

Financial Statements of

CORNWALL COMMUNITY HOSPITAL

Year ended March 31, 2011



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Cornwall Community Hospital

We have audited the accompanying financial statements of the Cornwall Community Hospital, which comprise the statement of financial position as at March 31, 2011, the statements of operations, change 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 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.

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 the Cornwall Community Hospital as at March 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The financial statements of Cornwall Community Hospital as at and for the year ended March 31, 2010 were audited by another auditor who expressed an unmodified opinion on those statements on May 21, 2010.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 2, 2011

Kingston, Canada

CORNWALL COMMUNITY HOSPITAL

Statement of Financial Position

March 31, 2011, with comparative figures for 2010

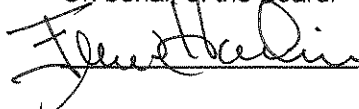
| | 2011 | 2010 |
|------------------------------|-----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 17,435 | \$ 2,292,618 |
| Accounts receivable (note 2) | 3,630,399 | 2,533,940 |
| Inventories | 623,956 | 924,963 |
| Prepaid expenses | 750,369 | 546,342 |
| | <u>5,022,159</u> | <u>6,297,863</u> |
| Restricted cash (note 3) | 22,833,602 | 13,713,474 |
| Capital assets (note 4) | 77,697,225 | 61,548,477 |
| | <u>\$ 105,552,986</u> | <u>\$ 81,559,814</u> |

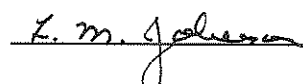
Liabilities, Deferred Contributions and Net Assets

| | | |
|--|-----------------------|----------------------|
| Current liabilities: | | |
| Bank indebtedness (note 5) | \$ 24,709,670 | \$ 20,000,000 |
| Accounts payable and accrued liabilities | 17,042,592 | 16,725,622 |
| Deferred revenue | 424,677 | 183,451 |
| Employee future benefits | 414,096 | 367,382 |
| Current portion of long-term debt (note 7) | 405,937 | 407,751 |
| | <u>42,996,972</u> | <u>37,684,206</u> |
| Employee future benefits (note 6) | 1,504,179 | 1,361,988 |
| Long-term debt (note 7) | 1,348,330 | 1,752,401 |
| Deferred contributions (note 8) | 80,451,716 | 59,894,360 |
| | <u>126,301,197</u> | <u>100,692,955</u> |
| Net assets: | | |
| Invested in capital assets (note 9) | 18,097,807 | 12,738,403 |
| Restricted for endowments (note 10) | 209,010 | 209,010 |
| Unrestricted | (39,055,028) | (32,080,554) |
| | <u>(20,748,211)</u> | <u>(19,133,141)</u> |
| Commitments and contingencies (note 12) | | |
| | <u>\$ 105,552,986</u> | <u>\$ 81,559,814</u> |

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

CORNWALL COMMUNITY HOSPITAL

Statement of Operations

Year ended March 31, 2011, with comparative figures for 2010

| | 2011 | 2010 |
|---|-----------------------|-----------------------|
| Revenue: | | |
| Patient care: | | |
| Ministry of Health and Long-Term Care | \$ 73,321,892 | \$ 72,641,858 |
| Other | 16,973,463 | 16,964,170 |
| Recovery: | | |
| Preferred accommodations | 1,328,020 | 1,640,653 |
| Other | 4,717,914 | 5,141,416 |
| Investment income | 1,805 | 762 |
| Amortization of deferred contributions | 745,794 | 1,020,610 |
| Other programs: | | |
| Ministry of Health and Long-Term Care | 5,159,394 | 5,061,183 |
| Ministry of Community and Social Services | 2,193,848 | 2,088,858 |
| | <u>104,442,130</u> | <u>104,559,510</u> |
| Expenses: | | |
| Salaries and wages | 48,784,600 | 50,464,725 |
| Employee benefits | 13,982,442 | 14,136,409 |
| Medical staff remuneration | 12,714,557 | 12,294,659 |
| Medical and surgical supplies | 4,755,023 | 5,530,944 |
| Drugs and medical gases | 1,895,882 | 1,834,107 |
| Other supplies and expenses | 11,679,462 | 12,329,150 |
| Buildings and grounds | 624,183 | 425,824 |
| Amortization of equipment | 2,552,489 | 2,682,775 |
| Interest on long-term debt | 47,432 | 60,665 |
| Other programs: | | |
| Ministry of Health and Long-Term Care | 5,159,394 | 5,061,183 |
| Ministry of Community and Social Services | 2,193,848 | 2,088,858 |
| | <u>104,389,312</u> | <u>106,909,299</u> |
| Excess (deficiency) of revenue over expenses before undernoted items | 52,818 | (2,349,789) |
| Restructuring costs | - | (2,150,662) |
| Interest on long-term debt | (15,630) | (18,795) |
| Amortization of deferred contributions related to capital assets | 973,689 | 931,082 |
| Amortization of capital assets | (2,625,947) | (2,356,095) |
| | <u>(1,667,888)</u> | <u>(1,443,808)</u> |
| Deficiency of revenue over expenses | <u>\$ (1,615,070)</u> | <u>\$ (5,944,259)</u> |

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Changes in Net Assets

Year ended March 31, 2011, with comparative figures for 2010

| | Invested in capital assets | Endowments | Unrestricted | 2011 | 2010 |
|--|-------------------------------|------------|--------------|----------------|----------------|
| Balance, beginning of year | \$ 12,738,403 | 209,010 | (32,080,554) | \$(19,133,141) | \$(13,188,882) |
| Excess (deficiency) of revenue over expenses (note 9) | (3,458,953) | — | 1,843,883 | (1,615,070) | (5,944,259) |
| Net change in investment in capital assets (note 9) | 8,818,357 | — | (8,818,357) | — | — |
| Balance, end of year | 18,097,807 | 209,010 | (39,055,028) | \$(20,748,211) | \$(19,133,141) |

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

| | 2011 | 2010 |
|--|-----------------------|-----------------------|
| Cash provided by (used for): | | |
| Operating activities: | | |
| Deficiency of revenue over expenses | \$ (1,615,070) | \$ (5,944,259) |
| Items not involving cash: | | |
| Amortization of capital assets | 5,178,436 | 5,038,870 |
| Amortization of deferred contributions related to capital assets | (1,719,483) | (1,951,692) |
| Net change in non-cash working capital components (note 15) | (441,283) | 9,698,143 |
| Increase in employee future benefits | 188,905 | 132,018 |
| | <u>1,591,505</u> | <u>6,973,080</u> |
| Investing activities: | | |
| Purchase of capital assets | (21,327,184) | (21,592,671) |
| Financing activities: | | |
| Increase in deferred contributions related to capital assets | 22,276,839 | 4,807,980 |
| Proceeds net of principal payments on long-term debt | (405,885) | (451,631) |
| | <u>21,870,954</u> | <u>4,356,349</u> |
| Net increase (decrease) in cash | 2,135,275 | (10,263,242) |
| Cash (bank indebtedness), beginning of year | (3,993,908) | 6,269,334 |
| Bank indebtedness, end of year | <u>\$ (1,858,633)</u> | <u>\$ (3,993,908)</u> |
| Cash (bank indebtedness) is comprised of the following: | | |
| Cash | \$ 17,435 | \$ 2,292,618 |
| Restricted cash | 22,833,602 | 13,713,474 |
| Bank indebtedness | (24,709,670) | (20,000,000) |
| | <u>\$ (1,858,633)</u> | <u>\$ (3,993,908)</u> |

See accompanying notes to financial statements.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements

Year ended March 31, 2011

Cornwall Community Hospital/Hôpital communautaire de Cornwall (the "Hospital") is incorporated under the Ontario Business Corporations Act. The Hospital is principally involved in providing health care services to Cornwall and 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:

(a) 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 and Long-Term Care. 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.

Externally restricted contributions, such as trust funds, are recognized as revenue in the year in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Revenue from the Ontario Health Insurance Plan (OHIP), preferred accommodation, and marketed services is recognized when the goods are sold or the service is provided.

Endowment contributions are recognized as direct increases in endowment net assets.

(b) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year to assist the Hospital in carrying out its service activities. Due to the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

(c) Inventories:

Inventories are valued at the lower of average cost and replacement cost.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

1. Significant accounting policies (continued):

(d) Capital assets:

Purchased capital assets, other than minor equipment are recorded at cost. Assets acquired under capital lease are initially recorded at the present value of future minimum lease payments and amortized over the estimated life of the assets. 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. Contributed capital assets are recorded at fair value at the date of contribution.

Capital assets are amortized on a straight-line basis over their expected useful lives at rates varying from 2% to 20% per annum.

Minor equipment replacements are expensed in the year of replacement. Construction in progress is not amortized until the project is complete and the facilities come into use.

The cost of renovations to the Hospital buildings which significantly increase its useful life and capacity are included as part of the cost of the related capital assets. Renovation costs to adapt the Hospital buildings to changed operating conditions or to maintain normal operating efficiency are expensed as incurred.

Equipment leased on terms which transfer substantially all of the benefits and risks of ownership to the Hospital are accounted for as "capital leases" and are therefore accounted for as though an asset has been purchased and a liability incurred. All other items of equipment held on lease are accounted for as operating leases.

(e) Deferred contributions:

Grants and donations received for capital purposes are deferred and amortized on a straight-line basis at a rate corresponding with the amortization rate for the related capital assets.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

1. Significant accounting policies (continued):

(f) Employee benefit plans:

The Hospital accrues its obligations under employee benefit plans and the related costs. The Hospital has adopted the following policies:

- (i) The cost of retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.
- (ii) The excess of the net actuarial gain (loss) over 10% of the benefit obligation is amortized on a straight-line basis over the average remaining service period of active employees. The average remaining service period of the active employees covered by the retirement benefits will be determined at the time such an obligation requires amortization.

(g) Compensated absences:

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

(h) Use of estimates:

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the 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 revenues and expenses during the period. Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in the periods in which they became known.

2. Accounts receivable:

Accounts receivable are comprised of the following items:

| | 2011 | 2010 |
|---|--------------|--------------|
| Ministry of Health and Long-Term Care | \$ 945,950 | \$ 170,144 |
| Ontario Health Insurance Plan (OHIP) | 993,014 | 903,472 |
| Other | 1,929,371 | 1,735,458 |
| | 3,868,335 | 2,809,074 |
| Less allowance for doubtful accounts receivable | 237,996 | 275,134 |
| | \$ 3,630,339 | \$ 2,533,940 |

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

3. Restricted cash:

Restricted cash is comprised of the following items:

| | 2011 | 2010 |
|---|----------------------|----------------------|
| Cash related to endowment fund | \$ 209,010 | \$ 209,010 |
| Cash related to restricted grants and donations | 22,624,592 | 13,504,464 |
| | <u>\$ 22,833,602</u> | <u>\$ 13,713,474</u> |

The cash related to the capital project funding is restricted in use and relates to the restricted grant described in note 8.

The Hospital may draw down these funds to finance related expenditures for the Capital Redevelopment project described in note 11. The Hospital drew down \$12,117,222 in 2011 (2010 - \$16,029,479) towards qualifying expenses.

4. Capital assets:

Capital assets are comprised of the following items:

| | Cost | Accumulated amortization | 2011 Net book value | 2010 Net book value |
|----------------------------|----------------------|--------------------------|----------------------|----------------------|
| Land | \$ 482,402 | \$ — | \$ 482,402 | \$ 482,402 |
| Land improvements | 552,662 | 509,796 | 42,866 | 74,527 |
| Buildings | 35,902,225 | 15,078,871 | 20,823,354 | 22,067,134 |
| Building service equipment | 8,278,473 | 6,641,294 | 1,637,179 | 1,947,891 |
| Furniture and equipment | 34,822,513 | 22,522,958 | 12,299,555 | 9,587,475 |
| Deferred charges | 2,656,355 | 2,168,976 | 487,379 | 151,808 |
| Construction-in-progress | 41,924,490 | — | 41,924,490 | 27,237,240 |
| | <u>\$124,619,120</u> | <u>\$46,921,895</u> | <u>\$ 77,697,225</u> | <u>\$ 61,548,477</u> |

Cost and accumulated amortization of capital assets at March 31, 2010 amounted to \$103,298,481 and \$41,750,004 respectively.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

5. Bank indebtedness:

Bank indebtedness is comprised of the following items:

| | 2011 | 2010 |
|---------------------|----------------------|----------------------|
| Bank overdraft | \$ 24,229,672 | \$ - |
| Bank line of credit | 479,998 | - |
| Bankers' acceptance | - | 20,000,000 |
| | <u>\$ 24,709,670</u> | <u>\$ 20,000,000</u> |

The Hospital has an available non-revolving term facility of \$25,000,000 with its lenders, of which \$479,998 was drawn against at March 31, 2011 (2010 - \$20,000,000). This line of credit is unsecured and bears interest at prime. The Hospital also has an available revolving demand facility of \$11,000,000 with its lenders, of which no amount was drawn against at March 31, 2011 (2010 - \$Nil). This line of credit is unsecured and bears interest at prime.

The Hospital also has an overdraft of \$24,229,672 (2010 - \$Nil).

Subsequent to the end of the 2011 fiscal year, this credit facility was repaid in conjunction with a Ministry of Health and Long-Term Care advance of \$25,000,000 as discussed in note 13.

The Hospital also maintains an ongoing \$1,800,000 revolving lease line of credit whose main purpose is the financing of major equipment of which no amount was drawn against at year end (2010 - \$Nil).

6. Employee future benefits:

The Hospital provides extended health care, dental and life insurance to certain employees. An independent actuarial study of the post-retirement and post-employment benefits has been undertaken. The most recent valuation of employee future benefits was completed as at March 31, 2011.

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

| | 2011 | 2010 |
|----------------------------|-------|-------|
| Discount rate | 4.70% | 4.69% |
| Salary increases | 2.50% | 1.84% |
| Inflation | 2.00% | 1.34% |
| Dental benefits escalation | 2.50% | 1.84% |
| Health benefits escalation | 4.00% | 3.34% |

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

6. Employee future benefits (continued):

The continuity of the Hospital's accrued benefit obligation is as follows:

| | 2011 | 2010 |
|---|--------------|--------------|
| Accrued benefit obligation, opening balance | \$ 2,722,668 | \$ 2,722,820 |
| Current service costs | 113,167 | 169,346 |
| Interest on accrued benefit obligation | 126,155 | 125,379 |
| Benefits paid | (178,742) | (244,015) |
| Actuarial (gain) loss | 421,501 | (50,862) |
| Accrued benefit obligation, closing balance | \$ 3,204,749 | \$ 2,722,668 |

Reconciliation of the accrued benefit obligation to the accrued benefit liability is as follows:

| | 2011 | 2010 |
|---|--------------|--------------|
| Accrued benefit obligation | \$ 3,204,749 | \$ 2,722,668 |
| Unamortized actuarial losses | (1,036,387) | (659,849) |
| Unamortized past service costs | (250,087) | (333,449) |
| Accrued benefit liability | 1,918,275 | 1,729,370 |
| Less current portion of benefit obligation | 414,096 | 367,382 |
| Long-term portion of employee future benefits | \$ 1,504,179 | \$ 1,361,988 |

7. Long-term debt:

| | 2011 | 2010 |
|---|--------------|--------------|
| Match funded term loan bearing interest at 5.02% payable in blended monthly payments of \$7,081, due June 2, 2010 | \$ — | \$ 20,433 |
| Fixed rate term loan bearing interest at 4.77%, payable in blended monthly payments of \$4,985, due January 11, 2011 | 257,590 | 302,141 |
| Fixed rate term loan bearing interest at 4.59%, payable in blended monthly payments of \$34,849, due February 4, 2015 | 1,496,677 | 1,837,578 |
| | 1,754,267 | 2,160,152 |
| Less current portion | 405,937 | 407,751 |
| | \$ 1,348,330 | \$ 1,752,401 |

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

7. Long-term debt (continued):

Principal repayments scheduled for the next five years are as follows:

| | |
|------|--------------|
| 2012 | \$ 424,330 |
| 2013 | 443,544 |
| 2014 | 429,333 |
| 2015 | 51,223 |
| 2016 | - |
| | <hr/> |
| | \$ 1,348,430 |

8. Deferred contributions:

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

| | 2011 | 2010 |
|--|---------------|--------------|
| Balance, beginning of year | \$ 59,894,360 | \$57,038,072 |
| Additional donations and grants received | 22,130,939 | 4,808,186 |
| Interest earned on unspent contributions | 145,900 | - |
| Less amounts amortized to revenue for the current year | (1,719,483) | (1,951,898) |
| Balance, end of year | <hr/> | <hr/> |
| | \$ 80,451,716 | \$59,894,360 |

The balance of deferred capital contributions related to capital assets consists of the following:

| | 2011 | 2010 |
|---|---------------|--------------|
| Unamortized capital contributions used to purchase assets | \$ 57,577,265 | \$46,379,036 |
| Unspent contributions | 22,874,451 | 13,515,324 |
| | <hr/> | <hr/> |
| | \$ 80,451,716 | \$59,894,360 |

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

9. Investment in capital assets:

(a) Investment in capital assets is calculated as follows:

| | 2011 | 2010 |
|--|---------------|---------------|
| Capital assets | \$ 77,697,225 | \$ 61,548,477 |
| Amounts financed by: | | |
| Deferred contributions on capital assets | (57,574,265) | (46,379,036) |
| Long-term debt | (1,754,267) | (2,160,152) |
| Internally restricted funds | (270,886) | (270,886) |
| | \$ 18,097,807 | \$ 12,738,403 |

(b) Change in net assets investment in capital assets is calculated as follows:

| | 2011 | 2010 |
|--|---------------|---------------|
| Deficiency of revenue over expenses: | | |
| Amortization of deferred contributions | \$ 1,719,483 | \$ 1,951,692 |
| Amortization of capital assets | (5,178,436) | (5,038,870) |
| | \$(3,458,953) | \$(3,087,178) |

| | 2011 | 2010 |
|---|---------------|---------------|
| Net change in investment in capital assets: | | |
| Purchase of capital assets | \$ 21,327,184 | \$ 21,592,671 |
| Amounts funded by deferred contributions | (12,914,712) | (18,088,459) |
| Repayment of long-term debt | 405,885 | 451,631 |
| | \$ 8,818,357 | \$ 3,955,843 |

10. Restrictions on net assets:

The net assets for endowment purposes are subject to externally imposed restrictions stipulating that the principal be maintained intact. Investment income of \$1,612 (2010 - \$762) on the assets is used to offset costs incurred by the Hospital.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

11. Capital redevelopment:

In 2003, the Hospital was directed by the Ministry of Health and Long-Term Care to begin planning to consolidate all acute care services on the McConnell Avenue site. The Hospital engaged architects and health care planners to assist in the planning for the expansion and renovations of the McConnell Avenue site. Funding for this project is comprised of capital grants from the Province of Ontario, Municipal contributions and local fundraising initiatives.

On December 12th, 2008 the Hospital was approved by the Ministry of Health and Long-Term Care to proceed with the capital redevelopment of the McConnell Avenue Site. Total capital cost is estimated at \$113M which includes an expansion of 95,000 square feet of new space, 78,000 square feet of renovation and new equipment. Construction completion is estimated for September 2013.

12. Contingencies and commitments:

(a) The nature of the Hospital's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2011, 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) On July 1, 1987, a group of health care organizations, ("subscribers"), formed Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is registered as a Reciprocal pursuant to Provincial Insurance Acts, which permits persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage of health care organizations in the provinces of Ontario, Manitoba, Saskatchewan and Newfoundland. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No such assessments have been made to March 31, 2011.

Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income less the obligation for claims reserves and expenses and operating expenses. Each subscriber which has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There are no distributions receivable from HIROC as of March 31, 2011.

(c) The Hospital is liable for pay equity maintenance to various union groups. The amount of this liability cannot be estimated at this time.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

12. Contingencies and commitments (continued):

(d) The Hospital leases premises for various community based programs. Minimum annual lease payments under current operating leases for the years ending March 31 are as follows:

| | |
|------|--------------|
| 2012 | \$ 273,342 |
| 2013 | 248,144 |
| 2014 | 253,827 |
| 2015 | 257,572 |
| | <hr/> |
| | \$ 1,032,885 |

(e) The Hospital has entered into various contracts and agreements for the capital redevelopment plan. Total outstanding contracts at March 31, 2011 are valued at approximately \$60,500,000. To date approximately \$42,609,500 (2010 - \$26,250,000) has been paid for work completed and goods received and is included in capital assets (construction in progress) in the Hospital's financial statement.

13. Subsequent event:

As in previous years, the Hospital submitted a proposal to the Champlain Local Health Integration Network for a cash flow advance on its funding to assist in financing the daily operations of the Hospital during the 2011 fiscal year.

An advance of \$25,000,000 was approved and received in April 2011 and is scheduled to be reimbursed to the Champlain Local Health Integration Network by March 31, 2012. This advance was used to repay a temporary bank loan approved by our corporate bankers as described in note 5.

14. Pension costs:

Substantially all of the employees of the Hospital are members of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Contributions to the plan made during the year by the Hospital on behalf of its employees amounted to \$4,232,376 (2010 - \$4,278,299) and are included in the statement of operations.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. 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. The most recent triennial actuarial valuation of the Plan as at December 31, 2009 indicates the plan is fully funded.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

15. Net changes in non-cash working capital components relating to operations:

| | 2011 | 2010 |
|---|---------------------|---------------------|
| Increase (decrease) in current assets: | | |
| Accounts receivable | \$(1,096,399) | \$ 3,005,442 |
| Inventories | 301,007 | (7,248) |
| Prepaid expenses | (204,027) | 54,602 |
| Increase (decrease) in current liabilities: | | |
| Accounts payable and accrued liabilities | 316,910 | 6,687,264 |
| Deferred revenue | 241,226 | (41,917) |
| Net change in non-cash working capital | \$ (441,283) | \$ 9,698,143 |

16. Related entities:

(a) Cornwall Community Hospital Foundation:

The Foundation is incorporated under the Canada Corporations Act and is a registered charity under the Income Tax Act. The amount of net resources of the Foundation at March 31, 2011 were approximately \$9,675,000 (2010 - \$8,900,000) of which \$8,638,000 is related to the Hospital's \$12,000,000 capital campaign fundraising initiative regarding equipment.

It is anticipated that these funds will be transferred to the Hospital during the fiscal years 2012 to 2013 when the related equipment will be purchased.

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

Related party transactions during the year not separately disclosed in the financial statements include an amount of \$247,300 (2010 - \$1,017,700) that has been received from the Foundation, which has been recorded as deferred contributions to be used to fund the purchase of equipment for the Hospital.

(b) Auxiliary to the Cornwall Community Hospital:

The net assets and results of the operations of the Auxiliary are not included in the financial statements of the Hospital.

The Hospital has an economic interest in the Auxiliary to the Cornwall Community Hospital by way of the Hospital holding resources that are used by the Auxiliary to produce revenue.

CORNWALL COMMUNITY HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

17. Financial instruments:

(a) Credit risk

The Hospital provides credit to its patients in the normal course of operations. It carries out, on a continuing basis, credit checks on its patients, a review of outstanding amounts and maintains provisions for estimated uncollectible accounts.

(b) Interest rate risk

The Hospital's loans bear interest at fixed rates. Consequently the Hospital's exposure to interest rate risk is minimal.

18. Fair value of financial instruments:

The carrying values of cash, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments. The carrying value of the long-term debt approximates its fair value as the terms and conditions of the borrowings are comparable with current market terms and conditions for similar items.

19. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's presentation.