REPORT OF THE ANNUAL

FINANCIAL AFFAIRS

YEAR ENDED MARCH 31, 2014

Kingston General Hospital

Outstanding care, always™

KINGSTON GENERAL HOSPITAL

Management Discussion and Analysis (unaudited)
For the year ended March 31, 2014

The objective of the Management Discussion and Analysis is to help readers of the Financial Statements of Kingston General Hospital (KGH), better understand the financial position and operating activities for the fiscal year ended March 31, 2014. This analysis should be read in conjunction with the audited financial statements and the accompanying notes to the statements.

The management of KGH acknowledges that it is our responsibility to provide appropriate information systems, procedures and controls to ensure that the information in the financial statements and this report is complete and reliable. This is done under the oversight of the Board of Directors and the Audit Committee of the hospital.

Overview

Kingston General Hospital (KGH) is committed to creating an environment that strives to provide *Outstanding Care, Always*, empowers learning and supports continuous improvement in everything we do; including strengthening our financial health. Fiscal 2014 marked the fifth consecutive year of achieving a surplus financial position and increasing our capacity to invest in the equipment, technology and infrastructure required to support the delivery of patient care. Our working capital position also improved from the prior fiscal year. These achievements were made possible through the engagement of many individuals who work, learn and volunteer at our hospital.

In Fiscal 2013, the Ontario Government embarked on Health System Funding Reform (HSFR), facilitating the transition from a global based funding model to a patient-centred model where funding follows the patient and is aligned to services provided. The implementation of this model is planned to roll out over four years; at the end of which the hospital system will receive approximately 30 percent of funding as a base funding allocation. The remaining 70 percent will be patient-based funding reflective of clinical groupings that consider disease, diagnosis, acuity and treatment in the reimbursement. A portion of the funding will be allocated using the Health Based Allocation Methodology (HBAM), a component of the new funding formula which aligns actual costs to expected costs (~40 percent); and the remainder will be allocated as Quality Based Procedures (QBP's) funding which aligns to specific patient procedural activity (~30 percent). For QBP's the Province stipulates both volume and price of each procedure to be completed by a hospital.

For the second year in a row, no inflationary increase for base funding was received by hospitals. KGH's funding has been reduced by a total of $2.8 million for the HBAM component of the HSFR funding model over the last two fiscal years. The impact of the funding aligned to the QBP's has been mitigated by the Province as a transitional step to introducing the funding model, thus resulting in minimal impact for this component to KGH.

The hospital ended the 2014 fiscal year with a total surplus of revenue over expenses of $26.7 million, including the impact of building amortization. It is important to note that the hospital achieved a balanced financial position from regular recurring operational activities.

The surplus position is attributable to unplanned, non-recurring revenue sources of $16.4 million (Provincial working capital deficit funding relief of $7.0 million and the recognition of $9.4 million from Post Construction Operating Plan (PCOP) funding aligned to prior years' clinical activity), and operating funds planned and provisioned for capital expenditure.

Financial Analysis of the Hospital

A change in net assets is one indicator of whether the financial health of the hospital is improving or deteriorating. Net assets represent the excess of the book value of what an organization owns (assets) less the book value of what the organization owes (liabilities).

Net assets at the end of fiscal 2014 totaled $18.0 million, an increase of $26.7 million during the year. Net assets are categorized as unrestricted (not subject to externally imposed restrictions) or invested in capital assets.

(000')	Unrestricted	Invested in Capital Assets	Total
Balance, beginning of year	(41,396)	32,705	(8,691)
Excess of revenue over expenses	33,567	(6,865)	26,702
Net change in investment in capital assets	(14,051)	14,051	-
Balance, end of year	(21,880)	39,891	18,011

The increase in net assets during the fiscal 2014 reflects the impact of the hospital's surplus position. The portion of net assets invested in capital assets grew from $32.7 million to $39.9 million in fiscal 2014. This increase corresponds to the increase in capital asset expenditures less the increase in amortization and repayment of long-term debt.

Working Capital

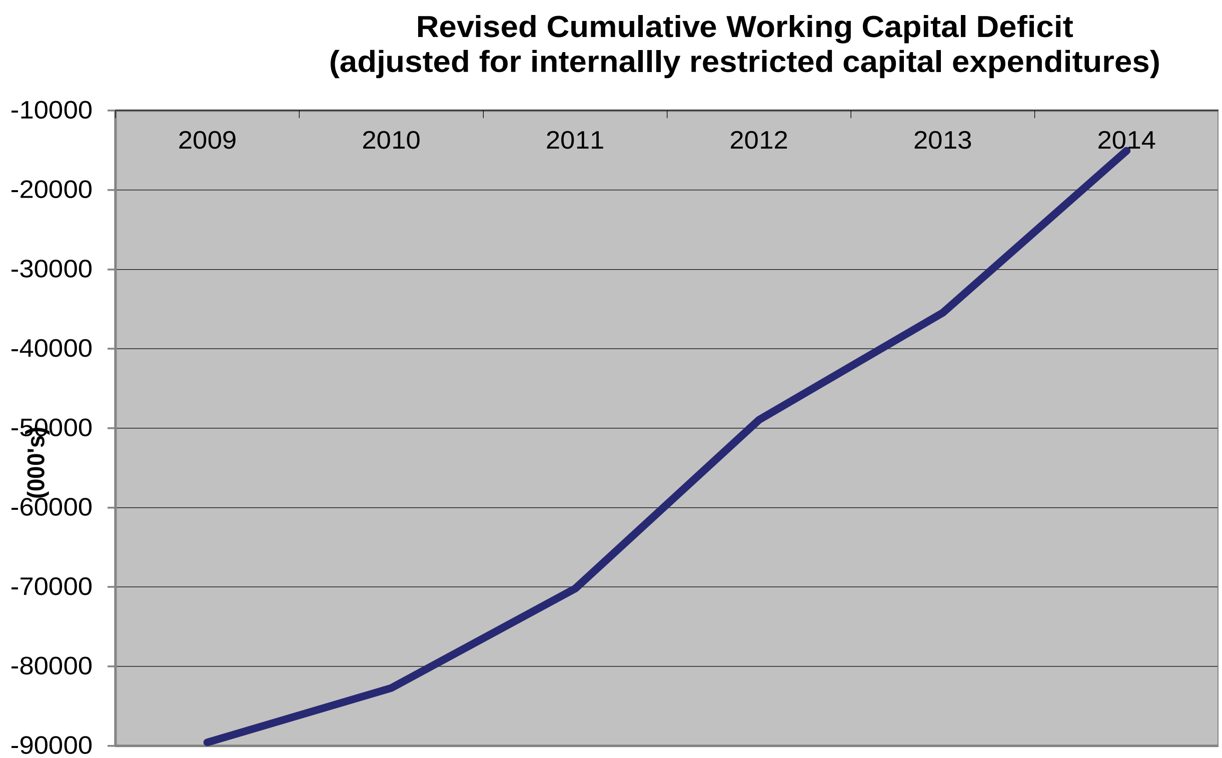
Working capital is defined as an excess of current assets over current liabilities and is a reflection of an organization's ability to meet its short-term financial obligations. The hospital's total working capital surplus at March 31, 2014 was $35.2 million; an $18.8 million improvement from the previous year. It is important to note that current assets include cash of $63.7 million that cannot be used for hospital operational activities. This amount includes $35.9 million for approved capital expenditures, $21.7 million provisioned for recoverable liabilities and $6.1 million designated for Research projects.

The 2010 Ontario Provincial Budget highlighted hospital working capital deficits and the existence of cash advances required by hospitals as an issue to be addressed. The 2011 Ontario Provincial Budget pledged $600 million to $800 million in additional cash flow to assist with working capital problems at the most seriously impacted hospitals. KGH did not meet the eligibility criteria for funding consideration in fiscal 2012 as it was still operating under the formal Performance Improvement Plan (PIP). Hospitals in a PIP were excluded from the process. In Fiscal 2013, KGH received working capital deficit relief funding in the amount of $7.0 million from the Ministry of Health and Long-Term Care (MOHLTC) and executed the corresponding accountability agreement.

The application of this funding reduced the $28.0 million cash advance provided at the beginning of the year by the South East Local Health Integration Network (SE-LHIN) to $21.0 million. An equivalent amount of short-term bridge financing was undertaken to allow the hospital to repay this advance to the SE-LHIN by March 31, 2013. Arrangements for Fiscal 2014 were facilitated with the SE-LHIN allowing the hospital to receive a cash advance of $21.0 million to repay the bridge financing on April 15, 2013.

The $7.0 million additional working capital deficit relief funding received in fiscal 2014 was applied to reducing the outstanding cash advance. As the MOHLTC did not support the SE-LHIN continuing to provide a cash advance to the hospital, the hospital was required to extinguish the remaining $14.0 million cash advance from accumulated working capital resources including the PCOP funding recognized in fiscal 2014 aligned to prior years' clinical activity. The remaining portion of this payment was made with funds internally reserved for future capital expenditures. It is the intention to replenish these capital funds upon the receipt of monies owing to the hospital from the MOHLTC as a holdback on the major Redevelopment Phase I project completed in December 2012. Discussions with the Ministry to finalize this project reconciliation are continuing.

Recognizing the restrictions internally imposed for approved capital expenditure, the hospital presents revised working capital figures below to more accurately represent its working capital position. This revised working capital deficit position improved from the fiscal 2013 position by $19.4 million.



2009 ($89.581M) 2011 ($70.198M) 2013 ($35.449M)
2010 ($82.713M) 2012 ($48.993M) 2014 ($15.065M)

The hospital did not make any draw upon its operating line of credit in fiscal 2014 ($30 million capacity).

The audited Consolidated Statement of Cash Flows reflects the changes in the cash components of working capital. Changes in non-cash working capital items are detailed in note 14 of the accompanying Notes to Consolidated Financial Statements.

Long-term Debt

No new long-term debt was undertaken during the fiscal year. At the end of the year, KGH had $15.2 million in long-term debt outstanding. In March 2012, the Board proactively approved the investment of $5.7 million of surplus cash to fund future long-term debt liabilities due in 2016/2017. This debt relates to infrastructure investments made in 2006/2007 that did not have associated dedicated funding. Long-term debt of $7.8 million was incurred in 2012 to support an energy retro-fit project. The payments on this debt are supported by a contractual guarantee of reductions in energy costs over the 15 year amortization period of the loan. The energy savings are being achieved.

Investment in Capital Assets

We are committed to investing in the future of KGH so the hospital has the infrastructure, equipment and technology needed to deliver Outstanding Care, Always. Since 2010, much effort has been undertaken in identifying and implementing operational efficiencies to not only address unfunded inflationary cost pressures, but also to increase the capacity for investment in capital assets. The hospital continues to pursue its long-range capital plan, targeting an annual sustainable capital asset investment capacity of $20 million by the end of fiscal 2015.

In fiscal 2010, the annual capital budget was limited to the amount of net amortization expense (a non-cash item included in the annual operating budget) less payment requirements of its current long-term debt obligations; leaving $3.0 million. In 2011, the KGH Board made a strategic decision to allocate the 2011 base funding increase of $3.9 million to investment in capital expenditures. The hospital was also successful in renegotiating existing long-term debt obligations which, when added to the base funding increase, increased the annual capital budget to $9.0 million for 2011. In the subsequent three years, the hospital increased the capacity for capital expenditure (2012: $12.3 million, 2013: $15.0 million, 2014: $17.5 million) by implementing operational efficiencies that permitted reallocating funds to support this investment instead of increasing operating costs. Support from the Ministry of Health and Long-Term Care, Cancer Care Ontario (CCO), and the Southeast Local Health Integration Network has assisted in addressing some of the hospital capital funding needs over the past four years. Capital investment funding is also received from the Kingston General Hospital Foundation and the Kingston General Hospital Auxiliary (refer to note 15 in the accompanying Notes to Consolidated Financial Statements).

During the fiscal year, the hospital accounted for the purchase of $19.2 million of capital assets. Expenditures were split between the following categories:

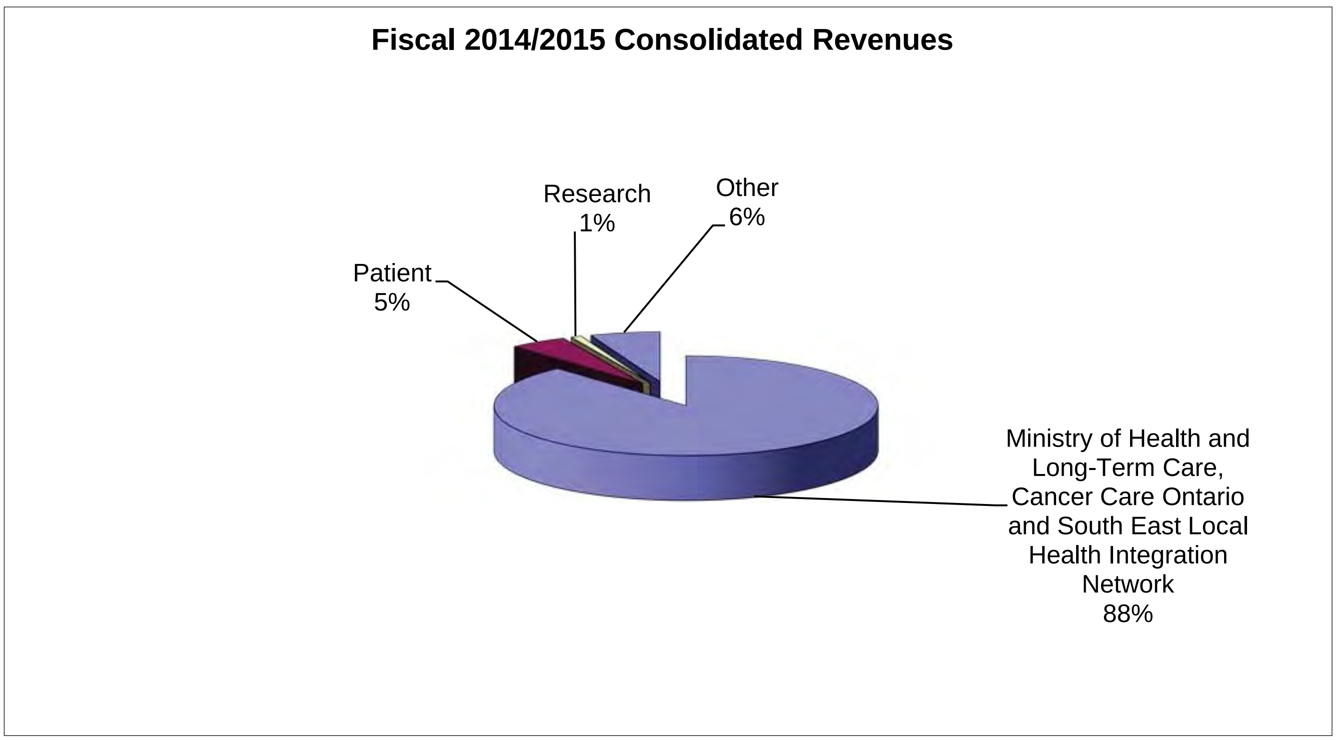
Clinical and non-clinical equipment	$10.8 million
Information management systems	$ 2.4 million
Building systems and equipment	$ 2.3 million
Redevelopment project/renovations	$ 3.7 million

During the year, $6.7 million of capital expenditures were funded through the use of deferred capital contributions.

Operating Revenues

Kingston General Hospital is funded by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care, Cancer Care Ontario, and the South East Local Health Integration Network.

The hospital is required to annually execute the Hospital Services Accountability Agreement (H-SAA) with the SE-LHIN. This agreement sets out the rights and obligations of the two parties and performance expectations for the funding provided. If the hospital does not meet certain performance standards or obligations, the MOHLTC has the right to adjust some funding streams received by the Hospital. Given that the Ministry is not able to finalize all funding adjustments until after the submission of year-end data, the amount of revenue recognized in these financial statements includes management's best estimates of amounts that may become payable.



Revenues	$000's
Ministry of Health and Long-Term Care, Cancer Care Ontario, and South East Local Health Integration Network	$400,339
Patient	22,103
Research	4,051
Other	26,547
Total revenues	$453,040

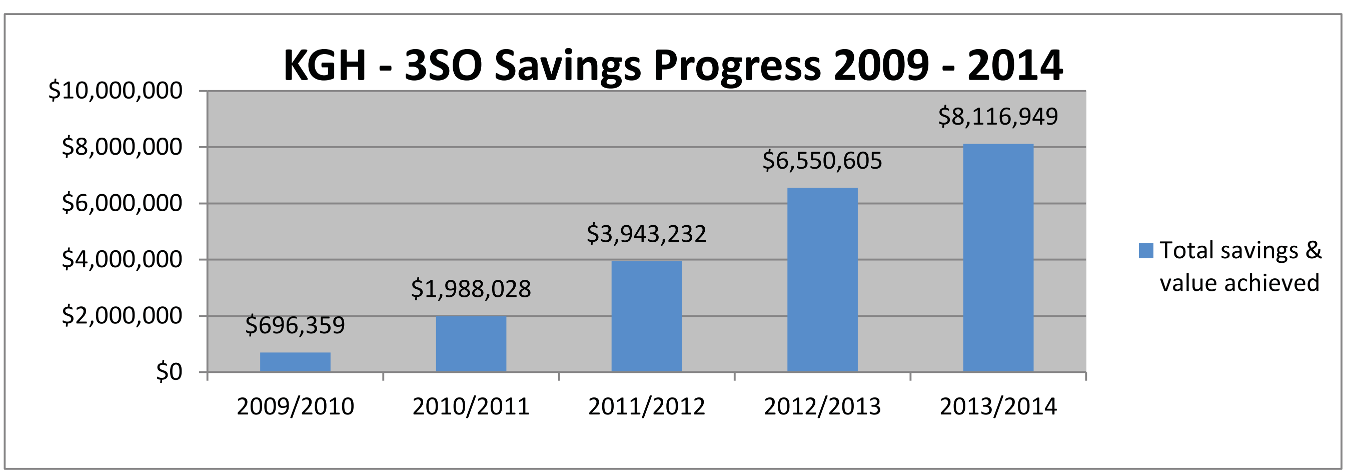
At $400.3 million, funding from provincial government sources is the hospital's most significant source of income, representing 88% of total operating revenue in fiscal 2014 (consistent with last year). These revenue sources increased approximately $6.8 million or 1.7% from fiscal 2013. This year-over-year increase includes the recognition of the $9.4 million of PCOP funding aligned to prior year clinical activity and a reduction in revenue related to HSFR and the transfer of ambulatory clinic volumes to Hotel Dieu Hospital.

Patient care revenue totaled $22.1 million in fiscal 2014, a decrease of $200 thousand or approximately 1% from fiscal 2013. This revenue category includes revenue from diagnostic billing, preferred accommodation, co-payment fees for alternative level of care patients and revenue generated from the provision of services to patients from outside of Ontario. Revenues from the Kingston General Hospital Research Institute, which is controlled by the Kingston General Hospital, are included in the consolidated operating results. The $4.1 million of revenue includes support for both research activities and administrative infrastructure. Marketed services contributed approximately $4.5 million of additional other revenue to support patient care initiatives and includes the revenues derived from retail services, rentals, and parking lot operations. One-time non-recurring miscellaneous revenues and recoveries contributed $17.0 million, and investment income provided $1.3 million. Amortization of deferred capital grants and recoveries of services provided to parties external to the hospital contribute the balance of this revenue category.

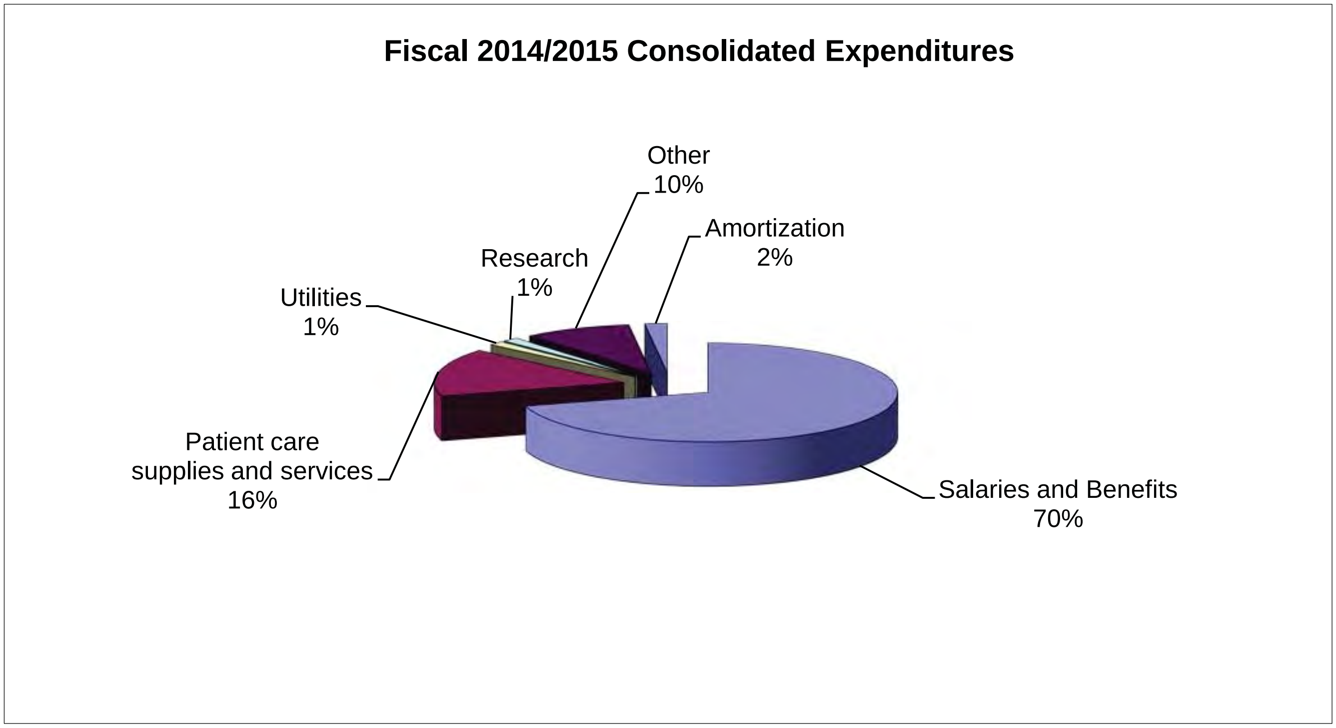
Operating Expenditures

Salaries and benefits represent the most significant operating expense at KGH. These costs accounted for 70% of total operating costs in fiscal 2014. Expenditure in this category increased approximately $234 thousand or less than 1% over the previous fiscal year while accommodating inflationary increases for front-line and non-union hospital employees.

Patient care supplies and services represent the next largest category of expenditures accounting for 16% of total operating expenditures last year. These costs decreased approximately $150 thousand over the prior year including absorbing the impact of inflationary increases in medical, laboratory and drug supplies. Savings resulting from competitive procurement processes contributed significantly to these results. The following chart indicates the cumulative savings facilitated by Shared Support Services South Eastern Ontario (3SO) in collaboration with hospital leadership since KGH became a member of this organization.



Included in other expenditures is $703 thousand interest expense on long-term debt obligations and $365 thousand bad debts expense. With the exception of transportation (related to non-urgent patient transport) all other major expense category costs were reduced over the prior fiscal year level.



Expenditures:	$000's
Salaries and benefits	$298,522
Patient care and supplies	66,894
Utilities	5,432
Other	39,068
Amortization	7,996
Total operating expenses	$423,779

Human Resources

Turning our hospital into a positive, dynamic and healthy workplace is a top priority. Patients and families benefit from Outstanding Care, Always when our staff is engaged and working at their best.

KGH employed 3,663 individuals as at March 31, 2014. The workforce total increases to 4,113 including medical residents. This represents a 1.7% increase over the previous year (2013 – 4,045).

Unionized staff numbers increased 2.2% (91.5% of staff are represented by union organizations), while non-union staffing numbers decreased 4.0%. The percentage of staff employed fulltime was 61.1%.

Operational Efficiency

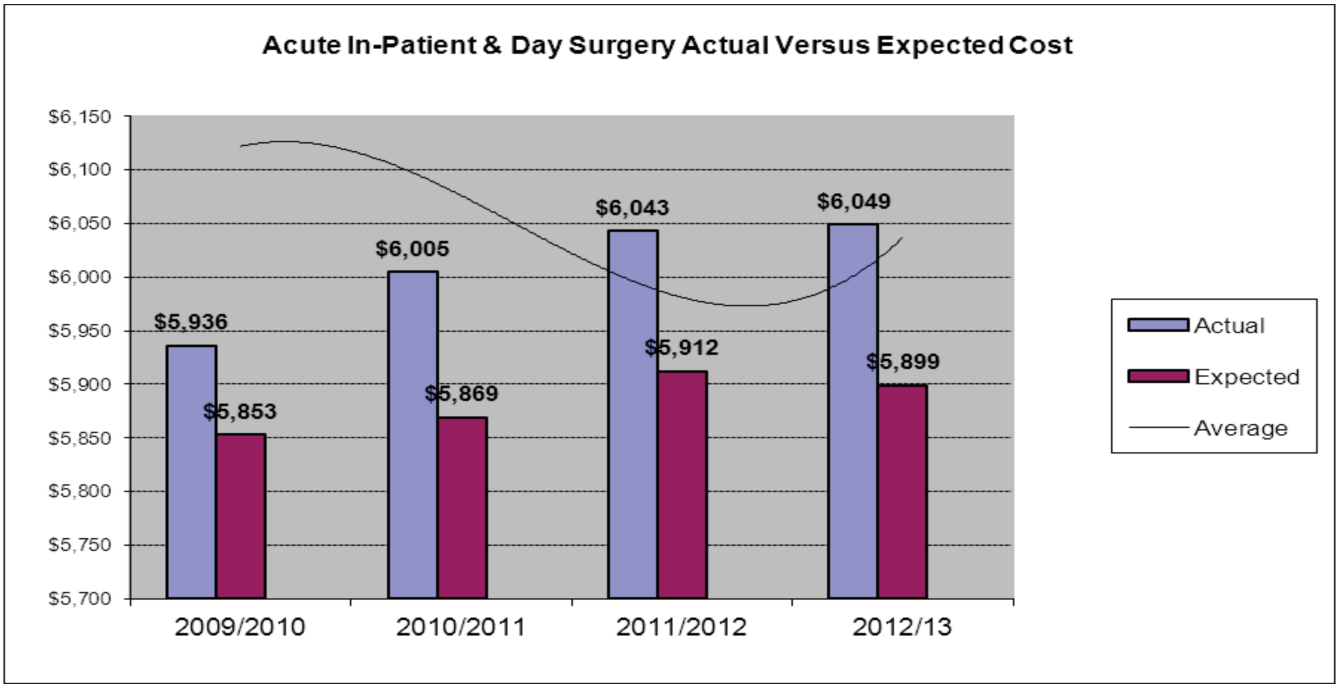
The hospital continued to meet its H-SAA obligations for the year ended March 31, 2014. There are two financial performance indicators included in the fiscal 2014 H-SAA. The current ratio is a measure of the organization's ability to meet its current liabilities utilizing its short-term assets (the sum of cash, accounts receivable, inventory, etc.) and is calculated by dividing the total of current assets by the total of current liabilities. A current ratio less than 1.0:1 could signal issues, such as an inability to meet commitments as they come due and/or ability to meet emerging operational pressures.

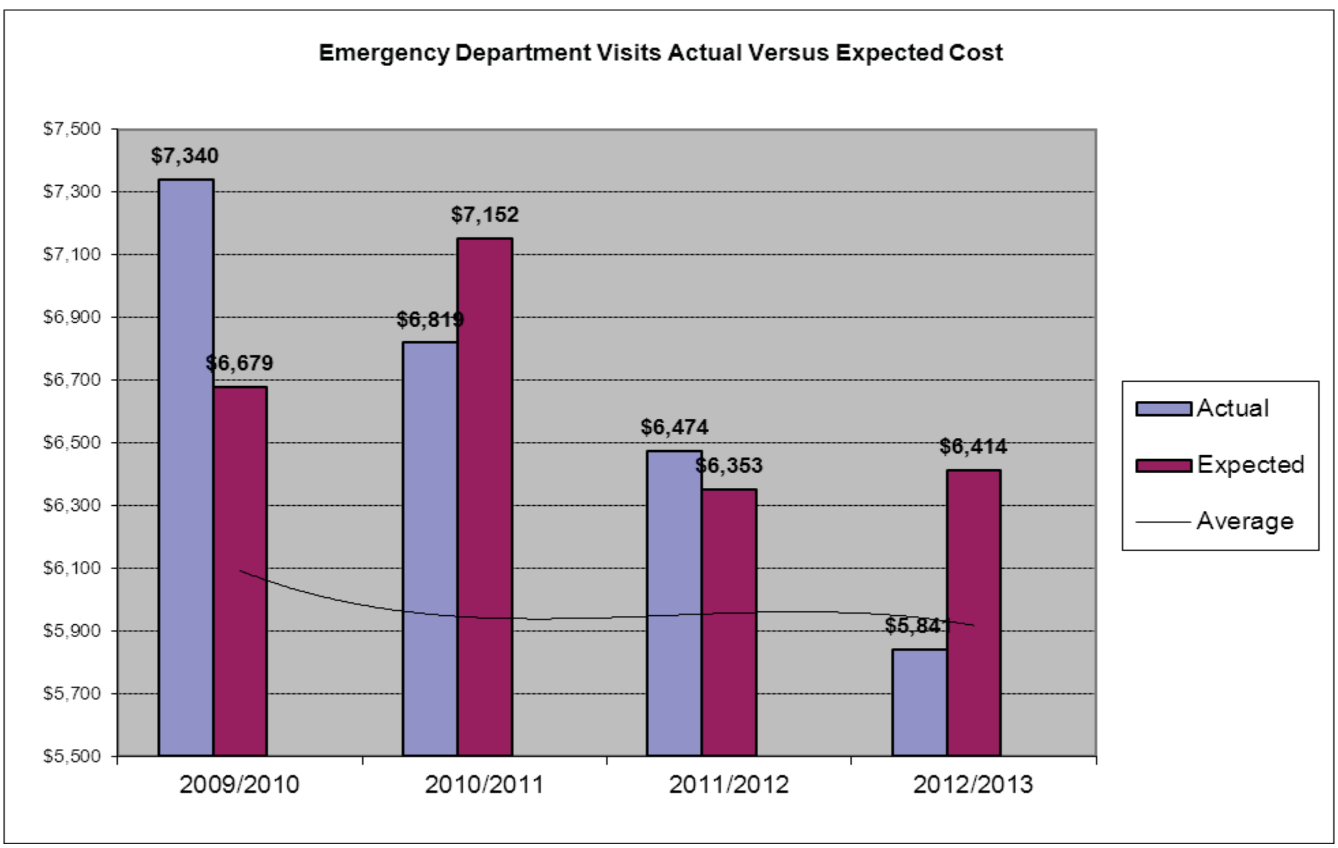
The $35.2 million total working capital surplus as at March 31, 2014 translates into a current ratio of 1.48:1. The acceptable Ministry target for this ratio is between 0.8:1 and 2.0:1. However, as noted above, KGH calculates a revised working capital position and current ratio to ensure readers understand the impact of internally restricted assets on the hospital working capital position. The total margin percentage is the second financial performance indicator in the fiscal 2014 H-SAA. The total margin measures total operating revenues in excess of total operating expenses. It is a measure of management's efficiency and the hospital's ability to live within available resources during a specific operating fiscal year. The total margin percentage is calculated as operating surplus/ (deficit) divided by total operating revenue. The acceptable Ministry target for this indicator is 0% - 3%. KGH's total margin at March 31, 2014 was 6.67%. The result for this year reflects significant non-operational revenues received in the year (working capital relief funding) and the recognition of revenue aligned to prior fiscal years' activity (PCOP funding). Removing these revenue items from the calculation results in a total margin of 3.13%; representing the provisioned surplus to support capital investment. As previously noted, the hospital operating position was balanced.

The comparison between actual and expected costs has increased significance as a key performance metric within Health System Funding Reform. The following charts represent Kingston General Hospital's actual versus expected financial performance for the two categories of patient based activity included in the funding model using the Health Based Allocation Methodology for the four fiscal years for which complete data is available.

For all four years represented, the hospital incurred actual costs for total in-patient and day surgery cases in excess of expected costs. The KGH gap between actual and expected cost increased from -1.42% in fiscal 2010 to -2.54% in fiscal 2013. Based on the fiscal 2014 operational results, it is anticipated that this gap will narrow. During the last two years the gap between the KGH cost and the provincial non-specialty teaching hospital average cost has reduced to -0.20%. Continued analysis of the underlying data will inform further continuous improvement activities in the upcoming year.

There was a marked decrease in the costs for an emergency department case in fiscal 2013 resulting in part from utilizing the resources provided by the MOHLTC Pay-For-Results program. Since fiscal 2010 the KGH cost for an emergency department case has improved from being 9.90% unfavourable to expected cost to being 8.93% favourable. The fiscal 2013 actual cost is 1.30% lower than the provincial average for non-specialty teaching hospitals.


Acute In-Patient & Day Surgery Actual Versus Expected Cost
$6,150
$6,100
$6,050
$6,000
$5,950
$5,900
$5,850
$5,800
$5,750
$5,700
$5,936
$5,853
$6,005
$5,869
$6,043
$5,912
$6,049
$5,899
2009/2010
2010/2011
2011/2012
2012/13
Actual
Expected
Average


Emergency Department Visits Actual Versus Expected Cost
$7,500
$7,300
$7,100
$6,900
$6,700
$6,500
$6,300
$6,100
$5,900
$5,700
$5,500
$7,340
$6,679
$6,819
$7,152
$6,474
$6,353
$5,841
$6,414
2009/2010
2010/2011
2011/2012
2012/2013
Actual
Expected
Average

Outcomes

A key cost driver in the organization is patient activity volumes. The following highlights changes in key statistical levels over the prior year:

	2014	2013
Inpatient stays (includes births)	**22,309**	**21,108**
Births	**1,958**	**1,974**
Emergency Department visits	**53,954**	**53,479**
Cancer Centre visits	**77,847**	**72,862**
All other ambulatory visits	**105,225**	**150,332**
Operative cases	**9,103**	**8,995**
Acute average length of stay	**6.2**	**6.5**
Imaging Exams	**119,695**	**121,545**
Clinical laboratories tests	**2,674,530**	**2,537,123**

As it relates to the activity volumes above, the following are of note:

Inpatient stays: Increase is attributable to the opening of 4 additional critical care beds in fiscal 2014.

Births: There continues to be a slight drop in births over the last two fiscal years. As KGH has a no refusal policy, this reduction is related to external factors.

Cancer Care Center Visits: The increase in Cancer Care Center visits is aligned to additional funding received to expand capacity in ambulatory clinics.

Emergency Department Visits: Emergency department (ED) visits are relatively unchanged from the prior year. Continuous improvement initiatives in the ED have improved patient flow thus allowing the ability to accommodate the additional volume.

Cancer Centre visits: The increase in volume is aligned to PCOP funding for expanded capacity.

All other ambulatory visits: Total visits have decreased over the prior year reflecting the transfer of ambulatory clinic activity to Hotel Dieu Hospital (HDH).

Operative cases: The number of cancelled cases decreased from the prior year by 3%.

Acute average length of stay: The length of stay continues to steadily decrease even though there has been an increase in patients in the hospital awaiting access to long-term care facilities.

Imaging exams: Although there was a small decrease in General Radiology workload due to the transfer of ambulatory clinic activity to HDH, the majority of the increase is due to a methodology change in recording activity.

Clinical laboratories tests: Increase in test volume aligns with the increase in patient activity in the Cancer Centre and operative cases resulting in more surgical pathology activity.

The following highlights Quality Based Procedures volume over the last two years. The volume variability between the years is primarily based on patient population.

	2014	2013
Hips and knees	**557**	**573**
Stroke	**318**	**282**
Non-cardiac vascular	**89**	**77**
Congestive heart failure	**340**	**372**
Chronic obstructive pulmonary disease	**401**	**477**
Endoscopy	**2,597**	**2,381**
Systemic therapy	**11,020**	**9,922**

2014/15

The demand for healthcare services and the costs for providing them continue to increase. Cost increases faced by KGH and hospitals across the province include unfunded rising salary and benefits costs, medical and surgical supplies cost inflation, significant increases in utilities costs and costs associated with the replacement of technology and medical equipment. At the same time these costs are increasing the hospital continues to be impacted by reduced funding for changes enacted under the government's Health System Funding Reform. The continued improvement in our financial and operational health is dependent on implementing strategies that recognize the need to maintain a balanced operating budget while ensuring sufficient resources to cover existing long-term debt payments and the ongoing investment in the renewal of building infrastructure, technology and medical equipment, while at the same time providing Outstanding Care, Always. Resources will be allocated to the initiatives that support these strategic goals.

The impact of inflationary cost pressures on the fiscal 2015 operating budget have been estimated at approximately $7.2 million. The hospital has already identified and begun implementing operational efficiency measures to address this funding gap and projects a balanced operating budget as it begins fiscal 2015. The capital budget for fiscal 2015 has been approved at $16.7 million. Efforts are underway to identify opportunities for additional operational efficiencies that could be applied to increasing this capacity towards the established $20 million annual expenditure target.

Summary

Financial stewardship requires the effective management of resources. As evidence of the hospital's effective stewardship, fiscal 2014 marked sustained performance in the financial health of the organization. Executive management believes the hospital is well positioned financially to serve patient needs and address the ongoing fiscal challenges ahead.

$ millions	Fiscal 2014	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009
Operating results						
Revenue	453.0	448.1	429.7	406.9	391.6	365.1
Expense	(423.8)	(426.8)	(407.0)	(395.5)	(388.5)	(380.4)
Excess (deficiency) of revenue over expenses - operations	29.2	21.3	22.7	11.4	3.1	(15.3)
Building amortization						
Revenue	16.3	16.1	7.4	3.7	3.8	3.0
Expense	(18.8)	(18.5)	(9.7)	(7.0)	(6.2)	(5.6)
Deficiency of revenue over expenses - building amortization	(2.5)	(2.4)	(2.3)	(3.3)	(2.4)	(2.6)
Total surplus (deficit) position	26.7	18.9	20.4	8.1	0.7	(17.9)

J'Neene Coghlan

J'Neene Coghlan, Chief Financial Officer

Jim Flett, Chief Operating Officer

Leslee Thompson, President and Chief Executive Officer

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Kingston General Hospital

We have audited the accompanying consolidated financial statements of Kingston General Hospital, which comprise the statement of financial position as at March 31, 2014, the consolidated statements of revenues and expenses, changes in net assets (deficiency), remeasurement gains and losses 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 Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kingston General Hospital as at March 31, 2014, and its consolidated results of operations, consolidated changes in net assets (deficiency), consolidated remeasurement gains and losses and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 4, 2014

Kingston, Canada

KINGSTON GENERAL HOSPITAL
Consolidated Statements of Financial Position

as at March 31, 2014
(000's)

	2014	2013
Assets		
Current assets		
Cash	$ 13,805	$ 11,636
Restricted cash	63,748	65,472
Accounts receivable	11,254	11,310
Due from Ministry of Health and Long-Term Care, South East Local Health Integration Network and Cancer Care Ontario	10,045	11,015
Inventories	6,303	5,981
Other current assets	3,382	3,050
	108,537	108,464
Other investments (note 3)		
Other	6,346	6,487
Investments in joint ventures (note 4)	3,057	3,065
Capital assets, net (note 5)	295,576	303,242
	$ 413,516	$ 421,258
Liabilities and Net Assets		
Current liabilities		
Short term borrowings (note 8)	$ -	$ 21,000
Accounts payable and accrued liabilities	50,255	49,175
Accrued compensation	20,342	21,148
Note payable - KGH Auxiliary (note 15)	400	400
Gift annuities (note 6)	50	100
Agency obligations (note 7)	706	733
Current portion of long-term debt (note 8)	1,628	1,564
	73,381	94,120
Long-term debt (note 8)	13,533	15,162
Employee future benefits (note 9)	26,121	24,674
Interest rate swaps (note 8)	492	759
Deferred contributions (note 10, 11 and 12)	281,633	295,082
Net assets		
Invested in capital assets (note 5)	39,891	32,705
Unrestricted	(21,880)	(41,396)
	18,011	(8,691)
Accumulated remeasurement gains	345	152
	18,356	(8,539)
Commitments (note 13)		
Contingencies (notes 16 and 17)		
	$ 413,516	$ 421,258

See accompanying notes.

On behalf of the board:

Member

Member

KINGSTON GENERAL HOSPITAL
Consolidated Statements of Revenues and Expenses

for the year ended March 31, 2014
(000's)

	2014	2013
Revenues		
Inpatients		
Ministry of Health and Long-Term Care,		
South East Local Health Integration Network and Cancer Care Ontario	360,270 $	354,218
Other	9,018	8,483
Outpatients	13,085	13,820
Clinical education and other programs	40,069	39,355
Marketed services	4,500	3,907
Recoveries and other revenue	17,024	18,999
Investment income	1,334	1,096
Research	4,051	3,616
Amortization of deferred capital contributions-major equipment	3,689	4,647
Total revenues	453,040	448,141
Expenses		
Salaries and benefits	298,522	298,288
Patient care supplies and services	66,894	67,044
Utilities	5,432	5,303
Interest	730	981
General	38,338	39,932
Research	5,867	5,304
Amortization of major equipment	7,996	9,978
Total expenses	423,779	426,830
Surplus of revenues over expenses before building amortization	29,261	21,311
Amortization of deferred capital contributions - building and land improvements	16,325	16,135
Amortization of building and land improvements	(18,884)	(18,592)
Surplus of revenues over expenses	26,702 $	18,854

See accompanying notes.

KINGSTON GENERAL HOSPITAL

Consolidated Statement of Changes in Net Assets (Deficiency)

for the year ended March 31, 2014
(000's)

				Total	
		Unrestricted	**Invested in Capital Assets**	**2014**	**2013**
Balance, beginning of year		(41,396)	32,705	(8,691)	(27,545)
Surplus (deficiency) of expenses over revenues (note 5)		33,567	(6,865)	26,702	18,854
Net change in investment in capital assets (Note 5)		(14,051)	14,051	-	-
Balance, end of year	$	(21,880) $	39,891 $	18,011	(8,691)

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Cash Flows

for the year ended March 31, 2014
(000's)

		2014		2013
Operating activities:				
Surplus of revenues over expenses	$	26,702	$	18,854
Add (deduct) non-cash items				
Amortization of capital assets		26,880		28,570
Amortization of deferred capital contributions		(20,014)		(20,782)
Change in fair value of other investments		(74)		80
(Gain) loss on disposition of capital assets		(19)		71
Change in non-cash working capital balances (note 14)		569		(5,459)
Increase in employee future benefits		1,447		1,391
Increase (decrease) in deferred contributions		531		1,399
		36,022		24,124
Capital activities:				
Purchase of capital assets		(19,195)		(24,296)
Receipt of deferred capital contributions		6,034		9,225
		(13,161)		(15,071)
Financing activities:				
Issuance of long-term debt		-		-
Repayment of long-term debt		(1,565)		(1,535)
Note payable - KGH Auxiliary		-		(100)
		(1,565)		(1,635)
Investing activities:				
Redemption (purchase) of investments		141		(118)
(Increase) decrease in investments in joint ventures		8		(209)
		149		(327)
Increase in cash during the year		21,445		7,091
Cash, beginning of year		56,108		49,017
Cash, end of year	$	77,553	$	56,108
Cash, end of year is represented by:				
Cash	$	13,805	$	11,636
Restricted cash		63,748		65,472
Short term borrowings		-		(21,000)
	$	77,553	$	56,108

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Remeasurement Gains and Losses

for the year ended March 31, 2014
(000's)

		2014	2013
Accumulated remeasurement gains, beginning of the year	$	152	98
		152	98
Unrealized gains (losses) attributable to:			
Other Investments			
Designated Fair Value		(63)	96
Equity Instruments		(11)	(16)
Derivatives		267	(26)
		193	54
Net remeasurement gains for the year		193	54
Accumulated remeasurement gains, end of the year	$	345	152

See accompanying notes.

1. Nature of Operations

Kingston General Hospital (the "Hospital") provides a range of patient-centered programs and select specialty and complex acute care services primarily to the people of Southeastern Ontario. The Hospital also provides primary and secondary care to the population of the Kingston area and serves as a provincial resource in specific programs. The hospital supports the education and development of health care providers and advances health care services through related research activities.

The Board of Governors of the Kingston Hospital commonly referred to as "Kingston General Hospital" was incorporated under statutes of Province of Canada, Chapter 103, 1849. Kingston General 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.

The Kingston General Hospital Research Institute was incorporated without share capital under the laws of the Province of Ontario in November 2010. The Kingston General Hospital Research Institute carries on or promotes medical scientific research and experimental development in conjunction with Kingston General Hospital.

2. Summary of 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. The more significant accounting policies are summarized as follows:

Ministry of Health and Long-Term Care, Cancer Care Ontario and South East Local Health Integration Network Funding

Kingston General Hospital is funded primarily by the Province of Ontario. These financial statements reflect agreed funding arrangements approved by the Ministry of Health and Long-Term Care, Cancer Care Ontario and the South East Local Health Integration Network with respect to the year ended March 31, 2014.

Principles of Consolidation

The consolidated financial statements of Kingston General Hospital include the accounts of the Kingston General Hospital and the Kingston General Hospital Research Institute which is controlled by Kingston General Hospital. All intercompany accounts and transactions are eliminated in consolidation.

Revenue Recognition

Kingston General Hospital follows the deferral method of accounting for contributions. 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 are recognized as revenue in the year in which the related expenses are recognized. Contributions received for capital assets are deferred and amortized into revenue over the same term and on the same basis as the related capital assets.

Realized and unrealized investment income is recorded in deferred contributions to the extent there are external restrictions on the related investments. Unrestricted investment income is recognized as revenue when earned on the Consolidated Statement of Revenues and Expenses.

Revenue from the Ontario Hospital Insurance Plan, inpatient services, outpatient services, preferred accommodation, Clinical Education and other programs, marketed services and recoveries and other revenue is recognized when the goods are sold or the service is provided.

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. Operating Grants are recorded as revenue in the period to which they relate.

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 Consolidated Statement of Remeasurement Gains and Losses until they are realized, when they are transferred to the Consolidated Statement of Revenues and Expenses.

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. When a decline is determined to be other than temporary, the amount of the loss is reported in the Consolidated Statement of Revenues and Expenses and any unrealized gain is adjusted through the Consolidated Statement of Remeasurement Gains and Losses.

When the asset is sold, the unrealized gains and losses previously recognized in the Consolidated Statement of Remeasurement Gains and Losses are reversed and recognized in the Consolidated Statement of Revenues and Expenses.

Long-term debt is recorded at cost. Interest rate swaps are recorded at fair value.

The Public Sector Accounting 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.

Capital Assets

Purchased capital assets are recorded at original cost. The original cost does not reflect replacement cost or market value upon liquidation. Contributed capital assets are recorded at fair value at the date of contribution. Assets acquired under capital leases are amortized over the estimated life of the assets or over the lease term, as appropriate. Repairs and maintenance costs are expensed. Betterments, 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.

Capital assets are amortized on a straight-line basis using the following annual rates:

Land improvements	4% - 10%
Buildings and building service equipment	2% - 10%
Major equipment	5% - 33%

Costs of work in progress are capitalized. Amortization is not recognized until project completion.

Contributed Services

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

Inventories

Inventories are valued at the lower of average cost and net realizable value.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from those estimates**.**

Investments in Joint Ventures

The Hospital accounts for its investments in joint ventures using the equity method of accounting whereby the investments are carried at cost and adjusted for any contributions or withdrawals. Its share of the net earnings or losses of the joint ventures are reported in the Hospital's Consolidated Statement of Revenues and Expenses.

($000's)

Employee Benefit Plans

(a) Multi-Employer Pension Plan

Kingston General Hospital participates in a defined benefit multi-employer pension plan. The plan is accounted for on a defined contribution plan basis as contributions to the benefit plan are determined by the plan administrator and are expensed when due. The most recent regulatory funding valuation of this multi-employer pension plan conducted as at December 31, 2012 disclosed actuarial assets of $41,592 million with accrued pension liabilities of $39,919 million, resulting in a surplus of $1,673 million. This filing valuation also confirmed that the plan was fully funded on a solvency basis as at December 31, 2012 based on the assumptions and methods adopted for the valuation.

(b) Accrued Post-Employment Benefits

Kingston General Hospital accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs. The most recent actuarial valuation of the benefit plans for funding purposes was as of April 1, 2014, and the next required valuation will be as of April 1, 2017.

Actuarial gains (losses) arise from changes in actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees.

The average remaining service period of the active employees covered by the employee benefit plan is 18 years (2013 – 15 years). The average remaining service period for employees of other benefit plans is 14 years (2013 – 9 years).

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

3. Other Investments

	Level	2014	2013
Assets at designated fair value			
Government bonds	2	3,196	3,347
Guaranteed Investment Certificate (GIC)	2	2,517	2,497
Equity instruments, quoted in an active market			
Pooled and mutual funds	1	633	643
		6,346	6,487

There were no transfers between Level 1 and Level 2 for the years ended March 31, 2014 and 2013. There were also no transfers in or out of Level 3.

Government bonds have an interest rate of 4.0% (2013 – 4.0%) and mature in 2017. The Guaranteed Investment Certificate has an interest rate of 2.4% (2013 – 2.4%) and will mature in 2016.

($000's)

4. Investments in Joint Ventures

(a) Investment in Parking Commission

Kingston General Hospital has entered into a long-term agreement, as equal partner with Queen's University at Kingston, for the operations of the Parking Commission. The principal business activities include the operation of an underground parking garage. The underground garage recently underwent renovations for which the capital investment required is being repaid over a twenty year period from the results of operations. Kingston General Hospital's share of the Parking Commissions' excess of revenue over expense for 2014 amounts to $421 (2013: $331) and has been included in the Consolidated Statement of Revenues and Expenses.

(b) Investment in Cogeneration Facility

Kingston General Hospital participates in a joint venture with Queen's University at Kingston for the operation of a cogeneration facility governed by a Management Board consisting of representatives of Queen's University at Kingston and the Hospital. The purpose of the facility is to produce electricity and steam. The Hospital's net capital investment in the joint venture is $3,057 (2013: $3,065). Kingston General Hospital's proportionate share of the joint venture is 40% and Queen's University at Kingston's proportionate share is 60%. Kingston General Hospital's share of the facility's excess of revenue over expense is $91 (2013: $187) and has been included in the Consolidated Statement of Revenues and Expenses.

5. Capital Assets

Capital assets consist of the following:

	2014	2013
Land & land improvements	1,519	1,519
Buildings & building service equipment	403,491	396,174
Major equipment	167,256	167,206
Work in process	6,253	6,919
	578,519	571,818
Less accumulated amortization		
Land & land improvements	868	868
Buildings & building service equipment	148,488	129,605
Major equipment	133,587	138,103
	282,943	268,576
Net capital assets	295,576	303,242

Net assets invested in capital assets are calculated as follows:

	2014	2013
Balance, end of the year	295,576	303,242
Amounts financed by:		
Deferred contributions	(240,524)	(253,811)
Long-term debt	(15,161)	(16,726)
	39,891	32,705

($000's)

The change in net assets invested in capital assets is as follows:

	2014	**2013**
Excess of expenses over revenues		
Amortization of deferred contributions related to capital assets	20,015	20,782
Amortization of capital assets	(26,880)	(28,570)
	(6,865)	(7,788)

	2014	**2013**
Purchase of capital assets	19,195	24,296
Amounts funded by:		
Deferred contributions	(6,709)	(16,580)
Repayment of long-term debt	1,565	1,535
	14,051	9,251

6. Gift Annuities

Prior to fiscal 1996, Kingston General Hospital had accepted irrevocable gifts, which were subject to the payment of a life annuity to the donor. These are recorded as a liability until the conditions of the annuity have been met, and the donation will be recorded. Government bonds have been purchased to earn income, approximately equal to the annuity obligations and have been included in other investments on the Consolidated Statement of Financial Position.

7. Agency Obligations

Kingston General Hospital acts as an agent, which holds resources and makes disbursements on behalf of various unrelated individuals and groups. Kingston General Hospital has no discretion over such agency transactions. Resources received in connection with such agency transactions are reported as liabilities not revenue and subsequent distributions are reported as decreases to this liability.

($000's)

8. Long-Term Debt

	2014	**2013**
Bank term loan with interest at 4.85%, payable in monthly installments of $8 on account of principal and interest, due January 2017	648	709
Bank term loan with interest at 5.65%, payable in monthly installments of $39 on account of principal and interest, due June 2017	3,082	3,367
Bank term loan with interest at 4.71%, payable in monthly installments of $4 on account of principal and interest, due April 2013	-	4
Bank term loan with interest at 4.33%, payable in monthly installments of $54 on account of principal and interest, due February 2017	1,774	2,334
Bank term loan with floating interest, payable in monthly installments of $24 on account of principal and interest, due March 2016 (a)	2,813	2,999
Bank term loan with floating interest, payable in monthly installments of $64 on account of principal and interest, due February 2022 (b)	6,844	7,313
	15,161	16,726
Less current portion of long term debt	(1,628)	(1,564)
	13,533	15,162

The Hospital has entered into interest rate swap agreements to manage the volatility of interest rates. The maturity dates of the interest rate swaps are the same as the maturity dates of the associated long-term debt.

The fair value of the interest rate swaps at March 31, 2014 is ($492) (2013 - ($759)) which is recorded on the Consolidated Statement of Financial Position. The current year impact of the change in fair value of the interest rate swap is ($193) on the Consolidated Statement of Remeasurement Gains and Losses.

The fair value of the interest rate swaps has been determined using Level 3 of the fair value hierarchy. The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(a) The outstanding loan amount is subject to an interest rate swap agreement on an original notional principal of $3,351 with the banker whereby the Hospital receives a floating interest rate while paying a fixed rate of 3.50%.

(b) The outstanding loan amount is subject to an interest rate swap agreement on an original notional principal of $7,800 with the banker whereby the Hospital receives a floating interest rate while paying a fixed rate of 4.14%.

($000's)

(c) The Hospital was required to repay the temporary operating advance provided by the Ministry of Health and Long-Term Care in fiscal 2014. For fiscal 2013 the hospital had entered into a $21,000 short term bridge loan facility at a rate of prime plus 0.50 bps to repay the temporary operating advance made to the hospital in that year.

(d) The principal repayments due of long term debt for each of the five years subsequent to March 31, 2014 are as follows: 2015 - $1,630; 2016 - $1,704; 2017 - $1,728; 2018 - $1,198; and 2019 - $1,254

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(e) Interest on long-term debt in the amount of $702 (2013: $771) is included in interest expense in the Consolidated Statement of Revenues and Expenses.

9. Post-Employment Benefits

Pension Plan

Substantially all of the employees of Kingston General Hospital are members of the Healthcare of Ontario Pension Plan. Contributions to the plan made during the year by Kingston General Hospital on behalf of its employees amounted to $16,228 (2013: $15,611) and is included in salaries and benefits on the Consolidated Statement of Revenues and Expenses.

Non-Pension Plans

Kingston General Hospital's post-employment benefit plans are comprised of medical, dental and life insurance coverage. The measurement date used to determine the accrued benefit obligation is March 31, 2014. The most recent actuarial valuation of the non-pension post-employment benefits plans for funding purposes was as of April 1, 2014.

Information about the non-pension post-employment benefit plans is as follows:

	2014	**2013**
Accrued benefit obligation	23,761	28,370
Unamortized actuarial losses	3,344	(2,651)
Accrued compensation	(984)	(1,045)
Employee future benefits	26,121	24,674

The expense for the year related to these plans is $2,150 (2013: $2,110) and employer contributions for these plans is $1,568 (2013: $1,450).

The significant actuarial assumptions adopted in measuring the accrued benefit obligation and the expense for the post-employment benefit plans are as follows:

- Discount rate for calculation of net benefit costs of 3.75% (2013 – 4.0%).
- Discount rate to determine accrued benefit obligation for disclosure at end of period 4.0% (2013– 3.75%).
- Dental and extended health costs in 2014 are based on actual rates. Dental cost increases are assumed to be 4.0% per annum thereafter. Extended health care costs are assumed to be 7.0% in 2014 decreasing by 0.25% per annum to an ultimate rate of 5.0% per annum.

($000's)

10. Deferred Contributions Related to Operations

Deferred contributions related to operations represent grants provided for specific operating purposes that have not yet been actualized. These grants have not been taken into revenue.

	2014	**2013**
Balance, beginning of year	9,604	12,317
Less amount recognized as revenue in the year	(2,586)	(6,025)
Add amount received related to future periods	1,671	3,312
	8,689	9,604

11. Deferred Contributions Related to Capital Assets

Deferred contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets.

Externally restricted contributions and investment income related to special capital funding are included in deferred contributions related to capital assets.

	2014	**2013**
Balance beginning of year	280,633	292,190
Additional contributions received	6,248	9,365
Additional revenue on unspent contributions	-	-
Unrealized gain on other investments	-	-
Less amounts related to disposal of capital assets	(215)	(140)
Less amounts amortized to revenue	(20,014)	(20,782)
	266,653	280,633

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

	2014	**2013**
Unamortized capital contributions used to purchase assets	240,524	253,811
Unspent contributions	26,129	26,822
	266,653	280,633

Included in unspent contributions is $1,542 (2013: $2,174) in special capital funding in support of redevelopment.

($000's)

12. Deferred Contributions Related to Externally Restricted Funds

Deferred contributions related to externally restricted funds represent grants, donations and other revenue provided for specific restricted purposes that have not yet been actualized. These grants, donations and other revenues have not been taken into revenue.

	2014	**2013**
Balance, beginning of year	4,845	3,887
Less amount recognized as revenue in the year	(2,710)	(2,685)
Add amount received related to future periods	4,156	3,643
	6,291	4,845

13. Commitments

Cost to complete construction in progress and major equipment purchase

The estimated commitment to complete work in progress and major equipment purchases at March 31, 2014 is approximately $7,090 (2013: $8,870).

Lease commitments

Kingston General Hospital is committed under certain operating lease agreements to minimum lease payments as follows:

	2014
Year ending March 31,	
2015	1,000
2016	520
2017	264
2018	117
2019	77
Total minimum lease payments	1,978

($000's)

14. Net Change in Non-Cash Working Capital Balances Related to Operations

Net change in non-cash working capital balances related to operations consists of the following:

	2014	2013
Accounts receivable	56	1,120
Due from Ministry of Health and Long-Term Care, South East Local Health Integration Network and Cancer Care Ontario	970	(1,561)
Inventories	(322)	36
Other current assets	(332)	(403)
Accounts payable and accrued liabilities	1,080	(2,867)
Accrued compensation	(806)	1,270
Notes payable	-	(10)
Gift annuities	(50)	-
Agency obligations	(27)	(3,044)
Net increase (decrease)	569	(5,459)

15. Related Entities

This section addresses disclosure requirements regarding the hospital's relationships with related entities. The relationship can be one of economic interest, significant influence, joint control or control.

(a) Kingston General Hospital Foundation/ University Hospitals Kingston Foundation

Kingston General Hospital has an economic interest in the Kingston General Hospital Foundation. The Foundation receives substantially all of its revenue from the University Hospital Kingston Foundation and receives, accumulates and distributes funds and/or the income therefrom for the benefit of Kingston General Hospital. Kingston General Hospital Foundation is a separate corporation without share capital and with its own Board of Directors. During the year, Kingston General Hospital received $4,005 (2013: $5,364) to fund capital redevelopment, equipment purchases and special program costs.

Kingston General Hospital has an economic interest in the University Hospitals Kingston Foundation. The Foundation was established to raise funds for Kingston General Hospital, Providence Care Centre operating as Providence Care and the Hotel Dieu Hospital.

(b) Kingston General Hospital Auxiliary

Kingston General Hospital has an economic interest in Kingston General Hospital Auxiliary. Kingston General Hospital Auxiliary promotes and extends the interests of Kingston General Hospital throughout the city and surrounding counties. It provides volunteer auxiliary services as requested by Kingston General Hospital administration through liaison with the Director of Volunteers and the President of the organization. Kingston General Hospital Auxiliary also raises funds for Kingston General Hospital to be allocated to special gifts in a manner satisfactory to the administration of Kingston General Hospital and in harmony with the planning of the community. During the year, Kingston General Hospital Auxiliary granted $535 (2013: $663) to Kingston General Hospital to fund equipment purchases and special program costs. Kingston General Hospital holds a note payable to Kingston General Hospital Auxiliary for $400 (2013: $400) which is payable on demand.

(c) Kingston Regional Hospital Laundry Incorporated

Kingston General Hospital has significant influence in Kingston Regional Hospital Laundry Incorporated. Kingston Regional Hospital Laundry Incorporated, a Corporation incorporated under the laws of the Province of Ontario, provides laundry services, linen replacement, uniforms, dry cleaning and other related laundry services to hospitals in the Southeast region. During the year, Kingston General Hospital paid $1,960 (2013: $1,997) to Kingston Regional Hospital Laundry Incorporated for laundry services. These costs are included in general expenses on the Consolidated Statement of Revenues and Expenses.

(d) Shared Support Services South Eastern Ontario

The Hospital is a member of a group of seven hospitals within the South East Local Health Integration Network which have voluntarily agreed to enter into a joint project for the purposes of planning, development, implementation and operation of a shared regional supply chain project, consisting of procurement, warehousing, logistics and contract management activities. Shared Support Services South Eastern Ontario ("3SO"), a non-profit corporation, has been created to manage the services and provide procurement oversight on the part of the member hospitals. The project received start-up funding from the Ministry of Finance. The project implementation period commenced with the signing of a transfer payment agreement in March of 2008 and all hospitals were on-boarded by the end of January, 2012.

Each of the participating hospitals is a voting member of 3SO. Therefore, the Hospital has an economic interest, but not control, over 3SO. The assets, liabilities, net assets and results of operation of the 3SO are not included in the financial statements. During the year, Kingston General Hospital paid $3,668 (2012: $2,953) to 3SO for governance/operating costs. These costs are included in general expenses on the Consolidated Statement of Revenues and Expenses.

Kingston General Hospital has signed a ten year commitment to the project and has provided a limited guarantee to a maximum of 49.5% of a $5,000 line of credit secured by 3SO, representing the Hospital's proportionate share of $2,475. As at March 31, 2014, 3SO has drawn $1,340 (2013: $1,890) on this line of credit, of which $663 (2013: $936) is guaranteed by the Hospital.

16. Liability Insurance

On July 1, 1987, a group of health care organizations formed the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. Subscribers pay annual premiums that are actuarially determined. Subscribers are subject to assessment for losses, if any, experienced by the pool for the years in which they were a subscriber. No assessments have been made to March 31, 2014.

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 is no distributions receivable from HIROC as of March 31, 2014.

17. Contingencies

Kingston General Hospital's activities are such that there are usually claims pending or in progress at any time. With respect to claims at March 31, 2014, management believes that reasonable provisions have been made in the accounts.

18. Clinical Education Program

During the year, the Hospital's Clinical Education Program incurred expenses of $31,861 (2013: $30,739) and received $32,519 (2013: $30,372) in funding from the Ministry of Health and Long-Term Care. Under the terms of the arrangement, the surplus of this funding of $(658) (2013: $367) must be paid to the Ministry of Health and Long-Term Care, and, as such, a payable of $(658) (2013: $367) has been recorded as at March 31, 2014.

19. Financial risks and concentration of credit risk

(a) Credit risk

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

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2014 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 Consolidated Statement of Revenues and Expenses. Subsequent recoveries of impairment losses related to accounts receivable are credited to the Consolidated Statement of Revenues and Expenses. The balance of the allowance for doubtful accounts at March 31, 2014 is $871 (2013: $1,094).

As at March 31, 2014, $90 (2013: $428) of accounts receivable were past due, but not impaired.

The Hospital follows an investment policy approved by the Board of Directors. The maximum exposure to credit risk on the Hospital's other investments at March 31, 2014 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2013.

(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 30 days of receipt of an invoice.

The contractual maturities of long-term debt, and interest rate swaps are disclosed in Note 8.

There have been no significant changes to the liquidity risk exposure from 2013.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates will affect the Hospital's income or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing return on investment.

- Interest rate risk:

  Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

  As at March 31, 2014, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the estimated impact on the market value of bonds would approximate ($32) and $32 respectively.

  The Hospital mitigates interest rate risk on certain of its term debt through derivative financial instruments (interest rate swaps) that exchange the variable rate inherent in the term debt for a fixed rate (see Note 8). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the term debt.

  The Hospital's investments, including bonds, are disclosed in Note 3.

  There has been no change to the interest rate risk exposure from 2013.

20. Comparative Figures

Certain comparative figures have been restated to conform to the financial statement presentation adopted in 2014.