

Financial Statements of

**THE NORFOLK HOSPITAL
NURSING HOME**

Year ended March 31, 2016

THE NORFOLK HOSPITAL NURSING HOME

Table of Contents

Independent Auditors' Report	
Statement of Financial Position	1
Statement of Operations	2
Statement of Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 15



KPMG LLP
Box 976
21 King Street West Suite 700
Hamilton ON L8N 3R1

Telephone (905) 523-8200
Telefax (905) 523-2222
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Directors of The Norfolk Hospital Nursing Home

We have audited the accompanying financial statements of The Norfolk Hospital Nursing Home 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 an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Norfolk Hospital Nursing Home as at March 31, 2016, and the results of its 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 letters are bold and slanted. A long, horizontal, slightly curved line is drawn underneath the signature.

Chartered Professional Accountants, Licensed Public Accountants

June 15, 2016

Hamilton, Canada

THE NORFOLK HOSPITAL NURSING HOME

Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash	\$ 887,063	\$ 1,070,133
Accounts receivable	100,995	48,038
Harmonized sales tax recoverable	42,154	27,173
Prepaid expenses	7,724	3,439
	<u>1,037,936</u>	<u>1,148,783</u>
Property and equipment (note 2)	712,905	673,854
Cash in trust (note 3)	12,634	9,561
	<u>\$ 1,763,475</u>	<u>\$ 1,832,198</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$ 214,700	\$ 184,485
Due to Norfolk General Hospital (note 4)	239,190	91,302
Deferred revenue	-	43,486
Current portion of mortgage payable (note 5)	39,890	31,063
	<u>493,780</u>	<u>350,336</u>
Mortgage payable (note 5)	481,178	526,887
Funds held in trust	12,634	9,561
Deferred capital contributions (note 6)	167,361	166,501
Employee future benefits (note 7)	72,200	65,200
Net assets:		
Externally restricted (note 8)	151,520	151,520
Invested in property and equipment (note 9)	24,476	(50,597)
Unrestricted	360,326	612,790
	<u>536,322</u>	<u>713,713</u>
	<u>\$ 1,763,475</u>	<u>\$ 1,832,198</u>

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

THE NORFOLK HOSPITAL NURSING HOME

Statement of Operations

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Revenues:		
Ministry of Health and Long-Term Care:		
Nursing and personal care	\$ 3,014,751	\$ 2,943,418
Program and support	385,851	378,648
Food	237,445	232,795
Accommodation	149,082	147,855
Structural compliance, accreditation and one-time grants	53,532	53,795
	<u>3,840,661</u>	<u>3,756,511</u>
Resident co-payment	1,525,829	1,503,415
Recoveries and sundry revenue	19,283	9,015
Interest income	6,146	9,948
Amortization of defined capital contributions	13,797	16,039
	<u>5,405,716</u>	<u>5,294,928</u>
Expenses:		
Nursing and personal care:		
Salaries, wages and benefits	3,235,643	3,059,446
Supplies and other expenses	109,606	111,453
	<u>3,345,249</u>	<u>3,170,899</u>
Program and support:		
Salaries, wages and benefits	245,053	233,077
Supplies and other expenses	104,485	100,397
	<u>349,538</u>	<u>333,474</u>
Food	263,285	258,123
Accommodation (note 10)	1,434,480	1,445,484
	<u>1,697,765</u>	<u>1,703,607</u>
Financial:		
Interest	42,357	45,381
Amortization of property and equipment	148,198	140,835
	<u>190,555</u>	<u>186,216</u>
	<u>5,583,107</u>	<u>5,394,196</u>
Total expenses		
	<u>5,583,107</u>	<u>5,394,196</u>
Excess of expenses over revenues	\$ (177,391)	\$ (99,268)

See accompanying notes to financial statements.

THE NORFOLK HOSPITAL NURSING HOME

Statement of Changes in Net Assets

Year ended March 31, 2016 with comparative information for 2015

March 31, 2016	Invested in property and equipment	Unrestricted	Restricted	Total
Balance, beginning of year	\$ (50,597)	\$ 612,790	\$ 151,520	\$ 713,713
Excess of expenses over revenue (note 9(b))	(134,401)	(42,990)	-	(177,391)
Net change in investment in property and equipment (note 9(b))	209,474	(209,474)	-	-
Balance, end of year	\$ 24,476	\$ 360,326	\$ 151,520	\$ 536,322

March 31, 2015	Invested in property and equipment	Unrestricted	Restricted	Total
Balance, beginning of year	\$ (50,710)	\$ 712,171	\$ 151,520	\$ 812,981
Excess (deficiency) of revenues over expenses (note 9(b))	(124,796)	25,528	-	(99,268)
Net change in investment in property and equipment (note 9(b))	124,909	(124,909)	-	-
Balance, end of year	\$ (50,597)	\$ 612,790	\$ 151,520	\$ 713,713

See accompanying notes to financial statements.

THE NORFOLK HOSPITAL NURSING HOME

Statement of Cash Flows

Year ended March 31, 2016 with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess of expenses over revenue	\$ (177,391)	\$ (99,268)
Items not involving cash:		
Increase in employee future benefits	7,000	11,700
Amortization of property and equipment	148,198	140,835
Amortization of deferred capital contributions	(13,797)	(16,039)
	(35,990)	37,228
Change in non-cash operating working capital balances:		
Accounts receivable	(52,957)	62,524
Prepaid expenses	(4,285)	3,000
Accounts payable	30,215	9,987
Deferred revenue	(43,486)	-
Harmonized sales tax recoverable	(14,981)	1,875
Due to Norfolk General Hospital	147,888	(20,437)
	62,394	56,949
Cash flow from operating activities	26,404	94,177
Capital activities:		
Purchase of equipment	(187,249)	(101,211)
Contributions received for property and equipment	14,657	10,400
	(172,592)	(90,811)
Financing activity:		
Repayment of mortgage payable	(36,882)	(34,098)
Change in cash	(183,070)	(30,732)
Cash, beginning of year	1,070,133	1,100,865
Cash, end of year	\$ 887,063	\$ 1,070,133

See accompanying notes to financial statements.

THE NORFOLK HOSPITAL NURSING HOME

Notes to Financial Statements

Year ended March 31, 2016

The Norfolk Hospital Nursing Home (the "Nursing Home") is incorporated without share capital under the laws of Ontario. The Nursing Home provides health care and accommodation to residents of Norfolk County and the surrounding communities. The Nursing Home is exempt from income taxes under the Income Tax Act.

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. No statement of remeasurement gains and losses has been included as there is nothing to report therein.

Significant accounting policies are as follows:

(a) Revenue recognition:

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

Under the Health Insurance Act and Regulations thereto, the Nursing Home is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care (the "MOHLTC"). 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.

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.

Revenue from the residents' co-insurance, preferred accommodation, and marketed services is recognized when the service is provided and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions restricted for the purchase of property 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 and equipment.

THE NORFOLK HOSPITAL NURSING HOME

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(b) Property and equipment:

Property and equipment are stated at cost less accumulated amortization. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Nursing Home's ability to provide services, its carrying amount is written down to its residual value. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Asset	Method	Years
Buildings	Straight-line method	10 - 40
Equipment	Straight-line method	3 - 10

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. All financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has not elected to record any financial instruments 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. As the Nursing Home has no unrealized changes in fair value a statement of remeasurement gains and losses has not been included in these financial statements.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

THE NORFOLK HOSPITAL NURSING HOME

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(c) Financial instruments (continued):

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

(d) Employee future benefits:

(i) Post-employment health, dental, and life insurance:

The Nursing Home offers extended health, dental and life insurance benefits to certain employee groups upon early retirement. The cost of these retirement benefits are actuarially determined using the projected benefit method prorated on service and incorporates management's best estimate of health care costs, disability recovery rates and discount rates. The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2015 and the next required valuation will be as of March 31, 2018.

Actuarial gains (losses) on the liability for post-employment benefits arise from the difference between actual and expected experience and from changes in the actuarial assumptions used to determine the liability for post-employment benefits. The 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 post-employment health, dental, and life insurance plan is 12.9 years (2015 – 12.9 years).

Past service costs arising from plan amendments are recognized immediately in the period the plan amendments occur.

THE NORFOLK HOSPITAL NURSING HOME

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(d) Employee future benefits (continued):

(ii) Pension:

Eligible employees of the Nursing Home are members of the Healthcare of Ontario Pension Plan ("H.O.O.P.P."). This plan is a multi-employer defined benefit plan. As H.O.O.P.P.'s assets and liabilities are not segmented by participating employer, the Nursing Home accounts for contributions made to the plan as a defined contribution plan. Accordingly, contributions are included in salaries and benefits expense in the year the contributions are made.

(e) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates include the carrying amount of property and equipment, impairment of accounts receivable, estimation of accrued liabilities and valuation of employee future benefits. Actual results could differ from those estimates.

(f) Contributed services and materials:

Volunteers contribute numerous hours to assist the Nursing Home in carrying out certain aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and, as such, is not reflected in these financial statements. Contributed materials are also not recognized in these financial statements.

THE NORFOLK HOSPITAL NURSING HOME

Notes to Financial Statements (continued)

Year ended March 31, 2016

2. Property and equipment:

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 52,800	\$ -	\$ 52,800	\$ 52,800
Buildings	2,849,236	2,392,268	456,968	434,599
Equipment	1,310,062	1,106,925	203,137	186,455
	<u>\$ 4,212,098</u>	<u>\$ 3,499,193</u>	<u>\$ 712,905</u>	<u>\$ 673,854</u>

3. Cash in trust:

Cash in trust is comprised of residents' personal money to provide convenience for those residents who need to have funds maintained in a safe place and readily available for use in the Nursing Home. The funds may be used to pay for facility-related transactions approved by the resident or an authorized representative.

4. Due to Norfolk General Hospital:

The Nursing Home purchases items such as meals, utilities, housekeeping and administrative services from Norfolk General Hospital. The total of these purchased services for the year amounted to \$1,281,306 (2015 - \$1,320,781). The transactions are in the normal course of operations and are measured at the exchange value which is the amount agreed by the related parties. In addition, the Hospital makes all payments associated with the Nursing Home's capital and operating costs excluding net payroll costs, and then recovers all of these payments from the Nursing Home.

5. Mortgage payable:

	2016	2015
Canada Mortgage and Housing Corporation mortgage bearing interest at 8% per annum, repayable in monthly blended payments of \$6,623. The loan matures on June 1, 2025 and is secured by land and building.	\$ 521,068	\$ 557,950
Less current portion	39,890	31,063
	<u>\$ 481,178</u>	<u>\$ 526,887</u>

THE NORFOLK HOSPITAL NURSING HOME

Notes to Financial Statements (continued)

Year ended March 31, 2016

5. Mortgage payable (continued):

Future principal payments required on the mortgage payable for the next five years and thereafter are as follows:

2017	39,890
2018	43,145
2019	46,665
2020	50,473
2021 and thereafter	340,895
	<hr/>
	\$ 521,068

6. Deferred capital contributions:

Deferred capital contributions represent the unamortized or unspent amount of funds received for the purchase of property and equipment. The amortization of deferred capital contributions is recorded as revenue in the statement of operations at a rate matching the amortization of the related property and equipment. The changes in the deferred capital contributions balance for the period are as follows:

	2016	2015
Balance, beginning of year	\$ 166,501	\$ 172,140
Capital contributions received in the year	14,657	10,400
Less amounts amortized to revenue	(13,797)	(16,039)
Balance, end of year	<hr/> \$ 167,361	<hr/> \$ 166,501

THE NORFOLK HOSPITAL NURSING HOME

Notes to Financial Statements (continued)

Year ended March 31, 2016

7. Employee future benefits:

The Nursing Home provides extended health, dental and life insurance benefits to certain employee groups upon early retirement. The Nursing Home recognizes these benefits as they are earned during the employee's tenure of service. The accrued benefit liability is determined by an independent actuary, the actuarial valuation was performed as at March 31, 2016 and includes the value of the liability.

The main actuarial assumptions employed for the valuations are as follows:

(i) Interest (discount rate):

The obligation as at March 31, 2016, of the present value of future liabilities was determined using a discount rate of 3.76% (2015 - 3.31%).

(ii) Medical costs:

Medical costs were assumed to increase at the rate of 6.5% and decrease by 0.25% per year to an ultimate rate of 4.75% in 2018 and thereafter.

(iii) Dental costs:

Dental costs were assumed to increase at the rate of 3.75% per year.

Included in salaries and benefits on the statement of operations is an amount of \$8,900 (2015 - \$13,300) regarding employee future benefits. The amount is comprised of:

	2016	2015
Contributed period benefit cost	\$ 4,100	\$ 2,100
Interest on accrued benefits	3,000	2,700
Amortization of actuarial losses	1,800	600
Prior service cost	-	7,900
	<u>\$ 8,900</u>	<u>\$ 13,300</u>

THE NORFOLK HOSPITAL NURSING HOME

Notes to Financial Statements (continued)

Year ended March 31, 2016

7. Employee future benefits (continued):

Information about the accrued non-pension obligation and liability as at March 31, 2016, is as follows:

	2016	2015
Accrual benefit obligation:		
Balance, beginning of year	\$ 86,600	\$ 60,000
Current benefit cost	4,100	10,000
Actuarial (gain) loss	(4,500)	15,500
Interest	3,000	2,700
Benefits paid	(1,900)	(1,600)
Balance, end of year	87,300	86,600
Unamortized actuarial loss	(15,100)	(21,400)
Liability for benefits, end of year	\$ 72,200	\$ 65,200

8. Externally restricted net assets:

Canada Mortgage and Housing Corporation ("CMHC") contributed \$151,520 to the Hospital Nursing Home. This amount is forgivable upon the Nursing Home building being used as a nursing home until the due date of the CMHC mortgage of June 1, 2025.

THE NORFOLK HOSPITAL NURSING HOME

Notes to Financial Statements (continued)

Year ended March 31, 2016

9. Net assets invested in property and equipment:

(a) Net assets invested in property and equipment is calculated as follows:

	2016	2015
Property and equipment (note 2)	\$ 712,905	\$ 673,854
Amounts financed by deferred capital contributions (note 6)	(167,361)	(166,501)
Amounts financed by mortgage payable (note 5)	(521,068)	(557,950)
	\$ 24,476	\$ (50,597)

(b) Change in net assets invested in property and equipment is calculated as follows:

	2016	2015
Deficiency of revenues over expenses:		
Amortization of deferred capital contributions	\$ 13,797	\$ 16,039
Amortization of property and equipment	(148,198)	(140,835)
	\$ (134,401)	\$ (124,796)
Net change in investment in property and equipment:		
Purchase of property and equipment	\$ 187,249	\$ 101,211
Amounts funded by deferred capital contributions	(14,657)	(10,400)
Mortgage payment	36,882	34,098
	\$ 209,474	\$ 124,909

THE NORFOLK HOSPITAL NURSING HOME

Notes to Financial Statements (continued)

Year ended March 31, 2016

10. Accommodation expenses:

Accommodation expenses are comprised of the following:

	2016	2015
Nutrition and food services	\$ 415,938	\$ 408,538
Plant operations and utilities	399,109	347,571
Housekeeping	239,113	235,202
Laundry	141,168	143,020
General office and administration	79,047	136,743
Finance and payroll services	69,053	90,210
Salaries, wages and benefits	91,052	84,200
	<hr/> \$ 1,434,480	<hr/> \$ 1,445,484

11. Pension benefits:

Substantially all of the employees of the Nursing Home are eligible to be members of the Healthcare of Ontario Pension Plan (H.O.O.P.P.) which is a multi-employer average pay contributory pension plan. Employer contributions made to the plan during the year amounted to \$179,087 (2015 - \$159,839). These amounts are included in employee benefits expense on the statement of operations.

There are no material past service costs. The most recent H.O.O.P.P. actuarial valuation of the Plan as of December 31, 2015 indicated the Plan has a 22% surplus in disclosed actuarial assets.

THE NORFOLK HOSPITAL NURSING HOME

Notes to Financial Statements (continued)

Year ended March 31, 2016

12. Financial risks:

(a) Credit risk:

Credit risk is the risk of financial loss to the Nursing Home if a resident or counterparty to a financial instrument fails to meet its contractual obligations. The Nursing Home is exposed to credit risk with respect to accounts receivable.

The Nursing Home 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 Nursing Home at March 31, 2016 is the carrying value of these assets.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the statement of operations. Subsequent recoveries of impairment losses related to accounts receivable are credited to the statement of operations. The balance of the allowance for doubtful accounts at March 31, 2016 is \$20,000 (2015 - \$20,000).

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

(b) Liquidity risk:

Liquidity risk is the risk that the Nursing Home will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Nursing Home manages its liquidity risk by monitoring its operating requirements. The Nursing Home prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

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