Financial Statements of

MUSKOKA ALGONQUIN HEALTHCARE

Years ended March 31, 2013 and 2012

KPMG LLP
Chartered Accountants
925 Stockdale Road
North Bay ON P1B 9N5

Telephone (705) 472-5110
Fax (705) 472-1249
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To Board of Directors of Muskoka Algonquin Healthcare

We have audited the accompanying financial statements of Muskoka Algonquin Healthcare, which comprise the statement of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the statements of operations, changes in net assets (deficiency) and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 audits. We conducted our audits 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 in our audits 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 Muskoka Algonquin Healthcare as at March 31, 2013, March 31, 2012 and April 1, 2011, and its results of operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 13, 2013
North Bay, Canada

MUSKOKA ALGONQUIN HEALTHCARE

Financial Statements Index

Years ended March 31, 2013 and 2012

MUSKOKA ALGONQUIN HEALTHCARE

Statement of Financial Position

March 31, 2013, March 31, 2012 and April 1, 2011

		March 31, 2013	March 31, 2012 (Restated - note 2)	April 1, 2011 (Restated - note 2)
Assets				
Current assets:				
Cash and short-term investments	$	1,418,090	664,208	10,651
Accounts receivable (note 3)		1,448,641	1,619,492	1,970,479
Inventories		1,175,744	1,036,790	1,103,135
Due from related parties (note 4)		408,647	98,374	43,340
Prepaid expenses		629,186	461,396	483,236
		5,080,308	3,880,260	3,610,841
Capital assets (note 5)		41,532,254	41,176,605	44,964,379
	$	46,612,562	45,056,865	48,575,220
Liabilities, Deferred Contributions and Deficiency in Net Assets				
Current liabilities:				
Short-term demand loans (note 6)	$	–	–	3,381,719
Accounts payable and accrued liabilities (note 7)		12,629,631	11,442,772	10,361,988
Current portion of long-term debt (note 8)		1,155,555	588,889	944,686
		13,785,186	12,031,661	14,688,393
Long-term debt (note 8)		1,450,000	2,605,555	3,194,444
Deferred contributions related to capital assets (note 9)		39,970,646	39,900,598	39,835,164
Post-retirement benefit obligations (note 10)		1,972,900	1,925,500	1,739,800
		57,178,732	56,463,314	59,457,801
Deficiency in net assets		(10,566,170)	(11,406,449)	(10,882,581)
Contingencies (note 14)				
	$	46,612,562	45,056,865	48,575,220

See accompanying notes to financial statements.

On behalf of the Board:

Joe Saunders. Director

Natalie Bubela Director

MUSKOKA ALGONQUIN HEALTHCARE

Statements of Operations

Years ended March 31, 2013 and 2012

	2013	2012 (Restated - note 2)
Revenue:		
Ministry of Health and Long-Term Care	$ 61,713,561	60,454,583
Patient charges	8,181,111	8,403,441
Other (note 12)	3,522,512	3,310,459
Amortization of deferred equipment contributions	1,791,187	1,416,658
	75,208,371	73,585,141
Expenses:		
Salaries and wages	37,522,774	36,091,983
Employee benefits	11,056,909	10,454,694
Supplies and other expenses	10,676,863	11,213,062
Medical staff remuneration	6,932,855	6,655,409
Drugs	3,420,480	3,091,093
Medical and surgical supplies	3,278,346	3,214,380
Amortization of equipment	2,224,896	2,285,943
	75,113,123	73,006,564
Excess of revenue over expenses before the undernoted	95,248	578,577
Other programs (note 17):		
Revenue	590,683	618,122
Expenses	(592,988)	(622,023)
	(2,305)	(3,901)
Excess of revenue over expenses from Hospital operations	92,943	574,676
Working capital relief funding	1,016,900	–
Excess of revenue over expenses before undernoted items	1,109,843	574,676
Amortization of deferred capital contributions	968,568	957,899
Amortization of buildings and building service equipment	(1,238,132)	(1,277,477)
Net carrying value of capital asset transferred to the Corporation of the Village of Burks Falls (note 13)	–	(778,966)
Excess (deficiency) of revenues over expenses	$ 840,279	(523,868)

See accompanying notes to financial statements.

MUSKOKA ALGONQUIN HEALTHCARE

Statements of Changes in Net Assets (Deficiency)

Years ended March 31, 2013 and 2012

	2013	2012
		(Restated - note 2)
Deficiency in net assets, beginning of year	$ (11,406,449)	(10,882,581)
Excess (deficiency) of revenue over expenses	840,279	(523,868)
Deficiency in net assets, end of year	$ (10,556,170)	(11,406,449)

See accompanying notes to financial statements.

MUSKOKA ALGONQUIN HEALTHCARE

Statements of Cash Flows

Years ended March 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses	$ 840,279	(523,868)
Adjustments for:		
Amortization of capital assets	3,463,028	3,563,290
Amortization of deferred contributions related to capital assets	(2,759,754)	(2,374,427)
Net carrying value of capital asset transferred to the Corporation of the Village of Burks Falls	–	778,966
Increase in post retirement benefit obligations	47,400	185,700
	1,590,953	1,629,661
Change in non-cash working capital:		
Accounts receivable	170,851	350,987
Inventories	(138,954)	66,345
Due from related parties	(310,273)	(55,034)
Prepaid expenses	(167,791)	21,840
Accounts payable and accrued liabilities	1,186,859	1,080,784
	2,331,645	3,094,583
Cash flows from financing activities:		
Principal repayment on long-term debt	(588,889)	(944,686)
Decrease in short-term demand loans	–	(3,381,719)
	(588,889)	(4,326,405)
Cash flows from capital activities:		
Purchase of capital assets	(3,818,677)	(1,345,866)
Deferred contributions related to capital assets	2,829,803	3,231,245
	(988,874)	1,885,379
Increase in cash	753,882	653,557
Cash, beginning of year	664,208	10,651
Cash, end of year	$ 1,418,090	664,208

See accompanying notes to financial statements.

Muskoka Algonquin Healthcare (the "Hospital") is incorporated without share capital under the laws of the Province of Ontario. Its principal activity is the provision of health care services to the residents of Burk's Falls, Huntsville, Bracebridge, Gravenhurst, Township of Muskoka Lakes, Township of Georgian Bay, Township of Lake of Bays and the surrounding areas. The Hospital is a registered charity and as such is exempt from income tax under the Income Tax Act.

On April 1, 2012, the Hospital adopted Canadian public sector accounting standards. The Hospital has also elected to apply the 4200 standards for government not-for-profit organizations. These are the first financial statements prepared in accordance with Canadian public sector accounting standards.

In accordance with the transitional provisions in Canadian public sector accounting standards, the Hospital has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying Canadian public sector accounting standards.

A summary of transitional adjustments recorded to net assets and excess of revenue over expenses is provided in note 2.

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 a 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.

1. Significant accounting policies (continued):

(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.

(c) Donated assets:

Donated capital assets are recorded at fair value when received.

(d) Capital assets:

Purchased capital assets are recorded at cost. The original cost does not reflect replacement cost or market value upon liquidation. Assets acquired under capital leases are amortized over the estimated life of the assts or over the lease term, as appropriate. Repairs and maintenance costs are charged to expense. Bettements which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Hospital’s ability to provide services, its carrying amount is written down to its residual value.

	Rate
Land improvements	5%
Buildings	2.5% and 5%
Major equipment	10% - 33%

The costs incurred for major capital projects are classified separately as construction in progress until the project is complete. When complete the costs are transferred to the appropriate capital asset category and amortized.

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.

1. Significant accounting policies (continued):

(e) Employee future benefits:

The Hospital sponsors a defined benefit health and dental plan for certain employees and retirees funded on a pay-as-you-go basis. The Hospital also has a defined benefit pension plan. The Hospital has adopted the following policies:

The Hospital accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension, compensated absences and other retirement benefits. The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial valuation of the benefit plans for funding purposes was as of April 1, 2011, and the next required valuation will be as of April 1, 2014.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the 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 pension plan is 12 years (2012 - 12 years). The average remaining service period of the active employees covered by the other retirement benefits plan is 12 years (2012 - 12 years).

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

(f) Hospital of Ontario Pension Plan:

The Hospital is an employer member of the Hospital 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.

(g) 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.

1. Significant accounting policies (continued):

(h) Funding adjustments:

The Hospital receives grants from the NSMLHIN and the Ministry for specific services. Pursuant to the related agreements, if the Hospital does not meet specified levels of activity, the Ministry 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.

(i) 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.

(j) 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. Transitional adjustments:

(a) Deficiency in net assets:

The following table summarizes the impact of the transition to Canadian public sector accounting standards on the Hospital's net assets as of April 1, 2011:

Deficiency in net assets:	
As previously reported under Canadian generally accepted accounting principles, March 31, 2011	$ (10,420,381)
Impact of transition to Canadian public sector accounting standards	(462,200)
Restated, April 1, 2011	$ (10,882,581)

The impact of the transition to Canadian public sector accounting standards is comprised of three components.

(i) Transitional provisions

In accordance with transitional provisions of Canadian public sector accounting standards, the Hospital has elected to recognize actuarial gains and losses at the date of transition to public sector accounting standards directly in net assets. As a result, the Hospital has recognized an increased liability and a charge to net assets.

(ii) Past service costs

Canadian public sector accounting standards require past service costs arising from plan amendments to be recognized immediately in the period the plan amendments occur. As a result, the Hospital has recognized an increased liability and a charge to net assets for unamortized past service costs at the transition to Canadian public sector accounting standards.

(iii) Discount rate used to calculate employee post-retirement benefits

Canadian public sector accounting standards require these liabilities to be calculated with a discount rate that is equal to either the Hospital's rate of borrowing or the rate of return on the plan assets. Prior to transition to these new standards, the discount rate was to be equal to the yield on high quality corporate bonds. Under the public sector accounting standards, the Hospital has adopted a discount rate that is indicative of its long-term cost of borrowing. The change in the discount rate resulted in changes to the related liability and a corresponding adjustment to net assets at the transition to Canadian public sector accounting standards.

Additional information concerning employee post-retirement benefits is presented in note 10.

2. Transitional adjustments (continued):

(b) Statement of Operations:

As a result of the retrospective application of Canadian public sector accounting standards, the Hospital recorded the following adjustments to deficiency of revenue over expenses for the year ended March 31, 2012, with a corresponding change to liabilities:

Deficiency of revenue over expenses:	
As previously reported under Canadian generally accepted accounting principles for year ended March 31, 2012	$ (618,268)
Impact of transition to Canadian public sector accounting standards	94,400
Restated for the year ended March 31, 2012	$ (523,868)

3. Accounts receivable:

	March 31, 2013	March 31, 2012	April 1, 2011
Insurers and patients	$ 1,021,072	1,097,429	1,471,568
Other	532,905	647,669	689,214
	1,553,977	1,745,098	2,160,782
Allowance for doubtful accounts	(105,336)	(125,606)	(190,303)
	$ 1,448,641	1,619,492	1,970,479

4. Related party transactions:

(a) Huntsville District Memorial Hospital Foundation

The Hospital has an economic interest in the Huntsville District Memorial Hospital Foundation ("HDMHF") in that HDMHF solicits funds on behalf of the Hospital to be used for approved capital projects. During the year, the HDMHF granted approximately $1,495,503 (2012 - $601,126) to fund capital costs.

4. Related party transactions: (continued)

(b) South Muskoka Hospital Foundation

The Hospital has an economic interest in the South Muskoka Hospital Foundation ("SMHF") in that SMHF solicits funds on behalf of the Hospital and other organizations in the community with similar objectives. During the year, SMHF granted approximately $900,374 (2012 - $656,561) to fund capital costs.

(c) Due from related parties

	March 31, 2013	March 31 2012	April 1, 2011
Huntsville District Memorial Hospital Foundation	$ 406,113	94,730	38,589
South Muskoka Hospital Foundation	2,534	3,644	4,751
	$ 408,647	98,374	43,340

5. Capital assets:

March 31, 2013	Cost	Accumulated Amortization	Net book Value
Land	$ 669,783	–	669,783
Land improvements	377,869	326,476	51,393
Buildings	52,535,422	19,625,927	32,909,495
Equipment	41,784,824	33,883,241	7,901,583
	$ 95,367,898	53,835,644	41,532,254

5. Capital assets: (continued)

March 31, 2012	Cost	Accumulated Amortization	Net book Value
Land	$ 669,783	–	669,783
Land improvements	377,869	323,453	54,416
Buildings	51,297,967	18,314,472	32,983,495
Equipment	39,203,602	31,734,691	7,468,911
	$ 91,549,221	50,372,616	41,176,605

April 1, 2011	Cost	Accumulated Amortization	Net book Value
Land	$ 672,835	–	672,835
Land improvements	362,014	320,430	41,584
Buildings	53,717,484	18,050,889	35,666,595
Equipment	37,293,972	28,710,607	8,583,365
	$ 92,046,305	47,081,926	44,964,379

6. Short-term demand loans:

	March 31, 2013	March 31, 2012	April 1, 2011
Operating line - Scotiabank, bearing interest at prime less 0.50% payable monthly, unsecured, due on demand	$ –	–	3,381,719

The Hospital has an unused operating line of credit amounting to $6,500,000 at March 31, 2013 (2012 - $6,500,000).

The Hospital has available an undrawn non-revolving loan in the amount of $2,720,000, bearing interest at bank prime less 0.50%, to assist in financing an energy retrofit program. The loan will be repayable in equal month installments of $27,333 commencing within 30 days of final drawdown for a five year term with the balance due at maturity.

7. Accounts payable and accrued liabilities:

	March 31, 2013	March 31, 2012	April 1, 2011
Ministry of Health and Long-Term Care	$ 1,386,914	1,608,896	1,097,696
Trade payables	4,297,805	4,237,257	4,814,721
Accrued wages and benefits	6,944,912	5,596,619	4,449,571
	$ 12,629,631	11,442,772	10,361,988

8. Long-term debt:

	March 31, 2013	March 31, 2012	April 1, 2011
Non-revolving line (for PACS equipment), Scotiabank interest payable monthly at prime minus 0.25%. principal repayable $300,000 annually, balance due August 2014	$ 1,750,000	2,050,000	2,350,000
Non-revolving loan payable (CT Scanner-HDMH), Scotiabank interest payable monthly at prime minus 0.25%, principal repayable $288,889 annually, balance due January 2014	855,555	1,144,444	1,433,333
Non-revolving loan payable	–	–	355,797
	2,605,555	3,194,444	4,139,130
Less current portion	(1,155,555)	(588,889)	(944,686)
	$ 1,450,000	2,605,555	3,194,444

Principal payments to maturity are as follows:

2014	$ 1,155,555
2015	1,450,000
	$ 2,605,555

Total interest paid on long-term debt during the year was $82,171 (2012 - $107,295).

9. Deferred contributions related to capital assets:

Deferred contributions related to capital assets represent the unamortized or unspent balances of donations and grants received for capital asset acquisitions. The amortization of capital contributions is recorded as revenue in the statement of operations.

	March 31, 2013	March 31, 2012	April 1, 2011
Balance, beginning of year	$ 39,900,598	39,835,164	41,277,370
Less amount amortized to revenue	(2,759,755)	(2,374,427)	(2,333,414)
Add contributions received:			
Foundations	2,395,877	1,257,687	800,009
Ministry of Health and Long-term Care	228,890	1,420,959	–
Hospital Auxiliary and other	205,036	552,599	91,199
	2,829,803	3,231,245	891,208
Less disposals	–	(791,384)	–
Balance, end of year	$ 39,970,646	39,900,598	39,835,164

10. Employee future benefits:

The Hospital sponsors a post-retirement defined benefit plan for medical, life insurance and dental benefits for employees with various cost-sharing arrangements as determined by their collective agreements and conditions of employment. The most recent valuation of the employee future benefits was completed as at April 1, 2011. The next full valuation of the plan will be as of April 1, 2014.

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

,	2013	2012 (Restated - note 2)
Balance, beginning of year	$ 1,925,500	1,739,800
Add: benefit costs	198,276	452,799
	2,123,776	2,192,599
Less: benefit contributions	(150,876)	(267,099)
Balance, end of year	$ 1,972,900	1,925,500

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.

10. Employee future benefits: (continued)

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

	March 31, 2013	March 31, 2012
Discount rate	4.69%	5.63%
Initial health care cost trend rate	7.0%	7.5%
Dental care cost trend rate	4.0%	4.0%
Health Care cost trend rate declines to	5.0%	5.0%
Year ultimate rate reached	2017	2017

11. Pension plan:

Substantially all of the employees of the Hospital are members of the Hospitals of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit plan. Employer contributions made to the Plan during the year by the Hospital amounted to $3,051,221 (2012 - $2,839,203).

12. Other revenue:

		2013	2012
Differential and co-payment fees	$	757,125	857,464
Parking fees		543,323	513,650
Wages and material recoveries		900,572	750,312
Laundry recoveries		581,981	544,016
Rental income		78,829	133,983
Interest income		83,580	120,939
Other		577,102	390,095
	$	3,522,512	3,310,459

13. Transfer to the Corporation of the Village of Burks Falls:

In 2012, the Hospital transferred its clinic in the Village of Burks Falls to the Corporation of the Village of Burks Falls for no consideration. The loss of $778,966 on transfer consists of the write-off of the net book value of the capital asset of $1,570,350 less related unamortized deferred capital contributions of $791,384.

14. Contingencies:

(a) Legal matters and litigation:

The nature of the Hospital’s activities is such that there is usually litigation pending or in process at any given time. With respect to claims at March 31, 2013, management believes the Hospital has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Hospital’s financial position.

(b) HealthCare Insurance Reciprocal of Canada:

The Hospital is a member of the HealthCare Insurance Reciprocal of Canada (“HIROC”). HIROC is a pooling of the liability insurance risk of its members. All members pay annual deposit premiums which are actuarially determined and are subject to further assessment for losses, if any, experienced by the pool for the years in which they are members. As at March 31, 2013, no assessments have been received by the Hospital.

(c) 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. Where amounts are not reasonably determinable, costs, if any, relating to these matters would be recognized when known.

15. Fair value of financial assets and liabilities:

(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 cash.

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, 2013 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 2012.

15. Fair value of financial assets and liabilities (continued):

(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 2012.

16. Change in accounting policy:

On April 1, 2012, the Hospital adopted Public Accounting Standards *PS 3450 – Financial Instruments and PS 2601 – Foreign Currency Translation.* The standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions.

Under PS 3450, all financial instruments are included on the statement of financial position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the Hospital's accounting policy choices (see Note 1 – Significant Accounting Policies).

The adoption of these standards did not have a significant effect on the Hospital's financial statements for the year ended March 31, 2013.

17. Other programs:

March 31, 2013	Revenue	Expenses	Deficiency
Diabetic Education Network:			
South Muskoka Site	$ 270,746	270,746	–
Huntsville Site	305,987	305,987	–
Payments in lieu of taxes	13,950	16,255	(2,305)
	$ 590,683	592,988	(2,305)

March 31, 2012	Revenue	Expenses	Deficiency
Diabetic Education Network:			
South Muskoka Site	$ 245,913	245,913	–
Huntsville Site	358,259	358,259	–
Payments in lieu of taxes	13,950	17,851	(3,901)
	$ 618,122	622,023	(3,901)