

THE McCAUSLAND HOSPITAL

FINANCIAL STATEMENTS

March 31, 2011

Contents

Auditors' Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6-13

Calam Ruscio Rossi

CHARTERED ACCOUNTANTS LLP

ALEXANDER B. CALAM, CA, PARTNER

JOSEPH A. RUSCIO, CA, PARTNER

ANTHONY S. ROSSI, CA, PARTNER

229 GREAT NORTHERN ROAD

SAULT STE. MARIE, ONTARIO

P6B 4Z2

TEL: (705) 949-1221

FAX: (705) 949-1225

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

The McCausland Hospital

Report on the Financial Statements

We have audited the accompanying financial statements of The McCausland Hospital, which comprise the statement of financial position as at March 31, 2011 and the statement of operations, statement of changes in net assets and statement of 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 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, 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 The McCausland Hospital as at March 31, 2011 and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Calam Ruscio Rossi,
Chartered Accountants LLP
June 8, 2011

THE McCAUSLAND HOSPITAL

(Incorporated without share capital under the laws of the Province of Ontario)

STATEMENT OF FINANCIAL POSITION

As at March 31,	2011 \$	2010 \$
ASSETS		
Current		
Cash - Restricted	-	235,700
Unrestricted	293,790	208,019
Accounts receivable	253,131	183,338
Inventory of supplies [note 10]	91,667	93,869
Prepaid expenses	94,340	50,036
	732,928	770,962
Recoverable employee benefits	13,385	35,186
Capital Assets [note 5]		
Land, buildings and equipment	17,199,220	9,246,800
Less accumulated amortization	7,808,027	7,563,105
	9,391,193	1,683,695
	10,137,506	2,489,843
LIABILITIES		
Current		
Accounts payable and accrued liabilities	1,650,344	678,060
Deferred operating contributions	21,112	-
Current portion of conditional sales contract/obligation [note 7]	2,450	7,617
	1,673,906	685,677
Obligation under capital lease [note 7]	2,613	2,613
Line of Credit	1,458,571	-
Long Term Borrowings	2,000,000	-
	3,461,184	2,613
Deferred contributions related to capital assets [note 8]	4,754,921	1,436,018
Employee Future Benefits [note 13]	200,078	193,879
NET ASSETS		
Investment in capital assets [note 6]	1,205,990	473,826
Unrestricted	(1,158,573)	(302,169)
	47,417	171,656
	10,137,506	2,489,843

Commitments [note 15]

Approved on behalf of the Board

Governor

Governor

THE McCAUSLAND HOSPITAL

STATEMENT OF OPERATIONS

Year ended March 31,	2011 \$	2010 \$
REVENUE		
Ministry of Health and Long-Term Care		
Current allocation	4,869,993	4,777,257
Other Programs	1,725	1,725
HOCC Funding	170,945	160,742
Patient services	471,117	459,546
Interest	33	460
Ancillary rentals	34,910	40,637
Amortization of deferred capital contribution - equip and Inform systems	83,593	102,959
Other Revenue [note 11]	357,345	490,505
	5,989,661	6,033,831
EXPENDITURES		
Medical Staff Remuneration	227,143	226,516
Nursing	1,469,299	1,413,225
Other patient care services	633,630	634,781
Administrative	507,503	532,236
Support services	779,585	757,437
Employee benefits	852,727	823,987
Medical and surgical supplies	53,804	63,376
Drugs	67,093	78,452
Nursing and other patient care supplies	431,150	445,000
Medical Service Supplies/Expense	5,673	4,338
Aging at Home Program (CSS)	68,465	65,318
Meals on Wheels program/Home Maintenance	79,640	78,736
Northern Diabetes Health Network program	-	11,829
Handi Transit	53,821	52,703
Administrative supplies and services	239,980	245,946
Nutrition food and supplies	105,553	108,165
Fuel	61,160	77,768
Electricity and water	92,316	93,408
Maintenance supplies and services	97,728	88,032
Supportive services	41,927	45,295
Ancillary services	43,436	56,923
Bad debts	6,208	3,437
Amortization of major equipment/software	166,387	172,188
	6,084,228	6,079,096
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES BEFORE THE FOLLOWING	(94,567)	(45,265)
AMORTIZATION OF DEFERRED CAPITAL CONTRIBUTION LAND IMPROVEMENT & BUILDING	48,864	69,012
AMORTIZATION OF BUILDING AND PAVING	(78,535)	(133,121)
	(124,238)	(109,374)

THE McCAUSLAND HOSPITAL

(Incorporated without share capital under the laws of the Province of Ontario)

STATEMENT OF CHANGES IN NET ASSETS

March 31, 2011			2011	2010
	Investment in Capital Assets \$	Unrestricted \$	Total \$	Total \$
Balance at beginning of year	281,029	(109,374)	171,655	281,029
Excess of revenue over expenses (expenses over revenue)	(112,464)	(11,774)	(124,238)	(109,374)
Net change in investment in capital assets [note 6]	1,037,425	(1,037,425)	-	-
	1,205,990	(1,158,573)	47,417	171,655

THE MCCAUSLAND HOSPITAL**STATEMENT OF CASHFLOWS**

Year ended March 31,	2011	2010
OPERATING ACTIVITIES		
Deficiency of revenue under expenditures	\$ (124,238)	\$ (109,374)
Items not requiring cash from operations		
Amortization	244,921	305,309
Amortization of deferred capital contributions	(132,457)	(171,971)
Employee future benefits	28,000	21,603
Change in non-cash operational balances (Note 4)	881,501	175,944
Cash provided by (used in) operating activities	\$ 897,727	221,512
INVESTMENT ACTIVITIES		
Additions to property, plant and equipment	(7,952,420)	(454,326)
FINANCING ACTIVITIES		
Proceeds from long term debt	3,458,570	-
Repayment of long term debt	(5,167)	(75,000)
Funding for property plant and equipment		
Ministry of Health and Long Term Care	2,348,635	319,002
Other funding sources	1,102,726	4,975
Cash provided by (used in) financing activities	6,904,764	248,977
Increase (decrease) in cash during year	(149,929)	16,163
Cash, beginning of year	443,719	427,556
Cash, end of year	\$ 293,790	\$ 443,719

THE McCAUSLAND HOSPITAL

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

Purpose of the Organization

The McCausland Hospital (the Hospital) is principally involved in providing health care services to the Townships of Terrace Bay and surrounding region of Northwestern Ontario.

The Hospital is incorporated under the Provincial Corporations Act as a not-for-profit organization and is a registered charity under the Income Tax Act. Accordingly, the Hospital is not subject to income taxes.

1. Summary of significant accounting policies

Financial instruments -

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics.

Held for trading -

Financial assets and financial liabilities that are acquired or incurred principally for the purpose of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value based on market prices, with the change in fair value recognized in net income for the period. The Hospital has classified cash as held for trading.

Loans, receivables and other liabilities -

Loans, receivables and other liabilities are stated at amortized cost using the effective interest rate method. The Hospital has classified accounts receivable, accounts payable and accruals and due to Foundation as loans, receivables and other liabilities.

The carrying value of accounts receivable and accounts payable and accruals approximates its fair value due to the immediate or short-term maturity of these financial instruments.

Unless otherwise noted, it is management's opinion that the Hospital is not exposed to significant interest, currency or credit risks arising from its financial instruments.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of supplies inventory is determined on a first-in, first-out basis. Cost of pharmacy inventory is determined on a weighted average cost-basis.

Capital assets and amortization -

Purchased capital assets are recorded at cost and contributed assets are valued at their fair market value at the time of contribution. The cost of major replacements and improvements to capital assets are capitalized and the cost of maintenance and repairs are expensed when incurred.

The amortization of the capital assets is recorded annually with a corresponding reduction in investment in capital assets. All assets are amortized over their estimated useful lives using the straight-line basis at the following annual rates:

THE McCAUSLAND HOSPITAL

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

1. Summary of significant accounting policies (continued)

Buildings		
Ambulance, ancillary and hospital	-	4%
Service equipment	-	5%
Equipment		
Ancillary	-	5%
Hospital	-	5% - 33%
Information systems	-	20%
Paving	-	4%

Leased assets and amortization -

Assets under capital lease have been recorded as if the Hospital had acquired the assets through debt financing. Amortization is provided on a straight-line basis at an annual rate of:

Equipment	-	20%
-----------	---	-----

Lease payments are divided between a reduction of the recorded obligation and interest on the capital lease obligations.

Asset impairment -

The Hospital monitors events and changes in circumstances which may require an assessment of the recoverability of its long-lived assets. If required, the Hospital would assess recoverability using estimated undiscounted future operating cash flows. If the carrying amount of an asset is not recoverable, an impairment loss is recognized in operations, measured by comparing the carrying amount of the asset to its fair value.

Revenue -

The Hospital follows the deferral method of accounting for revenue received. Under this method, externally restricted contributions for operations are recognized as revenue in the year in which the related expenses are incurred. Funds externally restricted for the purchase of capital assets are recognized as revenue in an amount equal to the annual amortization of the related assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can reasonably be estimated and collection is reasonably assured. Revenue from the Provincial Insurance Plan, preferred accommodation, and marked services is recognized when the goods are sold or the service is provided.

Contributed materials and services -

The Hospital does not recognize the receipt of contributed materials and services.

Compensated absences -

Compensation expense is accrued for all employees as entitlement to these payments is earned, in accordance with the benefit plans of the Hospital.

THE McCAUSLAND HOSPITAL

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

1. Summary of significant accounting policies (continued)

Employee future benefits -

The Hospital provides extended health care, dental and life insurance benefits to substantially all employees, with the exception of the Ontario Nurses Association Union, and accrues its obligations under employee benefit plans and the related costs. The cost of retirement benefits earned by employees is actuarially determined using the project benefit method pro-rated on service from management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Use of estimates -

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. By their nature, these estimates are subject to measurement uncertainty and actual results could differ. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Capital disclosures -

CICA Handbook Section 1535, Capital Disclosures, establishes disclosure requirements about an entity's capital objectives, policies, and process for managing capital. This new disclosure is provided in note 17. The adoption of this standard did not have a material impact on the financial statements.

2. Disclosure of allocated expenses by Not-For-Profit Organizations

Effective April 1, 2009, the Hospital adopted the CICA Handbook Section 4470, Disclosure of Allocated Expenses by Not-For-Profit Organizations, which establishes disclosure standards for entities that choose to classify their expenses by function and allocate expenses from one function to another. Adoption of these recommendations had no effect on the financial statements for the year ended March 31, 2011.

3. Amendments to Section 1000, Financial Statement Concepts:

Effective April 1, 2009, the Hospital adopted the CICA amendments to Section 1000 of the CICA Handbook. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching revenue and expense items. Adoption of these recommendations had no effect on the financial statements for the year ended March 31, 2011.

THE McCAUSLAND HOSPITAL

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

4. Change in Non-Cash Operational Balances

	<u>2011</u>	<u>2010</u>
Accounts Receivable	(69,793)	17,652
Inventory	2,202	(787)
Prepaid Expenses	(44,304)	12,480
Accounts Payable and Accruals	972,284	146,599
Deferred Operating Contributions	21,112	-
	<u><u>\$ 881,501</u></u>	<u><u>\$ 175,944</u></u>

5. Capital Assets

	<u>2011</u>			<u>2010</u>
	<u>Cost</u>	<u>Accumulated</u>	<u>Net</u>	<u>Net</u>
	<u>\$</u>	<u>Amortization</u>	<u>\$</u>	<u>\$</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Land	1		1	1
Paving	402,455	402,455	-	-
Buildings				
Hospital	4,056,484	3,828,252	228,232	189,375
Ancillary	207,073	207,073	-	-
Service equipment	929,200	297,922	631,278	652,751
Ambulance equipment	-	-	-	8,520
Major equipment				
Hospital	3,172,247	2,778,869	393,378	400,030
Information systems	342,530	274,317	68,213	28,286
Software	-	-	-	68,762
Ancillary	19,139	19,139	-	-
Building under construction	335,970	-	335,970	-
	<u>9,465,099</u>	<u>7,808,027</u>	<u>1,657,072</u>	<u>1,347,725</u>
Construction in Progress	<u>7,734,121</u>	-	<u>7,734,121</u>	335,970
	<u><u>17,199,220</u></u>	<u><u>7,808,027</u></u>	<u><u>9,391,193</u></u>	<u><u>1,683,695</u></u>

The building under construction relates to the Long-Term Care wing addition. The cost will not be amortized until the construction is complete and the Long-Term Care wing is available for use.

THE McCAUSLAND HOSPITAL

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

6. Investment in Capital Assets

(a) Investment in capital assets:

	2011	2010
	\$	\$
Capital assets at net book value	9,391,193	1,683,695
Amounts financed by -		
Deferred capital contributions less unexpended portion	(4,721,569)	(1,209,869)
Long-term Debt	(3,463,634)	-
	<u>1,205,990</u>	<u>473,826</u>

(b) Change in net assets invested in capital assets:

	2011	2010
	\$	\$
Deficiency of revenues over expenditures:		
Amortization of deferred contributions	132,457	171,971
Amortization of capital assets	(244,921)	(305,309)
	<u>(112,464)</u>	<u>(133,338)</u>
Net change in capital assets:		
Purchase of capital assets	7,952,420	454,325
Amounts funded by -		
Deferred capital contributions		
Utilized to purchase capitals assets during the year	(3,451,252)	(323,977)
Unexpended during the year	(109)	-
Long-term debt	(3,463,634)	-
	<u>1,037,425</u>	<u>130,348</u>

7. Obligation under Capital Lease

Under the terms of the equipment lease expiring February 2013, the Hospital is committed to make annual lease payments as follows:

2012	3,084
2013	3,082
	<hr/>
Total minimum lease payments	6,166
Less interest portion	(1,103)
Principal portion of lease obligations	<u>5,063</u>
Current portion	(2,450)
	<hr/>
	<u>\$ 2,613</u>

The interest rate implicit in the lease is 15.96% per annum

THE McCAUSLAND HOSPITAL

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

8. Deferred Capital Contributions

Deferred capital contributions represent current and prior fiscal years' funding expended for the purchase of capital assets. These capital contributions are realized as the related capital assets are amortized.

	Donation	LTC Land/Bldg	Government	Prov Grants	Other	2011 Net	2010 Net
	\$	\$	\$	\$	\$	\$	\$
Balance at beginning of year	192,016	-	917,192	315,587	11,223	1,436,018	1,284,012
Received during the year	-	1,102,726	2,345,635	3,000	-	3,451,361	323,977
Amortized during the year	(21,768)	-	(48,864)	(55,513)	(6,313)	(132,458)	(171,971)
	170,248	1,102,726	3,213,963	263,074	4,910	4,754,921	1,436,018

9. Deferred Capital Contribution

	2011			2010
	Government	Donations	Total	Total
Unamortized portion	\$ 4,551,321	170,248	\$ 4,721,569	\$ 1,209,869
Unexpended portion	33,352	-	33,352	226,149
	\$ 4,584,673	170,248	\$ 4,754,921	\$ 1,436,018

10. Inventory

	2011	2010
Pharmacy Inventory	17,006	29,071
Supplies Inventory	74,661	64,798
	91,667	93,869

11. Other Revenue

	2011	2010
Donations	\$ 1,710	\$ 85,700
Donations - other	550	1,582
Dietary recoveries	746	8,276
Handi Transit recovery	54,788	52,556
Aging at Home Grant and Fees (CSS)	62,430	68,540
Laundry Internal Recoveries	82,330	89,640
Meals on wheels grant and fees/Home Maint	70,846	67,596
Province of Ontario employment grants	1,578	7,889
Gov of Canada Seniors Project/donations	100	20
Northern Diabetes Health Network	-	11,829
Recoveries and Sundry recoveries	82,267	96,877
	\$ 357,345	\$ 490,505

THE McCAUSLAND HOSPITAL

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

12. Contingent liabilities

Employee fringe benefits -

The Hospital, together with five other regional hospitals, has a self-insured employee benefit plan for semi-private, dental and extended health care benefits. Under the terms of the plan, the Hospital will pay for certain employee benefit claims not exceeding \$5,000 per employee per year. Any excess claims would be insured.

13. Employee future benefits

At March 31, 2011, the Hospital's total accrued benefit obligation related to post retirement benefits plans (other than pension) is \$200,078 (2010 - \$193,879). The most recent actuarial was provided as at April 1, 2008.

The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit obligation are as follows:

Discount rate
Dental benefits cost escalation
Medical benefits cost escalation - extended health care

Included in employee benefits on the statement of operations is an amount of \$6,200 (2010 - \$6,200) regarding employee future benefits. This amount is comprised of:

	<u>2011</u>	<u>2010</u>
Additional benefit expenses	\$ 24,843	\$ 24,757
Estimated payments made by the Hospital during the year	<u>(18,643)</u>	<u>(18,557)</u>
	<u>\$ 6,200</u>	<u>\$ 6,200</u>

14. Economic Interest

The Hospital has economic interest in The McCausland Hospital - Terrace Bay - Schreiber - Rosspport Foundation. The Foundation's primary purpose is to raise funds from the public and business community to provide funds for the construction of the new Long-Term Care wing for the Hospital.

15. Commitments

Under the terms of equipment and maintenance leases, the Hospital is committed to make minimum monthly lease payments totalling \$64,695 per annum. The lease expiry dates range from March 2011 to December 2013.

THE McCAUSLAND HOSPITAL

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

16. Pension Plan

Most of the employees of the Hospital are members of the Hospital on Ontario Pension Plan (the Plan), participating members of the Ontario Hospital Association. Plan members will receive benefits based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement, termination or death, that provide the highest earnings.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing plan assets in trust and through the Plan investment policy.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. On January 1, 2011, the contribution rates were 6.9% (2010 - 6.9%) up to the year's maximum pensionable earnings (YMPE) and 9.2% (2010 - 9.2%) above the YMPE. The funding objective is for the employer contributions to the Plan to remain a constant percentage of employees' contributions. (The Hospital's portion of 1.26 of the employee's contribution).

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The most recent actuarial valuation of the Plan as at December 31, 2010 indicates the Plan is 101% funded. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to \$466,566 (2009/10 - \$436,974) and are included in the statement of operations.

17. Capital Management

The organization considers its capital to be its net assets, internally restricted and unrestricted. Its internally restricted net assets consists of amounts for future operations (See Note 8) and amounts invested in capital assets (see Note 6). The organization's objectives when managing its capital are to safeguard its ability to continue as a going concern so it can continue to provide services to and to allow for future expansion. Annual budgets are developed and monitored to ensure the organization's capital is maintained at an appropriate level.