Non-Consolidated Financial Statements of

EAST NIPISSING DISTRICT HOME FOR THE AGED

Years ended December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of East Nipissing District Home for the Aged

We have audited the accompanying non-consolidated financial statements of East Nipissing District Home for the Aged, which comprise the non-consolidated statement of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, the non-consolidated statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated 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 non-consolidated 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 non-consolidated 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 non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated 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 non-consolidated 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 non-consolidated financial statements.

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

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Basis of Qualified Opinion

Capital expenditures which are not financed by debt have been expensed, contributions received for the purchase of capital assets have been recognized as revenue, amortization of capital assets financed by debt have been amortized at an amount equal to the principal repayment of the related debt, as at and for the years ended December 31, 2012 and 2011, which constitutes a departure from the requirements of Canadian public sector accounting standards. In the statement of financial position as at December 31, 2012 and 2011, capital assets should be increased by $1,811,736 and $1,727,960, respectively; deferred capital contributions should be increased by $901,953 and $1,310,544, respectively; and net assets should be increased by $909,784 and $417,416, respectively. In the statement of operations for the years ended December 31, 2012 and 2011, revenue should be increased by $408,591 in each year, expenses should be decreased by $20,032 in 2012 and increased by $435,757 in 2011 and excess of revenue over expenses should be decreased by $428,623 in 2012 and increased by $27,166 in 2011. In the statement of cash flows for the years ended December 31, 2012 and 2011, cash flows from operating activities should be increased by $521,930 and $19,232, respectively and cash flows from investing activities should be decreased by $521,930 and $19,232, respectively.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of East Nipissing District Home for the Aged as at December 31, 2012, December 31, 2011 and January 1, 2011, and its non-consolidated results of operations and its non-consolidated cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 24, 2013

North Bay, Canada

EAST NIPISSING DISTRICT HOME FOR THE AGED

Non-Consolidated Statement of Financial Position

December 31, 2012, December 31, 2011 and January 1, 2011

	December 31, 2012	December 31, 2011	January 1, 2011 (Unaudited)
Assets			
Current assets:			
Cash	$ 1,112,901	$ 1,562,691	$ 2,178,043
Short-term investments (note 3)	45,743	45,179	44,672
Receivables (note 4)	321,089	479,177	544,338
Prepaid expenses	5,001	22,787	52,277
Due from related party (note 5)	66,798	-	-
	1,551,532	2,109,834	2,819,330
Assets under construction (note 6)	2,540,359	1,948,045	310,330
	$ 4,091,891	$ 4,057,879	$ 3,129,660
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$ 1,130,147	$ 1,336,092	$ 915,452
Sick leave credits payable (note 7)	352,943	298,450	271,812
Due to related party (note 5)	-	174,740	284,971
	1,483,090	1,809,282	1,472,235
Net assets:			
Unrestricted (deficiency)	(31,558)	45,952	1,272,095
Internally restricted - invested in capital assets	2,540,359	1,948,045	310,330
Internally restricted	100,000	254,600	75,000
	2,608,801	2,248,597	1,657,425
	$ 4,091,891	$ 4,057,879	$ 3,129,660

See accompanying notes to non-consolidated financial statements.

On behalf of the Board:

__________________ Director

__________________ Director

EAST NIPISSING DISTRICT HOME FOR THE AGED

Non-Consolidated Statements of Operations

Years ended December 31, 2012 and 2011

	2012 Budget	2012 Actual	2011 Actual
	(Unaudited)		
Revenues:			
Province of Ontario grants	$ 10,197,815	$ 10,461,119	$ 9,948,893
Residents revenue	4,207,917	4,262,905	4,206,256
Municipal levies	3,008,906	3,008,895	2,922,681
Catering	-	113,585	111,967
Castle Arms non-profit seniors apartments	49,911	83,330	82,866
Tuck shop	-	49,647	59,234
Other income	147,168	34,600	43,191
	17,611,717	18,014,081	17,375,088
Expenditures:			
Residents' medical and nursing	10,398,276	9,761,315	9,751,510
Dietary	2,458,206	2,562,585	2,479,371
General and administrative	1,286,023	1,542,430	992,928
Housekeeping	1,169,567	1,196,061	1,187,143
Building and property	1,103,623	1,038,070	991,525
Residents' social services, activities and comfort	761,729	759,217	750,954
Laundry and linen	512,377	466,445	434,012
Behavioural Supports Ontario	-	133,605	-
Catering	-	94,667	90,117
Tuck shop	-	46,304	48,547
Castle Arms non-profit seniors apartments	-	33,419	32,446
Bad debts	-	19,759	25,363
	17,689,801	17,653,877	16,783,916
Excess (deficiency) of revenues over expenditures	$ (78,084)	$ 360,204	$ 591,172

See accompanying notes to non-consolidated financial statements.

EAST NIPISSING DISTRICT HOME FOR THE AGED

Non-Consolidated Statement of Changes in Net Assets

Years ended December 31, 2012 and 2011

December 31, 2012		Unrestricted (deficiency)	Internally restricted - investment in capital assets (note 8)	Internally restricted	Total
Balance, beginning of year	$	45,952	1,948,045	254,600	2,248,597
Excess of revenue over expenditures		360,204	-	-	360,204
Transfer to operating		154,600	-	(154,600)	-
Net change in investment in capital assets		(592,314)	592,314	-	-
Balance, end of year	$	(31,558)	2,540,359	100,000	2,608,801

December 31, 2011					
Balance, beginning of year	$	1,272,095	310,330	75,000	1,657,425
Excess of revenue over expenditures		591,172	-	-	591,172
Transfer from operating		(179,600)	-	179,600	-
Net change in investment in capital assets		(1,637,715)	1,637,715	-	-
Balance, end of year	$	45,952	1,948,045	254,600	2,248,597

See accompanying notes to non-consolidated financial statements.

EAST NIPISSING DISTRICT HOME FOR THE AGED

Non-Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

	2012	2011
Cash provided by (used in):		
Operations:		
Excess of revenues over expenditures	$ 360,204	$ 591,172
Change in non-cash operating working capital:		
Increase in short-term investments	(564)	(507)
Decrease in receivables	158,088	65,161
Decrease in prepaid expenses	17,786	29,490
(Decrease) increase in accounts payable and accrued liabilities	(205,945)	420,640
Increase in sick leave credits payable	54,493	26,638
Decrease in advances to related party	(241,538)	(110,231)
	142,524	1,022,363
Investing:		
Purchase of assets under construction	(592,314)	(1,637,715)
Decrease in cash	(449,790)	(615,352)
Cash, beginning of years	1,562,691	2,178,043
Cash, end of years	$ 1,112,901	$ 1,562,691

See accompanying notes to non-consolidated financial statements.

Nature of operations:

East Nipissing District Home for the Aged (the "Home") is a non-profit Home incorporated in the Province of Ontario under the Homes for the Aged and Rest Homes Act and provides accommodation, activity programs and medical services to the elderly in North Bay, Ontario. The Home is exempt from income taxes under the Income Tax Act.

The participating municipalities are as follows:

The Corporation of the City of North Bay
Town of West Nipissing
Township of East Ferris
Township of South Algonquin
Township of Bonfield
Township of Calvin
Township of Papineau-Cameron
Town of Mattawa
Township of Chisolm
Township of Mattawan

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

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

There are no adjustments to net assets as at January 1, 2011 or excess of revenue over expenditures for the year ended December 31, 2011 as a result of the transition to public sector accounting standards.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations. The Home's significant accounting policies are as follows:

(a) Revenue recognition:

The Home follows the deferral method of accounting for contributions which include donations and government grants. Grants for programs comes from the Province of Ontario, primarily in accordance with signed service contracts and is recorded as revenue in the period to which the grants relate. Grants approved but not received at the end of the period are accrued. Any excess funding is recorded in the period of repayment.

1. **Significant accounting policies (continued):**

(a) Revenue recognition (continued):

Contributions restricted for the purchase of capital assets are recorded as revenue in the statement of operations.

Residents, catering, tuck shop and interest revenue is recognized when earned.

Municipal levies are recognized as revenue in the period they are levied.

(b) Capital expenditures:

Capital assets are purchased from operating funds are expensed rather than being capitalized over their estimated useful life.

Capital assets purchased from proceeds of debt financing are stated at cost. Amortization is provided at a rate equal to the annual principal repayment of the debt financing.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

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 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.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

1. Significant accounting policies (continued):

(c) Financial instruments (continued):

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

Long-term debt is recorded at cost. The related interest rate swaps are recorded at fair value.

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:

Defined contribution plan accounting is applied to a multi-employer defined benefit plan for which the Home has insufficient information to apply defined benefit plan accounting.

(e) Controlled organization:

The Home has chosen to disclose financial information for its controlled organization as opposed to full consolidation.

These non-consolidated financial statements do not reflect the assets, liabilities, revenues, expenditures and net assets of the Home's controlled organizations which included: Castle Arms Non Profit Corporation, Board of Management of Cassellholme and the Community Support Program. Separate financial statements for these entities are available.

1. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of the financial statements in conformity with Canadian public sector accounting standards 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 year. Significant items subject to such estimates and assumptions include provisions for impairment of receivables and accumulated sick time credits. Actual results could differ from those estimates.

2. Change in accounting policy:

On January 1, 2012, the Home adopted public accounting standards PS 3450 - Financial Instruments. The standard was adopted prospectively from the date of adoption. The new standard provides comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments.

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

There were no transitional adjustments at January 1, 2012 as a result of the transition to PS 3450 - Financial Instruments.

3. Short-term investments:

	Level	December 31, 2012	December 31, 2011	January 1, 2011
				(Unaudited)
TD GIC	2	$ 45,743	$ 45,179	$ 44,672

The GIC has an interest rate of 1.25% (2011 - 1.25%) and matures in 2013.

4. Receivables:

	December 31, 2012	December 31, 2011	January 1, 2011 (Unaudited)
Residents	$ 155,785	$ 137,937	$ 124,237
Government Sales Tax Rebate	124,445	203,105	190,386
Ministry of Health	65,229	-	-
Other	46,043	79,424	166,843
Castle Arms	7,229	66,890	101,326
Municipal Levy	-	49,704	-
	398,731	537,060	582,792
Allowance for doubtful accounts	(77,642)	(57,883)	(38,454)
	$ 321,089	$ 479,177	$ 544,338

5. Due to/from related party and related company transactions:

The Home received management fees of $83,330 (2011 - $82,866) from a controlled non-profit organization, Castle Arms Non-Profit Apartment Corporation ("Castle Arms"). During the year, the Home incurred administration costs related to Castle Arms of $33,419 (2011 - $32,446).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

6. Assets under construction:

The Home is in the initial stages of planning the redevelopment of its facility. The existing facility will undergo a major transformation to include modern design standards. The project will consist of two phases of construction with an undetermined start date of and occupancy in 2015. To date, the Home has spent $2,540,359 (2011 - $1,948,045) for initial planning and architect fees. The preliminary budget for the 240 bed redevelopment is estimated at $53,000,000.

7. Employee future benefits:

Under the accumulated sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment on retirement.

Employees in a specific union are credited with 144 hours per year for use as paid absences in the year, due to illness or injury. Employees are allowed to accumulate unused sick day credits each year, up to a maximum of 2400 hours. Accumulated credits may be used in future years if the employee's illness or injury exceeds the annual allocation of credits.

The Home makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. During the year the Home contributed $796,620 (2011 - $653,354) to the plan.

8. Internally restricted - investment in capital assets:

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

	December 31, 2012	December 31, 2011	January 1, 2011
			(Unaudited)
Assets under construction	$ 2,540,359	$ 1,948,045	$ 310,330

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

	December 31, 2012	December 31, 2011	January 1, 2011
			(Unaudited)
Purchase of assets under construction	$ 592,314	$ 1,637,715	$ -

9. Non-consolidated Controlled Not-for-Profit Organizations:

(a) Board of Management of Cassellholme, Home for the Aged for the District of Nipissing:

The Home is the beneficial owner of the net assets of the Board of Management of Cassellholme, Home for the Aged for the District of East Nipissing, a registered charity.

A summary of the financial statements for this non-consolidated entity as at December 31 is as follows:

	2012	2011
Assets	$ 128,363	$ 113,593
Liabilities	1,500	1,500
Net assets	$ 126,863	$ 112,093
Revenue	$ 16,126	$ 5,630
Expenses	1,356	1,227
Excess of revenue over expenses	$ 14,770	$ 4,403

(b) Community Support Services Program:

The Home operates the Community Support Services Program which is funded separately by the Ministry of Health and Long-Term Care. It's primary purpose is to provide activities which are aimed at helping senior citizens in the North Bay community.

Amounts reported on the statement of financial position as Due to Community Support Services Program, represent the net assets of the program as at December 31, 2012 and 2011.

A summary of the financial statements for this non-consolidated entity as at March 31 is as follows:

	2012	2011
Assets	$ 257,551	$ 297,984
Liabilities	281,021	48,726
Net assets (deficiency)	$ (23,470)	$ 249,258
Revenue	1,798,048	1,599,155
Expenses	1,800,068	1,521,462
Excess (deficiency) of revenue over expenses	$ (2,020)	$ 77,693

9. Non-consolidated Controlled Not-for-Profit Organizations (continued):

(c) Castle Arms Non-Profit Corporation:

The Board of Directors of the Home control Castle Arms as the Board of Directors of the Home has majority representation on the Board Directors of Castle Arms. Castle Arms is incorporated without share capital under the laws of the Province of Ontario as a non-profit organization and its primarily purpose is to provide housing to senior citizens on a rent-geared-to-income basis.

A summary of the financial statement of this non-consolidated entity as at December 31 is as follows:

	2012	2011
Assets	$ 18,938,866	$ 19,568,568
Liabilities	17,636,176	18,259,058
	$ 1,302,690	$ 1,309,510
Revenue	$ 2,863,288	$ 2,780,957
Expenses	2,591,225	2,329,461
Excess of revenue over expenditures	$ 272,063	$ 451,496
Cash flow provided by (used for) the following activities:		
Operating	$ 750,036	$ 495,975
Financing and investing	(518,069)	(473,520)
	$ 231,967	$ 22,455

Restrictions on the resources of Castle Arms are as follows:

Under the terms of an agreement with the Ministry of Municipal Affairs and Housing, a capital reserve fund in the amount of $863,890 (2011 - $841,373) is maintained to finance approved capital replacements.

10. Trust funds:

At December 31, 2012, the Home held funds in trust on behalf of clients amounting to approximately $50,050 (2011 - $56,356) which are not included in these financial statements.

11. Financial risks and concentration of risk:

The Home's financial instruments consist of cash, short-term investments, accounts receivable,accounts payable and accrued liabilities and amount due (from) a related party. The fair value of these financial instruments approximate their carrying values, unless otherwise noted. Unless otherwise noted, it is management's opinion that the Home is not exposed to significant interest rate, currency or credit risks.

Concentration of risk:

(a) Limited counterparties:

A substantial portion of the Home's revenue is dependent upon grants from the Ministry of Health. This one funder accounted for 58% of revenue (2011 - 56%). The loss of this funder would have a significant impact on the Home's revenue and operations.