

Financial Statements of

**ORILLIA SOLDIERS'
MEMORIAL HOSPITAL**

Year ended March 31, 2016



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INDEPENDENT AUDITORS' 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, 2016, the statements of operations, changes in net assets 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 Orillia Soldiers' Memorial Hospital, as at March 31, 2016, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a long, horizontal, slightly curved line that underlines the text.

Chartered Professional Accountants, Licensed Public Accountants

May 31, 2016
Sudbury, Canada

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Statement of Operations

Year ended March 31, 2016, with comparative information for 2015
(In thousands of dollars)

	2016	2015
Revenue:		
North Simcoe Muskoka Local Health Integration		
Network/Ministry of Health and Long-Term Care (note 2)	\$ 109,710	109,667
Patient services	7,790	8,130
Other	4,801	3,955
Specifically funded programs (note 3)	3,312	3,120
Amortization of deferred capital contributions (note 4)	1,567	1,952
	<u>127,180</u>	<u>126,824</u>
Expenses:		
Salaries and wages	65,672	65,805
Benefits contributions	18,046	16,202
Medical staff remuneration	9,545	9,443
Drugs	3,963	3,506
Medical and surgical supplies	7,728	7,685
Amortization of equipment	3,349	3,369
Other supplies and services	14,429	14,662
Specifically funded programs (note 3)	3,312	3,120
	<u>126,044</u>	<u>123,792</u>
Excess of revenue over expenses from hospital operations	1,136	3,032
Working capital relief funding (note 5)	–	5,036
Excess of revenue over expenses before undernoted items	1,136	8,068
Amortization of property, plant and equipment	(3,354)	(3,394)
Amortization of deferred contributions (note 4)	2,298	2,340
Excess of revenue over expenses	\$ 80	7,014

See accompanying notes to financial statements.

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Statement of Financial Position

March 31, 2016, with comparative information for 2015
(In thousands of dollars)

	2016	2015
Assets		
Current assets:		
Cash	\$ 7,313	1,636
Short-term investment	–	1,500
Accounts receivable (note 6)	5,536	5,953
Inventories and prepaid expenses	2,258	2,554
	15,107	11,643
Property, plant and equipment (note 7)	102,493	98,858
	\$ 117,600	110,501
Liabilities and Net Assets		
Current liabilities:		
Current portion of bank indebtedness for capital expenditures (note 8)	\$ 345	97
Accounts payable and accrued liabilities (note 9)	15,455	10,958
Deferred contributions (note 10)	581	1,131
Current portion of obligations under capital leases (note 11)	198	275
	16,579	12,461
Bank indebtedness for capital expenditures (note 8)	4,206	3,279
Long-term obligations (note 12)	1,614	1,813
Employee post-retirement benefits (note 13)	5,783	5,561
Obligations under capital leases (note 11)	149	347
Deferred capital contributions (note 4)	76,856	74,707
Total liabilities	105,187	98,168
Internally restricted net assets (note 14)	12,413	12,333
Contingencies (note 15)		
	\$ 117,600	110,501

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Statement of Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015
(In thousands of dollars)

	Internally restricted (note 14)	Unrestricted	2016	2015
Net assets, beginning of year	\$ -	12,333	\$ 12,333	5,319
Excess (deficiency) of revenue over expenses	1,087	(1,007)	80	7,014
Net assets, end of year	\$ 1,087	11,326	12,413	12,333

See accompanying notes to financial statements.

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015
(In thousands of dollars)

	2016	2015
Cash flows from operating activities:		
Excess of revenue over expenses	\$ 80	7,014
Items not involving cash:		
Amortization of property, plant and equipment	6,703	6,763
Amortization of deferred capital contributions	(3,865)	(4,292)
Loss on disposal of property, plant and equipment	70	35
Increase in liability for employee post-retirement benefits	222	196
	<u>3,210</u>	<u>9,716</u>
Change in non-cash working capital balances:		
Decrease (increase) in accounts receivable	417	(21)
Decrease (increase) in inventories and prepaid expenses	296	(375)
Decrease (increase) in accounts payable and accrued liabilities	4,497	(5,262)
Decrease in deferred contributions	(550)	(202)
	<u>7,870</u>	<u>3,856</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(5,508)	(4,159)
Development of Emergency Medical Records project	(4,900)	(1,355)
Disposal (purchase) of short-term investment	1,500	(1,500)
Decrease in loans receivable	-	550
	<u>(8,908)</u>	<u>(6,464)</u>
Cash flows from financing activities:		
Payments on capital lease obligations	(275)	(262)
Increase (decrease) in long-term obligations	(199)	988
Increase in bank demand loan and bankers acceptance	1,175	323
Increase in deferred capital contributions	6,014	3,536
	<u>6,715</u>	<u>4,585</u>
Net increase in cash	<u>5,677</u>	<u>1,977</u>
Cash (bank overdraft), beginning of year	1,636	(341)
Cash end of year	<u>\$ 7,313</u>	<u>1,636</u>

See accompanying notes to financial statements.

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

The Orillia Soldiers' Memorial Hospital (the "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.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations.

(a) Revenue recognition:

The Hospital accounts for contributions, which include donations and government grants, under the deferral method of accounting.

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 and Long-term Care (the "Ministry") and the North Simcoe Muskoka Local Health Integration Network ("NSMLHIN"). 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 the subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the period in which the related expenses are recognized.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the straight-line basis at rates corresponding to those of the related capital assets.

Revenue from patient and other services is recognized when the service is provided.

(b) Inventories:

Inventories are stated at the lower of average cost and net realizable value. Cost comprises all costs to purchase, convert and any other costs in bringing the inventories to their present location and condition.

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

1. Significant accounting policies (continued):

(c) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Assets acquired under capital leases are initially recorded at the present value of the future minimum lease payments and amortized over the useful life of the assets. Minor equipment replacements are expensed in the year of replacement.

Construction in progress is not amortized until construction is complete and the facilities come into use.

Amortization is provided on the straight-line basis at the following range of annual rates:

Land improvements	5.0%
Buildings	2.5%
Building service equipment	5% - 20%
Furniture and equipment	5% - 20%

In the year of acquisition, amortization is pro-rated based on the date of service.

Long-lived assets, including capital assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Hospital uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statement of financial position.

(d) Related entities:

The notes to financial statements include information of the following entities (note 12):

Orillia Soldiers' Memorial Hospital Foundation ("OSMH Foundation")

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

1. Significant accounting policies (continued):

(e) Employee post-retirement 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 retirement ages of employees and expected health care costs.

Actuarial gains (losses) on the accrued benefit obligation arise from changes in 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 average remaining service period of the active employees covered by the employee benefit plan is 13 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 Health Care of Ontario Pension Plan (the "Plan"), which is a multi-employer, defined benefit pension plan. 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.

(f) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods specified. Significant items subject to such estimates and assumptions include the carrying amount of capital assets; valuation allowances for receivables, and inventories; valuation of financial instruments; and assets and obligations related to employee future benefits. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

(g) Funding adjustments:

The Hospital receives grants from the NSMLHIN and MOHLTC for specific services. Pursuant to the related agreements, if the Hospital does not meet specified levels of activity, the MOHLTC or NSMLHIN may be entitled to seek recoveries. Should any amounts become recoverable, the recoveries would be charged to operations in the period in which the recovery is determined to be payable. Should programs and activities incur a deficit, the Hospital records any recoveries thereon when additional funding is received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

1. Significant accounting policies (continued):

(h) Contributed services:

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

(i) Financial instruments:

All financial instruments are initially recorded on the statement of financial position at fair value.

All investments, if any, held in equity instruments that trade in an active market are recorded at fair value. Management has elected to record investments at fair value as they are managed and evaluated on a fair value basis. Freestanding derivative instruments that are not equity instruments that are quoted in an active market are subsequently measured at fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

All financial assets are assessed for impairment on an annual basis. Where a decline in fair value is determined to be other than temporary, the amount of the loss is recognized in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses. On sale, the statement of remeasurement gains and losses associated with that instrument are reversed and recognized in the statement of operations.

2. North Simcoe Muskoka Local Health Integration Network/Ministry of Health and Long-Term Care:

	2016	2015
MOHLTC/NSMLHIN	\$ 86,587	88,252
Ontario Renal Network	22,427	20,645
Cancer Care Ontario	696	770
	\$ 109,710	109,667

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Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

3. 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 revenue over expenses is settled with the funding agencies on an annual basis.

	2016	2015
Community Mental Health and Addictions	\$ 1,917	1,773
CTN Occupational Therapy	668	637
Simcoe – Occupational/Physiotherapy	516	487
MCSS Social Work program	211	211
New Path Youth Assessment	–	12
	\$ 3,312	3,120

4. Deferred capital contributions:

Deferred capital contributions represent the unamortized and unspent balances of donations and grants restricted for capital asset acquisitions. Details of the continuity of these funds are as follows:

	2016	2015
Balance, beginning of year	\$ 74,707	75,463
Contributions received during the year:		
OSMH Foundation	2,905	3,087
MOHLTC/NSMLHIN	3,109	449
	80,721	78,999
Less: Amounts amortized to revenue	(3,865)	(4,292)
Balance, end of year	\$ 76,856	74,707

The balance of unamortized and unspent funds consists of the following:

	2016	2015
Unamortized	\$ 73,085	72,720
Unspent:		
Capital projects	3,771	1,987
	\$ 76,856	74,707

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Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

5. Working capital relief funding:

In March 2013, the Hospital was advised that it was eligible for one-time working capital relief funding over three fiscal years to improve its adjusted working funds deficit position. The Hospital is eligible to receive these funds in three annual installments of \$5,036, provided that it meets certain conditions. The funding received is restricted in use to reducing the Hospital's working capital deficit and cannot be used to fund operating or capital expenditures.

6. Accounts receivable:

	2016	2015
MOHLTC/NSMLHIN	\$ 2,847	2,643
Insurers and patients	1,002	1,157
OSMH Foundation	718	1,198
Other	969	955
	\$ 5,536	5,953

7. Property, plant and equipment:

	2016		
	Cost	Accumulated Amortization	Net book Value
Land	\$ 3,808	–	3,808
Land improvements	3,091	1,979	1,112
Buildings	116,421	38,009	78,412
Building service equipment	6,841	3,866	2,975
Furniture and equipment	61,427	52,597	8,830
Work in progress	7,356	–	7,356
	\$ 198,944	96,451	102,493

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

7. Property, plant and equipment (continued):

	2015		
	Cost	Accumulated Amortization	Net book Value
Land	\$ 3,808	–	3,808
Land improvements	3,091	1,816	1,275
Buildings	115,107	35,212	79,895
Building service equipment	4,777	3,474	1,303
Furniture and equipment	59,970	49,895	10,075
Work in progress	2,502	–	2,502
	\$ 189,255	90,397	98,858

8. Bank indebtedness:

The Hospital has arranged for credit facilities which include the following:

- \$12 million credit facility available to fund operating requirements
- \$10 million credit facility available to fund capital expenditures
- \$2.703 million credit facility available to fund costs relating to the Hospital's Capital Redevelopment Project

The following amounts were outstanding under the Hospital's credit facilities.

Credit facility	Type of Indebtedness	Interest Rate	2016	2015
Capital - Redevelopment Project	Term loan	Prime less 0.25%	2,704	2,703
Capital - Other	Term loans	Prime less 0.25%	1,847	673
Less: Current portion of long-term obligations			(345)	(97)
			\$ 4,206	3,279

The term loans require monthly payments of approximately \$29 in principal and interest and will be repaid in July 2021.

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

9. Accounts payable and accrued liabilities:

	2016	2015
Accounts payable and accrued liabilities:		
- NSMLHIN, MOHLTC	\$ 1,228	1,292
- Other	6,698	1,918
Payroll accruals:		
- salaries and wages	1,890	3,234
- vacation pay and other entitlements	5,639	4,514
	\$ 15,455	10,958

10. Deferred contributions:

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

	2016	2015
Hemodialysis program	\$ 109	664
Integrated Regional Falls Program	13	13
Senior Friendly Care Service Program/Maternal & Youth	82	90
CCC Assess and Restore	12	12
Other	365	352
	\$ 581	1,131

11. Obligations under capital leases:

	2016	2015
Capital lease obligation, bearing interest at 5.00%, expiring 2016	\$ 9	104
Capital lease obligation, bearing interest at 4.59%, expiring 2018	108	166
Capital lease obligation, bearing interest at 4.59%, expiring 2018	192	290
Capital lease obligation, bearing interest at 5.75%, expiring 2018	38	62
	347	622
Less current portion	(198)	(275)
	\$ 149	347

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

11. Obligations under capital leases (continued):

Future minimum lease payments are as follows:

	2016	2015
2016	\$ –	328
2017	238	238
2018	171	171
	409	737
Less: interest included in lease payments	(62)	(115)
Present value of future minimum lease payments	\$ 347	622

12. Long-term obligations:

Included in this balance are amounts owing for various pay-equity settlements beyond the next fiscal year. The current portion relating to this obligation is included in accounts payable and accrued liabilities.

Payments on these long-term obligations are as follows:

	2016	2015
2016	\$ –	280
2017	200	177
2018 and beyond	1,614	1,636
	1,814	2,093
Less: current portion of long-term obligation	(200)	(280)
	\$ 1,614	1,813

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

13. Employee post-retirement benefits:

The Hospital sponsors a post-retirement defined benefit plan for medical, life insurance and dental benefits for substantially all unionized full time employees with various cost-sharing arrangements as determined by their collective agreements. The most recent valuation of the employee future benefits was completed as at April 1, 2013.

The accrued benefit obligation is recorded in the financial statements as follows:

	2016	2015
Balance, beginning of year	\$ 5,561	5,365
Add: Benefit costs	507	429
	6,068	5,794
Less: Benefit contributions	(285)	(233)
Balance, end of year	\$ 5,783	5,561

Similar to most post-employment benefit plans (other than pension) in Canada, the Hospital's plan is not pre-funded, resulting in plan deficit equal to the accrued benefit obligation.

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

	2016	2015
Discount rate	3.00%	4.00%
Dental cost trend rates	4.00%	4.00%
Extended health care trend rates	6.75%	6.75%

14. Internally restricted net assets:

Included in net assets is an amount restricted from the Regional Chronic Kidney Disease Program for future capital use in the amount of \$1,087.

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

15. Contingencies:

(a) Legal matters and litigation:

The Hospital is involved in certain legal matters and litigation, the outcomes of which are not presently determinable. The loss, if any, from these contingencies will be accounted for in the periods in which the matters are resolved. Management is of the opinion that these matters are mitigated by adequate insurance coverage.

(b) Employment matters:

During the normal course of business, the Hospital is involved in certain employment related negotiations and has recorded accruals based on management's estimate of potential settlement amounts where these amounts are reasonably determinable.

16. Financial risks and concentration of credit risk:

(a) Credit risk:

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

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2016 is the carrying value of these assets.

Management considers credit risk to be minimal as most of the accounts receivable balance is collected in a timely fashion.

There have been no significant changes to the credit risk exposure from 2015.

(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 2015.

ORILLIA SOLDIERS' MEMORIAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

17. Pension Plan:

Substantially all of the employees of the Hospital are members of the Plan, which is a multi-employer defined benefit plan. Contributions to the Plan made during the year on behalf of employees amounted to \$5,515 (2015 - \$5,416).

18. Related entity:

The Hospital has an economic interest in the OSMH Foundation. The OSMH Foundation was created for the purpose of promoting and participating in fundraising programs in order to raise money for capital projects, training and medical research. During the year, the Hospital received donations amounting to \$3,819 (2015 - \$3,428) from the OSMH Foundation.