Financial Statements of

ST. MARY'S
GENERAL HOSPITAL

Year ended March 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the St. Joseph's Health System and to the Board of Trustees, St. Mary's General Hospital

We have audited the accompanying financial statements of St. Mary's General Hospital, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, changes in net assets (deficit), remeasurement gains or losses and statement of cash flows for the year then ended March 31, 2017, 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 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 an 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 Hospital'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 Hospital'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.

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KPMG Canada provides services to KPMG LLP.

KPMG

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. Mary's General Hospital, as at March 31, 2017, and the results of its operations, changes in net assets (deficit), statement of remeasurement gains or losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 24, 2017
Hamilton, Canada

ST. MARY'S GENERAL HOSPITAL

Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash (note 2)	$ 8,807,456	$ 6,354,464
Accounts receivable, net (note 3)	5,055,115	8,926,341
Inventories	1,091,163	1,248,876
Prepaid expenses	976,626	966,201
	15,930,360	17,495,882
Investments (note 4)	2,471,524	2,442,884
Capital assets (note 5)	98,936,645	100,534,101
	$ 117,338,529	$ 120,472,867
Liabilities, Deferred Contributions and Net Assets (Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	$ 24,006,253	$ 25,464,867
Deferred revenue	211,588	393,779
Current portion of long-term debt (note 8)	455,449	437,838
	24,673,290	26,296,484
Employee future benefits (note 7)	4,540,300	4,151,400
Long-term debt (note 8)	3,898,295	4,353,744
Fair value of interest rate swap contract (note 8)	465,984	664,355
Deferred capital contributions (note 9)	82,188,142	83,761,313
Net assets (deficit):		
Invested in capital assets (note 10)	12,494,458	12,051,973
Unrestricted net assets	(10,455,956)	(10,142,047)
	2,038,502	1,909,926
Accumulated remeasurement loss	(465,984)	(664,355)
Contingencies (note 11)		
	$ 117,338,529	$ 120,472,867

See accompanying notes to financial statements.

On behalf of the Board:

Stan Nahrgang Trustee
Treasurer

Dieter Kays Trustee
Chair

ST. MARY'S GENERAL HOSPITAL

Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Ontario Ministry of Health and Long-Term Care and other funding agencies	$ 132,506,651	$ 129,838,436
Preferred accommodation	158,789	161,652
Other patient revenue	15,409,859	14,941,773
Parking revenue	1,829,340	1,739,154
Donations and other revenue	4,002,351	3,430,321
Amortization of deferred capital contributions relating to equipment	3,310,587	3,106,052
	157,217,577	153,217,388
Operating expenses:		
Salaries, wages and employee benefits	111,917,988	111,164,322
Medical and surgical supplies	16,501,127	14,411,041
Drugs and medicines	4,360,017	4,258,489
Other supplies and expenses	21,319,925	20,295,432
Amortization of major equipment	2,963,970	2,730,838
	157,063,027	152,860,122
Excess of operating revenues over expenses prior to building amortization	154,550	357,266
Amortization of deferred contributions relating to buildings and building equipment	2,852,377	2,913,815
Amortization of buildings and building equipment	(3,333,157)	(3,399,303)
Gain on disposal of equipment	16,968	691
Donations from Foundation toward long-term debt (note 12)	687,993	694,531
Interest related to long-term liabilities	(250,155)	(273,625)
Excess of revenues over expenses	$ 128,576	$ 293,375

See accompanying notes to financial statements.

ST. MARY'S GENERAL HOSPITAL

Statement of Changes in Net Assets (Deficit)

Year ended March 31, 2017, with comparative information for 2016

March 31, 2017	Invested in capital assets	Unrestricted	Total
Balance, beginning of year	$ 12,051,973	$ (10,142,047)	$ 1,909,926
Excess of revenues over expenses	(117,195)	245,771	128,576
Net change in investment in capital assets	559,680	(559,680)	-
Balance, end of year	$ 12,494,458	$ (10,455,956)	$2,038,502

March 31, 2016	Invested in capital assets	Unrestricted	Total
Balance, beginning of year	$ 10,155,851	$ (8,539,300)	$ 1,616,551
Excess of revenues over expenses	(109,583)	402,958	293,375
Net change in investment in capital assets	2,005,705	(2,005,705)	-
Balance, end of year	$ 12,051,973	$ (10,142,047)	$ 1,909,926

See accompanying notes to financial statements.

ST. MARY'S GENERAL HOSPITAL

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (applied to):		
Operations:		
Excess of revenue over expenses	$ 128,576	$ 293,375
Items not involving cash:		
Amortization of capital assets	6,297,127	6,130,141
Amortization of deferred contributions related to capital assets	(6,162,964)	(6,019,867)
Gain on disposal of capital assets	(16,968)	(691)
Change in employee future benefits obligation	388,900	392,200
	634,671	795,158
Changes in non-cash operating working capital:		
Accounts receivable	3,871,226	(3,646,753)
Inventories	157,713	(173,131)
Prepaid expenses	(10,425)	(69,066)
Accounts payable and accrued liabilities	(1,458,614)	1,408,382
Deferred revenue	(182,191)	57,926
	2,377,709	(2,422,642)
	3,012,380	(1,627,484)
Capital:		
Purchase of capital assets	(5,082,703)	(7,093,383)
Proceeds on disposal of capital assets	400,000	945
Contributions received related to capital assets	4,589,793	5,535,082
	(92,910)	(1,557,356)
Investing:		
Increase in long term investments (net)	(28,640)	(26,988)
Financing:		
Repayment of long-term debt	(437,838)	(420,908)
(Decrease) increase in cash and cash equivalents	2,452,992	(3,632,736)
Cash and cash equivalents, beginning of year	6,354,464	9,987,200
Cash and cash equivalents, end of year	$ 8,807,456	$ 6,354,464
Supplemental cash flow information:		
Cash paid for interest	$ 250,155	$ 273,622
Cash received for interest	55,840	76,011

See accompanying notes to financial statements.

ST. MARY'S GENERAL HOSPITAL

Statement of Remeasurement Gains and Losses

Year ended March 31, 2017, with comparative information for 2016

		2017		2016
Accumulated remeasurement loss, beginning of the year	$	(664,355)	$	(702,009)
Unrealized gain (loss) attributable to:				
Derivative – interest rate swap		198,371		37,654
Net remeasurement gain (loss) for the year		198,371		37,654
Accumulated remeasurement loss, end of the year	$	(465,984)	$	(664,355)

See accompanying notes to financial statements.

St. Mary's General Hospital, Kitchener, Ontario (the "Hospital") is an adult medical surgical hospital with a priority focus on cardiac, thoracic and senior friendly care. Founded by the Sisters of St. Joseph of Hamilton in 1924, we are guided by our Judeo-Christian values and Catholic traditions in the provision of health services within the Region of Waterloo.

The Hospital is a division of St. Joseph's Health System (the "System"). The System is incorporated under the laws of the Province of Ontario. Both the Hospital and the System are registered charitable organizations under the Income Tax Act (Canada).

These financial statements do not include the accounts of the other health care facilities which are part of the St. Joseph's Health System.

1. 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.

(a) Basis of presentation:

The financial statements present only the accounts of the Hospital as a separately managed entity and exclude any accounts of the System that are considered to be unrelated to the Hospital's operations. For those reasons, some users of these financial statements may require additional information from the System.

These financial statements do not include the accounts of the following related, but separate entities:

St. Mary's General Hospital Foundation

St. Mary's General Hospital Volunteer Association

(b) Inventories:

Inventories consist of food and pandemic supplies. Inventory is valued at the lower of cost on a first-in, first-out basis, and replacement cost.

(c) Investments:

Investments are primarily comprised of marketable securities and fixed income deposits. Marketable securities are carried at fair value while fixed income deposits are carried at cost. Unrestricted investment income is recognized as revenue during the period in which it is earned.

1. Significant accounting policies (continued):

(d) 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 are 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.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and 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.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

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.

1. Significant accounting policies (continued):

(e) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution.

Incremental interest incurred during the acquisition, construction or production of capital assets is included in the cost of the capital asset. The interest capitalized is determined by applying the Hospital's average interest rate to the average amount of accumulated expenditures for the asset during the year.

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

	Rate
Buildings	2.5%
Building equipment	4%
Major equipment	5% - 33.3%

(f) Revenue recognition:

The Hospital follows the deferral method of accounting for contributions which include donations and government grants.

Under the Health Insurance Act and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care. Operating grants are recorded as revenue in the period to which they relate. These financial statements reflect agreed arrangements approved by the Ministry with respect to the year ended March 31, 2017.

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 are recognized as revenue in the year in which the related expenses are recognized. 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 of the related capital assets.

Revenue from Ontario Health Insurance Plan (OHIP), preferred accommodation, as well as income from parking and other ancillary operations, is recognized when the goods are sold or the service is provided, if the amount to be received can be reasonably estimated and collection is reasonably assured.

1. Significant accounting policies (continued):

(g) Employee future benefits obligation:

(i) Multi-employer plan:

Substantially all of the employees of the Hospital are eligible to be members of Healthcare of Ontario Pension Plan ("HOOPP"), which is a multi-employer high five average pay contributory pension plan. As HOOPP's assets and liabilities are not segmented by participating employer, the Hospital accounts for its HOOPP obligation on a cash basis (as a defined contribution plan).

(ii) Defined benefit plan:

The Hospital accrues its obligations under employee defined benefit dental, life insurance and health care plans, and the related costs as the employees render the services necessary to earn the future benefits. The Hospital offers the plan to certain of its employees as described in (note 7).

- The cost of the accrued benefit obligations for retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of retirement ages and expected health care costs.
- Past service costs from plan amendments are recognized immediately in the period the plan amendments occur.
- 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-retirement benefits plan is 11.9 years (2016 - 11.9 years).
- For those self-insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers' compensation and life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to these benefits are recognized immediately in the period they arise.

(h) Contributed goods and 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.

1. Significant accounting policies (continued):

(i) 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 capital assets, allowance for doubtful accounts and obligations related to employee future benefits. Actual results could differ from those estimates.

2. Cash:

The Hospital has an operating line which allows up to $4,200,000 to be drawn. The Hospital did not utilize this credit vehicle during the year.

3. Accounts receivable:

	2017	2016
Ontario Ministry of Health and Long-Term Care	$ 1,184,899	$ 3,950,685
OHIP, Patients and others	3,556,356	4,392,428
St. Joseph's Healthcare Hamilton	-	15,100
St. Mary's General Hospital Foundation	701,005	913,529
	5,442,260	9,271,742
Less allowance for doubtful accounts	(387,145)	(345,401)
	$ 5,055,115	$ 8,926,341

4. Investments:

	Level		2017		2016
Cash held for purchase of long-term assets, measured at fair value	1	$	831,789	$	832,080
Fixed income investments held for purchase of long-term assets, measured at fair value	1		1,639,735		1,610,804
		$	2,471,524	$	2,442,884

The fixed income investments mature from June 29, 2017 to July 6, 2019 and hold fixed interest rates from 1.60% to 2.00%. There were no changes in the classification of these financial instruments during the current year.

Investment income is included in deferred capital contributions on the Statement of Financial Position. The investment income of $28,932 (2016 - $21,436) is comprised of interest income earned on bank balances and fixed income investment securities.

5. Capital assets:

March 31, 2017		Cost		Accumulated amortization		Net book value
Land	$	2,084,724	$	-	$	2,084,724
Buildings and building equipment		132,040,523		52,391,289		79,649,234
Major equipment		89,185,179		77,704,910		11,480,269
Deposit on equipment		3,713,587		-		3,713,587
Construction in progress		2,008,831		-		2,008,831
	$	229,032,844	$	130,096,199	$	98,936,645

5. Capital assets (continued):

March 31, 2016	Cost	Accumulated amortization	Net book value
Land	$ 2,467,757	$ -	$ 2,467,757
Buildings and building equipment	132,040,523	49,056,094	82,984,429
Major equipment	84,242,091	74,742,978	9,499,113
Deposit on equipment	1,291,268	-	1,291,268
Construction in progress	4,291,534	-	4,291,534
	$ 224,333,173	$ 123,799,072	$ 100,534,101

6. Accounts payable and accrued liabilities:

	2017	2016
Accounts payable and other accrued liabilities	$ 11,363,299	$ 9,437,834
Accrued salaries, wages and employee deductions	6,715,033	6,914,863
Accrued vacation pay	4,572,213	4,776,902
Accounts payable MOH, LHIN, CCO	1,355,708	4,335,268
	$ 24,006,253	$ 25,464,867

7. Employee future benefits:

(a) Pension plan:

Substantially all full-time employees of the Hospital are members of the Healthcare of Ontario Pension Plan (HOOPP). This Plan is a multi-employer, defined benefit pension plan. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. As this is a multi-employer plan, no liability has been recorded on the Hospital's books.

Employer contributions to the Plan on behalf of employees amounted to $6,334,384 (2016 - $6,007,052). The most recent actuarial valuation for accounting purposes was completed by HOOPP as at December 31, 2016. Their December 31, 2016 audited financial statements disclosed an actuarial value of Net Assets in the amount of $66,421 million, with accrued benefits of $54,461 million, resulting in a surplus of $11,960 million.

(b) Other employee future benefits:

The Hospital has an unfunded defined benefit dental, life insurance and health care plan. This covers substantially all of its employees and provides a segment of its retirees with post retirement benefits.

Information about the accrued non-pension obligation and liability as at March 31, 2017, is as follows:

	2017	2016
Accrued benefit obligation, beginning of year	$ 4,758,100	$ 4,427,500
Current service cost	415,800	399,000
Interest cost	217,500	202,800
Benefits paid	(300,400)	(266,000)
Actuarial gains	(191,400)	(5,200)
Accrued benefit obligation, end of year	4,899,600	4,758,100
Less unamortized amounts:		
Experience losses	359,300	606,700
Total unamortized amounts	359,300	606,700
Total accrued benefit liability, end of year	$ 4,540,300	$ 4,151,400

7. Employee future benefits (continued):

(b) Other employee future benefits (continued):

The significant actuarial assumptions adopted in the measuring of the accrued non-pension benefit obligation are as follows:

	2017	2016
Accrued benefit obligation (at end of year):		
Discount rate	4.70%	4.33%
Extended health care	6.40%	6.50%
Dental care cost rate	4.00%	4.00%
Benefit costs (for fiscal year):		
Discount rate	4.33%	4.33%

The benefit obligation for accounting purposes is based on the most recent actuarial valuation of April 1, 2015.

8. Long-term debt:

	2017	2016
Term loan, with interest at 3.95% per annum fixed through a swap transaction, monthly payments of interest and principal, maturing on June 1, 2025	$ 4,353,744	$ 4,791,582
Less: current portion of long-term debt	455,449	437,838
	$ 3,898,295	$ 4,353,744

8. Long-term debt (continued):

(a) The Hospital was using a floating rate interim non-revolving demand construction loan to fund the construction of its facilities. This bank loan provides for interest at the bank's prime lending rate and is payable monthly. The Hospital had specific long-term, non-revolving term loan financing pre-approved for the project, whereby the interim construction loan was refinanced with term debt.

The Hospital has refinanced the construction loan through a term loan agreement with the bank. This loan bears interest at the bank's prime lending rate plus 0.30%, is payable monthly and matures on June 1, 2025. The Hospital entered into an interest rate swap transaction to pay a fixed interest rate of 3.95% (note 8 (c)).

(b) Debt maturity:

The following are the future minimum annual debt principal repayment due over the next five fiscal years and thereafter:

2018	$	455,449
2019		473,769
2020		492,825
2021		512,648
2022		533,268
Thereafter		1,885,785
	$	4,353,744

(c) Interest rate swap:

The Hospital has entered into an interest rate swap agreement to manage the volatility of interest rates. The Hospital is a party to a 15-year interest rate swap agreement with a notional principal amount of $7 million, whereby the Hospital is obligated to pay fixed interest of 3.95% while receiving variable rate interest which offsets the variable rate interest paid on its term loan (note 8 (a)). The agreement matures on June 1, 2025. The fair value of the interest rate swap agreement will continue to fluctuate until the maturity of the agreement, or its settlement.

The fair value of the interest rate swap at March 31, 2017 is in a net unfavorable position of $465,984 (2016 - $664,355). The current year impact of the change in fair value of the interest rate swap is a decrease to the statement of remeasurement gains and loss of $198,371. The fair value of the interest rate swap is determined using Level 3 of the fair value hierarchy.

9. Deferred contributions:

Deferred contributions related to capital assets represent the unamortized portion of contributed capital assets and the unamortized portion of restricted contributions with which capital assets were originally purchased, plus any unspent donations and grants received during the year for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations. The changes in the deferred contributions balance for the year are as follows:

	2017	2016
Balance, beginning of year	$ 83,761,313	$ 84,246,098
Additional contributions	4,589,793	5,535,082
Less amounts amortized to revenue	(6,162,964)	(6,019,867)
Balance, end of year	$ 82,188,142	$ 83,761,313

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

	2017	2016
Unamortized capital contributions used to purchase capital assets	$ 82,088,443	$ 83,690,546
Unspent capital contributions	99,699	70,767
	$ 82,188,142	$ 83,761,313

10. Net assets invested in capital assets:

Investment in capital assets is calculated as follows:

	2017	2016
Capital assets	$ 98,936,645	$ 100,534,101
Amounts financed by deferred contributions	(82,088,443)	(83,690,546)
Amounts financed by debt	(4,353,744)	(4,791,582)
	$ 12,494,458	$ 12,051,973

11. Contingencies:

(a) The Hospital is subject to certain actual and potential legal claims, which have arisen in the normal course of operations. In management's opinion, insurance coverage is sufficient to offset the cost of unfavourable settlements, if any, which may result from such claims.

(b) In the normal course of operations, the Hospital is subject to various human resource matters, including grievances filed by employees or groups of employees under Provincial legislation. Currently, no significant matters are before an arbitrator or pending resolution.

(c) In the normal course of operations, the Hospital is involved in certain employment related matters and has recorded accruals based on management's estimate of potential settlement amounts where these amounts are reasonably determinable.

12. Related party transactions:

(a) St. Joseph's Health System:

The Hospital, as a division of St. Joseph's Health System, was involved in inter-divisional activities throughout the year. These activities consist of the sharing of the System's corporate administrative charges and resulted in charges of $396,226 (2016 - $409,186). These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

(b) St. Joseph's Healthcare Hamilton:

The Hospital receives services from St. Joseph's Healthcare throughout the year. These activities consist of the sharing of staff charges and other services and resulted in charges of $26,244 (2016 - $37,244). The Hospital provides services to St. Joseph's Healthcare throughout the year. These activities consist of the sharing of staff and resulted in recoveries of $nil (2016 - $149). At March 31, 2017, the Hospital had a net accounts receivable balance of $nil (2016 - $15,100). The receivable balance primarily consists of funding revenue from the Ministry of Health and Long-Term Care which was transferred to St. Joseph's Healthcare as paymaster to be subsequently flowed to the Hospital. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

12. Related party transactions (continued):

(c) St. Mary's General Hospital Foundation:

The Hospital has an economic interest in the St. Mary's General Hospital Foundation (the "Foundation") as the Foundation was established to raise funds for the use of the Hospital. The Foundation's by-laws indicate that it will operate and fundraise to support the Hospital. The Foundation is separately incorporated under laws of Ontario and is a registered charity under the Income Tax Act. The Board of Directors of the Foundation is separate from the Hospital, and thus the Foundation is separately managed. The Hospital may request donations from the Foundation, but the ultimate decisions on funding are completed by the Foundation management and Board of Directors.

Net resources of the Foundation amount to $6,790,028 (2016 - $5,861,985), of which $4,242,337 represents contributions externally restricted.

The net assets and results from operations of the Foundation are not included in the statements of the Hospital. Separate financial statements of the Foundation are available upon request.

Related party transactions during the year not separately disclosed in the financial statements include the following:

(i) an amount of $2,946,494 (2016 - $5,203,734) has been received from the Foundation and recorded as deferred contributions related to capital assets; and

(ii) an amount of $687,993 (2016 - $694,531) representing debt repayments paid on the Hospital's behalf have has been completed by the Foundation and recorded donations from Foundation toward long-term debt on the statement of operations.

(d) St. Mary's General Hospital Volunteer Association:

The Hospital has an economic interest in the St. Mary's General Hospital Volunteer Association (the "Volunteer Association") as the Volunteer Association was established to support the Hospital's initiatives and raise funds for the use of the Hospital. The Volunteer Association is incorporated under laws of Ontario and is exempt from income tax under the Income Tax Act. The Board of Directors of the Volunteers Association is separate from the Hospital, and thus the Volunteers Association is separately managed. The Hospital may request donations from the Volunteers Association, but the ultimate decisions on funding are completed by the Volunteers Association management and Board of Directors.

Net resources of the Volunteer Association amount to $485,000 (2016 - $475,000), with no contributions externally restricted. An amount of $60,000 is internally restricted for capital improvements.

12. Related party transactions (continued):

(d) St. Mary's General Hospital Volunteer (continued):

The net assets and results from operations of the Volunteer Association are not included in the statements of the Hospital. Separate financial statements of the Volunteer Association are available upon request.

Related party transactions during the year not separately disclosed in the financial statements:

(i) intercompany transactions related to supply purchases made by the Volunteer Association and payroll costs for the Tim Horton's operated by the Volunteer Association.

(e) St. Joseph Home Care:

The Hospital provides payroll processing and reporting services for St. Joseph Home Care ("Home Care"). Home Care is incorporated under the laws of Ontario. The Hospital processes payroll payments for executives from Home Care. Home Care reimburses the Hospital for the full payment and is charged for processing the payments.

Related party transactions during the year not separately disclosed in the financial statements include the following:

(i) an amount of $1,000 (2016 - $1,000) for services rendered relating to processing payroll for the Home Care.

(ii) an amount of $500,000 (2016 - $600,000) for unspent funding regarding Integrated Comprehensive Care (ICC) consists of funding revenue from the Ministry of Health and Long-Term Care which was transferred to St. Joseph's Healthcare as paymaster to be subsequently flowed to the Hospital.

13. 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 long-term investments.

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2017 is the carrying value of these assets.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the income statement. Subsequent recoveries of impairment losses related to accounts receivable are credited to the income statement. The balance of the allowance for doubtful accounts at March 31, 2017 is included (in note 3).

13. Financial risks (continued):

(a) Credit risk (continued):

As at March 31, 2017, $nil (2016 - $nil) of patient accounts receivable were past due, but not impaired.

The maximum exposure to investment credit risk is outlined (in note 4).

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

(b) Liquidity risk:

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

Accounts payable and accrued liabilities are generally due within 60 days of receipt of an invoice.

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

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

(c) Market risk:

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

(d) 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 to its interest bearing loan payable and its interest rate swap.

As at March 31, 2017, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the estimated impact on the market value the interest rate swap would increase by $186,471 or decrease by $197,742, respectively.

13. Financial risks (continued):

(d) Interest rate risk (continued):

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

The Hospital's investments are disclosed in (note 4).

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