Orillia Soldiers' Memorial Hospital

Financial Statements

For the year ended March 31, 2012

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Independent Auditor's Report

To the Directors of
Orillia Soldiers' Memorial Hospital

We have audited the accompanying financial statements of Orillia Soldiers' Memorial Hospital, which comprise the statement of financial position as at March 31, 2012, and the statement of changes in net assets, statement of operations 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 auditors' 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 Orillia Soldiers' Memorial 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.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
Orillia, Ontario
May 23, 2012

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Orillia Soldiers' Memorial Hospital
Statement of Financial Position

March 31	2012	Restated (Note 2) 2011
Assets		
Current		
Accounts receivable (Note 3)	**$ 4,955,083**	$ 6,269,935
Inventories and prepaid expenses	**2,251,015**	2,264,482
Current portion of loans receivable (Note 4)	**154,250**	165,000
	7,360,348	8,699,417
Loans receivable (Note 4)	**300,000**	150,000
Property, plant and equipment (Note 5)	**103,776,661**	107,062,329
	$111,437,009	$115,911,746
Liabilities and Deficit		
Current		
Bank overdraft	**$ 256,088**	$ 2,541,776
Bank indebtedness (Note 6)	**1,700,000**	7,450,000
Accounts payable and accrued liabilities	**22,300,308**	17,115,157
Due to Ministry of Health - PCOP funding (Note 7)	**3,903,124**	4,772,400
Deferred contributions (Note 8)	**3,505,167**	2,173,158
Deferred contributions - Departments (Note 9)	**212,806**	313,615
Current portion of obligations under capital leases (Note 10)	**82,493**	-
	31,959,986	34,366,106
Employee post-retirement benefits (Note 11)	**3,419,500**	2,841,400
Obligations under capital leases (Note 10)	**278,765**	-
Deferred contribution - government capital (Note 12)	**41,819,754**	43,882,594
Deferred contribution - O.S.M.H. Foundation (Note 13)	**16,597,920**	17,163,366
Deferred contribution - other capital grants (Note 14)	**22,906,921**	23,381,103
	116,982,846	121,634,569
Contingent liabilities (Note 15)		
Net Assets		
Invested in property, plant and equipment (Note 16)	**22,090,805**	22,635,266
Unrestricted	**(27,636,642)**	(28,358,089)
	(5,545,837)	(5,722,823)
	$111,437,009	$115,911,746

On behalf of the Board:

_____ Board Chair

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

Orillia Soldiers' Memorial Hospital
Statement of Changes in Net Assets

For the year ended March 31	Invested in property, plant and equipment (Note 16)	Unrestricted	2012	2011
Balance, beginning of year				
As previously stated	**$ 22,635,263**	**$ (28,358,086)**	**$ (5,722,823)**	$ (4,159,166)
Land donation - O.S.M.H.F. - 2010	**238,250**	**-**	**238,250**	-
Prior period adjustment (Note 2)	**-**	**-**	**-**	104,286
As restated	**22,873,513**	**(28,358,086)**	**(5,484,573)**	(4,054,880)
Excess (deficiency) of revenues over expenses for the year	**(1,978,589)**	**1,792,325**	**(186,264)**	(1,667,943)
Land donation - O.S.M.H.F. - 2012	**125,000**	**-**	**125,000**	-
Net Investment in property, plant and equipment	**1,070,881**	**(1,070,881)**	**-**	-
Balance, end of year	**$ 22,090,805**	**$ (27,636,642)**	**$ (5,545,837)**	$ (5,722,823)

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

Orillia Soldiers' Memorial Hospital
Statement of Operations

For the year ended March 31	2012	Restated (Note 2) 2011
Revenue		
Ministry of Health and Long Term Care (MOHLTC)	**$105,223,387**	$101,994,991
Patient services	**7,904,719**	8,120,445
Other revenue	**3,331,103**	2,969,383
Specifically funded programs (Note 18)	**5,071,000**	4,773,956
Amortization of deferred capital contributions (Notes 12, 13 & 14)	**1,946,891**	2,276,346
	123,477,100	120,135,121
Expenses		
Salaries and wages	**62,720,660**	61,051,886
Benefits contributions	**15,445,415**	15,789,350
Medical remuneration	**9,495,377**	8,678,850
Drugs	**4,550,967**	5,389,795
Medical and surgical supplies	**7,679,634**	7,615,924
Amortization of equipment	**3,220,862**	3,747,560
Other supplies and services	**14,694,827**	13,955,529
Specifically funded programs (Note 18)	**5,071,000**	4,773,956
	122,878,742	121,002,850
Excess (deficiency) of revenues over expenses before the following	**598,358**	(867,729)
Building and land improvements		
Amortization of deferred contributions (Notes 12, 13 & 14)	**2,321,785**	2,308,816
Amortization of property, plant and equipment	**(3,106,407)**	(3,109,030)
	(784,622)	(800,214)
Deficiency of revenues over expenses for the year	**$ (186,264)**	$ (1,667,943)

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

Orillia Soldiers' Memorial Hospital
Statement of Cash Flows

For the year ended March 31	2012	Restated (Note 2) 2011
Cash provided by (used in)		
Operating activities		
Deficiency of revenues over expenses for the year	**$ (186,264)**	$ (1,667,943)
Items not involving cash		
Amortization of property, plant and equipment	**6,327,269**	6,856,590
Amortization of deferred contributions	**(4,268,676)**	(4,585,162)
Loss on disposal of property, plant and equipment	**30,848**	-
Increase in employee future benefits	**578,100**	529,500
	2,481,277	1,132,985
Changes in non-cash working capital balances		
Accounts receivable	**1,314,855**	(911,547)
Inventories and prepaid expenses	**13,467**	257,281
Accounts payable and accrued liabilities	**5,185,151**	239,318
Deferred contributions	**1,332,009**	212,832
Due to MOHLTC	**(869,276)**	-
Deferred contributions - Departments	**(100,809)**	(219,836)
	9,356,674	711,033
Investing activities		
Purchase of property, plant and equipment (Note 5)	**(2,170,506)**	(1,780,797)
Decrease (increase) in physician loans	**(139,250)**	105,632
	(2,309,756)	(1,675,165)
Financing activities		
Repayment of capital lease obligation	**(73,580)**	-
Decrease in bank demand loan and bankers acceptance	**(5,750,000)**	(2,450,000)
Increase in deferred contributions	**1,062,350**	1,677,601
	(4,761,230)	(772,399)
Increase (decrease) in cash and cash equivalents during the year	**2,285,688**	(1,736,531)
Cash and cash equivalents, beginning of year	**(2,541,776)**	(805,245)
Cash and cash equivalents, end of year	**$ (256,088)**	$ (2,541,776)
Represented by		
Bank overdraft	**(256,088)**	(2,541,776)

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

Nature of Organization

Orillia Soldiers' Memorial Hospital was incorporated under the laws of Ontario in 1908. The hospital is principally involved in providing health care services to Orillia and the surrounding area. The hospital is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

Basis of Presentation

The financial statements of the Hospital are prepared in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

The financial statements do not include the assets, liabilities and activities of any related organizations such as the Foundation which, although related to the hospital, are not operated by it.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the year. The principal estimates used in the preparation of these financial statements are the determination of the liability for post-retirement benefits, estimated useful life of property, plant and equipment, and accrued liabilities. Actual results could differ from management's best estimates as additional information becomes available in the future.

Cash Equivalents

Cash and cash equivalents consist of cash on hand and bank balances (overdrafts).

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis.

Property, Plant and Equipment

Purchased property, plant and equipment are recorded at cost. Contributed property, plant and equipment are recorded at fair value at the date of contribution. Repair and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a property, plant or equipment no longer contributes to the hospital's ability to provide services, its carrying amount is written down to its residual value.

Amortization based on the estimated useful life of the asset is as follows:

Land improvements	- 5.0%	straight line basis
Buildings	- 2.5%	straight line basis
Building service equipment	- 10.0%	straight line basis
Furniture and equipment	- 10.0%	straight line basis

Employee Post-Retirement Benefits

The Hospital accrues its obligations under employee benefit plans and the related costs.

The cost of pensions and other future benefits is determined actuarially using the projected benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages of employees and health-care costs.

The current service cost for the period is equal to the actuarial present value of the benefits attributed to employees' services rendered in the period.

The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Actuarial gains or losses and adjustments arising from changes in estimates are recorded in the statement of operations in the year of determination.

Pension Plan

The hospital is an employer member of the Healthcare of Ontario Pension Plan (HOOPP), which is a multi-employer, defined benefit pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. The Hospital has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. The Hospital records as pension expense the current service cost, amortization of past service costs and interest costs related to the future employer contributions to the Plan for past employee service.

Impairment of Long Lived Assets

Assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be fully recoverable. The Hospital monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Hospital's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset.

Contributed Services

A substantial number of volunteers contribute a significant amount of their time to the hospital each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

Revenue Recognition

The hospital follows the deferral method of accounting for contributions which include donations and government grants.

Under the Health Insurance Act and Regulations thereto, the hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health. 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. These financial statements reflect agreed arrangements approved by the Ministry with respect to the year ended March 31, 2012.

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 property, plant and equipment are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related property, plant and equipment.

Financial Instruments

The Hospital classifies its financial instruments into one of the following categories based on the purpose for which the financial instrument was acquired. The Hospital's accounting policy for each category is as follows:

Assets or liabilities held-for-trading

Financial instruments classified as assets or liabilities held-for-trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in the statement of operations or externally restricted reserve fund, as appropriate, in the period during which the change occurs. Transaction costs are expensed when incurred.

The Hospital has classified its cash (bank indebtedness) as held for trading.

Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method. Interest income or expense is included in the statement of operations over the expected life of the instrument. Transaction costs are expensed when incurred.

The Hospital has classified its accounts receivable and loans receivable as loans and receivables. The Hospital has classified its accounts payable and accrued liabilities and due to MOHLTC as other financial liabilities.

New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the Hospital, are as follows:

Accounting Standards for Not-for-Profit Organizations (NPO)

In December 2010, the Accounting Standards Board (AcSB) and Public Sector Accounting Board (PSAB) issued new standards for not-for-profit organizations (NPOs) as follows:

For government (public sector) NPOs they have a choice of:

1. Public Sector Accounting standards with the current series of NPO-specific standards added with some minor changes; or

2. Public Sector Accounting standards.

The Boards require NPOs to adopt their respective standards for year ends beginning on or after January 1, 2012; early adoption is allowed. Until the date of transition to the new standards, all NPOs will continue to follow the current Canadian Institute of Chartered Accountants Handbook – Accounting Part V – Pre-Changeover Standards.

1. Economic Dependence/Continuance of Operations

The Hospital's primary source of funding comes from the Ministry of Health and the Local Integration Network. The Hospital is economically dependent on these agencies as it receives 94% (2011 - 92%) of its revenue from them.

The Hospital has a working capital deficit of $27 million (2011 - $28 million). The accompanying financial statements have been prepared on the basis that the Hospital will continue as a going concern.

The Hospital's ability to continue providing services is dependent on improving cash flow by achieving costs savings and efficiencies. Management will continue to perform benchmarking exercising and detailed financial analysis to obtain operational efficiencies and general cost reductions.

2. Prior Period Error Correction

During the year it was discovered that the Ministry of Health and Long-Term Care, as of March 31, 2012, has not fulfilled their share of the costs relating to the redevelopment project at the Hospital. The Ministry has placed a hold on the remaining funds, until such time as the contingent liability (Note 15) can be resolved by all parties. The Hospital is still entitled to receive $2,383,847 from the Ministry to complete their funding obligation. This amount had not been previously accrued. The project was substantially completed in July 2008 at which time the remaining cost sharing receivable should have been accrued.

As a result, the Hospital has been depreciating the corresponding assets without recognizing the related revenue, and therefore understating revenue. The financial statement components restated by this change include accounts receivable, deferred contributions, and amortization of deferred contributions and net assets at March 31, 2011.

The effect on the comparative figures of the correction of this error resulted in an increase of accounts receivable of $2,383,847, an increase in deferred contributions of $2,219,969, a decrease in opening net assets invested in property, plant and equipment of $2,219,969, an increase in opening unrestricted net assets of $2,383,847 and an increase in amortization of deferred contributions of $59,592.

3. Accounts Receivable

	2012	Restated (Note 2) 2011
Ontario Ministry of Health and Long Term Care	**$ 2,785,246**	$ 3,889,303
Insurers and patients	**1,083,407**	1,420,868
O.S.M.H. Foundation (Note 19)	**305,210**	406,497
Other	**781,220**	553,267
	$ 4,955,083	6,269,935

4. Loans Receivable

	2012	2011
Physician loans receivable, principal only repayable three years from commencement, loans are due from 2012 to 2015.	**$ 454,250**	$ 315,000
Less: Current portion	**154,250**	165,000
	$ 300,000	$ 150,000

5. Property, Plant and Equipment

	2012		2011	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 3,807,627**	**$ -**	$ 3,682,627	$ -
Land improvements	**2,514,854**	**1,435,086**	2,498,765	1,316,847
Buildings	**111,902,187**	**26,911,874**	111,493,793	24,203,888
Building service equipment	**3,841,483**	**2,406,450**	3,827,739	2,115,202
Furniture and equipment	**55,309,505**	**42,845,585**	53,518,504	40,323,162
	$177,375,656	**$ 73,598,995**	$175,021,428	$ 67,959,099
Net book value		**$103,776,661**		$107,062,329

During the year, property, plant and equipment were acquired at an aggregate cost of $2,605,344 (2011 - $1,778,366). Of this total, $434,838 (2011 - $-) of property, plant and equipment were acquired by means of direct financing, with the remaining $2,170,506 (2011 - $1,778,366) paid in cash. As well the hospital received a donation comprised of land and building from O.S.M.H.F. at fair market value of $465,000 ($125,000 in land; $340,000 in building).

6. Bank Indebtedness

	2012	2011
Bank demand loan, interest at prime less 0.065%	**$ 1,700,000**	$ 2,450,000
Bankers acceptance, interest at 1%	**-**	5,000,000
	$ 1,700,000	$ 7,450,000

The Hospital has arranged a credit facility of $10,000,000 with a bulge of $7,000,000 from February 17, 2012 to April 30, 2012 for a total of $17,000,000. The bulge amount was made upon the received comfort letter from the LHIN confirming that the LHIN will be advancing a minimum of $10,000,000 in April of 2012. The amount is unsecured and the Bank can demand repayment and/or cancel the availability of the credit facility at any time at its sole discretion.

7. Post Construction Operating Plan (PCOP)

Post Construction Operating Plan (PCOP) funding was established by the Ministry of Health and Long Term Care (MOHLTC) for hospitals that expanded existing services or implemented new programs that will be delivered by a new or redeveloped facility. PCOP funding provides operating dollars to cover the costs of the new or expanded programs and services as well as for the additional space and equipment amortization. The Hospital has recognized revenue from the PCOP funding received, based on target volumes delivered as a result of expanded programs and services. In prior years while the hospital was under redevelopment PCOP funding was received before volume levels were achieved. These funds have been reported as a payable to MOHLTC in the financial statements.

Management of the Hospital is currently engaged in discussions with the Ministry on reconciling previous years' funded volume levels that were not achieved in fiscals 2007 and 2008. Also included in these discussions with the Ministry are the unfunded volume levels that were achieved by the Hospital in fiscals 2010 and 2011. At the date of the financial statements the collection of the unfunded amounts is unknown and has therefore not been recorded in the financial statements.

8. Deferred Contributions

Deferred contributions represent unspent resources externally restricted for specific programs received in the current and/or prior period that are related to a subsequent period.

	2012	2011
NSMLHIN - Hemodialysis program	**$ 962,979**	$ 295,783
NSMLHIN - RICN Funding	**-**	112,096
NSMLHIN - Emergency Department Process Improvement	**1,161,206**	484,970
NSMLHIN - Integrated Regional Falls Program	**205,557**	207,816
NSMLHIN - Senior Friendly Care Service Program	**458,493**	160,000
NSMLHIN - Health Infrastructure Renewal Fund	**235,442**	47,201
NSMLHIN - Decision Support Program	**-**	50,000
NSMLHIN - Children's Complex Care Program	**47,731**	153,379
NSMLHIN - Transitional Bed Fund	**-**	67,285
NSMLHIN - Other	**-**	153,098
Regional Kidney Care Program Quality Improvement Fund	**224,043**	276,556
Other	**209,716**	164,974
	$ 3,505,167	$ 2,173,158

9. Deferred Contributions - Departments

	2012	2011
Contributions received - current year		
Balance, beginning of year	**$ 313,615**	$ 533,451
Contributions received - other	**18,103**	14,558
Transferred for capital expenditures (Note 13)	**(25,514)**	(114,808)
Transferred for operating expenditures	**(93,398)**	(119,586)
	$ 212,806	$ 313,615

These contributions are externally restricted for expenditures within specific departments. The ending balance represents unspent funds available for future operating and capital expenditures.

10. Obligations Under Capital Lease

During the year the Hospital entered into a capital lease agreement related to endoscopy equipment. The lease agreement expires in fiscal 2016. Future minimum lease payments on capital leases expiring on or before April 2017 are as follows:

	2012	2011
2013	**$ 97,716**	$ -
2014	**97,716**	**-**
2015	**97,716**	-
2016	**97,716**	-
2017	**8,143**	-
Total minimum lease payments	**399,007**	**-**
Less interest at 5%	**37,749**	-
Present value of minimum lease payments	**361,258**	-
Less current portion	**82,493**	-
	$ 278,765	$ -

Interest expense related to the obligation under capital lease totalled $17,268 in 2012 (2011 - $nil).

11. Employee Post-retirement Benefits

The Hospital provides post-retirement extended healthcare and dental benefits to full-time members of the SEIU and post-retirement life insurance benefits to all employees. ONA and non-union employees have the extended healthcare and dental benefits available to them at their cost upon retirement. All of these benefits end at the earlier of member's death or at age 65. At March 31, 2012, the Hospital's accrued benefit liability relating to post-retirement benefit plans is $3,419,500 (2011 - $2,841,400) of which $248,600 (2011 - $202,000) is due in the next fiscal year.

Actuarial valuations for accounting purposes are performed triennially using the projected benefit method prorated on services. The most recent actuarial report was prepared at April 1, 2010. In interim periods, the accrued benefit obligation is estimated by management using the triennial valuation report as a base.

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

Discount rate	- 4.00%	(2011 - 5.50%) per annum
Dental benefits cost escalation	- 4.00%	(2011 - 4.00%) per annum
Extended healthcare cost escalation	- 9.00%	(2011 - 9.00%) decreasing by 0.50% per annum to an ultimate rate of 5.00% per annum

Included in benefits contributions in the statement of operations is an amount of $826,700 (2011 - $731,500) regarding accrued future benefits

a) The accrued non-pension liability is calculated as follows:

	2012	2011
Accrued benefit liability - beginning of year	**$ 2,841,400**	$ 2,311,900
Expense	**826,700**	731,500
Funding contributions	**(248,600)**	(202,000)
Accrued benefit liability - end of year	**$ 3,419,500**	$ 2,841,400

b) The non-pension benefit expense is calculated as follows:

	2012	2011
Accrual for services	**$ 338,000**	$ 269,400
Interest on accrued benefits	**275,900**	240,300
Actuarial (gains) losses during the period	**625,300**	1,071,100
ONA Award at April 1, 2011	**561,700**	-
Amortization of transitional obligation	**-**	67,600
Adjustment for experience (gains) losses	**(529,100)**	(977,300)
Adjustment for prior service cost	**(445,100)**	60,400
	$ 826,700	$ 731,500

11. Employee Post-retirement Benefits (continued)

c) Post-employment benefit liability:

	2012	2011
Accrued benefit obligation	**$ 6,295,800**	$ 4,743,500
Less:		
Experience losses (gains)	**(2,310,400)**	(1,781,300)
Past service costs	**(565,900)**	(120,800)
	$ 3,419,500	$ 2,841,400

12. Deferred Contributions - Government Capital

	2012	Restated (Note 2) 2011
Balance, beginning of year	**$ 43,882,594**	$ 46,140,512
Contributions received during the year	**69,200**	400,018
Amounts amortized to revenue	**(2,132,040)**	(2,553,650)
Prior period error correction	**-**	(104,286)
	$ 41,819,754	$ 43,882,594

The contributions listed above have been provided by the provincial government. They were used to fund building projects and equipment. The contributions are being amortized to revenue over the same period as the related building projects and equipment.

13. Deferred Contributions - O.S.M.H. Foundation

	2012	2011
Balance, beginning of year	**$ 17,163,366**	$ 17,110,535
Contributions received during the year	**960,475**	1,170,881
Transferred from deferred contributions (Note 9)	**25,514**	114,808
Transfer of property donated - 2010	**(238,250)**	-
Amounts amortized to revenue	**(1,313,185)**	(1,232,858)
	$ 16,597,920	$ 17,163,366

These contributions are externally restricted for the purchase of property, plant and equipment. All of the above contributions have been used to purchase property, plant and equipment as at March 31, 2012. The contributions are being amortized to revenue over the same period as the related property, plant and equipment. During the year the Foundation donated land at fair market value of $125,000 to the Hospital that has not been included as part of contributions received during the year.

14. Deferred contributions - Other Capital Grants

	2012	2011
Balance, beginning of year	**$ 23,381,103**	$ 24,187,863
Contributions received during the year	**356,035**	-
Amounts amortized to revenue	**(830,217)**	(806,760)
	$ 22,906,921	$ 23,381,103

The contributions listed above have been provided by various other levels of government. They were used to fund building projects and equipment. The contributions are being amortized to revenue over the same period as the related building projects and equipment.

15. Contingent Liabilities

Due to the nature of its operations, the hospital is periodically subjected to lawsuits in which the hospital is a defendant. In the opinion of management, the resolution of any current lawsuits and or grievances would not have a material effect on the financial position or results of operations as the hospital's exposure is minimal as the lawsuits and or grievances are within the limits of the hospital's insurance coverage.

During the course of the Redevelopment project for the hospital, certain subcontractors have made significant claims against the general contractor. The hospital has been included as a third party claimant. Both the amount of the loss, if any, and the likelihood of a future event confirming a loss are not determinable as of the date of these financial statements.

In the normal course of business, the hospital enters into agreements that meet the definition of a guarantee. The hospital's primary guarantees are as follows:

a. Indemnity has been 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 director's 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 director or officer of the hospital. The maximum amount of any potential future payment cannot be reasonably estimated.

b. In the normal course of business, the hospital has entered 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 a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of the liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the hospital has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the statement of financial position with respect to these agreements.

16. Investment in property, plant and equipment

	2012	Restated (Note 2) 2011
a) Net assets invested in property, plant and equipment		
Property, plant and equipment	**103,776,661**	107,062,329
Amounts financed by unamortized deferred contributions:		
- Governments (Note 12)	**(41,819,754)**	(43,882,594)
- O.S.M.H. Foundation (Note 13)	**(16,597,920)**	(17,163,366)
- Other Capital Grants (Note 14)	**(22,906,921)**	(23,381,103)
Amount financed by capital lease obligation	**(361,258)**	-
	$ 22,090,808	$ 22,635,266
b) Excess (deficiency) of revenues over expenses for the year		
Amortization of deferred contributions related to property, plant and equipment	**$ 4,268,676**	$ 4,585,162
Amortization of deferred contributions related to Amortization of property, plant and equipment	**(6,327,269)**	(6,856,590)
Amortization related to Specifically Funded Programs	**7,010**	8,108
Amortization of deferred contributions related to Specifically Funded Programs	**(586)**	(1,328)
Capital lease obligation repaid	**73,580**	-
	$ (1,978,589)	$ (2,264,648)
c) Net Investment in property, plant and equipment		
Purchases	**$ 3,070,343**	$ 1,782,126
Disposals	**(28,153)**	-
Funded by contributions received during year		
- O.S.M.H. Foundation - equipment (Note 13)	**(985,989)**	(1,285,689)
- Province and adjustments (Note 12)	**(69,200)**	(400,018)
- Province and others - redevelopment (Note 14)	**(356,035)**	-
- Capital lease financing	**(435,085)**	-
- O.S.M.H Foundation - land donated	**(125,000)**	-
Prior period error correction	**-**	(163,878)
	$ 1,070,881	$ (67,459)

17. Pension Plan

All full-time and certain part-time employees of the hospital are members of the Healthcare of Ontario Pension Plan which is a multi-employer defined benefit pension plan available to all eligible employees of the 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 Hospitals of Ontario Pension 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, together with the percentage of salary contributed by employees, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. HOOP provides services to more than 270,000 active and retired members and approximately 370 employers. Each year an independent actuary determines the funding status of the Plan by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan as at December 31, 2011 indicates the Plan is 103% (2011 - 101%) funded. The results of this valuation disclosed total actuarial liabilities of $36,782 (2011 - $34,897) million in respect of benefits accrued for service with actuarial assets at that date of $40,321 (2011 - $35,717) million indicating an actuarial surplus of $976 (2011 - $176) million. Because the plan is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario Hospital Association members and their employees. As a result, the Hospital does not recognize any share of the Plan surplus or deficit.

Employer contributions made to the Plan during the year by the hospital amounted to $4,949,829 (2011 - $4,924,622), of which $4,795,885 (2011 - $4,727,566) is included in benefits contributions expense and $153,944 (2011 - $197,056) is included in specifically funded programs expense in the statement of operations.

18. Specifically Funded Programs

The Hospital administers a number of programs which are separately funded. The revenues and expenses related to these programs are recorded separately from the base funding operations of the Hospital and any excess or deficiency of revenues over expenses is settled with the funding agencies on an annual basis.

	2012	2011
Community Mental Health & Addictions	**$ 1,656,464**	$ 1,660,149
CTN Occupational Therapy	**667,919**	668,972
Diabetic Education Centre	**801,042**	852,635
Simcoe - Occupational/Physiotherapy	**415,322**	391,433
MCSS Social Work program	**183,100**	161,253
Northern Diabetes Health Network	**97,071**	86,967
Northern Paediatric Diabetes	**446,521**	374,813
Diabetes Regional Co-ordinator	**640,464**	428,062
Asthma and Diabetes Camp	**-**	3,032
ORN Regional Co-ordinator	**133,097**	116,640
New Path Youth Assessment	**30,000**	30,000
	$ 5,071,000	$ 4,773,956

19. Related Party Transactions

During the year, the Hospital received contributions of $985,989 (2011 - $1,133,568) from the Orillia Soldiers' Memorial Hospital Foundation. In addition to contributions received, the Foundation also donated land and building with a fair market value of $125,000 and $340,000 respectively. The hospital has an economic interest in Orillia Soldiers' Memorial Hospital Foundation, but does not exercise control or significant influence over the day to day operations of the Foundation.

The Foundation was established to raise funds for the benefit of the Hospital. The Foundation is incorporated as a public foundation under the Ontario Corporations Act and is a registered charity under the Income Tax Act. The net resources of the Foundation are available to the Hospital for uses consistent with the intent of the donors and the objects of the Foundation at the discretion of the Foundation's Board of Directors.

The net assets and results from operations of the Foundation are not included in the statements of the Hospital.

20. Financial Instruments

a) Fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices as appropriate, in the most advantageous active market for that instrument to which the Hospital has immediate access.

The Hospital's financial instruments are comprised of cash (bank indebtedness), accounts receivable, loans receivable, accounts payable and accrued liabilities and amounts due to and from the Ministry of Health and Long-Term Care.

The carrying value of cash (bank indebtedness), accounts receivable, loans receivable, accounts payable and accrued liabilities and amounts due to and from the Ministry of Health and Long-Term Care approximates their fair values due to their short-term nature.

b) Risks arising from financial instruments

i) Credit Risk

The Hospital's cash and short-term debt are both held at a chartered bank. The Hospital's accounts receivable is made up of a large number of small balances from its patients and various government agencies. Management considers credit risk to be minimal as most of their receivables are being collected in a timely fashion.

ii) Interest Rate Risk

The Hospital manages its short-term debt based on its cash flow needs and with a view to minimizing its interest expense. The hospital is subject to interest rate risk on it's bank overdraft, which is subject to interest at prime less 0.065%.

21. Capital Disclosures

The Hospital considers its capital to be its total restricted and unrestricted net assets. At March 31, 2012 this totalled $(5,545,837) (2011 - $(5,722,823)). Its restricted net assets consist of amounts invested in property, plant and equipment and amounts internally restricted for specific purposes. The Hospital receives externally restricted subsidies from the Ministry of Health and Long Term Care for the delivery of specific programs. These funds are maintained and disbursed under the terms of the relevant funding restrictions and management is responsible for adhering to the provisions of these agreements.

In managing its capital, the Hospital's primary objectives are to safeguard its ability to continue as a going concern so it can continue to provide services to the residents of the City of Orillia and the surrounding area, and to allow for future expansion.

The Hospital maintains its capital by ensuring that annual operating budgets are developed and approved by the Board of Directors and the Ministry of Health and Long-Term Care based on known or estimated sources of funding available each year. These budgets are shared with all management of the hospital to ensure that the capital of the hospital is maintained at an appropriate level.

22. Comparative Amounts

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.