REPORT OF THE ANNUAL

FINANCIAL AFFAIRS

YEAR ENDED MARCH 31, 2015

Kingston General Hospital

Outstanding care, always™

KINGSTON GENERAL HOSPITAL
Report of the Annual Financial Affairs
For the year ended March 31, 2015

KINGSTON GENERAL HOSPITAL

Management Discussion and Analysis (unaudited)
For the year ended March 31, 2015

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, 2015. 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 Finance and Audit Committee of the hospital.

Overview

Kingston General Hospital is an organization grounded in our mission of working together as a community of people dedicated to transforming the patient and family experience through innovative and collaborative approaches to care, knowledge and leadership. Focused and effective management of our resources has allowed KGH to achieve a surplus financial position in each of the last six years. During this same timeframe we increased our capacity to invest in equipment, technology and infrastructure renewal. Our working capital position strengthened in each subsequent year. These achievements reflect the collective efforts of the approximate 4,000 staff, physicians and volunteers united by our common aim of providing *Outstanding Care, Always.*

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. Fiscal 2015 was the third year operating under this new funding model. At the end of the four-year planned timeframe, 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.

The base funding allocation for hospitals has not increased to reflect inflationary factors for the last three years. The application of the HBAM component of the HSFR funding model has resulted in reduced funding of approximately $3.2 million over the three year period for KGH. Although the impact to KGH of the funding aligned to the QBP's was mitigated by the Province as a transitional step to introducing the funding model in the first two years, the mitigation was removed in fiscal 2015 resulting in an approximate $804 thousand reduction in funding.

The hospital ended the 2015 fiscal year with a total surplus of revenue over expenses of approximately $30.0 million, including the impact of building amortization. KGH faced challenges this year with higher than anticipated volumes of inpatient admissions, ambulatory clinic visits (including those to the Cancer Centre of South Eastern Ontario), and patient activity in the Emergency Department. The incremental direct cost of care aligned to this increased patient activity was offset mainly by the recognition of prior year revenue, increased revenue aligned to some of this activity, and savings from turnover allowance (timing between staffing vacancy and filling of position). The result was a surplus from regular recurring operational activities of approximately $5.4 million. Non-recurring revenue sources recognized this fiscal year added approximately $27.1 million to the surplus, including approximately $13 million of funds planned and provisioned for capital expenditure. Net building amortization expense reduced the surplus by approximately $2.5 million.

Financial Analysis of the Hospital

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). Over time, increases or decreases in net assets may serve as one indicator of whether the financial health of the hospital is improving or deteriorating.

Net assets at the end of fiscal 2015 totaled $48.0 million, an increase of $30.0 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	(21,880)	39,891	18,011
Excess of revenue over expenses	36,406	(6,423)	29,983
Net change in investment in capital assets	8,458	(8,458)	-
Balance, end of year	22,984	25,010	47,994

The increase in net assets during the fiscal 2015 year reflects the impact of the hospital's surplus position. The portion of net assets invested in capital assets declined from $39.9 million to $25.0 million this year. This decrease corresponds to the increase in capital asset expenditures less the increase in amortization, repayment of long-term debt, and amounts funded by deferred contributions.

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. As at March 31, 2015 the hospital's total working capital surplus was $56.9 million; an increase of $21.7 million from the previous year-end position. The improvement in the working capital position over the prior year reflects the receipt of the one-time funding from the Ministry of Health and Long-Term Care (MOHLTC) and the reduction in prior year liabilities for various reconciled programs. It is important to note that current assets include cash of approximately $49.6 million that cannot be used for hospital operational activities.

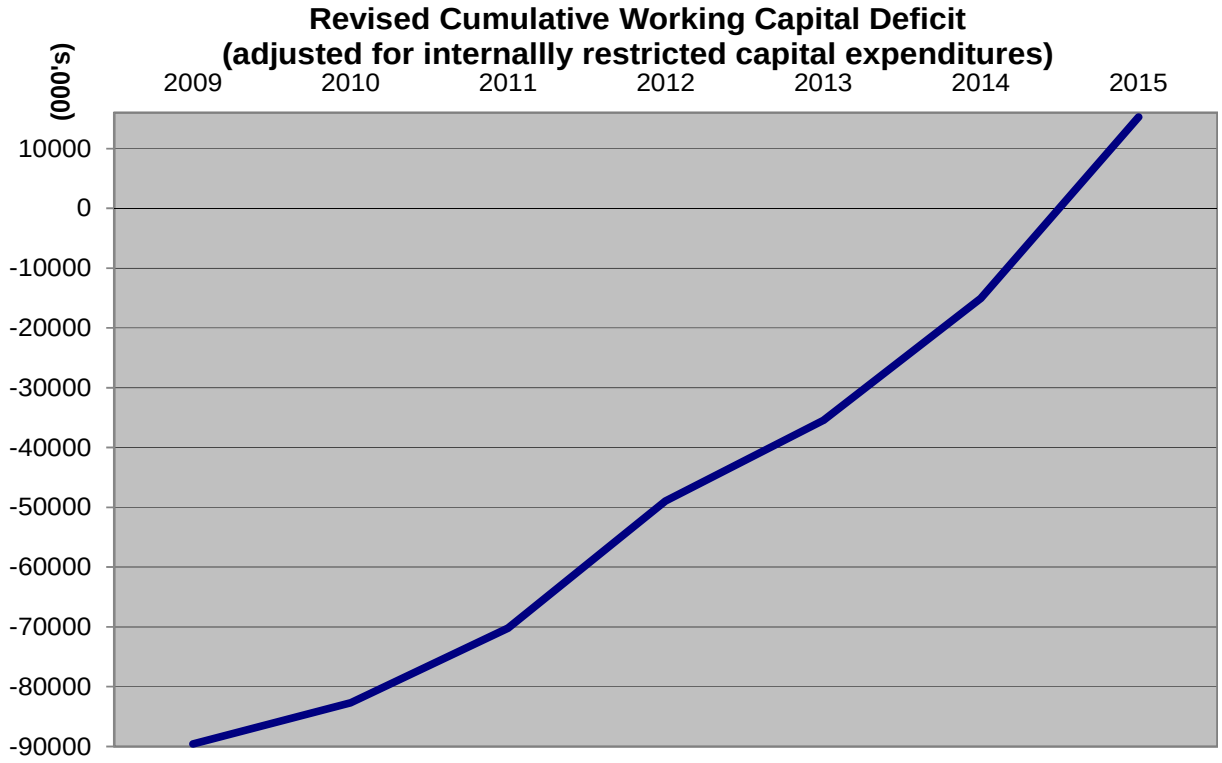
This amount includes $24.6 million for approved capital expenditures, $18.0 million provisioned for recoverable and deferred liabilities and $7.0 million designated for Research projects.

Fiscal 2015 was the third and final year that the hospital was eligible for funding under the MOHLTC Working Capital Deficit Relief Funding program. A payment of $7.0 million was provided on March 30, 2015. Having previously eliminated the full amount of the historic accumulated $28 million cash advance, and having no short-term bank indebtedness, this one-time funding was utilized to strengthen the hospital's current working capital position by applying the funding to reduce current liabilities that were not a result of current year expenditures.

The hospital did not make any draw upon its operating line of credit in fiscal 2015 ($30 million borrowing 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 15 of the accompanying Notes to Consolidated Financial Statements.

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 depiction shows the adjusted working capital position to be positive for the first time in seven years ($15.1 million). This adjusted working capital position includes amounts held as other investments ($10.8 million) in alignment with the MOHLTC calculation for adjusted working capital.



2009 ($89.581M) 2011 ($70.198M) 2013 ($35.449M) 2015 $15.081M
2010 ($82.713M) 2012 ($48.993M) 2014 ($15.065M)

Long-term Debt

At the end of the year, the total long-term debt outstanding was approximately $13.5 million. In March 2012, the Board proactively approved the investment of $5.7 million of surplus cash to fund future long-term debt liabilities maturing 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. No new long-term debt was undertaken during the 2015 fiscal year.

Investment in Capital Assets

In 2010 we set a goal to increase our annual capacity to invest in the facilities, equipment and technology needed to deliver outstanding care to $20 million by March 2015. Supported by increased funding from the MOHLTC Health Infrastructure Renewal Fund (HIRF) and ongoing support from the KGH Auxiliary and donors to the University Hospitals Kingston Foundation, (refer to note 16 in the accompanying Notes to Consolidated Financial Statements) we achieved this target at the end of the second quarter of the 2015 fiscal year.

This is a significant accomplishment. When we embarked on this goal five years ago the annual capital budget was limited to only $3 million; the amount of net amortization expense (a non-cash item included in the annual operating budget) less payment requirements for long-term debt obligations. In 2011, the KGH Board made a strategic decision to allocate the 2011 base funding increase of $3.9 million to the 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 following four years, the hospital increased the capacity for capital expenditure (2012: $12.3 million, 2013: $15.0 million, 2014: $17.5 million, and 2015: $19.7 million) by implementing operational efficiencies that permitted reallocating funds to support this investment instead of increasing operating costs. Cancer Care Ontario (CCO) and the South East Local Health Integration Network (SE-LHIN) have also assisted in addressing some of the hospital capital funding needs.

During the fiscal year, the hospital accounted for the purchase of approximately $29.1 million of capital assets. Expenditures were split between the following categories:

Patient care and non-clinical equipment	$20.1 million
Information management systems	$ 1.8 million
Facilities infrastructure/renovations	$ 7.2 million

During the year, $39.2 million of capital expenditures were reported as 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.

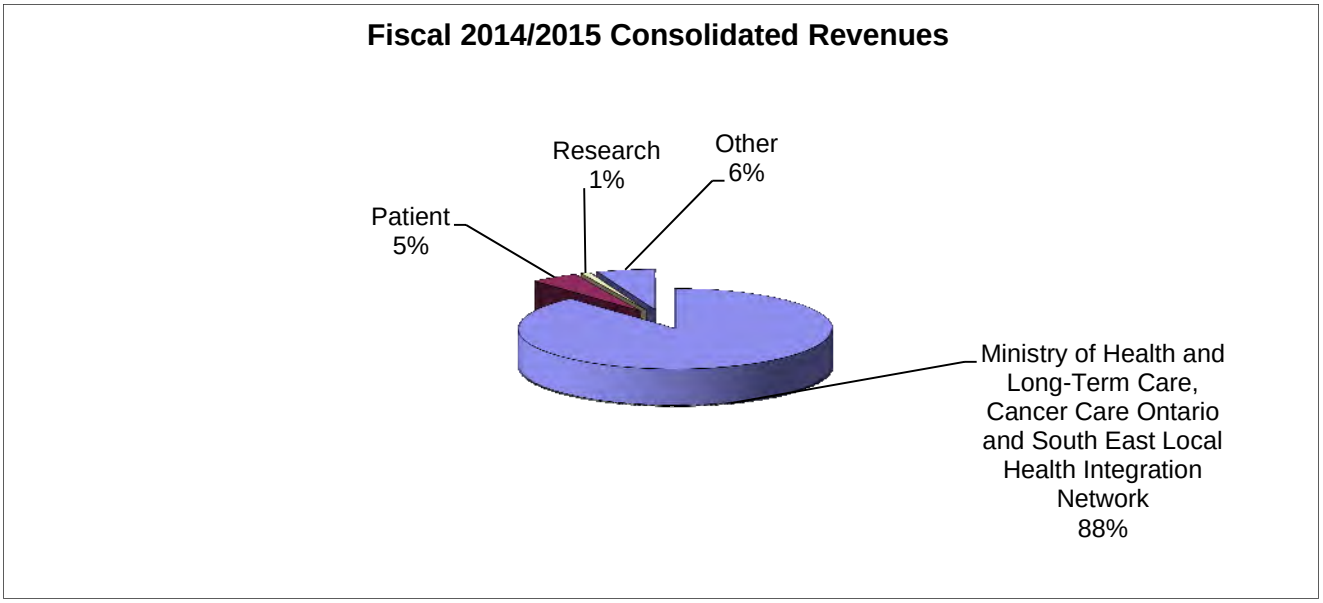
The hospital is required to annually execute the Hospital Services Accountability Agreement (H-SAA) with the SE-LHIN. This agreement sets out the rights and obligations of the two parties and performance expectations for the funding provided. If the hospital does not meet certain performance standards or obligations, the MOHLTC has the right to adjust some funding streams received by the hospital. Given that the MOHLTC 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.

At $412.3 million, funding from provincial government sources is the hospital's most significant source of income, representing 88% of total operating revenue in fiscal 2015 (consistent with last year). These revenue sources increased approximately $11.9 million or 3.0% from fiscal 2014. This year-over-year increase includes the recognition of $7.1 million of funding aligned to the elimination of a prior year liability related to Post Construction Operating Plan (PCOP) funded patient activity and increased funding in the Clinical Education and Ventilator Equipment Program (VEP) that the hospital facilitates on behalf of the MOHLTC (combined $4.1 million).

Revenue from diagnostic imaging billings, preferred accommodation charges, co-payment fees for alternative level of care patients and revenue generated from the provision of services to patients not covered by OHIP (Ontario Health Insurance Plan) are included in the total $22.5 million patient care revenue. This amount is an increase of $425 thousand or approximately 1.9% from fiscal 2014.

Revenues from the Kingston General Hospital Research Institute, which is controlled by the Kingston General Hospital, are included in the consolidated operating results. The $5.4 million of revenue includes support for both research activities and administrative infrastructure.

Revenues derived from ancillary services (such as parking and occupancy rental fees) and third-party operated retail services contributed approximately $5.4 million of additional other revenue to support patient care initiatives. One-time non-recurring miscellaneous revenues and recoveries contributed $17.9 million, and investment income provided $1.1 million. Amortization of deferred capital grants and recoveries of services provided to parties external to the hospital contribute the balance of the other revenue category.



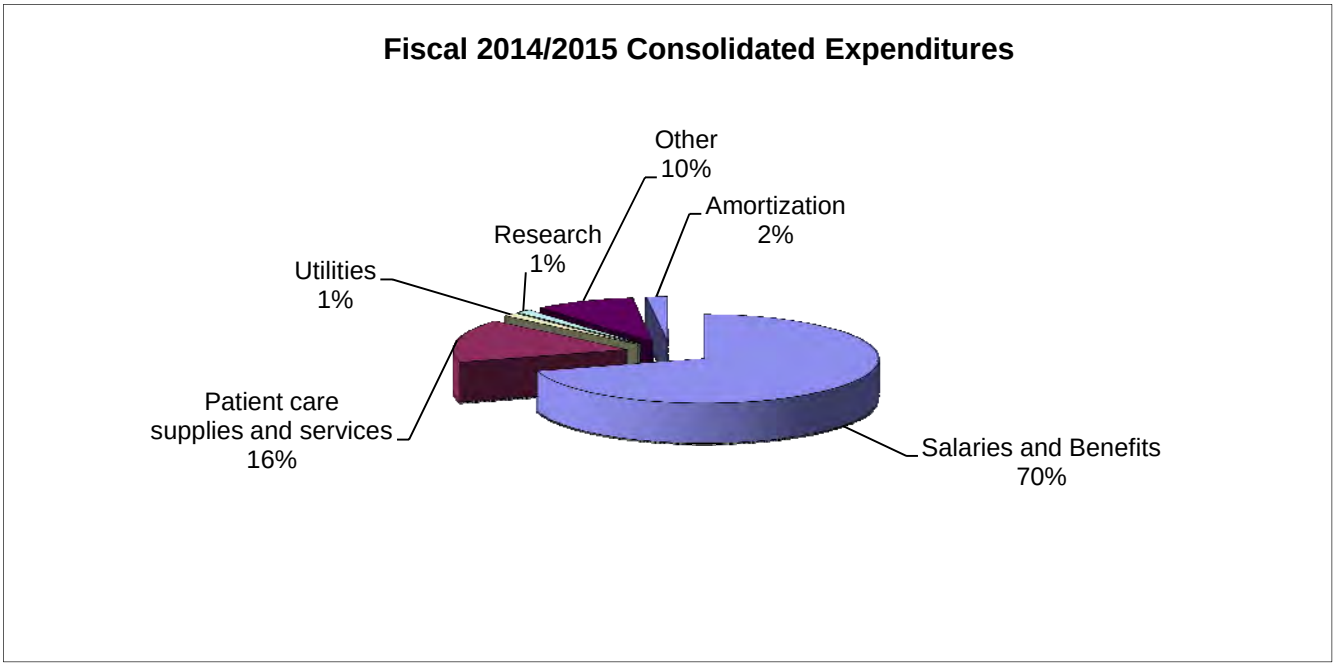
Revenues	$000's
Ministry of Health and Long-Term Care, Cancer Care Ontario, South East Local Health Integration Network	$412,268
Patient	22,528
Research	5,360
Other	30,497
Total revenues	$470,653

Operating Expenditures

It takes people to deliver *Outstanding Care, Always* so it's no surprise that 70.0% of the total operating costs in fiscal 2015 were for compensation related expenses. Salaries and benefits costs increased approximately $8.2 million or 2.8% over the previous fiscal year. This included accommodating inflationary increases for hospital employees, current and retro-active inflationary increases for medical residents, and increased staffing hours equivalent to the cost of 32 full-time employees.

Patient care supplies and services represent the next largest category of expenditures accounting for 16% of total operating expenditures last year. These costs increased approximately $2.3 million over the prior year having been impacted by inflationary increases and usage aligned to higher patient activity for medical, diagnostic imaging and laboratory supplies and drug expenses. Savings resulting from competitive procurement processes offset some inflationary cost pressures.

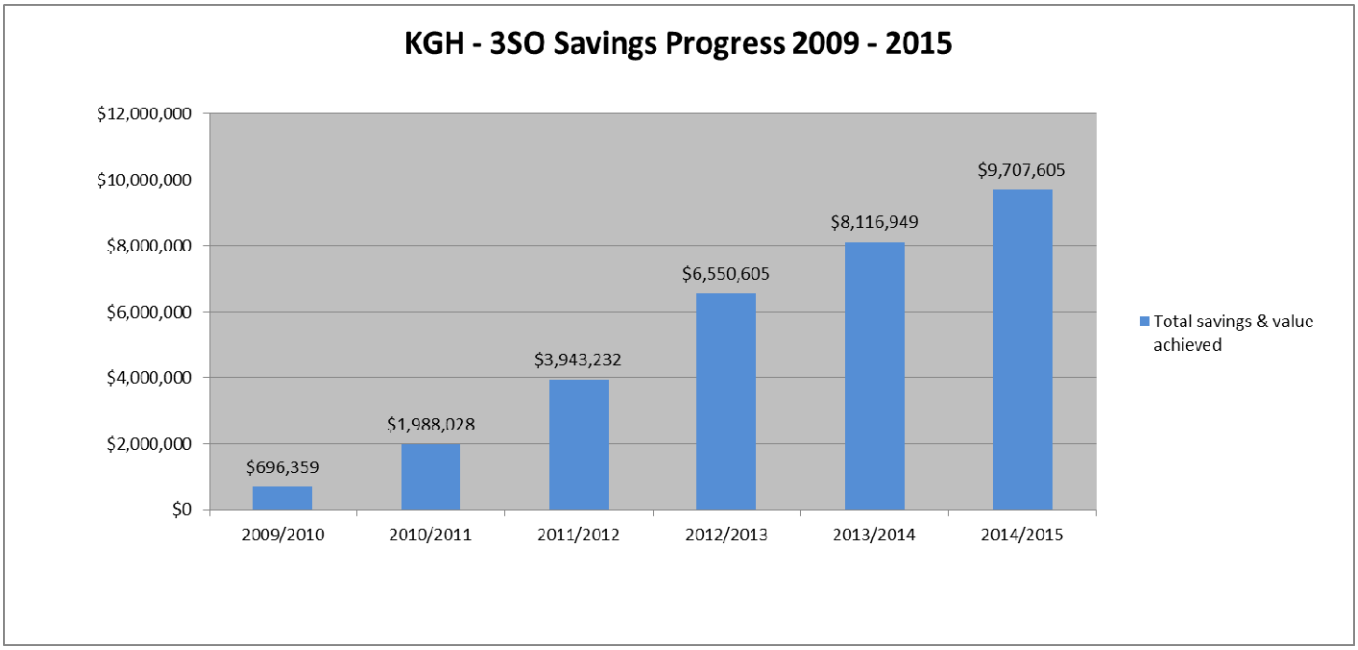
The category of other expenditures includes administrative and support services expenses such as professional fees, general supplies, insurance and facilities related operating costs. Included in other expenditures are $632 thousand of interest expense on long-term debt obligations and $350 thousand bad debts expense. With the exception of equipment expenses which increased $1.4 million supporting the VEP, all major expense category costs were consistent with, or lower than, the prior fiscal year level.



Expenditures:	$000's
Salaries and benefits	$306,267
Patient care and supplies	69,226
Utilities	5,717
Research	6,795
Other	40,147
Amortization	10,620
Total operating expenses	$438,772

Kingston General Hospital is a member of Shared Support Services of South Eastern Ontario (3SO) which was formed to undertake procurement services and provide the management oversight to inventory and supply change processes for the seven hospitals within the South East Local Health Integration Network.

The following chart indicates the cumulative savings facilitated by 3SO in collaboration with KGH leadership since inception of this organization.



Human Resources

This past year we put into place a corporate engagement plan to focus on those areas that staff identified as highest priority in their responses to the staff, physician and volunteer engagement surveys they answered in the prior year; building trust, providing recognition, education and career development, and enhancing the communication of health and wellness supports available at KGH.

As at March 31, 2015 the hospital employed 3,653 individuals. The workforce total increases to 4,116 when including medical residents. This is consistent with the previous year (2014 – 4,113).

91.2% of staff as at March 31st was represented by union organizations (2014 – 91.5%). The percentage of staff employed fulltime was 59.8% (2014 – 61.1%).

Operational Efficiency

The hospital continued to meet its H-SAA obligations for the year ended March 31, 2015. There are two financial performance indicators included in the fiscal 2015 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.

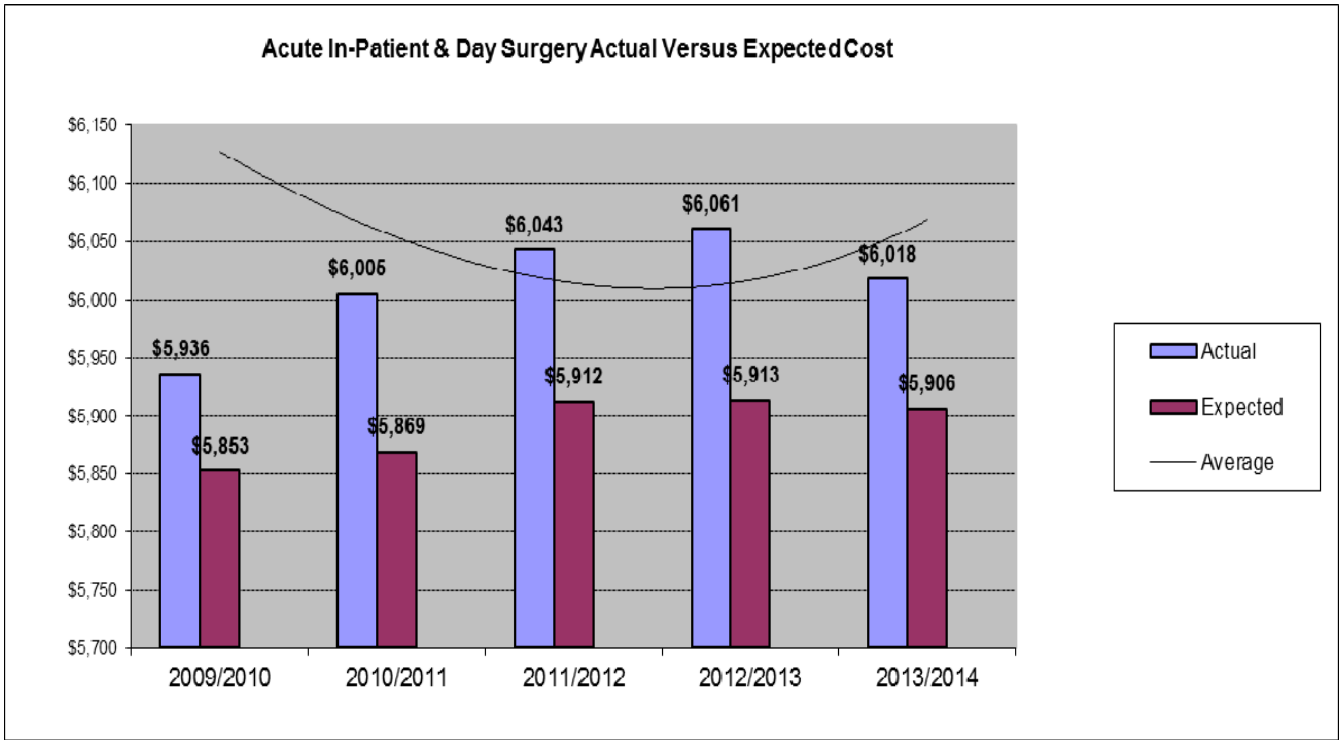
The $56.9 million total working capital surplus as at March 31, 2015 translates into a current ratio of 2.03:1. The acceptable MOHLTC target for this ratio is between 0.8:1 and 2.0:1. However, as noted above, KGH calculates a revised working capital position to emphasis the impact of internally restricted assets on the hospital working capital position.

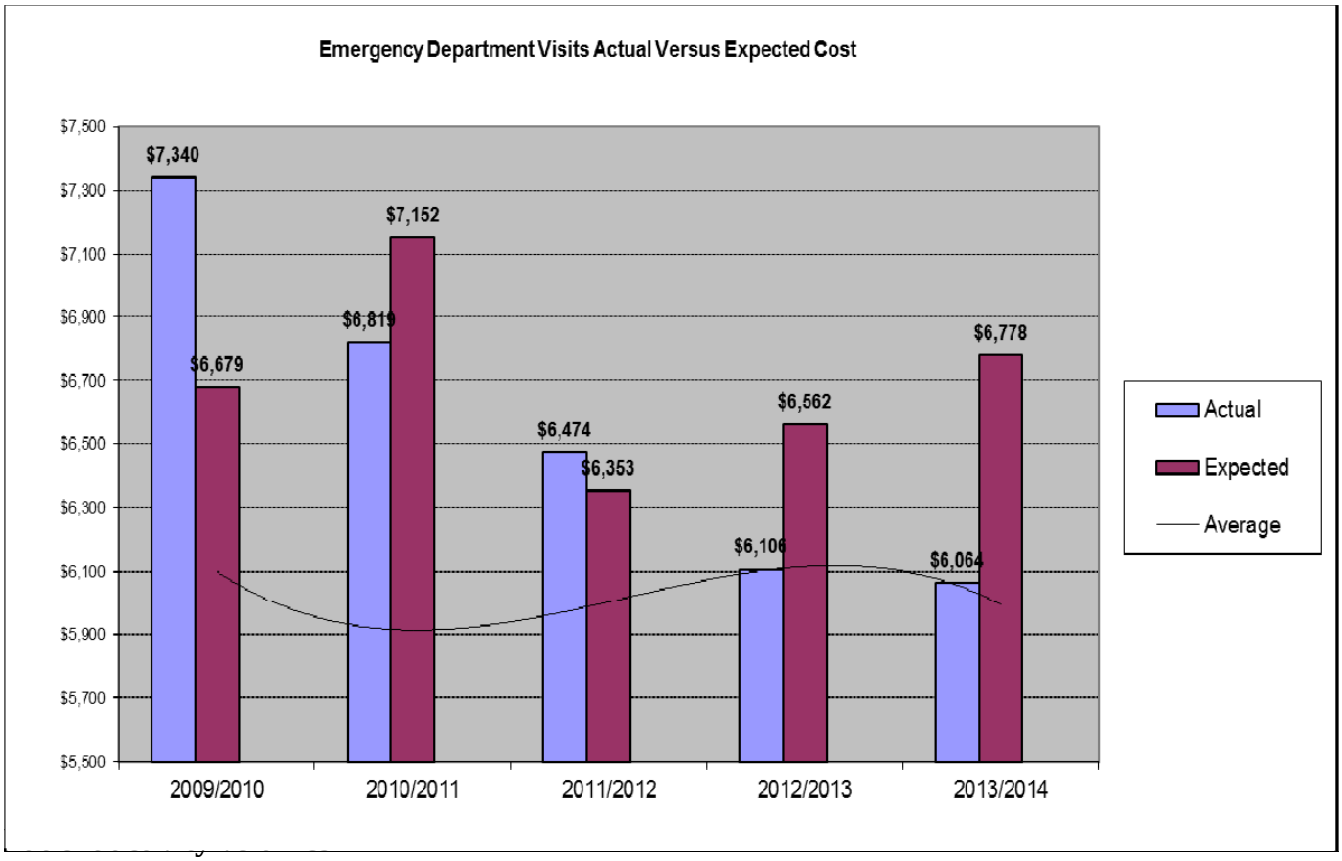
The total margin percentage is the second financial performance indicator in the fiscal 2015 H-SAA. The total margin measures total operating revenues in excess of total operating expenses. It is a measure of management's efficiency and the hospital's ability to live within available resources during a specific operating fiscal year.

The total margin percentage is calculated as operating surplus/(deficit) divided by total operating revenue. The acceptable MOHLTC target for this indicator is 0% - 3%. KGH's total margin at March 31, 2015 was 6.99%. The result for this year reflects significant non-recurring revenues received in the year (working capital deficit 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 4.07%; including the provisioned surplus to support capital investment. As previously noted, the hospital regularly recurring operating position was a surplus of $5.4 million.

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 last five fiscal years for which complete data is available. The hospital essentially maintained the same unfavourable total variance to expected cost for fiscal 2014 as 2013 (approximately $6.0 million).

For all years represented, the hospital incurred actual costs for total in-patient and day surgery cases in excess of expected costs. The KGH actual cost per case decreased in 2014 from the previous year, narrowing the gap between actual and expected cost from -2.50% in fiscal 2013 to -1.90% (approximate $7.5 million gap). Continued analysis of the underlying data will inform further continuous improvement activities in the upcoming year.





As with fiscal 2013, there was a marked decrease in the costs for an emergency department case in fiscal 2014 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 11.8% favourable in fiscal 2014.

A key cost driver in the organization is the volume of patient activity provided. The following highlights changes in key activity levels over the last three years:

	2015	2014	2013
Inpatient stays (includes births)	**22,525**	**22,309**	**21,108**
Births	**1,935**	**1,958**	**1,974**
Emergency Department visits	**56,643**	**53,954**	**53,479**
Cancer Centre visits	**83,924**	**77,847**	**72,862**
All other ambulatory visits	**109,303**	**105,225**	**150,332**
Operative cases	**9,126**	**9,118**	**8,995**
Acute average length of stay	**6.1**	**6.2**	**6.5**
Imaging Exams	**125,219**	**119,695**	**121,545**
Clinical laboratories tests	**2,706,691**	**2,674,530**	**2,537,123**

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

Inpatient stays: Occupancy was consistently high and the acute length of stay improved. The number of cases remained relatively unchanged from the prior year due to the non-acute patients awaiting transfer to other care facilities.

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 is a result of the planned expansion of ambulatory clinics.

Emergency Department Visits: Emergency department (ED) visits increased approximately 7% from the prior year level; an increase in patient volumes has occurred between the hours of 8 pm and 10 pm since the change in daily opening hours of the Hotel Dieu Urgent Care Centre.

All other ambulatory visits: The increase over the prior year is aligned to the opening of the Mental Health Intensive Transitional Treatment clinic, as well as growth in cardiac device monitoring and chronic kidney disease hemodialysis visits.

Operative cases: Cancellation rates remained relatively unchanged since last year at 6.2%

Acute average length of stay: The length of stay remained relatively unchanged from the prior year level; KGH is .04 of a day below its expected length of stay. There was an increase in patients in the hospital awaiting access to long-term care facilities.

Imaging exams: The main factors contributing to the increased volume were higher demand for CT exams, increased operating hours for MRI, and increased activity for breast cancer screening.

Clinical laboratories tests: Increase in test volume aligns with the overall increase in patient activity.

The following highlights Quality Based Procedures volume over the last three years. No comparative information is provided for new QBP's introduced in fiscal 2015.

	2015	2014	2013
Hip and knee replacement*	**602**	**557**	**573**
Stroke care	**361**	**318**	**282**
Non-cardiac vascular disease	**107**	**89**	**77**
Congestive heart failure	**371**	**340**	**372**
Chronic obstructive pulmonary disease	**481**	**401**	**477**
GI Endoscopy	**1,994**	**2,597**	**2,381**
Systemic therapy	**12,567**	**11,020**	**9,922**
Hip fracture	**246**		
Neonatal jaundice	**102**		
Pneumonia	**312**		

***2015 volume includes 15 bilateral joint replacement added as a QBP commencing that year**

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

Stroke care: Increased cases can be attributable in part to changes aligned with best practice stroke care as well as a naturally occurring growth rate due to an ageing population.

GI Endoscopy: The decrease in the current year is due to a change in the methodology criteria for reporting cases.

Systemic therapy: Patient activity continues to increase.

The volume variability across the years for the remaining QBP's is primarily based on patient population.

Outlook for 2015/16

Keeping pace with the many challenges facing the healthcare system is not unique to KGH, and planning for the future is increasingly important in order for us to continue *transforming the patient experience through a relentless focus on quality, safety and service*. There are several factors that will need to be thoughtfully considered in fiscal 2016 as healthcare expenses are increasing at a higher rate than funding allocations.

Inflationary cost increases for the next operating year have been estimated at approximately $6.7 million. This expense for salary and benefits, and the increased cost for patient care supplies, services and administrative operating costs have been offset in the fiscal 2016 approved operating budget. The full year impact of savings identified part-way through fiscal 2015 and newly identified cost avoidance opportunities, as well as new sources of revenue, allow the hospital to begin fiscal 2016 with a balanced operating budget. New continuous improvement initiatives will need to be identified and implemented should higher than average volumes of patient activity continue into fiscal 2016. The capital budget for fiscal 2016 provides an annual $19 million investment in capital expenditures for patient care equipment, technology and building infrastructure upgrades.

Summary

Kingston General Hospital is committed to sustaining our organization's financial health. Strengthened everyday by the collective efforts of those who work, learn and volunteer at KGH, we expect success in achieving this goal in the year ahead.

Financial Results Summary

$ millions	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010
Operating results						
Revenue	470.7	453.0	448.1	429.7	406.9	391.6
Expense	(438.8)	(423.8)	(426.8)	(407.0)	(395.5)	(388.5)
Excess (deficiency) of revenue over expenses - operations	31.9	29.2	21.3	22.7	11.4	3.1
Building amortization						
Revenue	17.5	16.3	16.1	7.4	3.7	3.8
Expense	(19.4)	(18.8)	(18.5)	(9.7)	(7.0)	(6.2)
Deficiency of revenue over expenses - building amortization	(1.9)	(2.5)	(2.4)	(2.3)	(3.3)	(2.4)
Total surplus (deficit) position	30.0	26.7	18.9	20.4	8.1	.7

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 consolidated statement of financial position as at March 31, 2015, 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, 2015, 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.

Chartered Professional Accountants, Licensed Public Accountants

June 8, 2015

Kingston, Canada

KINGSTON GENERAL HOSPITAL
Consolidated Statements of Financial Position

as at March 31, 2015
(000's)

	2015	2014
Assets		
Current assets		
Cash	$ 35,298	$ 13,805
Restricted cash	49,603	63,748
Accounts receivable	11,847	11,254
Due from Ministry of Health and Long-Term Care, South East Local Health Integration Network and Cancer Care Ontario	4,567	10,045
Inventories	5,783	6,303
Other current assets	4,948	3,382
	112,046	108,537
Other investments (note 4)		
Other	10,816	6,346
Investments in joint ventures (note 5)	3,058	3,058
Capital assets, net (note 6)	294,624	295,576
	$ 420,544	$ 413,517
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	30,914	50,256
Accrued compensation	21,299	20,342
Note payable - KGH Auxiliary (note 16)	400	400
Gift annuities (note 7)	-	50
Agency obligations (note 8)	833	706
Current portion of long-term debt (note 9)	1,702	1,628
	55,148	73,382
Long-term debt (note 9)	11,829	13,533
Employee future benefits (note 10)	26,927	26,121
Interest rate swaps (note 9)	285	492
Deferred contributions (note 11, 12 and 13)	277,847	281,633
Net assets		
Invested in capital assets (note 6)	25,010	39,891
Unrestricted	22,984	(21,880)
	47,994	18,011
Accumulated remeasurement gains	514	345
	48,508	18,356
Commitments (note 14)		
Contingencies (notes 17 and 18)		
	$ 420,544	$ 413,517

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, 2015
(000's)

	2015	2014
Revenues		
Inpatients		
Ministry of Health and Long-Term Care, South East Local Health Integration Network and Cancer Care Ontario	$ 368,023	$ 360,270
Other	8,431	9,018
Outpatients	14,097	13,085
Clinical education and other programs	44,245	40,069
Marketed services	5,397	4,500
Recoveries and other revenue	17,882	16,472
Investment income	1,123	1,334
Research	5,360	4,603
Amortization of deferred capital contributions-major equipment	6,095	3,689
Total revenues	470,653	453,040
Expenses		
Salaries and benefits	306,267	298,027
Patient care supplies and services	69,226	66,894
Utilities	5,717	5,432
Interest	632	730
General	39,515	38,281
Research	6,795	6,419
Amortization of major equipment	10,620	7,996
Total expenses	438,772	423,779
Surplus of revenues over expenses before building amortization	31,881	29,261
Amortization of deferred capital contributions - building and land improvements	17,545	16,325
Amortization of building and land improvements	(19,443)	(18,884)
Surplus of revenues over expenses	$ 29,983	$ 26,702

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Changes in Net Assets (Deficiency)

for the year ended March 31, 2015
(000's)

	Unrestricted	Invested in Capital Assets	Total 2015	Total 2014
Balance, beginning of year	(21,880)	39,891	18,011	(8,691)
Surplus (deficiency) of expenses over revenues (note 6)	36,406	(6,423)	29,983	26,702
Net change in investment in capital assets (Note 6)	8,458	(8,458)	-	-
Balance, end of year	$ 22,984	$ 25,010	$ 47,994	18,011

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Cash Flows

for the year ended March 31, 2015
(000's)

	2015	2014
Operating activities:		
Surplus of revenues over expenses	$ 29,983	$ 26,702
Add (deduct) non-cash items		
Amortization of capital assets	30,063	26,880
Amortization of deferred capital contributions	(23,640)	(20,014)
Change in fair value of other investments	(38)	(74)
(Gain) loss on disposition of capital assets	(4)	(19)
Change in non-cash working capital balances (note 15)	(14,469)	569
Increase in employee future benefits	806	1,447
Increase (decrease) in deferred contributions	(490)	531
	22,211	36,022
Capital activities:		
Purchase of capital assets	(29,107)	(19,195)
Receipt of deferred capital contributions	20,344	6,034
	(8,763)	(13,161)
Financing activities:		
Repayment of long-term debt	(1,630)	(1,565)
	(1,630)	(1,565)
Investing activities:		
(Purchase) redemption of investments	(4,470)	141
(Increase) decrease in investments in joint ventures	-	8
	(4,470)	149
Increase in cash during the year	7,348	21,445
Cash, beginning of year	77,553	56,108
Cash, end of year	$ 84,901	$ 77,553
Cash, end of year is represented by:		
Cash	$ 35,298	$ 13,805
Restricted cash	49,603	63,748
	$ 84,901	$ 77,553

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Remeasurement Gains and Losses

for the year ended March 31, 2015
(000's)

		2015	2014
Accumulated remeasurement gains, beginning of the year	$	345	152
		345	152
Unrealized gains (losses) attributable to:			
Other Investments			
Designated Fair Value		(4)	(63)
Equity Instruments		(34)	(11)
Derivatives		207	267
		169	193
Net remeasurement gains for the year		169	193
Accumulated remeasurement gains, end of the year	$	514	345

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. Change in Accounting Policy

The Hospital adopted the Public Sector Accounting Board Standard PS 3260 Liability for Contaminated Sites effective April 1, 2014. Under PS 3260, contaminated sites are a result of contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard. There were no adjustments as a result of the adoption of this standard.

3. 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, 2015.

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.

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, 2013 disclosed actuarial assets of $47,180 million with accrued pension liabilities of $41,478 million, resulting in a surplus of $5,702 million. This filing valuation also confirmed that the plan was fully funded on a solvency basis as at December 31, 2014 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 (2014 – 18 years). The average remaining service period for employees of other benefit plans is 14 years (2014 – 14 years).

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

4. Other Investments

	Level	2015	2014
Fixed income investments, measured at fair value	2	10,745	5,713
Equity instruments, quoted in an active market	1	71	633
		10,816	6,346

Fixed income investments are comprised of Government of Canada bonds and guaranteed investment certificates. There were no transfers between Level 1 and Level 2 for the years ended March 31, 2015 and 2014. There were also no transfers in or out of Level 3.

($000's)

5. 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 underwent renovations in 2013 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 2015 amounts to $451 (2014: $421) 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 $3,058 (2014: $3,058). 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 $180 (2014: $91) and has been included in the Consolidated Statement of Revenues and Expenses.

6. Capital Assets

Capital assets consist of the following:

	2015	2014
Land & land improvements	1,519	1,519
Buildings & building service equipment	410,978	403,491
Major equipment	187,519	167,256
Work in process	6,090	6,253
	606,106	578,519
Less accumulated amortization		
Land & land improvements	868	868
Buildings & building service equipment	167,931	148,488
Major equipment	142,683	133,587
	311,482	282,943
Net capital assets	294,624	295,576

($000's)

Net assets invested in capital assets are calculated as follows:

	2015	2014
Balance, end of the year	294,624	295,576
Amounts financed by:		
Deferred contributions	(256,083)	(240,524)
Long-term debt	(13,531)	(15,161)
	25,010	39,891

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

	2015	2014
Excess of expenses over revenues		
Amortization of deferred contributions related to capital assets	23,640	20,014
Amortization of capital assets	(30,063)	(26,880)
	(6,423)	(6,866)

	2015	2014
Purchase of capital assets	29,107	19,195
Amounts funded by:		
Deferred contributions	(39,195)	(6,709)
Repayment of long-term debt	1,630	1,565
	(8,458)	14,051

7. 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 were recorded as a liability until the conditions of the annuity had been met, at which time the donation was recorded. The final gift annuity donation was recognized during fiscal 2015.

8. 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)

9. Long-Term Debt

	2015	2014
Bank term loan with interest at 4.85%, payable in monthly installments of $8 on account of principal and interest, due January 2017	584	648
Bank term loan with interest at 5.65%, payable in monthly installments of $39 on account of principal and interest, due June 2017	2,780	3,082
Bank term loan with interest at 4.33%, payable in monthly installments of $54 on account of principal and interest, due February 2017	1,191	1,774
Bank term loan with floating interest, payable in monthly installments of $24 on account of principal and interest, due March 2016 (a)	2,621	2,813
Bank term loan with floating interest, payable in monthly installments of $64 on account of principal and interest, due February 2022 (b)	6,355	6,844
	13,531	15,161
Less current portion of long term debt	(1,702)	(1,628)
	11,829	13,533

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, 2015 is ($285) (2014 - ($492)) 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 $207 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%.

(c) The principal repayments due of long term debt for each of the five years subsequent to March 31, 2015 are as follows: 2016 - $1,704; 2017 - $1,728; 2018 - $1,198; 2019 - $1,254; and 2020 - $1,312

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(d) Interest on long-term debt in the amount of $632 (2014: $702) is included in interest expense in the Consolidated Statement of Revenues and Expenses.

($000's)

10. 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 $16,535 (2014: $16,228) 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, 2015. 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:

	2015	2014
Accrued benefit obligation	27,838	23,761
Unamortized actuarial losses	26	3,344
Accrued compensation	(937)	(984)
Employee future benefits	26,927	26,121

The expense for the year related to these plans is $2,125 (2014: $2,951) and employer contributions for these plans is $1,366 (2014: $1,568).

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 4.0% (2014 – 3.75%).
- Discount rate to determine accrued benefit obligation for disclosure at end of period 3.0% (2014 – 4.0%).
- Dental and extended health costs in 2015 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.

($000's)

11. 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.

	2015	2014
Balance, beginning of year	8,689	9,604
Less amount recognized as revenue in the year	(3,539)	(2,586)
Add amount received related to future periods	2,374	1,671
	7,524	8,689

12. 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.

	2015	2014
Balance beginning of year	266,653	280,633
Additional contributions received	20,344	6,249
Less amounts related to disposal of capital assets	-	(215)
Less amounts amortized to revenue	(23,640)	(20,014)
	263,357	266,653

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

	2015	2014
Unamortized capital contributions used to purchase assets	256,083	240,524
Unspent contributions	7,274	26,129
	263,357	266,653

13. 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.

	2015	2014
Balance, beginning of year	6,291	4,845
Less amount recognized as revenue in the year	(4,175)	(2,710)
Add amount received related to future periods	4,850	4,156
	6,966	6,291

($000's)

14. 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, 2015 is approximately $2,353 (2014: $7,090).

Lease commitments

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

	2015
Year ending March 31,	
2016	1,574
2017	1,007
2018	743
2019	658
2020	406
Total minimum lease payments	4,388

15. 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:

	2015	2014
Accounts receivable	(593)	56
Due from Ministry of Health and Long-Term Care, South East Local Health Integration Network and Cancer Care Ontario	5,478	970
Inventories	520	(322)
Other current assets	(1,566)	(332)
Accounts payable and accrued liabilities	(19,342)	1,080
Accrued compensation	957	(806)
Gift annuities	(50)	(50)
Agency obligations	127	(27)
Net increase (decrease)	(14,469)	569

16. Related Entities

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

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

Kingston General Hospital has an economic interest in the University Hospitals Kingston Foundation (UHKF). University Hospitals Kingston Foundation was originally created in 2005 to serve as the joint fundraising arm for the three Kingston Hospitals. On May 22, 2014, an application for Letters Patent of Amalgamation was filed with the office of the Public Guardian and Trustee on behalf of the Kingston General Hospital Foundation, Providence Care Foundation, Jeanne Mance Foundation and University Hospitals Kingston Foundation. The application was accepted with an effective date of July 1, 2014, whereby the parties have continued as one corporation under the corporate name of University Hospitals Kingston Foundation.

As outlined in the Operating Agreement between the Kingston Hospitals and UHKF dated July 1st, 2014, the Board of Directors of the Amalgamated Foundation, 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 and the Kingston General Hospital Foundation combined to provide Kingston General Hospital $2,843 (2014: $4,005) to fund capital redevelopment, equipment purchases 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 $488 (2014: $535) 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 (2014: $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 $2,032 (2014: $1,960) 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 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 financial statements. During the year, Kingston General Hospital paid $2,693 (2014: $3,668) 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, 2015, 3SO has drawn $240 (2014: $1,340) on this line of credit, of which $119 (2014: $663) is guaranteed by the Hospital.

17. 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, 2015.

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, 2015.

18. 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, 2015, management believes that reasonable provisions have been made in the accounts.

19. Clinical Education Program

During the year, the Hospital's Clinical Education Program incurred expenses of $34,545 (2014: $31,861) and received $35,534 (2014: $32,519) in funding from the Ministry of Health and Long-Term Care. Under the terms of the arrangement, the surplus of this funding of ($989) (2014: ($658)) must be paid to the Ministry of Health and Long-Term Care, and, as such, a payable of ($989) (2014: ($658)) has been recorded as at March 31, 2015.

20. 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, 2015 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, 2015 is $848 (2014: $871).

As at March 31, 2015, $125 (2014: $90) 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, 2015 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2014.

(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 9.

There have been no significant changes to the liquidity risk exposure from 2014.

(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, 2015, 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 9). 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 4.

There has been no change to the interest rate risk exposure from 2014.

21. Letters of Credit

Kingston General Hospital has entered into an agreement with the Bank of Montreal for Irrevocable Standby Letters of Credit in the amount of $636 to the Corporation of the City of Kingston related to hospital redevelopment. At March 31, 2015, no draw has been made upon these instruments.

22. Comparative Figures

Certain comparative figures have been restated to conform to the financial statement presentation adopted in 2015.