Kingston General Hospital

Audited Financial Statements

For the year ended March 31, 2017

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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 consolidated statement of financial position as at March 31, 2017, the consolidated statements of revenues and expenses, changes in net assets (deficiency), cash flows and remeasurement gains and losses 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, 2017, and its consolidated results of operations, consolidated changes in net assets (deficiency), consolidated cash flows and its consolidated remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 20, 2017

Kingston, Canada

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Financial Position

as at March 31, 2017
(in thousands of dollars)

	2017 $	2016 $
Assets		
Current assets		
Cash	61,333	51,590
Restricted cash	53,354	46,411
Accounts receivable	12,706	11,522
Due from Ministry of Health and Long-Term Care, South East Local Health Integration Network and Cancer Care Ontario	7,084	4,722
Inventories	6,265	6,214
Other current assets	6,464	7,782
	147,206	128,241
Other investments (note 3)	13,226	13,326
Investments in joint ventures (note 4)	3,512	3,070
Capital assets, net (note 5)	270,432	282,534
	434,376	427,171
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	37,022	38,115
Accrued compensation	27,359	25,555
Note payable - KGH Auxiliary (note 15(b))	475	400
Agency obligations (note 7)	618	487
Current portion of long-term debt (note 8)	1,180	1,722
	66,654	66,279
Long-term debt (note 8)	6,409	7,590
Employee future benefits (note 9)	29,005	27,995
Interest rate swaps (note 8)	395	607
Deferred contributions (note 10, 11 and 12)	255,409	261,858
Net assets		
Invested in capital assets (note 6)	22,453	27,766
Unrestricted	53,802	34,935
	76,255	62,701
Accumulated remeasurement gains	249	141
	76,504	62,842
Commitments (note 13)		
Contingencies (notes 16 and 17)		
Subsequent Event (note 20)		
	434,376	427,171

See accompanying notes.

On behalf of the board:

Member

Member

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Revenues and Expenses

for the year ended March 31, 2017
(in thousands of dollars)

	2017 $	2016 $
Revenues		
Inpatients		
Ministry of Health and Long-Term Care, South East Local Health Integration Network and Cancer Care Ontario	366,050	354,277
Other	9,503	9,117
Outpatients	15,051	14,463
Clinical education and other programs	46,906	46,759
Marketed services	4,465	4,809
Recoveries and other revenue	20,771	19,389
Investment income	1,235	1,228
Research	4,370	4,758
Amortization of deferred capital contributions-major equipment	5,808	6,513
Total revenues	474,159	461,313
Expenses		
Salaries and benefits	323,380	310,137
Patient care supplies and services	70,345	67,949
Utilities	4,577	4,579
Interest	319	516
General	41,693	41,279
Research	6,231	6,613
Amortization of major equipment	12,164	12,197
Total expenses	458,709	443,270
Surplus of revenues over expenses before building amortization	15,450	18,043
Amortization of deferred capital contributions - building and land improvements	18,325	17,970
Amortization of building and land improvements	(20,221)	(19,981)
Surplus of revenues over expenses	13,554	16,032

See accompanying notes.

KINGSTON GENERAL HOSPITAL

Consolidated Statement of Changes in Net Assets (Deficiency)

for the year ended March 31, 2017
(in thousands of dollars)

	Unrestricted	Invested in Capital Assets	Total 2017 $	Total 2016 $
Balance, beginning of year	34,935	27,766	62,701	46,669
Surplus of revenues over expenses (note 6)	21,806	(8,252)	13,554	16,032
Net change in investment in capital assets (note 6)	(2,939)	2,939	-	-
Balance, end of year	53,802	22,453	76,255	62,701

See accompanying notes.

KINGSTON GENERAL HOSPITAL

Consolidated Statement of Cash Flows

for the year ended March 31, 2017
(in thousands of dollars)

	2017 $	2016 $
Operating activities		
Surplus of revenues over expenses	13,554	16,032
Add (deduct) non-cash items		
Amortization of capital assets	32,385	32,178
Amortization of deferred capital contributions	(24,133)	(24,483)
Change in fair value of other investments	(104)	(51)
Change in non-cash working capital balances (note 14)	(1,438)	8,016
Increase in employee future benefits	1,010	1,068
Decrease in deferred contributions	(878)	(2,808)
	20,396	29,952
Capital activities		
Purchase of capital assets, net	(20,281)	(20,088)
Receipt of deferred capital contributions	18,562	9,977
	(1,719)	(10,111)
Financing activities		
Proceeds from long-term debt	-	3,184
Repayment of long-term debt	(1,723)	(7,403)
Note payable - KGH Auxiliary	75	-
	(1,648)	(4,219)
Investing activities		
Purchase of investments, net	100	(2,510)
Increase in investments in joint ventures	(443)	(12)
	(343)	(2,522)
Increase in cash during the year	16,686	13,100
Cash, beginning of year	98,001	84,901
Cash, end of year	114,687	98,001
Cash, end of year is represented by:		
Cash	61,333	51,590
Restricted cash	53,354	46,411
	114,687	98,001

See accompanying notes.

KINGSTON GENERAL HOSPITAL

Consolidated Statement of Remeasurement Gains and Losses

for the year ended March 31, 2017
(in thousands of dollars)

	2017 $	2016 $
Accumulated remeasurement gains, beginning of the year	141	514
	141	514
Unrealized gains (losses) attributable to		
Other investments		
Designated fair value	(104)	(145)
Equity instruments	-	34
Interest rate swaps	212	(322)
	108	(433)
Realized gains reclassified to consolidated statement of revenues and expenses		
Other investments		
Equity instruments	-	60
Net remeasurement gains (losses) for the year	108	(373)
Accumulated remeasurement gains, end of the year	249	141

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.

Kingston General Hospital was originally incorporated under statutes of Province of Canada, Chapter 103, 1849 as The Board of Governors of the Kingston Hospital. 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 is dedicated to building innovative partnerships and pursuing excellence in patient-oriented research through a collaborative approach that leverages the combined strengths of all partners in translating knowledge into effective therapies, treatments and best practices.

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, 2017.

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.

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.

Revenue from all other sources is recognized when goods are sold or the service is provided.

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.

(in thousands of dollars)

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 process 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. Amounts subject to estimates include post-retirement benefit obligations, and the carrying value of capital assets. 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.

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, 2016 disclosed actuarial assets of $66,421 million with accrued pension liabilities of $54,461 million, resulting in a surplus of $11,960 million. This filing valuation also confirmed that the plan was fully funded on a solvency basis as at December 31, 2016 based on the assumptions and methods adopted for the valuation.

(in thousands of dollars)

(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 last actuarial valuation of the benefit plans for funding purposes was as of April 1, 2014.

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 to retirement of employees covered by the employee benefit plan is 18 years (2016 – 18 years).

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

3. Other Investments

	Level	2017 $	2016 $
Fixed income investments, measured at fair value	2	13,226	13,326

Fixed income investments are comprised of Government of Canada bonds and guaranteed investment certificates.

4. Investments in Joint Ventures

(a) Investment in Queen's University and Kingston General Hospital 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 Queen's University and Kingston General Hospital Parking Commission (the "Commission"). The principal business activities include the operation of an underground parking garage. Kingston General Hospital's share of the Commissions' excess of revenue over expense for 2017 amounts to $439 (2016: $502) and has been included in the Consolidated Statement of Revenues and Expenses.

(b) Investment in Queen's University and Kingston General Hospital 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 $3,512 (2016: $3,070). 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 ($262) (2016: ($137)) and has been included in the Consolidated Statement of Revenues and Expenses.

(in thousands of dollars)

5. Capital Assets

Capital assets consist of the following:

	2017 **$**	**2016** **$**
Land & land improvements	1,640	1,519
Buildings & building service equipment	424,432	417,406
Major equipment	201,131	196,561
Work in process	14,909	8,595
	642,112	624,081
Less accumulated amortization		
Land & land improvements	880	868
Buildings & building service equipment	208,121	187,912
Major equipment	162,679	152,767
	371,680	341,547
Net capital assets	270,432	282,534

6. Invested in Capital Assets

Net assets invested in capital assets are calculated as follows:

	2017 **$**	**2016** **$**
Balance, end of the year	270,432	282,534
Amounts financed by:		
Deferred contributions	(240,390)	(245,456)
Long-term debt	(7,589)	(9,312)
	22,453	27,766

(in thousands of dollars)

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

	2017 $	2016 $
Excess of expenses over revenues		
Amortization of deferred contributions related to capital assets	24,133	24,483
Amortization of capital assets	(32,385)	(32,178)
	(8,252)	(7,695)

	2017 $	2016 $
Purchase of capital assets	20,281	20,088
Amounts funded by:		
Deferred contributions	(19,065)	(13,856)
Proceeds of long-term debt	-	(3,184)
Repayment of long-term debt	1,723	7,403
	2,939	10,451

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.

(in thousands of dollars)

8. Long-Term Debt

	2017 $	2016 $
Bank term loan with interest at 2.85%, payable in monthly installments of $10 on account of principal and interest, due September 2020	394	500
Bank term loan with interest at 2.85%, payable in monthly installments of $47 on account of principal and interest, due September 2020	1,882	2,386
Bank term loan with interest at 4.33%, payable in monthly installments of $54 on account of principal and interest, due February 2017	-	582
Bank term loan with floating interest, payable in monthly installments of $64 on account of principal and interest, due February 2022 (a)	5,313	5,844
	7,589	9,312
Less current portion of long term debt	(1,180)	(1,722)
	6,409	7,590

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, 2017 is ($395) (2016 - ($607)) which is recorded on the Consolidated Statement of Financial Position. The current year impact of the change in fair value of the interest rate swaps is $212 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 $7,800 with the banker whereby the Hospital receives a floating interest rate while paying a fixed rate of 4.14%.

(b) The principal repayments due on long term debt for each of the five years subsequent to March 31, 2017 and thereafter are as follows: 2018 - $1,180; 2019 - $1,223; 2020 - $1,266; 2021 - $966; 2022 - $653; and thereafter - $2,301.

(c) Interest on long-term debt in the amount of $319 (2016: $516) is included in interest expense in the Consolidated Statement of Revenues and Expenses.

(in thousands of dollars)

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 $17,562 (2016: $16,772) 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, 2017. 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:

	2017 $	2016 $
Accrued benefit obligation	29,089	27,927
Unamortized actuarial gains	761	961
Accrued compensation	(845)	(893)
Employee future benefits	29,005	27,995

The expense for the year related to these plans is $2,476 (2016: $2,466) and employer contributions for these plans is $1,514 (2016: $1,442).

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

- Discount rate for calculation of net benefit costs of 3.25% (2016 – 3.0%).
- Discount rate to determine accrued benefit obligation for disclosure at end of period 3.2% (2016 – 3.25%).
- Dental and extended health costs in 2017 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 2015 decreasing by 0.25% per annum to an ultimate rate of 5.0% per annum.

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.

	2017 $	2016 $
Balance, beginning of year	6,661	8,849
Less amount recognized as revenue in the year	(2,634)	(4,100)
Add amount received related to future periods	2,054	1,912
	6,081	6,661

(in thousands of dollars)

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.

	2017 **$**	**2016** **$**
Balance beginning of year	248,851	263,357
Additional contributions received	18,562	9,977
Less amounts amortized to revenue	(24,133)	(24,483)
	243,280	248,851

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

	2017 **$**	**2016** **$**
Unamortized capital contributions used to purchase assets	240,390	245,456
Unspent contributions	2,890	3,395
	243,280	248,851

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.

	2017 **$**	**2016** **$**
Balance, beginning of year	6,346	6,966
Less amount recognized as revenue in the year	(3,484)	(3,497)
Add amount received related to future periods	3,186	2,877
	6,048	6,346

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, 2017 is approximately $10,191 (2016: $2,853).

(in thousands of dollars)

Lease Commitments

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

	2017 **$**
Year ending March 31,	
2018	1,918
2019	1,667
2020	1,187
2021	492
2022	351
Total minimum lease payments	5,615

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:

	2017 **$**	**2016** **$**
Accounts receivable	(1,184)	325
Due from Ministry of Health and Long-Term Care, South East Local Health Integration Network and Cancer Care Ontario	(2,362)	(155)
Inventories	(51)	(431)
Other current assets	1,318	(2,834)
Accounts payable and accrued liabilities	(1,094)	7,201
Accrued compensation	1,804	4,256
Agency obligations	131	(346)
Net increase (decrease)	(1,438)	8,016

15. Related Entities

This section addresses disclosure requirements regarding the hospital's relationships with related entities.

(a) University Hospitals Kingston Foundation

Kingston General Hospital has an economic interest in the University Hospitals Kingston Foundation (UHKF). The primary purpose of UHKF is to act as a single fundraiser for Kingston General Hospital, the Religious Hospitallers of Saint Joseph of the Hotel Dieu of Kingston and Providence Care Centre (together, the "Kingston Hospitals") in order to maximize fundraising revenues and program efficiency to raise funds by way of public appeal for the benefit of the Kingston Hospitals. As outlined in the Operating Agreement between the Kingston Hospitals and UHKF, the Board of Directors of UHKF will determine the amount of unrestricted funds that are available for distribution to the Kingston Hospitals, and will determine in collaboration with the Chief Executive Officers of the Kingston Hospitals or their designates how these funds will be distributed among the Kingston Hospitals.

During the year, University Hospitals Kingston Foundation provided Kingston General Hospital $5,737 (2016: $5,004) to fund capital redevelopment, equipment purchases, research and special program costs.

(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 $429 (2016: $486) to Kingston General Hospital to fund equipment purchases and special program costs. Kingston General Hospital issued a note payable to Kingston General Hospital Auxiliary for $475 (2016: $400) which is payable on demand.

(c) Kingston Regional Hospital Laundry Incorporated

Kingston General Hospital has significant influence in Kingston Regional Hospital Laundry Incorporated (KRHL). KRHL, 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 $2,163 (2015: $2,057) to KHRL 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 Shared Support Services South Eastern Ontario ("3SO"), a non-profit corporation. 3SO manages the services and provides procurement oversight on the part of the seven member hospitals of the South East Local Health Integration Network. Each of the member 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 consolidated financial statements. During the year, Kingston General Hospital paid $2,478 (2016: $2,818) 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 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, 2017, 3SO has drawn $nil (2016: $10) on this line of credit, of which $nil (2016: $5) 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, 2017.

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, 2017.

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, 2017, 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 $36,755 (2016: $36,100) and received $35,872 (2016: $36,177) in funding from the Ministry of Health and Long-Term Care. Under the terms of the arrangement, the deficit of this funding of $883 (2016: ($77)) will be paid by the Ministry of Health and Long-Term Care, and, as such, a receivable of $883 (2016: ($77)) has been recorded as at March 31, 2017.

19. Financial Risks and Concentration of Credit Risk

(a) Credit Risk

Credit risk refers to the risk that 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, 2017 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, 2017 is $800 (2016: $951).

As at March 31, 2017, $49 (2016: $75) 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, 2017 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2016.

(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 2016.

(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, 2017, 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 ($29) and $29 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 are disclosed in Note 3.

  There has been no change to the interest rate risk exposure from 2016.

20. Subsequent Event

During the year, Kingston General Hospital and the Religious Hospitallers of Saint Joseph of the Hotel Dieu of Kingston (operating as Hotel Dieu Hospital) received the approval of the Minister of Health and Long-Term Care of Ontario under the Public Hospitals Act to proceed with an application to incorporate a new hospital under the Corporations Act (Ontario) to be known as the Kingston Health Sciences Centre. The newly formed corporation integrated the former operations of each of the former hospitals on April 1, 2017.

21. Comparative Figures

Certain comparative figures have been restated to conform to the financial statement presentation adopted in 2017.