Financial Statements of

# ST. THOMAS-ELGIN GENERAL HOSPITAL

Year ended March 31, 2016

**KPMG LLP**
140 Fullarton Street Suite 1400
London, ON N6A 5P2
Canada

Telephone (519) 672-4880
Fax (519) 672-5684
Internet www.kpmg.ca

# INDEPENDENT AUDITORS' REPORT

To the Board of Governors of St. Thomas-Elgin General Hospital

We have audited the accompanying financial statements of St. Thomas-Elgin General Hospital, which comprise the statement of financial position as at March 31, 2016, the statement of operations and changes in net assets, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of St. Thomas- Elgin General Hospital as at March 31, 2016 and its results of operations and its cash flows for the year then ended, and its remeasurement gains and losses for the year ended March 31, 2016 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 15, 2016

London, Canada

## ST. THOMAS-ELGIN GENERAL HOSPITAL

Statement of Financial Position

March 31, 2016, with comparative information for 2015

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 3,517,718 | $ 7,012,492 |
| Accounts receivable (note 2) | 3,060,357 | 2,786,379 |
| Due from Hospital Foundation (note 11 (a)) | 131,627 | 42,590 |
| Inventories | 837,301 | 765,476 |
| Prepaid expenses | 687,110 | 596,722 |
| | 8,234,113 | 11,203,659 |
| Capital assets (note 3) | 61,083,166 | 58,310,678 |
| Restricted investments (note 6) | 24,792 | 42,440 |
| | $ 69,342,071 | $ 69,556,777 |
| **Liabilities, Deferred Contributions and Net Assets** | | |
| Current liabilities: | | |
| Bank indebtedness (note 4) | $ 1,528,489 | $ 1,241,492 |
| Accounts payable and accrued liabilities | 8,140,787 | 7,585,598 |
| Vacation liability | 2,551,604 | 2,515,577 |
| Due to Hospital Auxiliary (note 11 (b)) | 131,821 | 64,532 |
| Current portion of long-term debt (note 5) | 953,733 | 916,900 |
| Total current liabilities | 13,306,434 | 12,324,099 |
| Long-term debt (note 5) | 6,735,709 | 7,700,980 |
| Sick leave liability | 269,973 | 459,526 |
| Employee future benefits (note 7 (b)) | 3,221,600 | 3,055,900 |
| | 23,533,716 | 23,540,505 |
| Deferred capital contributions (note 8) | 33,869,983 | 31,742,287 |
| Net assets: | | |
| Unrestricted | 11,913,580 | 14,231,545 |
| Restricted (note 6) | 24,792 | 42,440 |
| | 11,938,372 | 14,273,985 |
| Commitments (note 12) | | |
| Contingencies (note 13) | | |
| | $ 69,342,071 | $ 69,556,777 |

See accompanying notes to financial statements.

On behalf of the Board:

_______________ Governor _______________ Governor

## ST. THOMAS-ELGIN GENERAL HOSPITAL

Statement of Operations

Year ended March 31, 2016, with comparative information for 2015

| | 2016 | 2015 |
|---|---|---|
| Revenues: | | |
| Local Health Integration Network Funding | $ 71,106,465 | $ 71,369,492 |
| Patient revenue from other payers | 11,120,772 | 11,251,999 |
| Recoveries and miscellaneous revenue | 6,228,536 | 5,934,100 |
| Differential and co-payment revenues | 843,008 | 885,115 |
| Amortization of deferred contributions related to equipment | 620,158 | 1,034,925 |
| Gain on sale of marketable securities | 371,075 | - |
| Total revenues | 90,290,014 | 90,475,631 |
| Expenses: | | |
| Salaries and wages | 42,608,669 | 41,882,701 |
| Employee benefits | 11,582,753 | 11,864,561 |
| | 54,191,422 | 53,747,262 |
| Medical staff remuneration | 13,147,415 | 13,458,749 |
| Supplies and equipment | 14,050,976 | 13,488,640 |
| Amortization of equipment | 2,440,632 | 2,646,059 |
| Medical and surgical supplies | 4,212,747 | 4,105,805 |
| Drugs | 2,865,138 | 2,721,372 |
| Interest, short-term | 72,275 | 35,252 |
| Bad debts | 92,403 | 65,812 |
| | 36,881,586 | 36,521,689 |
| Total expenses | 91,073,008 | 90,268,951 |
| Excess of revenues over expenses (expenses over revenues) from operations before the undernoted | (782,994) | 206,680 |
| Other revenue (expenses): | | |
| Amortization of deferred contributions related to buildings | 596,884 | 531,253 |
| Interest, long-term debt | (236,259) | (266,914) |
| Amortization of building | (1,913,244) | (1,797,890) |
| Environmental remediation | - | (190,000) |
| | (1,552,619) | (1,723,551) |
| Excess of expenses over revenues | $ (2,335,613) | $ (1,516,871) |

See accompanying notes to financial statements.

# ST. THOMAS-ELGIN GENERAL HOSPITAL

Statements of Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015

| March 31, 2016 | Restricted | Unrestricted | Total |
|---|---|---|---|
| Balance, beginning of year | $ 42,440 | $ 14,231,545 | $ 14,273,985 |
| Excess of expenses over revenues | - | (2,335,613) | (2,335,613) |
| Transfer (note 6) | (17,648) | 17,648 | - |
| Balance, end of year | $ 24,792 | $ 11,913,580 | $ 11,938,372 |

| March 31, 2015 | Restricted | Unrestricted | Total |
|---|---|---|---|
| Balance, beginning of year | $ 67,543 | $ 15,723,313 | $ 15,790,856 |
| Excess of expenses over revenues | - | (1,516,871) | (1,516,871) |
| Transfer (note 6) | (25,103) | 25,103 | - |
| Balance, end of year | $ 42,440 | $ 14,231,545 | $ 14,273,985 |

See accompanying notes to financial statements.

# ST. THOMAS-ELGIN GENERAL HOSPITAL

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

| | 2016 | 2015 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess of expenses over revenues | $ (2,335,613) | $ (1,516,871) |
| Items not involving cash: | | |
| Amortization of capital assets | 4,353,876 | 4,443,949 |
| Amortization of deferred contributions | (1,217,042) | (1,566,179) |
| Gain on sale of marketable securities | (371,075) | - |
| Vacation liability | 36,027 | 19,127 |
| Sick leave liability | (189,553) | (24,729) |
| Employee future benefits | 165,700 | 120,200 |
| Changes in non-cash operating working capital (note 9) | 97,249 | (1,470,624) |
| | 539,569 | 4,873 |
| Financing activities: | | |
| Bank indebtedness | 286,997 | 1,241,492 |
| Issuance of long-term debt | - | 2,204,540 |
| Repayment of long-term debt | (928,438) | (815,046) |
| Contributions received related to capital assets | 3,344,738 | 2,943,876 |
| | 2,703,297 | 5,574,862 |
| Investing activities: | | |
| Purchase of capital assets | (7,126,364) | (8,959,596) |
| Proceeds on sale of marketable securities | 371,076 | - |
| Net change in restricted investment | 17,648 | 25,103 |
| | (6,737,640) | (8,934,493) |
| Decrease in cash | (3,494,774) | (3,354,758) |
| Cash, beginning of year | 7,012,492 | 10,367,250 |
| Cash, end of year | $ 3,517,718 | $ 7,012,492 |

See accompanying notes to financial statements.

The St. Thomas-Elgin General Hospital (the "Hospital") is incorporated without share capital under the Companies Act of Ontario. The Hospital is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

The Hospital is a 165-bed facility providing 24-hour coverage in medicine, surgery, obstetrics, pediatrics, anaesthesia, mental health, emergency and family medicine. The Hospital serves the residents of St. Thomas and Elgin County.

The Hospital is primarily funded by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care ("MoHLTC") and the Local Health Integration Network ("LHIN"). Any excess of revenues over expenses earned during a fiscal year may be retained by the Hospital. There is currently no commitment by the MoHLTC to fund deficits incurred by the Hospital. Therefore, to the extent that deficits are incurred and not funded, future operations may be affected. The MoHLTC provides operating funding including base funding which is expected to be received on an annual basis, and special funding, which is non-recurring in nature, and consequently is unconfirmed for future years.

The Hospital operates under a Hospital Service Accountability Agreement ("H-SAA") with the Southwest Local Health Integration Network ("SW LHIN") under the direction of the MoHLTC. This agreement sets out the rights and obligations of the two parties in respect of funding provided to the Hospital together with performance standards and obligations of the Hospital that establish acceptable results for the Hospital's performance.

If the Hospital does not meet certain performance standards or obligations, the MoHLTC/SW LHIN has the right to adjust certain funding streams received by the Hospital. Given that the MoHLTC/SW LHIN is not required to communicate funding adjustments until after the submission of year-end data, the amount of revenue recognized in these financial statements represents management's best estimates of amounts earned during the year.

## 1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards including the Section 4200 standards for government not-for-profit organizations. Significant accounting policies of the Hospital are summarized as follows:

(a) Revenue recognition:

The deferral method of accounting for contributions which includes donations and government grants is as follows:

Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are incurred.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight line basis, at a rate corresponding with the amortization rate for the related capital assets.

Revenues from sources other than the MoHLTC and SW LHIN are recognized as services are rendered and collection is reasonably assured.

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

(b) Inventories:

Inventories, consisting of hospital supplies, are valued at the lower of cost on a weighted average basis and replacement cost.

(c) Restricted investments:

Investments are recorded at fair value.

(d) Capital assets:

Capital assets are recorded at cost. 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 charged to expense. 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.

Amortization of original cost and any corresponding deferred contributions are calculated on a straight-line basis using the following annual rates over the estimated useful lives of the assets:

| Asset | Rate |
|---|---|
| Building | 2.0% |
| Equipment (not including software) | 5.0% - 20.0% |
| Equipment (software) | 33.3% |

Construction in progress comprises construction and development costs and capitalized interest. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

## 1. Significant accounting policies (continued):

(e) Financial instruments:

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

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method (or effective interest rate method). Long-term debt is recorded at cost.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations. There are no items to be reported on the statement of remeasurement gains and losses, and as a result, the statement has not been prepared.

The Hospital classifies 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.

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

(f) Employee future benefits:

The Hospital provides non-pension post-retirement benefit including health, dental and life insurance benefits. The Hospital accrues its obligations under the non-pension post-retirement benefit as the employees render the services necessary to earn the post-employment benefits. The actuarial determination of the accrued benefit obligations uses the projected benefit method pro-rated on service using best estimates of salary escalation, retirement ages of employees, and expected health care and dental costs. The most recent actuarial valuation of the benefit plan for funding purposes was as of April 1, 2013.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation.

The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the post-employment benefits plan is 13 years (2015 - 13 years).

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

Substantially all full time employees of the Hospital are members of the Healthcare of Ontario Pension Plan (the "Plan"). This Plan is a multi-employer, defined benefit pension plan, As this is a multi-employer plan, no liability has been recorded in the Hospital's financial statements.

(g) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. However, because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements. During the year, volunteers contributed 28,664 hours of services (2015 - 30,689).

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

(h) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, contingent liabilities, and obligations related to employee future benefits. Actual results could differ from those estimates.

2. **Accounts receivable:**

| | 2016 | 2015 |
|---|---|---|
| Provincial Ministry of Health | $ 62,503 | $ 117,199 |
| Provincial other | 272,666 | 218,872 |
| Other | 2,781,325 | 2,479,874 |
| | 3,116,494 | 2,815,945 |
| Provision for doubtful accounts (note 14 (a)) | (56,137) | (29,566) |
| | $ 3,060,357 | $ 2,786,379 |

## 3. Capital assets:

| | | | 2016 | 2015 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | $ 23,583 | $ - | $ 23,583 | $ 23,583 |
| Building | 74,964,651 | 32,413,329 | 42,551,322 | 41,624,923 |
| Equipment | 32,657,831 | 20,974,796 | 11,683,035 | 11,804,369 |
| Construction in progress | 6,825,226 | - | 6,825,226 | 4,857,803 |
| | $114,471,291 | $ 53,388,125 | $ 61,083,166 | $ 58,310,678 |

During the year, additions to capital assets consisted of $3,920,564 (2015 - $5,506,110) for equipment and buildings and $3,205,800 (2015 - $3,453,486) for the redevelopment project.

## 4. Credit facilities:

The following credit facilities have been established for the Hospital by a Canadian chartered bank:

(i) Unsecured operating line of credit of $6,000,000 at prime rate minus 0.80%. At March 31, 2016, $1,528,489 (2015 - $1,266,188) was drawn against this facility;

(ii) Unsecured demand revolving credit of $10,000,000 to assist with the redevelopment project at prime rate minus 0.75%. At March 31, 2016, nil was drawn against this facility;

(iii) Unsecured demand construction loan of $275,000 to assist with the redevelopment project. At March 31, 2016, nil was drawn against this facility; and

(iv) Long-term debt as described in note 5.

**5. Long-term debt:**

| | 2016 | 2015 |
|---|---|---|
| Capital loan, unsecured, payable in monthly blended payments of $46,258, at prime (2.70% at March 31, 2016), minus 0.75% | $ 4,153,888 | $ 4,624,910 |
| 3.87% Capital loan, unsecured, payable in quarterly blended payments of $151,340, balance due November 30, 2022 | 3,535,554 | 3,992,970 |
| | 7,689,442 | 8,617,880 |
| Less current portion | 953,733 | 916,900 |
| | $ 6,735,709 | $ 7,700,980 |

Regular annual principal payments required on long-term debt for the next five fiscal years and thereafter are due as follows:

| | |
|---|---|
| 2017 | $ 953,733 |
| 2018 | 981,810 |
| 2019 | 1,010,806 |
| 2020 | 1,040,753 |
| 2021 | 1,071,683 |
| Thereafter | 2,630,657 |
| | $ 7,689,442 |

**6. Restricted investments:**

The Hospital holds certain contributions as restricted funds to reflect the wishes of donors. These investments are held in cash and short-term deposits.

## 7. Employee future benefits:

(a) Pension plan:

Substantially all full time employees of the Hospital are members of the Healthcare of Ontario Pension Plan (the "Plan"). This Plan is a multi-employer, defined benefit pension plan.

Employer contributions to the Plan on behalf of employees amounted to $3,315,821 (2015 - $3,252,686).

The audited financial statements of the Healthcare of Ontario Pension Plan at December 31, 2015, disclosed a net assets value of $64 billion with accrued going concern liabilities relating to pension obligations of $50 billion, resulting in a going concern surplus of $14 billion, or a 22% surplus (2015 - 22.9%).

(b) Other employee future benefits:

The non-pension post-retirement benefit plan is a defined benefit plan funded on a cash basis by contributions from the Hospital.

The current benefit costs for the Hospital's benefit plan, which is included in salaries and wages in the statement of operations, is as follows:

| | 2016 | 2015 |
|---|---|---|
| Current benefit cost | $ 227,700 | $ 192,100 |
| Interest costs | 113,200 | 129,200 |
| Amortization of net actuarial loss | 52,300 | 20,700 |
| Current benefit cost | $ 393,200 | $ 342,000 |

The unamortized actuarial loss is amortized over the expected average remaining service life.

Information about the Hospital's accrued non-pension benefits liability as at March 31, 2016 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Accrued benefit obligation | $ 3,659,200 | $ 3,658,900 |
| Unamortized net actuarial losses | (437,600) | (603,000) |
| Net benefit liability | $ 3,221,600 | $ 3,055,900 |

## 7. Employee future benefits (continued):

(b) Other employee future benefits (continued):

The significant actuarial assumptions adopted in measuring the Hospital's accrued non-pension benefit obligations as at March 31, 2016 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate for accrued benefit obligations | 3.25 % | 3.00 % |
| Discount rate for net benefit expense | 3.00 % | 4.00 % |
| Health cost trends: | | |
| Initial rate | 7.00 % | 7.00 % |
| Ultimate rate (rate reached in 2023) | 5.00 % | 5.00 % |

Other information about the Hospital's non-pension defined benefit plans as at March 31, 2016 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Employer contributions | $ 227,500 | $ 221,800 |
| Benefits paid | 227,500 | 221,800 |

## 8. Deferred capital contributions:

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

| | 2016 | 2015 |
|---|---|---|
| Balance, beginning of year | $ 31,742,287 | $ 30,364,590 |
| Additional contributions | 3,344,738 | 2,943,876 |
| Amounts amortized to revenue | (1,217,042) | (1,566,179) |
| Balance, end of year | $ 33,869,983 | $ 31,742,287 |

Of this amount $29,152,052 (2015 - $24,035,405) has been spent on capital projects with $4,717,931 (2015 - $7,706,882) to be spent in future periods.

## 9. Changes in non-cash operating working capital:

| | 2016 | 2015 |
|---|---|---|
| Accounts receivable | $ (273,979) | $ (45,426) |
| Due from the Hospital Foundation | (89,036) | 16,233 |
| Inventories | (71,825) | (1,818) |
| Prepaid expenses | (90,388) | (43,120) |
| Accounts payable and accrued liabilities | 555,188 | (1,337,179) |
| Due to the Hospital Auxiliary | 67,289 | (59,314) |
| | $ 97,249 | $ (1,470,624) |

## 10. Capital management:

In managing capital, the Hospital focuses on liquid resources available for operations. The need for sufficient liquidity is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. The Hospital will, where appropriate, finance capital assets through long-term loans which have an amortization period matching that of the assets being financed. As at March 31, 2016, the Hospital has authorized funds of $6,000,000 available through its operating line of credit, of which $1,528,489 has been drawn against this facility. As at March 31, 2016, the Hospital has met its objective of having sufficient liquidity to meet its current obligations.

**11. Related entities:**

(a) St. Thomas-Elgin General Hospital Foundation:

St. Thomas-Elgin General Hospital Foundation (the "Foundation") is a related entity incorporated without share capital under the laws of Ontario. The Foundation is independent, but exists to support designated programs and services within the Hospital. During the year, the Foundation provided funds to the Hospital totaling $1,922,344 (2015 - $724,058) which have been recorded as deferred capital contributions.

The Hospital provides the Foundation with accounting and payroll services as well as rental space at no cost to the Foundation.

As the Hospital does not control the Foundation, its results are not included in these financial statements.

(b) St. Thomas-Elgin General Hospital Auxiliary:

The St. Thomas-Elgin General Hospital Auxiliary (the "Auxiliary") operates the gift shop within the Hospital and undertakes other fundraising and volunteer activities for the benefit of the Hospital.

The Hospital provides the Auxiliary rental space at no cost to the Auxiliary.

As the Hospital does not control the Auxiliary, its results are not included in these financial statements.

**12. Commitments:**

(a) The Hospital is currently undertaking a construction project called "The Redevelopment Project" which will see a new building on the North West side of the property. The agreement will proceed as a build and finance alternative financing and procurement project under Infrastructure Ontario, with the Hospital and the Ministry sharing in the total project cost.

In November 2015, the Hospital entered into a project agreement with a third party company, EllisDon Infrastructure STEGH Inc. (“Project Co”) to build and finance the buildings constructed.

Project Co has guaranteed a price of $63,303,384 for the cost of the work and cost of the financing. The Hospital’s total share for the construction related costs of the Project is $5,020,000 and the remaining share of costs is estimated to be $5,020,000.

**12. Commitments (continued):**

(b) The Hospital leases certain equipment and vehicles and has several service contract agreements. These leases and contracts expire at various dates and require aggregate future minimum payments of $4,442,043. Minimum payments required over the next five years are as follows:

| | |
|---|---|
| 2017 | $ 2,072,169 |
| 2018 | 1,087,547 |
| 2019 | 467,471 |
| 2020 | 464,836 |
| 2021 | 350,020 |

**13. Contingencies:**

The Hospital is subject to certain actual and potential legal claims, which arise in the normal course of operations. As at March 31, 2016, the hospital has a number of outstanding claims or possible claims arising out of alleged damages caused by hospital and medical professional staff. A provision has been recorded in the financial statements after giving consideration to the Hospital's insurance coverage.

**14. Financial risks:**

(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 the accounts receivable, cash and restricted 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, 2016 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 statement of operations. Subsequent recoveries of impairment losses related to accounts receivable are credited to the statement of operations. The balance of the allowance for doubtful accounts at March 31, 2016 is $56,137 (2015 - $ 29,566).

As at March 31, 2016, $136,233 (2015 - $287,558) of trade accounts receivable were past due, but not impaired.

There have been no significant changes to the credit risk exposure from 2015.

**14. Financial risks (continued):**

(b) Liquidity risk:

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Hospital manages its liquidity risk by monitoring its operating requirements. The Hospital prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 45 days of receipt of an invoice. The contractual maturities of the long-term debt is disclosed in note 5.

There have been no significant changes to the liquidity risk exposure from 2015.

(c) 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.

Financial assets and financial liabilities with variable interest rates expose the Hospital to cash flow interest rate risk. The Hospital is exposed to this risk through its long-term debt as disclosed in note 5.

There has been no significant change to the interest rate risk exposure from 2015.

**15. Other information, Diabetes Education Program:**

During the year, the Hospital received $246,775 (2015 - $246,775) to support the Diabetes Education Program. The Hospital also recognized $4,120 of funds held in deferred revenue from one-time funding that was received in fiscal 2015 to support additional pressures. Expenses for the program during the year totalled $267,108 (2015- $269,655).