The Stevenson Memorial Hospital

Financial Statements

For the year ended March 31, 2017

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Contents

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Independent Auditor's Report

To the Board of Directors of
The Stevenson Memorial Hospital

We have audited the accompanying financial statements of The Stevenson Memorial Hospital, which comprise the statement of financial position as at March 31, 2017, and the statements of operations and net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit 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 The Stevenson Memorial Hospital as at March 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Alliston, Ontario
June 1, 2017, except as described in Note 17, which is as of March 1, 2018

The Stevenson Memorial Hospital
Statement of Financial Position

March 31	2017 (Revised- See note 17)	2016
Assets		
Current		
Cash and cash equivalents (Note 2)	$ 2,129,000	$ 1,880,814
Accounts receivable - Ministry of Health and Long Term Care / Local Health Integration Network	688,491	256,700
Accounts receivable - other	1,027,463	973,642
Due from Stevenson Memorial Hospital Foundation (Note 12)	611,269	639,029
Due from County of Simcoe (Note 4)	100,941	136,651
Inventory of supplies	307,388	269,723
Prepaid expenses	363,278	361,550
Deferred lease asset (Note 11a)	73,107	-
	5,300,937	4,518,109
Cash held for capital projects (Note 3)	120,632	-
Due from County of Simcoe (Note 4)	-	100,941
Deferred lease asset (Note 11a)	198,032	-
Property, buildings and equipment (Note 5)	8,065,967	7,995,622
	8,384,631	8,096,563
	$ 13,685,568	$ 12,614,672
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	4,598,416	4,117,891
Current portion of obligation under capital lease	-	14,879
Deferred revenue	41,440	26,513
	4,639,856	4,159,283
Accrued post-employment benefits (Note 8)	521,448	474,000
Deferred contributions related to buildings and equipment (Note 7)	7,484,130	7,652,676
	8,005,578	8,126,676
	12,645,434	12,285,959
Contingencies and commitments (Notes 9, 11 and 14)		
Net Assets		
Unrestricted	1,040,134	328,713
	$ 13,685,568	$ 12,614,672

On behalf of the Board

CPA, CA

Director

Director

The accompanying notes are an integral part of these financial statements.

The Stevenson Memorial Hospital
Statement of Operations and Net Assets

For the year ended March 31	2017 (Revised- See note 17)	2016
Revenues		
Ministry of Health and Long Term Care / Local Health Integration Network	$ 23,123,918	$ 22,509,750
Other Provincial programs	736,634	703,546
Other agencies and self-pay	3,356,504	3,583,499
Differential charges	128,644	115,611
Recoveries and sales	1,093,431	1,024,329
Amortization of deferred contributions for equipment (Note 7)	831,309	946,508
	29,270,440	28,883,243
Expenses		
Salaries and wages	13,370,296	13,130,621
Employee benefits	3,338,431	3,186,154
Medical staff remuneration	3,209,138	3,888,539
Medical and surgical supplies	1,373,720	1,333,583
Drugs	680,452	673,247
Other supplies and expenses	5,222,434	4,786,464
Other Provincial programs	736,634	703,546
Amortization of equipment	805,261	1,121,239
Amortization of equipment under capital lease	-	41,206
Interest	-	2,894
Gain on disposal of equipment (Note 11)	(125,000)	-
	28,611,366	28,867,493
Excess of revenues over expenses before building amortization	659,074	15,750
Amortization of deferred contributions for buildings (Note 7)	428,414	409,854
Amortization of buildings	(376,067)	(362,006)
Excess of revenues over expenses for the year	711,421	63,598
Net assets, beginning of year	328,713	265,115
Net assets, end of year	$ 1,040,134	$ 328,713

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended March 31	2017 (Revised- See note 17)	2016
Cash flows from operating activities		
Excess of revenues over expenses for the year	711,421	63,598
Adjustments for		
Amortization of buildings and equipment	1,181,328	1,524,451
Amortization of deferred contributions related to buildings and equipment	(1,259,723)	(1,356,362)
Employee post retirement benefits	47,448	34,900
Gain on disposal of equipment	(125,000)	-
Cash flows from operations before non-cash working capital balances	555,474	266,587
Changes in non-cash working capital balances		
Accounts receivable - Ministry of Health and Long Term Care / Local Health Integration Network	(431,791)	(145,339)
Accounts receivable - other	(53,821)	(129,666)
Due from Stevenson Memorial Hospital Foundation	27,760	357,422
Due from County of Simcoe	136,651	131,032
Inventory of supplies	(37,665)	(24,817)
Prepaid expenses	(1,728)	20,621
Deferred lease asset	(271,139)	-
Accounts payable and accrued liabilities	480,525	(304,501)
Deferred revenue	14,927	(46,632)
Cash provided by operating activities	419,193	124,707
Cash flows from capital and financing activities		
(Increase) decrease in cash held for capital projects	(120,632)	23,016
Increase in deferred contributions related to buildings and equipment	1,091,177	917,321
Repayment of capital lease obligation	(14,879)	(44,484)
Net purchase of buildings and equipment	(1,251,673)	(1,152,163)
Proceeds from disposal of equipment	125,000	-
Cash used in capital and financing activities	(171,007)	(256,310)
Net increase in cash during the year	248,186	(131,603)
Cash, beginning of year	1,880,814	2,012,417
Cash, end of year	2,129,000	1,880,814

The accompanying notes are an integral part of these financial statements.

1. Significant Accounting Policies

Management's Responsibility for the Financial Statements

The financial statements of Stevenson Memorial Hospital (the Hospital) are the responsibility of management. They have been prepared in accordance with Canadian public sector accounting standards for not-for-profit organizations as established by the Public Sector Accounting Board.

Nature of the Organization

The Hospital is a vibrant community hospital 45 minutes from Toronto providing excellent, high quality health care services to a fast-growing population in New Tecumseth and the South Simcoe region. The Hospital, incorporated without share capital under the Corporations Act Ontario, is a charitable organization within the meaning of the Income Tax Act (Canada) and may issue tax receipts to donors. The Hospital is a not-for-profit organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

Basis of Presentation

The financial statements of the Hospital have been prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public Sector Accounting Board ("PSAB for Government NPOs"). The Stevenson Memorial Hospital Foundation is a separate entity whose financial information is reported separately from the Hospital.

Contributed Services

Volunteers contribute numerous hours to assist the Hospital in carrying out certain charitable aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and, as such, is not reflected in these financial statements.

Revenue Recognition

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

Under the Health Insurance Act and Regulations thereto, the Hospital operations are funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long Term Care (MOHLTC) and the Local Health Integration Network (LHIN).

As required by the LHIN, the Hospital entered into a Hospital Service Accountability Agreement (H-SAA) that took effect April 1, 2008 and has been extended to March 31, 2018. As an interim measure, the LHIN asked hospitals to sign a one year extension to March 31, 2018. This agreement sets out the rights and obligations of the parties to the H-SAA in respect to funding provided to the Hospital by the LHIN. The H-SAA also sets out the performance standards and obligations of the Hospital that establish acceptable results for the Hospital's performance in a number of areas. Effective April 1, 2016 with consultation from the LHIN, the Hospital exited from the Health Based Allocation Model (HBAM) and re-entered the Small Hospital Funding Model.

1. Significant Accounting Policies (continued)

Revenue Recognition

If the Hospital does not meet its performance standards or obligations, the LHIN has the right to adjust funding received by the Hospital. The LHIN is not required to communicate certain funding adjustments until after the submission of year end data. Since this data is not submitted until after the completion of the financial statements, the amount of LHIN funding received by the Hospital during the year may be increased or decreased subsequent to year end.

Revenue from patient services is recognized when the service is provided.

Ancillary revenue consists of parking and food sales, which are recognized when the goods are sold and services provided.

Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Restricted contributions for the purchase of property, buildings and equipment are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related property, buildings and equipment.

Inventory

Inventory of supplies are valued at the lower of cost and net realizable value. Cost is determined on the first-in first-out basis for pharmacy, laboratory and dietary supplies. Cost for medical and general supplies is determined using a weighted average basis.

Property, Buildings and Equipment

Purchased property, buildings and equipment are recorded at cost. Contributed property, buildings and equipment are recorded at fair value at the date of contribution. Repairs and maintenance costs are expensed. Betterments that extend the estimated life of an asset are capitalized. When property, buildings and equipment no longer contributes to the Hospital's ability to provide services or the value of future economic benefits associated with the property, buildings and equipment is less than its net book value, the carrying value of the property, buildings and equipment is reduced to reflect the decline in the asset's value.

1. Significant Accounting Policies (continued)

Property, Buildings and Equipment (continued)

Property, buildings and equipment are capitalized on acquisition and amortized on a straight-line basis over their useful lives, which have been estimated as follows:

Land improvements	8 to 20 years
Building and building service equipment	5 to 40 years
Major equipment	3 to 20 years
Computer hardware and software	2 to 5 years

Costs directly involved in hospital redevelopment costs are capitalized.

Construction in progress and hospital redevelopment costs are not amortized until construction is substantially complete and the assets are ready for use.

Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. Assets recorded under capital leases are amortized on a straight-line basis over the term of the lease, which is the estimated useful life of the assets.

All other leases are accounted for as operating leases wherein rental payments are expensed on a straight-line basis.

Post-employment Benefits

The Hospital provides defined post-employment benefits to certain employee groups. These benefits include health, dental and life insurance.

The costs of post-employment future benefits are actuarially determined using management's best estimate of health care costs, disability recovery rates and discount rates. Adjustments to these costs arising from changes in estimates and experience gains and losses are amortized to income or expense over the estimated average remaining service life of the employee groups on a straight line basis. Plan amendments, including past service costs are recognized as an expense in the period of the plan amendment.

The costs of the multi-employer defined benefit pension are the Hospital's contributions due to the plan in the period.

1. Significant Accounting Policies (continued)

Financial Instruments

The Hospital classifies its financial instruments into the following category:

Amortized Cost

This category includes cash and cash equivalents, accounts receivable, amounts due from Stevenson Memorial Hospital Foundation, amounts due from County of Simcoe, and accounts payable and accrued liabilities. These items are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

The cash flows of the financial instruments held by the Hospital are fixed or variable. The incremental benefit of fair value measurement for cash is very limited and therefore has been classified as amortized cost.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Writedowns on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the writedown being recognized in the statement of operations.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances and guaranteed investment certificates with a duration of less than twelve months from the date of acquisition.

Management Estimates

The preparation of financial statements in conformity with PSAB for Government NPOs requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Areas of key estimation include determination of allowance for doubtful accounts, the estimated useful life of buildings and equipment and actuarial estimation of post-employment benefits. Actual results could differ from these estimates.

2. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following:

	2017	2016
Cash on hand and bank balances	$ 1,828,251	$ 1,880,814
GIC with interest rate of prime less 2.1% maturing October 31, 2017	300,749	-
Balance, end of year	$ 2,129,000	$ 1,880,814

3. Cash Held for Capital Projects

The Stevenson Memorial Hospital Foundation provides contributions for information systems and hospital infrastructure which is recognized as Cash held for Capital Projects.

4. Due from the County of Simcoe

As part of the financing of a building addition for the CT scanner, the County of Simcoe is providing ongoing funding to the Hospital. In 2017, $136,651 was paid with the balance of $100,941 to be paid in 2018. The amounts due are non-interest bearing, unsecured, and subject to annual confirmation by the County.

5. Property, Buildings and Equipment

	2017		2016	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 25,809	$ -	$ 25,809	$ -
Land improvements	593,961	329,563	593,961	316,370
Buildings	4,021,639	2,247,426	3,883,700	2,146,063
Building service equipment	6,965,887	4,566,653	6,907,734	4,305,141
Major equipment	17,915,147	16,028,484	18,485,861	16,442,723
Computer hardware and software	2,174,900	2,010,180	2,146,466	1,875,835
HIS in progress	417,474	-	-	-
Hospital redevelopment costs	1,133,456	-	1,038,223	-
	$ 33,248,273	$ 25,182,306	$ 33,081,754	$ 25,086,132
Net book value		$ 8,065,967		$ 7,995,622

5. Property, Buildings and Equipment (continued)

In accordance with hospital practices in Ontario associated with planning for new hospitals, the MOHLTC/LHIN requires hospitals to fund their planning costs prior to approval being granted. In due course the Hospital will make application to the MOHLTC/LHIN to either recover these costs or a portion of these costs or to have these costs considered to be part of the new hospital construction. It is at the discretion of the MOHLTC/LHIN to decide whether or not to reimburse these costs. Direct costs of Hospital personnel dedicated to this planning process are included in hospital redevelopment costs.

HIS refers to the Hospital's new health information system that is currently being implemented. (Note 11).

During the year assets with a cost of $1,085,154 were retired.

6. Banking Facilities

The Hospital has an operating line of credit to a maximum of $1,250,000. This credit facility bears interest at the bank's prime rate payable monthly, interest only and repayable on demand.

The Hospital has a capital line of credit to a maximum of $2,000,000. This credit facility bears interest at the bank's prime rate payable monthly, interest only and repayable on demand.

Effective March 22, 2017, in order to finance the Hospital's share of the purchase and implementation costs of the new health information system (HIS) (note 11 (b)), the Hospital entered into the following new credit facility with the same bank:

Non-revolving demand/fixed rate term loan, to a maximum of $5,500,000. This credit facility bears interest at the bank's prime rate and is repayable in blended payments over a maximum period of 120 months following an initial 12 months of interest-only (at the Hospital's option) from date of the first draw. At the Hospital's discretion any portion of the line may be converted to a fixed rate term loan available in terms of 1-5,7 and 10 years subject to the same maximum amortization period as above. Effective interest rates on any fixed term loan to be determined at the time of advance or conversion with interest charged in arrears. Once per calendar year the Hospital shall have the right to make a pre-payment not exceeding 15% of the outstanding facility balance at the time of the pre-payment.

Foreign exchange forward contract facility. This facility provides the Hospital with the ability to settle a daily maximum of up to US$300,000 for the purpose of making payments to its US based HIS software supplier. Limits of the facility are subject to replacement risk factors in existence at the time of booking.

The unsecured credit facilities are with a Schedule 1 bank.

At March 31, 2017 there was no amount outstanding for the above noted facilities.

7. Deferred Contributions Related to Buildings and Equipment

Deferred contributions related to buildings and equipment represents the unamortized balance of contributions received for the purchase of buildings and equipment. These restricted contributions are amortized and recorded as revenue in the statement of operations, on the same basis as the amortization of the related assets.

	2017	2016
Balance, beginning of year	**$ 7,652,676**	$ 8,091,717
Contributions received during the year	**1,091,177**	917,321
Less amounts amortized to revenue for equipment	**(831,309)**	(946,508)
Less amounts amortized to revenue for buildings	**(428,414)**	(409,854)
Balance, end of year	**$ 7,484,130**	$ 7,652,676

8. Accrued Post-employment Benefits

The Hospital provides post-employment extended healthcare and dental benefits to a number of retired employees until the age of 65. The Hospital also provides post-employment life insurance coverage to a number of employees. From January 1, 2002, Ontario Nursing Association (ONA) members are eligible for post-employment benefits, the cost of which is borne entirely by retiring ONA members; that is, ONA members electing coverage will pay 100% of the associated premium. In many cases, the premium charged to retirees is the same as that charged to active members. This premium is typically lower than the actual cost of retiree benefits due to their higher rates of utilization. The premiums paid by retiring ONA members, therefore may not be sufficient to cover the actual costs of the benefits. This may result in an increased obligation, which generates a past service cost.

From April 1, 2011 full-time ONA members who reach age 57 and retire on or after April 1, 2011 are eligible for post-employment benefits and the Hospital will contribute 50% of the billed premiums of these benefit plans. The Hospital provides Ontario Public Service Employees Union (OPSEU) members who retire after age 60 with semi-private, extended health and dental benefits. OPSEU members electing coverage will pay 100% of the associated premium.

The last actuarial report was conducted March 2017, (previously done in 2013) to estimate the Hospital's accrued benefit obligation relating to post-employment benefits plans. At March 31, 2017, the Hospital's accrued benefit obligation relating to post-employment benefit plans is $521,448 (2016 - $474,000).

The significant assumptions adopted in estimating the Hospital's accrued benefit obligation are as follows:

Discount rate	3.25%	per annum (2013 – 4.0%)
Extended healthcare cost escalation	6.0%	per annum (2013 – 7.0%)
Dental benefits cost escalation	2.75%	per annum (2013 – 4.0%)

9. Contingencies

Contingent Liabilities

i) During the normal course of operations, various proceedings and claims are filed against the Hospital. The Hospital reviews the validity of these claims and proceedings and management believes any settlement would be adequately covered by its insurance policies or by accrued provisions in these financial statements based on its best estimates where insurance is not applicable. It is management's opinion that the final determination of these claims will not have a material effect on the financial position or future results of operations of the Hospital.

ii) The Hospital participates in the Healthcare Insurance Reciprocal of Canada (HIROC), a pooling of the public liability insurance risks of its hospital members. Members of the pool pay annual premiums, which are actuarially determined and are expensed in the current year. These premiums are subject to further assessment for experience gains and losses, by the pool, for prior years. No assessments have been received during the year ended March 31, 2017.

10. Healthcare of Ontario Pension Plan (HOOPP)

HOOPP provides pension services to more than 321,000 active and retired members and approximately 510 employers. Substantially all of the full-time employees and some of the part-time employees are members of HOOPP. The plan is a multi-employer plan and therefore the Hospital's contributions are accounted for as if the plan were a defined contribution plan with the Hospital's contributions being expensed in the period they come due.

Each year, an independent actuary determines the funding status of HOOPP by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date.

The results of the most recent valuation as at December 31, 2016 disclosed a surplus of $15.9 million. The results of this valuation disclosed total actuarial liabilities and pension obligations of $148.3 million in respect of benefits accrued for service with actuarial assets at that date of $164.2 million. Because HOOPP is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario member organizations and their employees. As a result, the Hospital does not recognize any share of the HOOPP surplus or deficit. Contributions made by the Hospital to HOOPP during the year amounted to $1,085,907 (2016 - $1,051,284).

11. Commitments

(a) Lease commitments

Effective March 2017 the Hospital entered into a non-cancellable operating lease with GE Capital for a new EVO CT Scanner. A trade-in allowance of $125,000 was received for the fully depreciated equipment being replaced by the new CT Scanner. The term of the lease is 84 months and calls for an advance rental payment of $270,000 in the first month, which has been accrued in accounts payable and accrued liabilities, and $3,191 before taxes from June 2018 until May 2025. The Hospital has the right to exercise an "Early Purchase Option" on the 78th month for $96,333 upon appropriate notice, failing which the equipment shall be returned to the lessor at the end of term.

The minimum lease payments to term for the EVO CT Scanner lease are as follows:

2018	$ 270,000
2019	38,292
2020	38,292
2021	38,292
2022	38,292
Thereafter	76,606
	$ 499,774

During the year $1,600 (2016 - $nil) was expensed in the statement of operations related to this lease.

(b) Software acquisition

On February 7, 2017 a letter of intent was signed bringing the Hospital into partnership with Southlake Regional Health Centre and Markham Stouffville Hospital for the purpose of implementing a shared "Electronic Health Record"(EHR) using health information software (HIS) supplied by US based vendor Medical Information Technology Inc. (Meditech). For the year ended March 31, 2017 payments of USD$97,509 were made. The final configuration is subject to modification; however, the current remaining purchase price to be paid in full in fiscal 2018 is USD$877,585. The foreign exchange rate was USD$1 to CAD $1.3299 as at March 31, 2017.

12. Related Entities

Stevenson Memorial Hospital Foundation (Foundation)

The Foundation is an independent corporation incorporated without share capital which has its own independent Board of Directors and is a registered charity under the Income Tax Act (Canada). The Foundation receives and maintains funds for charitable purposes, which it contributes to the Hospital for the purchase of equipment, information systems, infrastructure, and renovations to the Hospital.

12. Related Entities (continued)

Amounts received from the Foundation are externally restricted. Accordingly, these contributions are deferred and amortized as revenue when the related assets are amortized to expense. During the year ended March 31, 2017, the Foundation approved funding requests from the Hospital totaling $950,369 (2016 - $996,210) for equipment, information systems, infrastructure and renovations for the Hospital. At March 31, 2017, $552,247 in capital funding and $59,022 in trade receivables is due from the Foundation (2016 - $583,528 capital and $55,501 trade receivables).

13. Financial Instrument Risk Management

Credit Risk

Credit Risk is the risk of financial loss to the Hospital if a debtor fails to make payments of interest and principal when due. The Hospital is exposed to this risk relating to its cash equivalents and accounts receivables. The Hospital holds its cash and cash equivalents accounts with a Schedule 1 bank which is insured by the Canadian Deposit Insurance Corporation. In the event of a default, the Hospital's cash accounts are insured up to $100,000 (2016 - $100,000).

For patient accounts receivable, the Hospital maintains an allowance for doubtful accounts, which reduces the receivable to its estimated realizable value. The receivable is adjusted on a monthly basis. Accounts receivable are primarily due from OHIP, the MOHLTC/LHIN and patients. Credit risk is mitigated by the financial solvency of the provincial government and the highly diversified nature of the patient population.

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Hospital is exposed to interest rate risk from the possibility that changes in interest rates will affect the cash flows related to its banking facilities.

At March 31, 2017 a 1% move in interest rates, with all other variables held constant, would have a minimal impact on the cash flows related to the Hospital's banking facilities.

Liquidity Risk

Liquidity risk is the risk that the Hospital will not be able to meet all cash outflow obligations as they come due. The Hospital mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and cash flow planning and by ensuring appropriate banking facilities are in place. (see Notes 6 and 16).

There have been no significant changes from previous year in the exposure to risk or policies, procedures and methods used to measure credit, interest rate and liquidity risk.

13. Financial Instrument Risk Management (continued)

Foreign Currency Risk

Foreign currency risk is the risk that there could be a significant increase in local currency denominated costs or significant deterioration in local currency asset values caused by significant unfavorable fluctuations in exchange rates of the underlying foreign currency denominated asset or liability. The Hospital faces limited risks in this regard. It conducts no foreign based operations, it owns no foreign currency denominated assets, and the only foreign currency denominated obligation (see Note 11 Commitments) shall be paid in the next fiscal year.

14. Management Services Agreement

In 2008, the Hospital entered into a management services agreement with Southlake Regional Health Centre. The purpose of the agreement is to form a strategic association, whereby both hospitals can improve clinical services, make certain defined resources available to the hospitals and maximize efficiencies. Southlake Regional Health Centre provides management and clinical support to the Hospital in accordance with its strategic plan. The Hospital has paid $820,611 (2016 - $1,270,474) for shared support services. The agreement was amended and extended until March 31, 2019.

15. Economic Dependence

The Hospital is economically dependent on the funding it receives from the MOHLTC/LHIN.

16. Comparative Figures

Certain comparative figures have been reclassified to conform to current year presentation.

17. Revised Financial Statements

On April 11, 2017, the LHIN announced that the Hospital had been approved to receive $450,000 in additional base funding for the 2016/17 fiscal year to support increasing operational pressures. In the initial audited financial statements approved by the Board of Directors, dated June 1, 2017, this funding was not recognized as revenues or accrued in accounts receivable in that year. There was a note disclosure to highlight this information.

Based on further discussions between management, the Board of Directors and the MOHLTC/LHIN, the financial statements for March 31, 2017 have been revised to include:

- an additional $450,000 in the Accounts receivable – Ministry of Health and Long Term Care / Local Health Integration Network on the Statement of Financial Position

- an additional $450,000 in the Unrestricted Net Assets on the Statement of Financial Position

- an additional $450,000 as Revenue from Ministry of Health and Long Term Care / Local Health Integration Network on the Statement of Operations and Net Assets