

Financial statements of

**Southlake Regional
Health Centre**

March 31, 2011

Southlake Regional Health Centre

March 31, 2011

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Independent Auditor's Report

To the Members of
Southlake Regional Health Centre

We have audited the accompanying financial statements of Southlake Regional Health Centre, which comprise the balance sheet as at March 31, 2011, and the statements of operations and changes in net assets, and of 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 generally accepted accounting principles, 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 audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Southlake Regional Health Centre as at March 31, 2011, and the results of its operations and changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
June 8, 2011

Southlake Regional Health Centre

Statement of operations and changes in net assets year ended March 31, 2011

(In thousands of dollars)

	2011	2010
	\$	\$
Revenues		
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	263,599	241,727
Cancer Care Ontario	9,135	7,767
Preferred accommodation and other	21,069	18,783
Patient care	19,591	17,919
Specified programs	3,471	3,315
Amortization of deferred equipment grants and donations	8,182	8,817
	325,047	298,328
Expenses		
Salaries, wages and employee benefits (Note 11)	202,085	189,589
Supplies and other	49,514	42,969
Medical and surgical supplies	34,513	36,429
Drugs	13,323	10,724
Specified programs	3,494	3,354
Amortization of furniture and equipment	13,645	12,655
	316,574	295,720
Excess of revenue over expenses per Hospital Service Accountability Agreement	8,473	2,608
Gain on land expropriation	602	-
Loss on disposal of capital assets	(280)	-
Amortization of deferred building grants and donations	5,060	5,025
Amortization of buildings and land improvements	(9,035)	(8,842)
Interest expense	(3,810)	(3,368)
Provision for bad debt	-	(2,112)
Excess of revenue over expenses (expenses over revenue)	1,010	(6,689)
Net assets, beginning of year	185	1,526
Accumulated gains and losses included directly in the statement of changes in net assets:		
Gain on derivatives designated as cash flow hedges	515	5,348
Net assets, end of year	1,710	185
	2011	2010
	\$	\$
Accumulated loss on derivatives designated as cash flow hedges	6,320	6,835

Southlake Regional Health Centre

Balance sheet

as at March 31, 2011

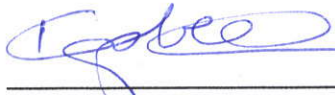
(In thousands of dollars)

	2011	2010
	\$	\$
Assets		
Current assets		
Cash	484	1,027
Accounts receivable (Note 5)	21,010	19,659
Inventories	2,743	2,617
Prepaid expenses	4,032	1,643
Total current assets	28,269	24,946
Loan receivable from Southlake Residential Care Village (Note 7)	2,211	2,112
Capital assets, net (Note 8)	292,587	312,695
	323,067	339,753
Liabilities		
Current liabilities		
Bank indebtedness (Note 4)	11,966	24,346
Accounts payable and accrued liabilities (Note 12)	53,888	48,928
Current portion of Southlake Regional Health Centre Foundation loan (Note 6)	200	200
Current portion of long-term debt (Note 9)	4,947	4,804
Total current liabilities	71,001	78,278
Long-term		
Loan payable to Southlake Regional Health Centre Foundation (Note 6)	600	800
Deferred capital grants and donations (Note 10)	188,019	193,961
Long-term debt (Note 9)	49,363	54,310
Derivative liabilities (Note 9(f))	6,320	6,835
Accrued post-retirement benefits (Note 11)	6,054	5,384
Total liabilities	321,357	339,568
Contingent liabilities (Note 15)		
Net assets	1,710	185
	323,067	339,753

Approved by the Board



Stephen Quinlan Board Chair



Katherine Campbell Treasurer

Southlake Regional Health Centre

Statement of cash flows

year ended March 31, 2011

(In thousands of dollars)

	2011	2010
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	1,010	(6,689)
Add (deduct) items not affecting cash		
Amortization of capital assets	22,680	21,497
Amortization of deferred capital grants and donations	(13,242)	(13,842)
Post-retirement benefits	1,094	1,017
Provision for bad debt	-	2,112
(Gain) on expropriation of land	(602)	-
Loss on disposal of capital assets	280	-
	11,220	4,095
Net change in non-cash working capital balances related to operations		
Accounts receivable	(1,351)	(286)
Inventories	(126)	(610)
Prepaid expenses	(2,389)	655
Accounts payable and accrued liabilities	4,960	5,878
	12,314	9,732
Investing activities		
Purchase of capital assets	(13,145)	(36,220)
Proceeds from sale of capital assets	10,894	-
	(2,251)	(36,220)
Financing activities		
Current portion of long-term debt	143	135
Capital contributions received from		
Southlake Regional Health Centre Foundation	3,756	13,794
Ontario Ministry of Health and Long-Term Care/Other	1,782	1,850
Regional Municipality of York	1,762	1,144
Repayments of long-term debt	(4,947)	(4,804)
Advances to Village	(98)	(90)
Repayment of Foundation advance	(200)	(200)
Post-retirement payments	(424)	(340)
	1,774	11,489
Net increase (decrease) in cash during the year	11,837	(14,999)
Cash deficiency, beginning of year	(23,319)	(8,320)
Cash deficiency, end of year	(11,482)	(23,319)
Cash consists of:		
Cash	484	1,027
Bank indebtedness	(11,966)	(24,346)
	(11,482)	(23,319)
Other information		
Total interest paid	4,116	3,809

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

1. Status and nature of activities

Southlake Regional Health Centre (the "Hospital"), incorporated without share capital under the laws of the Province of Ontario, operates a public hospital pursuant to *The Public Hospitals Act*. The Hospital receives the majority of its operating revenue from the Ontario Ministry of Health and Long-Term Care (the "Ministry") in amounts determined by the Ministry's annual review and approval process. The Hospital is a registered charity under the *Income Tax Act (Canada)* and, as such, is exempt from income taxes.

2. Future accounting changes

In December 2010, the Public Sector Accounting Board changed the accounting framework required to be followed by Government Not-for-Profit Organizations. Effective for fiscal years beginning on or after January 1, 2012, Government Not-for-Profit Organizations will be required to select from either (a) the Canadian Institute of Chartered Accountants ("CICA") Public Sector Accounting Handbook, including Sections PS 4200 to PS 4700 or, alternatively, (b) the CICA Public Sector Accounting Handbook without Sections PS 4200 to PS 4270. Early adoption of these new standards is permitted. The Hospital plans to adopt the new accounting standards for Government Not-for-Profit Organizations for its fiscal year beginning on April 1, 2012. The impact of transitioning to this new accounting framework has not been determined at this time.

3. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Financial instruments

As allowed under Section 3855 "Financial Instruments - Recognition and Measurement", the Hospital has elected not to account for non-financial contracts as derivatives, and not to account for embedded derivatives in non-financial contracts, leases and insurance contracts as embedded derivatives.

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Hospital's designation of such instruments. Settlement date accounting is used.

Financial instrument	Classification
Cash	Held-for-trading
Bank indebtedness	Held-for-trading
Short-term investments and marketable securities	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities
Derivative liability	Held-for-trading

Held-for-trading items are measured at fair value, with changes in their fair value recognized in the Statement of operations in the current period. "Loans and receivables" are measured at amortized cost, using the effective interest method, net of any impairment. "Other liabilities" are measured at amortized cost, using the effective interest method.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Derivative instruments are required to be classified as held for trading and measured at fair value with changes in fair value recognized in the Statement of operations unless they qualify for hedge accounting. Derivatives designated as effective cash flow hedging instruments are measured at fair value on the Balance sheet. The effective portion of the changes in the derivative's fair value is recognized directly in net assets until the hedged item impacts the Statement of operations, at which time the associated gains and losses on the derivative instrument are reclassified from net assets to the Statement of operations. The ineffective portion of the changes in the derivative's fair value is recognized directly to the Statement of operations.

Transaction costs are expensed as incurred.

The advances to the Village and the loan payable to the Foundation are not recorded at fair value as there is no comparable market to support the exchange amount.

The Hospital follows the disclosure requirements of Section 3861 of the CICA Handbook for financial instruments.

Revenue recognition

The Hospital follows the deferral method of accounting for contributions, which include donations and grants. 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. Grants and donations received for capital purposes are included in deferred capital grants and donations and are amortized on the same basis as the related depreciable fixed assets.

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 (the "Ministry"). Operating funding is recorded as revenue in the period to which it relates. 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. The extent to which the Ministry funding has been received, with the stipulated requirement that the Hospital provides specific services, and these services have not yet been provided, the funding is deferred until such time as the services are performed and the monies spent. Some Ministry revenue is tied to patient volume and activity. Revenue is, therefore, based on actual patient volumes.

Inventories

Inventories are valued at the lower of cost (on a weighted average cost basis) and replacement cost.

Capital assets

Purchased capital assets are recorded at historical cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of the contribution. Amortization is provided on a straight-line basis at rates based on the estimated service lives of the assets at the following annual rates:

Land improvements	5%
Buildings	2% to 2.5%
Leasehold improvements	lease term
Furniture and equipment	5% to 33.3%

Projects in process comprise direct construction, development costs and net capitalized interest. Interest costs, net of related interest income, are capitalized during the construction period.

Amortization is not recorded until construction is substantially complete and the assets are ready for productive use.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Contributed materials and services

Southlake Regional Health Centre has other individuals and organizations that volunteer numerous valuable hours to assist the Hospital in carrying out certain 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. Contributed materials are also not recognized in these financial statements.

Derivative instruments

Derivative instruments are financial instruments or other contracts whose value changes in response to the change in a specified interest rate, foreign exchange rate or other financial or commodity indices.

Income and expenses on derivative instruments designated and qualifying as hedges are recognized in the statement of operations in the same period as the related hedged item. For interest rate swaps, this accounting treatment results in interest expense on long-term debt being reflected in the statement of operations at the hedged fixed rate rather than at their original contractual interest rates. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value with changes in fair value recorded in the statement of operations.

The Hospital also formally assesses at the hedge's inception and on an ongoing basis, both retrospectively and prospectively, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the related hedged items.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 reporting period. Actual amounts could differ from those estimates. Accounts involving significant estimates include accounts receivable, loan receivable due from the Village, accrued liabilities and accrued post-retirement benefits.

Revenue recognized from the Ministry has a number of estimates. The Hospital has entered into a Hospital Service Accountability Agreement ("HSAA") that sets out the rights and obligations of the two parties with respect to funding provided to the Hospital by the Ministry for fiscal 2008/09 and 2009/10 and amended to include 2010/11. The HSAA sets out certain performance standards and obligations that establish acceptable results for the Hospital's performance in a number of areas.

If the Hospital does not meet its performance standards or obligations, the Ministry has the right to adjust funding received by the Hospital. The Ministry 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 Ministry funding received during the year may be increased or decreased subsequent to year-end. The amount of revenue recognized in these financial statements represents management's best estimates of amounts that have been earned during the year.

4. Bank indebtedness

The Hospital has an operating line of credit to a maximum of \$15 million. This credit facility bears interest at the bank's prime rate plus 50 basis points. As at March 31, 2011, there was \$1.97 million (2010 - \$24.3 million) in borrowings under this credit facility. In addition, the Hospital has two standby letters of credit in the amounts of \$100 thousand and \$500 thousand. As at March 31, 2011, there were no amounts applied against these letters of credit.

The Hospital has a Bridge Loan credit facility in the amount of \$20 million. As at March 31, 2011, there was \$10 million in borrowings under this credit facility. The term of the Bridge Loan is from April 9, 2010 until October 31, 2017 bearing interest only until September 30, 2011. This credit facility bears interest at the bank's prime rate plus 100 basis points.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

5. Accounts receivable

Accounts receivable consist of the following:

	2011	2010
	\$	\$
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	4,447	4,998
Cancer Care Ontario	96	4,544
OHIP	2,363	2,394
Vendor rebates	6,887	1,898
Stevenson Memorial Hospital	53	25
Insurers, patients and other	7,663	6,178
	21,509	20,037
Less: allowance for doubtful accounts	499	378
	21,010	19,659

6. Southlake Regional Health Centre Foundation (the "Foundation")

The Foundation, an independent organization, raises funds and holds resources primarily for the benefit of the Hospital. Amounts received from the Foundation are externally restricted. Accordingly, capital grants and donations are deferred and are recognized when the related expenses are recognized. During the year ended March 31, 2011, the Foundation contributed \$3.9 million from its annual campaign (2010 - \$13.8 million) to the Hospital substantially for equipment. In addition, the Foundation donated \$262 thousand (2010 - \$193 thousand) toward operations. The net assets of the Foundation as at March 31, 2011 totaled \$20.8 million (March 31, 2010 - \$16.9 million). The Hospital received an advance from the Foundation on August 29, 2002 for \$2.0 million, with interest payable monthly at prime minus 2.5% and no principal repayment for three years. The loan was renegotiated March 29, 2006 and bears interest at 5% per annum payable annually in arrears and requires minimum annual repayments of principal of \$200 thousand. The loan is due on March 31, 2015 and is secured by a promissory note. Interest recorded in the statement of operations related to the loan was \$50 thousand (2010 - \$60 thousand).

7. Southlake Residential Care Village (the "Village")

Southlake Residential Care Village runs a long-term care facility of 192 beds which the Hospital helps manage. The Village is a registered charity under the Income Tax Act and, as such, is exempt from income taxes.

The Hospital provided the Village with a long-term loan of \$2.0 million effective February 26, 2002 with interest payable monthly at prime minus 2.5%. The Hospital also provided long-term financing of \$2.3 million (2010 - \$2.2 million). Of this amount, \$475 thousand bears interest at the bank's prime rate plus 0.5% until the Village obtains permanent financing. As at March 31, 2011 the Hospital has recorded \$2.1 million reserve for bad debt against this borrowing.

In addition, to assist with the Village's capital financing arrangement, the Hospital has secured a revolving six month standby letter of credit in favour of Canada Life for \$500 thousand. All direct costs and financing fees related to the letter of credit are the responsibility of the Village.

The Hospital has entered into a 40-year Ground Lease Agreement with the Village, commencing August 1, 2003, to accommodate the construction of a new long-term care facility on the Hospital's property. The annual lease payment shall be no less than \$75 thousand which will compensate the Hospital for parking revenue lost or rendered unusable as a result of the new facility. Pursuant to an agreement between the Village and Canada Life Assurance Company, the Hospital has agreed to defer rental payments on the land lease effective January 2005 until such time that the additional advance to the Village is repaid in full and the debt to service coverage ratio of the Village reached 1.20 to 1.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

7. Southlake Residential Care Village (the "Village") (continued)

The Hospital has also entered into a sublease with the Village, effective November 21, 2003 for 40 years for the first and fifth floors (approximately 35,500 sq. ft.) of the new Village facility for hospital use. Annual lease payments are \$717 thousand per annum for the first five years, and then increase in the next five years by increments equal to the Consumer Price Index.

Southlake Residential Care Village has not been consolidated in the financial statements of the Hospital. Separate statements of the Village are available on request. Financial summaries of this unconsolidated entity as of December 31, 2010 and for the year ended are as follows:

	2010	2009
	\$	\$
Financial position		
Total assets	28,920	29,498
Total liabilities	36,140	35,802
Total net assets	(7,220)	(6,304)
	28,920	29,498
Results of operations		
Total revenue	14,754	13,218
Total expenses	15,669	14,296
Excess of revenue over expenses	(915)	(1,078)
Cash flows		
Cash provided by operations	244	37
Cash provided (used) in financing and investing activities	153	(115)
Increase (decrease) in cash	397	(78)

8. Capital assets

Capital assets consist of the following:

	2011		2010	
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	8,717	-	8,717	8,865
Land improvements	4,123	2,488	1,635	1,823
Buildings	295,044	59,173	235,871	224,532
Leasehold improvements	6,459	1,079	5,380	13,990
Furniture and equipment	155,960	122,667	33,293	32,385
Projects in process	7,691	-	7,691	31,100
	477,994	185,407	292,587	312,695

Projects in process are Capital Projects which have been started and not completed (Note 13).

During the year, \$Nil (March 31, 2010 - \$393 thousand) of interest was capitalized to capital assets.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

9. Long-term debt

Summary

	2011	2010
	\$	\$
Redevelopment bank loan (a)	1,102	1,040
Parking lot bank loan (b)	268	254
Parking garage bank loan (c)	1,262	1,201
Warehouse bank loan (d)	115	109
Leasehold improvement bank loan (e)	2,200	2,200
Current portion	4,947	4,804
Redevelopment bank loan (a)	21,782	22,884
Parking lot bank loan (b)	258	526
Parking garage bank loan (c)	16,958	18,220
Warehouse bank loan (d)	3,965	4,080
Leasehold improvement bank loan (e)	6,400	8,600
Long-term portion	49,363	54,310

(a) Redevelopment bank loan

The Hospital has a committed, non-revolving, reducing and/or fixed rate term loan facility of \$22.9 million (2010 - \$23.9 million).

The Hospital has utilized \$11.9 million of this facility for Phase I Redevelopment and has entered into a swap agreement related to this loan whereby the floating rate debt is swapped against the fixed rate debt with an interest rate of 6.52% and settled on a net basis. This agreement expires with the maturity of the loan on June 1, 2024.

Principal repayments on the Redevelopment Phase I loan are due as follows:

	\$
2012 current portion	588
2013	628
2014	670
2015	715
2016	763
2017 to 2024	8,494
	11,858

The Hospital has utilized \$11.0 million, the remainder of this facility, for Phase II Redevelopment and has entered into a swap agreement related to this loan whereby the floating rate debt is swapped against the fixed rate debt with the interest rate of 4.92% and settled on a net basis. This agreement expires with the maturity of the loan on March 2, 2026.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

9. Long-term debt (continued)

Summary (continued)

(a) Redevelopment bank loan (continued)

Principal repayments on the Redevelopment Phase II loan are due as follows:

	\$
2012 current portion	514
2013	540
2014	567
2015	595
2016	625
2017 to 2026	8,185
	<hr/> 11,026 <hr/>

(b) Parking lot bank loan

The Hospital has a non-revolving reducing term loan that is fully drawn for \$2.2 million and the remaining availability has been cancelled for the refinancing of the first and second phase of the South parking lot redevelopment. Interest on the loan is at the bank's prime rate and repayments are to be made in equal monthly installments of principal plus interest, with the final installment due March 1, 2013. Security on this facility includes a formal assignment of current and future revenues from parking operations and the parking lot management contract.

The Hospital has entered into a swap agreement related to this loan whereby the floating rate debt (prime plus 30 basis points) is swapped against the fixed rate debt with an interest rate of 5.20% and settled on a net basis. This agreement expires with the maturity of the loan on March 1, 2013.

Principal repayments are due as follows:

	\$
2012 current portion	268
2013	258
	<hr/> 526 <hr/>

(c) Parking garage bank loan

The Hospital has a non-revolving reducing term loan that is fully drawn for \$22.6 million for the construction of the parking garage. Interest on the loan is at the bank's prime rate and repayments are to be made in equal monthly installments of principal plus interest, with the final installment due May 1, 2022.

The Hospital has entered into a swap agreement related to this loan whereby the floating rate debt (prime plus 25 basis points) is swapped against the fixed rate debt with an interest rate of 5.00% and settled on a net basis. This agreement expires with the maturity of the loan on May 1, 2022.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

9. Long-term debt (continued)

Summary (continued)

(c) Parking garage bank loan (continued)

Principal repayments are due as follows:

	\$
2012 current portion	1,262
2013	1,327
2014	1,395
2015	1,466
2016	1,541
2017 to 2022	11,229
	<hr/> 18,220

(d) Warehouse bank loan

The Hospital has a non-revolving or fixed rate term loan that is fully drawn for \$4.5 million for the acquisition of a warehouse. Interest on the loan is at the bank's prime rate and repayments are to be made in equal monthly installments of principal plus interest, with the final installment due February 2, 2032.

The Hospital has entered into a swap agreement related to this loan whereby the floating rate debt (prime plus 25 basis points) is swapped against the fixed rate debt with an interest rate of 4.98% and settled on a net basis. This agreement expires with the maturity of the loan on February 2, 2032.

Principal repayments are due as follows:

	\$
2012 current portion	115
2013	120
2014	126
2015	133
2016	140
2017 to 2032	3,446
	<hr/> 4,080

(e) Leasehold improvements loan

The Hospital has a non-revolving or fixed rate term loan that is fully drawn for \$13.0 million for the Leasehold Improvements to the Medical Arts Building. Interest on the loan is at the bank's prime rate and repayments are to be made in equal monthly installments of principal plus interest, with the final installment due October 31, 2014.

The Hospital has entered into a swap agreement related to this loan whereby the floating rate debt (prime plus 25 basis points) is swapped against the fixed rate debt with an interest rate of 5.18% and settled on a net basis. This agreement expires with the maturity of the loan on October 31, 2014.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

9. Long-term debt (continued)

Summary (continued)

(e) Leasehold improvements loan (continued)

Principal repayments are due as follows:

	\$
2012 current portion	2,200
2013	2,200
2014	2,200
2015	2,000
	<u>8,600</u>

- (f) The Hospital enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Hospital designates its interest rate hedge agreements as hedges of the underlying debt.

The Hospital has entered into interest rate swap contracts with banks in order to hedge its variability in future interest payments relating to its long-term debt. These swaps effectively lock-in the interest rate applicable on the long-term debt.

Notional amount represents the contract amounts to which interest rates are applied to calculate the cash flows to be exchanged. The notional amount of the Hospital's interest rate swaps as of March 31, 2011 is \$54.3 million (2010 - \$59.1 million).

Fair value of the interest rate swaps was calculated using the discounted cash flow method.

Fair value as of March 31, 2011 of these interest rate swaps is \$6.3 million (2010 - \$6.8 million) and is reflected as a liability on the balance sheet.

10. Deferred capital grants and donations

Deferred capital grants and donations represent the unamortized balance of contributions received for the purchase of capital assets.

Changes in the deferred capital grants and donations balance are as follows:

	2011	2010
	\$	\$
Balance, beginning of year	193,961	191,015
Contributions received during the year:		
Southlake Regional Health Centre Foundation	3,756	13,794
Ministry of Health and Long-Term Care/Other	1,782	1,850
Regional Municipality of York	1,762	1,144
	<u>201,261</u>	<u>207,803</u>
Amortization of deferred capital grants and donations	(13,242)	(13,842)
Balance, end of year (Note 12 (a))	<u>188,019</u>	<u>193,961</u>

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

11. Pension and other post-retirement benefit plans

The Hospital is a member of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating member of the Ontario Hospital Association. Plan members will receive benefits based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement, termination or death that provide the highest earnings.

The Plan's assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing plan assets in trust and through the Plan investment policy.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with the 6.9% of salary contributed by employees (9.2% of salary above the years maximum pensionable earnings), required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employee's contributions. The employer currently contributes 126% of the employee's contribution.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The most recent actuarial valuation of the plan as at March 31, 2008 indicates the plan is 97% funded. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to \$12.4 million (2010 - \$11.7 million) and are included in salaries, wages and employee benefits expense in the Statement of operations.

Employee benefits plans

(a) Multi-employer plan

The multi-employer plan is accounted for as a deferred contribution plan as there is not sufficient information to apply defined benefit plan accounting. Contributions to the multi-employer defined benefit plan are expensed when due.

(b) Accrued post-retirement benefits

The Hospital accrues its obligations under non-pension employee benefits as full-time employees render services. The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate assumptions. The excess of the cumulative unamortized balance of net actuarial gains (losses) over 10% of the benefit obligations and past service costs are amortized over the average remaining service period of active employees. The average remaining service period of active employees is 16.2 years. Future cost escalation affects the amount of employee future benefits. The accrued benefit obligation related to employee benefits is discounted using current interest rates on long-term debt.

The Hospital's non-pension post-retirement benefit plans are comprised of medical, dental and life insurance coverage for certain groups of full-time employees who have retired from the Hospital and are between the ages of 55 and 65. Spouses of eligible retirees are covered by the plans. The most recent actuarial valuation of post-retirement benefits by Morneau Sobeco was March 31, 2010 and was extrapolated forward to March 31, 2011.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

11. Pension and other post-retirement benefit plans (continued)

Information for the Hospital's non-pension post-retirement benefit plans, and reconciliation to the accrued benefit liability, is as follows:

Accrued benefit liability	2011	2010
	\$	\$
Accrued post-retirement benefit obligation	8,063	7,545
Less: unamortized past service costs	(648)	(760)
Less: adjustment experience (loss)	(1,361)	(1,401)
	6,054	5,384
	2011	2010
	\$	\$
Net benefit cost recognized		
Current service cost	510	465
Interest cost	431	439
Actuarial losses during year	-	1,426
Adjustments		
Adjustment for past service costs	113	113
Adjustment for experience gains	40	(1,426)
	1,094	1,017

The expense for the year related to these plans is \$1.094 million (2010 - \$1.017 million) and employer contributions for these plans were \$424 thousand (2010 - \$340 thousand).

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

	2011	2010
	%	%
Discount rate to determine liability	5.50	5.50
Discount rate to determine expenses	5.00	5.50
Dental costs	4.00	4.00

The extended healthcare trend rate is 7.5% in fiscal 2011 (March 31, 2010 8.5%), decreasing by 0.5% per annum to an ultimate rate of 5.0% per annum in 2017 and thereafter.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

12. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	2011	2010
	\$	\$
Vendor payables and accruals	20,679	18,485
Accrued liability - salaries/wages and vacation earned	14,877	14,422
Employee/Employer remittances payable	5,820	5,359
Deferred Operating Revenue	12,133	5,449
Cancer Centre Holdback	33	4,854
Other	346	359
	53,888	48,928

13. Capital projects in progress

Regional Cancer Centre Project

In May of 2007, the Ministry approved the Cancer Centre Project for the Hospital with a total cost of \$74 million, of which \$68 million has been spent to date and are recorded as capital assets. At March 31, 2011, Construction of the Cancer Centre is 99.6% complete with a holdback of \$33 thousand (2010 - \$4.854 million). The Cancer Centre Project is expected to be completed in fiscal 2012.

14. Commitments

The Hospital has entered into a 30-year lease for a Medical Arts Building (approximately 135,000 sq. ft.) for use in part by the hospital, a family health team, physician offices and retail. The lease commenced on the 14th of September, 2005 for delivery of the building on a "turn key" basis and includes three five-year renewal options. Annual lease payments, on a net lease basis, are \$16.35 per sq. ft. for the first ten years. On completion of each ten-year term the rent will be adjusted by increments equal to the Consumer Price Index.

During the year, the Hospital entered into a sale leaseback agreement with landlord of the Medical Arts Building relating to the respective leasehold improvements. The lease commenced on the 21st day of December, 2010. The term of the lease is co-terminus with the lease in the Medical Arts Building. Annual lease payments are \$8.19 per square foot.

The Hospital is an equity member of the Central Ontario Healthcare Procurement Alliance (COHPA), a not-for-profit shared service organization that has centralized contract management and purchasing/accounts payable transactions. In lieu of a cash equity contribution, the member hospitals have provided security to TD Bank Financial Group on behalf of COHPA up to a combined amount of \$6 million. The Hospital signed a letter of guarantee on February 4, 2009. The maximum liability for the Hospital in respect of this guarantee is \$1.9 million. Services to the Hospital commenced on April 1, 2009. During the year, the Hospital paid \$1.25 million for monthly membership fees and \$223 thousand relating the Hospital's equity share of the member Hospital loan.

The Hospital entered into an initial agreement with Precise Parklink on February 1, 2006 for their management services including the installation and service of parking equipment. On February 18, 2011 an amended contract was signed to upgrade the parking equipment and extend the maintenance services to be received. The contract will expire on July 31, 2013. The current year's cost of this service was \$371 thousand.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

15. Contingent liabilities

- (a) The nature of the Hospital's activities is such that there is usually litigation pending or in progress at any one time. With respect to claims as at March 31, 2011, it is management's position that the Hospital has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have a material effect on the Hospital's financial position.
- (b) A group of healthcare institutions, including the Hospital, are members of the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the liability insurance risk of its members. All members pay annual deposit premiums which are actuarially determined and are subject to further assessment for losses, if any, experienced by the pool for the years in which they were members. As at March 31, 2011, no assessments have been received.
- (c) During the year, the Hospital received a claim from a construction company related to additional costs incurred due to delays in the construction of the Stronach Regional Cancer Centre.

16. Guarantees

In the normal course of business, the Hospital has entered into agreements that meet the definition of a guarantee and may include indemnities in favor of third parties. The Hospital's primary guarantees are as follows:

- (a) Indemnity has been provided to all directors and officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Hospital. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction.

The nature of these indemnification agreements prevents the Hospital from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties.

Historically, the Hospital has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the balance sheet with respect to these agreements.

Southlake Regional Health Centre

Notes to the financial statements

March 31, 2011

(Tabular amounts in thousands of dollars)

17. Capital management

The Hospital defines its capital as the amounts included in its net asset and deferred contribution balances.

The Hospital's objective is to have sufficient liquid resources to continue operating despite adverse events with financial consequences and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget. The Hospital has an available line of credit that is used when sufficient cash flow is not available from operations to cover operating and capital expenditures, see (Note 4).

The Hospital is required to comply with certain requirements in order to utilize its externally restricted deferred contribution balance, see (Note 10). The Hospital utilizes internal control processes throughout the year to ensure compliance with these restrictions prior to the utilization of these resources.

During the year the Hospital implemented a debt repayment plan to address its working capital deficiency and to obtain additional funding from various sources. This plan has been approved by the Board of Directors.

18. Financial instruments - Risk management policy

The Hospital is exposed to various risks through its financial instruments. The following analysis provides a measure of the risks at March 31, 2011.

Credit risk

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. The loan receivable from the village is reviewed regularly to determine if impairment exists and a provision is required.

Interest rate risk

The Hospital is exposed to interest rate risk on its long-term debt and bank indebtedness. For its long term debt, the Hospital has entered into interest rate swap agreements in order to manage the impact of fluctuating interest rates. The Hospital's policy is not to utilize derivative instruments for trading or speculative purposes.

As at March 31, 2011 the bank indebtedness was \$11.97 million (2010 - \$24.3 million) and is monitored on a daily basis.

Fair values

The fair value of cash, bank indebtedness, accounts receivable, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity. The fair value of long-term debt and the derivative liability approximates their carrying value as it has financing conditions similar to those currently available to the Hospital.

The fair value of the interest rate swaps are determined using the discounted cash flow method.

19. Related party transactions

The related parties and the nature of their transactions are identified in (Note 6) Southlake Regional Health Centre Foundation, (Note 7) Southlake Residential Care Village and (Note 14) Commitments. All the transactions were monetary in nature and recorded at the exchange value.

20. Comparative amounts

The 2010 amount of parking garage interest expense has been reclassified in the Statement of operations and changes in net assets, from supplies and other to the interest expense category. Additionally, vendor rebate revenues have been netted against medical and surgical supplies.