### Hanover and District Hospital Financial Statements For the year ended March 31, 2012

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### **Independent Auditor's Report**

### To the Members Hanover and District Hospital

We have audited the accompanying financial statements of Hanover and District Hospital, which comprise the balance sheet as at March 31, 2012, and the statements of operations, changes in net assets, and cash flows for the year then ended, and 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 generally accepted accounting principles, 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.

### **Auditor's 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 Hanover and District Hospital as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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Chartered Accountants, Licensed Public Accountants

Hanover, Ontario May 22, 2012

# Hanover and District Hospital Balance Sheet

March 31	 2012	 2011
Assets		
Current Cash (Note 1) Due from Ontario Ministry of Health and Long Term Care Accounts receivable Inventory Prepaid expenses	\$ 2,645,059 52,075 294,676 27,670 223,693	\$ 1,969,147 219,273 251,166 30,372 225,490
	3,243,173	2,695,448
Investments held for capital purposes (Note 2)	4,876,993	4,670,764
Property and equipment (Note 3)	 5,874,626	 6,363,037
	\$ 13,994,792	\$ 13,729,249
Liabilities and Net Assets		
Current Accounts payable and accrued liabilities	\$ 1,621,972	\$ 2,178,050
Employee future benefits liability (Note 4)	439,400	402,200
Deferred contributions (Note 5)	 1,451,757	1,432,945
	 3,513,129	 4,013,195
Contingencies (Note 9)		
Net Assets Invested in property and equipment Unrestricted	 4,422,869 6,058,794	5,036,492 4,679,562
	 10,481,663	9,716,054
	\$ 13,994,792	\$ 13,729,249
On behalf of the Board:		
Director		
Director		

# Hanover and District Hospital Statement of Changes in Net Assets

For the year ended March 31			2012	2011
	 Invested in Property and Equipment	 Unrestricted	 Total	 Total
Balance, beginning of year	\$ 5,036,492	\$ 4,679,562	\$ 9,716,054	\$ 9,462,410
Excess of revenue over (under) expenses for the year	(781,599)	1,547,208	765,609	253,644
Investment in property and equipment, net	 167,976	 (167,976)	 •	-
Balance, end of year	\$ 4,422,869	\$ 6,058,794	\$ 10,481,663	\$ 9,716,054

# Hanover and District Hospital Statement of Operations

For the year ended March 31	2012	2011
Revenue  Ministry of Health and Long Term Care (Page 7)  Other (Page 7)	\$ 15,374,245 2,239,310	\$ 15,072,445 2,046,931
	17,613,555	17,119,376
Expenses		0.040.050
Salaries and wages	8,006,668	8,043,359
Medical staff remuneration	2,187,659	2,134,134
Employee benefits	2,063,118	2,180,533 2,876,956
Supplies and other expenses	2,950,269 478,203	402,234
Medical and surgical supplies	476,203 170,454	234,074
Drug expense	9,123	7,001
Bad debts	770,371	788,208
Amortization of equipment  Loss on disposal of property and equipment	, , 0,0,1	3,154
Other votes - taxes	7,500	7,500
	16,643,365	16,677,153
Excess of revenue over expenses	070 100	440 000
before building amortization	970,190	442,223
Amortization of land improvements and building	(269,259)	(262,183)
Amortization of deferred contributions for land improvements and building	64,678	73,604
Excess of revenue over expenses for the year	\$ 765,609	\$ 253,644

# Hanover and District Hospital Schedule of Operating Revenue

For the year ended March 31	 2012	2011
Ministry of Health and Long Term Care Revenue Ministry allocation Special purpose funding Municipal tax grant Alternate payment plan Hospital On Call Coverage (HOCC)	\$ 13,164,400 297,290 7,500 1,404,908 500,147	\$ 12,931,300 287,245 7,500 1,331,812 514,588
	\$ 15,374,245	\$ 15,072,445
Other Revenue Income from patient activities Accommodation charges Donations Amortization of deferred contributions Marketed services Investment income Other	\$ 1,078,112 219,290 48,451 193,353 319,528 226,873 153,703	\$ 1,048,140 206,876 26,312 206,609 293,257 171,366 94,371
	\$ 2,239,310	\$ 2,046,931

# Hanover and District Hospital Statement of Cash Flows

For the year ended March 31	 2012	 2011
Cash provided by (used in)		
Operating activities  Excess of revenue over expenses for the year Items not involving cash	\$ 765,609	\$ 253,644
Amortization of property and equipment Change in employee future benefits liability Amortization of discount on investments	1,039,630 37,200 (206,229)	1,050,390 53,000 (159,896)
Amortization of discount on investments  Amortization of deferred contributions  Loss on disposal of property and equipment	 (258,031)	 (280,212) 3,154
	1,378,179	920,080
Changes in non-cash working capital balances (Note 8)	 (427,892) 950,287	220,308 1,140,388
Investing activities  Acquisition of property and equipment  Grants and donations for property and equipment	 (551,218) 276,843 (274,375)	 (946,582) 199,400 (747,182)
Net increase in cash and cash equivalents during the year	675,912	393,206
Cash and cash equivalents, beginning of year	 1,969,147	1,575,941
Cash and cash equivalents, end of year	\$ 2,645,059	\$ 1,969,147

### March 31, 2012

### Nature and Purpose of Organization

The Hanover and District Hospital is incorporated without share capital under the laws of the Province of Ontario. The hospital is principally involved in providing health services to the Hanover area.

Under the Health Insurance Act and the 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. These financial statements reflect agreed funding arrangements approved by the Ministry with respect to the year ended March 31, 2012.

The hospital is a registered charity under the Income Tax Act and, as such, is exempt from income tax and may issue income tax receipts to donors.

### Basis of Accounting and Presentation

The financial statements have been prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

The financial statements do not include the assets, liabilities and activities of related volunteer organizations which are not operated by the hospital.

### **Use of Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and 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 management's best estimates as additional information becomes available in the future. Use of estimates primarily relates to property and equipment and post-employment benefits.

### March 31, 2012

#### **Financial Instruments**

The hospital's financial instruments consist of cash, accounts receivable, investments held for capital purposes, and accounts payable. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.

All transactions related to financial instruments are recorded on a trade date basis.

### Held-for-trading

This category is comprised of cash. It is carried in the balance sheet at fair value with changes in fair value recognized in the income statement. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

### Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to customers (accounts receivable), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

#### Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity and comprises certain investments in debt securities. These assets are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to held-to-maturity investments are expensed as incurred.

#### Other financial liabilities

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprises trade payables and other short-term monetary liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

### March 31, 2012

### **Revenue Recognition**

The hospital follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. 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. Endowment contributions are recognized as direct increases in net assets.

Other revenue is recognized when earned, as services are rendered or as products are delivered. The amount of the revenue must be fixed or determinable and collectibility reasonably assured.

### **Capital Contributions**

Restricted contributions received by the hospital for the purchase of property and equipment are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired assets.

### Contributed Materials and Services

Contributed materials and services which are used in the normal course of the hospital's operations and would otherwise have been purchased are recorded at their fair value at the date of contribution if fair value can be reasonably estimated.

#### **Contributed Services**

Volunteers contributed approximately 4,753 hours (2011 - 4,664 hours) to assist the hospital in carrying out its service delivery activities. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

#### Inventories

Inventories are valued at the lower of average cost and replacement value.

### Property and Equipment

Purchased property and equipment are recorded at cost. Contributed property and equipment are recorded at fair value at the date of contribution. Where fair value cannot be reasonably determined, contributed assets are recorded at a nominal amount. Amortization is provided on a straight line basis over the assets' estimated useful lives, which for buildings is 50 years and for equipment is 5-15 years.

#### Renovations

The cost of renovations to the hospital building which significantly increase its useful life and capacity are capitalized as part of the cost of the related capital asset. Renovation costs to adapt the hospital building to changed operating conditions or to maintain operating efficiency are recorded as an expense in the period they are incurred.

### March 31, 2012

### Employee Future Benefits

The hospital provides post-employment health, dental and life insurance benefits to eligible retired employees. The accrued benefit obligation for these benefits is actuarially determined using the projected benefit method prorated on service, and incorporates management's best estimate of salary escalation, retirement ages of employees, and expected benefit costs.

Actuarial gains and losses in a year are combined with the unamortized balance of gains and losses from prior years. The portion of the total that exceeds ten percent of the accrued benefit obligation is amortized over the average remaining service period of the active employees. Past service costs arising from plan amendments are amortized over the future years of service of active employees.

Defined contribution plan accounting is applied to the hospital's multiemployer defined benefit pension plan. Contributions for current and past service costs are expensed in the year in which they become due.

### Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and bank balances. All investments held for capital purposes are treated as investing activities.

### March 31, 2012

### 1. Cash

Cash consists of bank deposits that are held at one chartered bank. The accounts earn interest at a rate of bank prime less 2% on balances up to \$3,000,000 and bank prime less 1.75% on balances over \$3,000,000, payable monthly.

### 2. Investments Held for Capital Purposes

**2012** 2011 **\$ 4,876,993 \$ 4,670,764 \$ 5,252,224 \$ 4,811,261** 

Marketable securities

Fair value

Marketable securities are comprised of investment certificates and government debt securities and bonds that mature in fiscal years 2013 to 2024, with an effective interest rate of 4.3% (2011 - 4.4%). Interest is receivable annually and at maturity. The fair value of the investments was determined by reference to public price quotations in an active market.

Maturity profile at March 31, 2012

		thin /ear	Over 1 to 5 years	Over 5 years	14.1
Bonds and guaranteed investment certificates	\$ 400,	421 \$	5 2,457,624	\$ 3,333,831	\$ 6,191,876

### March 31, 2012

### 3. Property and Equipment

	 ···.		2012	 	 2011
	 Cost		cumulated nortization	Cost	 ccumulated mortization
Land Land improvements Building and building	\$ 403,132 880,779	\$	436,380	\$ 403,132 880,779	\$ - 396,717
service equipment Equipment	 6,784,335 8,509,528	<del></del>	3,950,306 6,316,462	6,529,389 8,404,655	3,720,710 5,737,491
	\$ 16,577,774	\$	10,703,148	\$ 16,217,955	\$ 9,854,918
Net book value		\$	5,874,626		\$ 6,363,037

The carrying value of property and equipment not being amortized because they are under construction, development, or have been removed from service is \$48,403 (2011 - \$31,505).

### March 31, 2012

### 4. Employee Future Benefits

#### Pension Plan

Substantially all of the employees of the hospital are eligible to be members of the Hospitals of Ontario Pension Plan, which is a multi-employer final average pay contributory pension plan. The contributions to the plan during the year totalled \$623,118 (2011 - \$667,460) and are included in employee benefits on the statement of operations.

### Other Benefits

The hospital provides post-employment health care, dental and life insurance benefits to eligible retired employees. The hospital's liability at March 31 for this plan is as follows:

	 2012	2011	
Accrued benefit obligation Unamortized experience gain (loss) Unamortized past service cost	\$ 446,800 182,000 (189,400)	\$ 288,900 201,700 (88,400)	
Employee future benefits liability	\$ 439,400	\$ 402,200	

During 2012, the cost sharing arrangements of the plan were amended pursuant to two collective bargaining agreements. These plan amendments resulted in an increase of \$149,200 in the accrued benefit obligation and the unamortized past service costs as at April 1, 2011.

In measuring the hospital's accrued benefit obligation, a discount rate of 5.25% was assumed to determine the accrued benefit obligation and a discount rate of 5.25% was assumed to determine the benefit cost. For extended health care costs, a 5% annual rate of increase was assumed and, for dental costs, a 4% annual rate of increase was assumed. The most recent actuarial valuation was prepared as at March 31, 2011. Actual results could differ from this estimate as additional information becomes available in the future.

Other information about the hospital's plan is as follows:

	 2012	 2011
Expense for the year	\$ 37,200	\$ 53,000

### March 31, 2012

### 5. Deferred Contributions Related to Property and Equipment

Deferred contributions related to property and equipment represent restricted contributions with which hospital assets have been purchased. The change in the deferred contributions balance for the period is as follows:

	2012			2011		
Balance, beginning of year	\$	1,432,945	\$	1,513,757		
Contributions received		276,843		199,400		
Amortization		(258,031)		(280,212)		
Balance, end of year	\$	1,451,757	\$	1,432,945		

### 6. Related Party Transactions

Hanover and District Hospital Foundation

Hanover and District Hospital exercises significant influence over Hanover and District Hospital Foundation by virtue of its ability to appoint some of the Foundation's board of directors. The Foundation was established to raise funds for the use of the hospital, is incorporated without share capital under the laws of the Province of Ontario, and is a registered charity under the Income Tax Act.

Hanover and District Hospital Auxiliary

The Hanover and District Hospital Auxiliary is a volunteer organization affiliated with the Hanover and District Hospital and is engaged in a wide range of services for the betterment of the hospital. The organization periodically transfers funds to the hospital.

The following contributions and recoveries were received or receivable during the year:

	2012			2011		
Hanover & District Hospital Foundation Hanover & District Hospital Auxiliary	\$	209,571 24,389	\$	196,029 25,526		

### March 31, 2012

### 7. Capital Management

For the purposes of capital management, the hospital has defined capital as its net asset balance. The hospital's objective with respect to capital management is to maintain a sufficient net asset balance to fund current and future hospital operations.

The Ministry of Health and Long-Term Care has created regional Local Health Integration Networks (LHIN) that are responsible for the funding and organization of health care services. Hanover and District Hospital has negotiated a Hospital Service Accountability Agreement for the 2012 fiscal year with the South West LHIN. This agreement requires the submission of budgets and sets out performance standards, including maintaining a current ratio between 0.8 and 2.0.

### 8. Statement of Cash Flows

The change in non-cash working capital balances is made up as follows:

	 2012	<del></del>	2011
Decrease (increase) in accounts receivable Decrease (increase) in inventory Decrease (increase) in prepaid expenses Increase (decrease) in accounts payable	\$ 123,688 2,702 1,797 (556,079)	\$	(130,179) 29,692 (58,632) 379,427
	\$ (427,892)	\$	220,308

### 9. Contingent Liability

Hanover and District Hospital has entered into an agreement with Healthcare Insurance Reciprocal of Canada (HIROC), a reciprocal insurance company licensed under the Insurance Act, (Ontario). HIROC provides insurance coverage on a pooling basis to its subscribers. Hanover and District Hospital is liable for its proportionate share of any assessment for losses experienced by the pool during each policy year that it is a subscriber.

### March 31, 2012

### 10. Comparative Amounts

Amounts presented for 2011 for comparative purposes have been reclassified to conform with the current year presentation.