(252,400)
Accrued employee benefit liability, end of year	4,696,100	4,543,400
Less current portion	(330,300)	(305,100)
	$ 4,365,800	$ 4,238,300

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

	2017	2016
Accrued employee benefit obligation	$ 4,720,700	$ 4,679,900
Unamortized actuarial losses	(24,600)	(136,500)
Accrued employee benefit liability	$ 4,696,100	$ 4,543,400

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:

	2017	2016
Capital contributions received in year from:		
Northumberland Hills Hospital Foundation (note 13)	$ 1,724,099	$ 938,902
Northumberland Hills Hospital Auxiliary	210,000	200,000
Ministry of Health and Long-Term Care	56,250	5,254
Cancer Care Ontario	-	842
Central East Local Health Integration Network	-	-
Other	129,211	120,315
	2,119,560	1,265,313
Less amortization of deferred capital contributions (Note 7)	(3,777,400)	(3,703,537)
Less amounts related to capital assets disposed of in year	(10,640)	(3,836)
Decrease in year	(1,668,480)	(2,442,060)
Balance at beginning of year	46,514,679	48,956,739
Balance at end of year	$ 44,846,199	$ 46,514,679

7. Amortization

a. Amortization of Deferred Capital Contributions related to:

	2017	2016
Major equipment and software licences	$ 2,328,551	$ 2,200,846
Land improvements, buildings and building service equipment, and interest for hospital construction	1,448,849	1,502,691
	$ 3,777,400	$ 3,703,537

b. Amortization of Capital Assets

	2017	2016
Major equipment and software licences	$ 2,505,681	$ 2,311,825
Land improvements, buildings and building service equipment	1,512,757	1,513,803
	$ 4,018,438	$ 3,825,628

Northumberland Hills Hospital

Notes to the Financial Statements

Year ended March 31, 2017

8. Restructuring Activities

Restructuring costs include expenditures related to employee severances and early retirement allowances. These costs are a result of the Hospital's approved operating and service plans that include balanced budget strategies, resulting in restructuring activities.

	2017	2016
Restructuring accrual at beginning of year	$ (748,368)	$ -
Restructuring costs paid in year	832,046	44,132
Restructuring accrual at end of year	150,831	748,368
Net restructuring activities	$ 234,509	$ 792,500

9. Excess of Revenue over Expenses

In 2016/2017, the LHIN determined the Hospital did meet the requirements of the Working Capital Assistance funding program in 2015/2016. The third and final instalment of $422,900 was received in 2016/2017 and funds were used to pay down existing debt. This funding was restricted in its usage to reducing the Hospital's working capital deficit and was not general revenue for regular hospital expenditures. For further clarity, the Hospital achieved an excess of revenue over expenses of $1,216,189 comprised of a surplus from regular hospital operations of $793,289 plus the Working Capital Assistance funding of $422,900.

10. 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, 2017, 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.

11. Commitments

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

	2017	2016
2018	$ 218,135	$ 191,751
2019	$ 230,308	$ 203,925
2020	$ 242,482	$ 216,098
2021	$ 216,098	$ 216,098
2022	$ 108,049	$ 108,049

12. 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.

13. 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. The Foundation has reimbursed the Hospital for salaries, benefits and other expenses incurred by the Foundation in the amount of $311,364 (2016 - $312,778), which are recorded on a cost recovery basis. In addition to contributions provided to the Hospital for capital equipment needs (Note 6), the Foundation contributed funds in the amount of $126,000 (2016 - $NIL) towards the Hospital's World of Mental Health and Wound Care Programs. Accounts Receivable includes $1,446,212 from the Foundation as at March 31, 2017.

14. Financial Risks and Concentration of Credit Risk

a. Credit Risk

Credit risk refers to the risk that a counterpart may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to the accounts receivable.

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance of doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2017 is the carrying value of these assets.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the statement of revenue and expense. Subsequent recoveries of impairment losses related to accounts receivable are credited to the statement of revenue and expenses. The balance of the allowance for doubtful accounts at March 31, 2017 was $25,079 (2016 - $19,385).

As at March 31, 2017 $341,810 (2016 - $316,164) of trade accounts receivable were past due, but not impaired.

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.

c. Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates will affect the Hospital's income or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing return on investment.

d. Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Hospital to cash flow interest rate risk.

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

15. Comparative Figures

Certain 2016 amounts have been restated to conform with the current year presentation.