Financial statements of

Southlake Regional Health Centre

March 31, 2015

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Deloitte LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Board of Directors of
Southlake Regional Health Centre

We have audited the accompanying financial statements of Southlake Regional Health Centre, which comprise the statement of financial position as at March 31, 2015, and the statements of operations and change in net assets, remeasurement gains and losses 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, 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 audits 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 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 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 Southlake Regional Health Centre as at March 31, 2015, and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
June 4, 2015

Southlake Regional Health Centre

Statement of operations and changes in net assets
year ended March 31, 2015
(In thousands of dollars)

	2015	2014
	$	$
Revenue		
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	**287,875**	290,012
Cancer Care Ontario	**24,213**	14,831
Preferred accommodation and other	**21,547**	23,060
Patient care	**21,991**	21,701
Specified programs	**4,177**	3,952
Amortization of deferred equipment grants and donations	**6,605**	6,584
	366,408	360,140
Expenses		
Salaries, wages and employee benefits	**236,685**	228,928
Supplies and other	**50,921**	51,914
Medical and surgical supplies	**40,364**	40,613
Drugs	**16,187**	14,677
Specified programs	**4,134**	3,952
Amortization of furniture and equipment	**7,171**	10,365
Loss on disposal of capital assets	**2,669**	2,561
	358,131	353,010
Excess of revenue over expenses per Hospital Service Accountability Agreement	**8,277**	7,130
Amortization of deferred building grants and donations	**5,935**	5,807
Amortization of buildings and land improvements	**(9,352)**	(9,790)
Interest expense	**(2,090)**	(2,360)
Excess of revenue over expenses	**2,770**	787
Net assets, beginning of year	**2,077**	1,290
Net assets, end of year	**4,847**	2,077

The accompanying notes to the financial statements are an integral part of this financial statement.

Southlake Regional Health Centre

Statement of remeasurement gains and losses
year ended March 31, 2015
(In thousands of dollars)

	2015	2014
	$	$
Accumulated remeasurement (losses) at beginning of year	**(6,180)**	(8,349)
Unrealized gains attributable to derivatives - interest rate swap	**(813)**	2,169
Accumulated remeasurement (losses) at end of year	**(6,993)**	(6,180)

The accompanying notes to the financial statements are an integral part of this financial statement.

Southlake Regional Health Centre

Statement of financial position

as at March 31, 2015

(In thousands of dollars)

	2015	2014
	$	$
Assets		
Current assets		
Cash	**18,149**	15,374
Accounts receivable (Note 4)	**16,267**	21,417
Inventories	**2,452**	2,069
Prepaid expenses	**3,869**	3,340
	40,737	42,200
Restricted cash (Note 5)	**5,000**	-
Capital assets (Note 7)	**264,164**	264,549
	309,901	306,749
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	**76,709**	72,178
Current portion of long-term debt (Note 8)	**3,069**	4,909
	79,778	77,087
Long-term		
Deferred capital grants and donations (Note 9)	**182,438**	182,460
Long-term debt (Note 8)	**31,355**	34,424
Derivative liabilities (Note 8(e))	**6,993**	6,180
Accrued post-retirement benefits (Note 10)	**11,483**	10,701
	312,047	310,852
Contingent liabilities (Note 14)		
Net assets	**4,847**	2,077
Accumulated remeasurement gains and (losses)	**(6,993)**	(6,180)
	(2,146)	(4,103)
	309,901	306,749

Approved by the Board

Jonathan Harris
____________________ Board Chair

Paul Roberts
____________________ Treasurer

The accompanying notes to the financial statements are an integral part of this financial statement.

Southlake Regional Health Centre
Statement of cash flows
year ended March 31, 2015
(In thousands of dollars)

	2015	2014
	$	$
Operating activities		
Excess of revenue over expenses for the year	**2,770**	787
Add (deduct) items not affecting cash		
Amortization of capital assets	**16,523**	20,155
Amortization of deferred capital grants and donations	**(12,540)**	(12,391)
Post-retirement benefits	**1,358**	1,337
Loss on disposal of capital assets	**2,669**	2,561
	10,780	12,449
Net change in non-cash working capital balances related to operations		
Accounts receivable	**5,150**	(1,496)
Inventories	**(383)**	438
Prepaid expenses	**(529)**	(1)
Accounts payable and accrued liabilities	**2,770**	7,971
	17,788	19,361
Capital activities		
Net capital contributions received from		
Southlake Regional Health Centre Foundation	**11,322**	3,940
Ontario Ministry of Health and Long-Term Care/Other	**512**	(520)
Cancer Care Ontario	**684**	386
Purchase of capital assets, net of accounts payable and accrued liabilities related to capital (2015 - $1.761 million; 2014 - $1.973 million)	**(18,526)**	(10,402)
Restricted cash received for capital (Note 5)	**(5,000)**	-
Proceeds from sale of capital assets	**1,480**	2,675
	(9,528)	(3,921)
Financing activities		
Current portion of long-term debt	**(1,840)**	(49)
Repayments of long-term debt	**(3,069)**	(4,909)
Repayment of Foundation loan (Note 5)	**-**	(400)
Post-retirement payments (Note 10)	**(576)**	(520)
	(5,485)	(5,878)
Net increase in cash during the year	**2,775**	9,562
Cash surplus, beginning of year	**15,374**	5,812
Cash surplus, end of year	**18,149**	15,374
Other information		
Total interest paid	**2,142**	2,513

The accompanying notes to the financial statements are an integral part of this financial statement.

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. Significant accounting policies

Basis of presentation

The financial statements of the Hospital have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 series of standards for government not-for-profit organizations, as issued by the Public Sector Accounting Board. These financial statements do not include the activities of the Southlake Residential Care Village (the “Village”), nor the Southlake Regional Health Centre Foundation (the “Foundation”), as the respective organizations maintain their own accounts and report separately from the Hospital to their own governing bodies.

The significant accounting policies are as follows:

Financial instruments

All financial instruments reported on the statement of financial position of the Hospital are classified as follows:

Financial instrument	Classification
Cash	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Derivative liabilities	Fair value

Financial instruments measured at fair value are initially recognized at cost and subsequently carried at fair value. 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 related to financial instruments in the fair value category are expensed as incurred.

Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from accumulated remeasurement gains and losses, and recognized into the statement of operations. On sale or disposal, the amount held in accumulated remeasurement gains and losses associated with that instrument is removed from net assets and recognized in the statement of operations.

Financial instruments measured at amortized cost are initially recognized at cost, and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Write downs 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 write down being recognized in the statement of operations and changes in net assets.

2. Significant accounting policies (continued)

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 capital 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 and development costs. 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.

Employee benefits plans

The Hospital provides defined retirement and post-employment benefits. The Hospital has adopted the following policies with respect to accounting for these employee benefits:

(a) *Multi-employer plan*

Employees of the Hospital are eligible to be members of the Hospitals of Ontario Pension Plan (“HOOPP”), which is a multi-employer best five consecutive year average pay defined benefit pension 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. The most recent actuarial valuation of the plan as at December 31, 2014 indicates the plan is fully funded.

2. Significant accounting policies (continued)

Employee benefits plans (continued)

(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 of retirement ages of employees and expected health care costs. Actuarial gains or losses are amortized over the average remaining service period of the active employees. The average remaining service period of active employees is 15.9 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 based on the Hospital's cost of borrowing.

Adjustments arising from plan amendments are recognized in the year that the plan amendments occur.

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.

Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards 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, amortization of capital assets, deferred capital grants, accrued liabilities, accrued post-retirement benefits and derivatives.

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, amended to include 2010/11, 2011/12, 2012/13, 2013/14 and 2014/15. 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.

3. Cash and bank indebtedness

The Hospital has an operating line of credit to a maximum of $15 million, available by overdraft, fixed rate operating advances or standby letters of credit. This Credit Facility bears interest at the bank's prime rate plus 50 basis points or bank's cost of funds plus 75 basis points. As at March 31, 2015, there was $Nil (2014 - $Nil) 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 outstanding. As at March 31, 2015, there were $Nil amounts (2014 - $Nil) applied against these letters of credit.

(Tabular amounts in thousands of dollars)

3. Cash and bank indebtedness (continued)

The Hospital has secured a Credit Facility in the amount of $10 million to ensure availability of funds if required under the Capital Fund Sharing Agreement. As at March 31, 2015, there was $Nil (2014 - $Nil) in borrowings under this credit facility. This credit facility charges a stand-by fee of 35 basis points.

The Hospital has secured a Credit Facility in the amount of $7.36 million to ensure availability of funds if required for the construction and purchase of equipment for the Electrophysiology/Cardiac Cath Lab Project. As at March 31, 2015 there was $Nil (2014 - $Nil) in borrowings under this Credit Facility.

4. Accounts receivable

Accounts receivable consist of the following:

	2015	2014
	$	$
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	**2,242**	5,284
Cancer Care Ontario	**436**	1,670
OHIP	**2,122**	2,118
Vendor rebates	**5,490**	4,650
Insurers, patients and other	**6,513**	8,249
	16,803	21,971
Less: allowance for doubtful accounts	**536**	554
	16,267	21,417

5. Southlake Regional Health Centre 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, 2015, the Foundation authorized grants to the Hospital of $11.3 million (2014 - $3.9 million) substantially for capital projects and equipment of which $5M was advanced to the Hospital and is classified as restricted cash on the statement of financial position. In addition, the Foundation authorized grants of $353 thousand (2014 - $708 thousand) toward Hospital operations. The net assets of the Foundation as at March 31, 2015 totaled $27.9 million (2014 - $33.1 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 required minimum annual repayments of principal of $200 thousand. The loan was due on March 31, 2015 and was secured by a promissory note. As at March 31, 2014, the loan has been drawn down to $Nil in the statement of financial position. Interest recorded in the statement of operations and changes in net assets related to the loan was $Nil (2014 - $20 thousand).

On April 1, 2014, ownership of the parking operations reverted back to the Hospital from the Foundation.

(Tabular amounts in thousands of dollars)

6. Southlake Residential Care 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 $4.5 million effective February 26, 2002 with interest payable monthly at prime minus 2.5%. $475 thousand bears interest at the bank's prime rate plus 0.5% until the Village obtains permanent financing. In prior years, the Hospital fully provided for the loan receivable. Management has determined that the loan impairment is other than temporary as a result of the Village's continued inability to make re-payments since the inception of the loan and has also ceased interest income recognition.

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 Assurance Company 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.

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.

7. Capital assets

Capital assets consist of the following:

			2015	2014
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Land	**7,215**	**-**	**7,215**	7,771
Land improvements	**4,161**	**3,208**	**953**	1,119
Buildings	**301,718**	**92,631**	**209,087**	217,594
Leasehold improvements	**12,040**	**3,797**	**8,243**	8,761
Furniture and equipment	**179,008**	**162,483**	**16,525**	20,442
Projects in process	**22,141**	**-**	**22,141**	8,862
	526,283	**262,119**	**264,164**	264,549

Projects in process are Capital Projects which have been started and not completed (Note 12).

(Tabular amounts in thousands of dollars)

8. Long-term debt

Summary

	2015	2014
	$	$
Redevelopment bank loan (a)	**1,388**	1,310
Parking garage bank loan (b)	**1,541**	1,466
Building bank loan (c)	**140**	133
Leasehold improvement bank loan (d)	**-**	2,000
Current portion	**3,069**	4,909
Redevelopment bank loan (a)	**16,680**	18,068
Parking garage bank loan (b)	**11,229**	12,770
Building bank loan (c)	**3,446**	3,586
Long-term portion	**31,355**	34,424

Principal repayments summary

		a)	b)	c)	
	Redevelopment Phase I	Phase II	Parking garage Bank loan	Building Bank loan	Total
	$	$	$	$	$
2016 current portion	763	625	1,541	140	3,069
2017	814	657	1,620	147	3,238
2018	869	690	1,703	154	3,416
2019	928	724	1,790	162	3,604
2020	989	761	1,882	170	3,802
2021-2033	4,894	5,354	4,234	2,813	17,295
	9,257	8,811	12,770	3,586	34,424

(a) Redevelopment bank loan

The Hospital has utilized $9.3 million (2014 - $10.0 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.

The Hospital has utilized $8.8 million (2014 - $9.4 million) 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.

8. Long-term debt (continued)

Principal repayments summary (continued)

(b) *Parking garage bank loan*

The Hospital has a non-revolving reducing term loan for $12.8 million (2014 - $14.2 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.

(c) *Building bank loan*

The Hospital has a non-revolving or fixed rate term loan for $3.6 million (2014 - $3.7 million) for the acquisition of a 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 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.

(d) *Leasehold improvements loan*

The Hospital had a non-revolving or fixed rate term loan for $ Nil (2014 - $2 million) for the Leasehold Improvements to the Medical Arts Building. Interest on the loan was at the bank's prime rate and repayments were made in equal monthly installments of principal plus interest, with the final installment due October 31, 2014.

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

(e) 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 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, 2015 is $34.4 million (2014 - $39.3 million).

Fair value of the interest rate swaps was calculated using the discounted cash flow method.
Fair value as of March 31, 2015 of these interest rate swaps is $7.0 million (2014 - $6.2 million) and is reflected as a liability on the statement of financial position.

(Tabular amounts in thousands of dollars)

9. 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:

	2015	2014
	$	$
Balance, beginning of year	**182,460**	191,045
Net contributions received during the year		
Southlake Regional Health Centre Foundation	**11,322**	3,940
Ontario Ministry of Health and Long-Term Care/Other	**512**	(520)
Cancer Care Ontario	**684**	386
	194,978	194,851
Amortization of deferred capital grants and donations	**(12,540)**	(12,391)
Balance, end of year	**182,438**	182,460

10. 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. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to $14.3 (2014 - $13.8 million) and are included in salaries, wages and employee benefits expense in the statement of operations and change in net assets.

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 Shepell was March 31, 2013 and was extrapolated forward to March 31, 2015.

(Tabular amounts in thousands of dollars)

10. 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:

Post-retirement benefit liability

	2015	2014
	$	$
Change in benefit obligation		
Accrued benefit obligation, beginning of year	**11,376**	10,994
Current period benefit cost	**804**	803
Interest on accrued benefits	**505**	462
Benefit payments	**(576)**	(520)
Actuarial losses (gains)	**2,127**	(363)
Accrued benefit obligation, end of year	**14,236**	11,376
Accrued post-retirement benefit obligation, end of year	**14,236**	11,376
Less: unamortized actuarial gains (losses)	**(2,753)**	(675)
	11,483	10,701

Included in the statement of operations and changes in net assets is an amount of $1,358 (2014 - $1,337) regarding employee future benefits. This amount is comprised of:

	2015	2014
	$	$
Total benefit cost recognized		
Current period benefit cost	**804**	803
Amortization of actuarial gains/losses	**49**	72
Retirement benefit interest expense	**505**	462
	1,358	1,337

Employer contributions for these plans were $576 thousand (2014 - $520 thousand).

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

	2015	2014
	$	$
Discount rate to determine accrued post-retirement benefit obligation	**4.25%**	4.00%
Extended healthcare cost escalations, decreasing by .25% per annum to an ultimate rate of 5.0% per annum in 2017, and thereafter	**7.00%**	7.00%
Dental cost increases	**4.00%**	4.00%
Expected average remaining service life of employees	**15.9**	15.9

(Tabular amounts in thousands of dollars)

11. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	2015	2014
	$	$
Vendor payables and accruals	**27,079**	22,663
Accrued liability - salaries/wages & vacation earned	**29,715**	25,184
Employee/employer remittances payable	**5,966**	5,719
Deferred operating revenue	**12,828**	17,348
Other	**1,121**	1,264
	76,709	72,178

12. Capital projects in progress

Cardiac EP Expansion and CATH Labs Modernization Project

This is a four phase project. Phases one and two are complete, phase three construction is complete and phase four design is approximately 95% complete. Phases one and two were the relocation of the Heart Rhythm program and Cardiac Diagnostic clinics respectively. Phase three was the construction of three new Cardiac EP labs. The fourth and final phase is the modernization of the Cath Labs which is currently in the tendering process. The Board approved a revised project budget in September 2013 of $33.6 million, of which $25.7 million has been spent as of March 31, 2015 (2014 - $13.1 million). The final occupancy of the EP Labs awaits Central LHIN and MOHLTC approvals.

13. Commitments

(a) The Hospital has entered into a 30-year lease for a Medical Arts Building for use in part by the Hospital, a family health team, physician offices and retail. The lease provides for delivery of the building on a “turn key” basis and includes three five-year renewal options. On completion of each ten-year term, the rent will be adjusted by increments equal to the Consumer Price Index.

(b) The Hospital has 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.

(c) 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 $1.39 million (2014 - $1.35 million) for membership fees and $148 thousand (2014 - $223 thousand) relating to the Hospital’s equity share of the member Hospital loan.

(d) 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 December 1, 2013 a new contract was signed to continue the maintenance services to be received. The contract will expire on November 30, 2018.

14. 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, 2015, 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, 2015, no assessments have been received.

(c) The Hospital has received a claim related to historical lease payments for the Medical Arts Building. This claim continues to be in dispute and at this time, the outcome is not determinable.

15. 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 statement of financial position with respect to these agreements.

16. Financial instruments and risk management policy

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

Credit risk

Credit risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and incur a financial loss. The Hospital is exposed to credit risk on its accounts receivable. 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. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

16. Financial instruments and risk management policy (continued)

Currency risk

Currency risk relates to the Hospital operating in different currencies and converting non-Canadian monies at different points in time when adverse changes in foreign currency rates occur. The Hospital does not have any material transactions of financial instruments denominated in foreign currencies. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

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 approximates its carrying value due to interest rate swaps which have been entered into for each debt instrument that account for the change in market values related to fixed rates.

The fair value of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reported borrowing date. In situations in which there is no market for these guarantees and they were issued without explicit costs, it is not practicable to determine their fair value with sufficient reliability. Unless otherwise noted, it is management's opinion that the Hospital is not subject to significant interest or currency risk arising from these instruments

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

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

(Tabular amounts in thousands of dollars)

16. Financial instruments and risk management policy (continued)

Fair value hierarchy (continued)

The following table presents the financial instruments recorded at fair value in the statement of financial position, classified using the fair value hierarchy described above:

Financial liabilities at fair value as at

	Level 1	Level 2	Level 3	2015 Total
	$	$	$	$
Derivative liabilities	-	6,993	-	6,993

	Level 1	Level 2	Level 3	2014 Total
	$	$	$	$
Derivative liabilities	-	6,180	-	6,180

There have been no movements between levels for the year ended March 31, 2015.

For fair value measurements in Level 2 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing changes during the period has been provided in the table below:

	$
Derivative liabilities	
Balance, beginning of year	6,180
Changes during the period	
Gain for the period recognized in the statement of remeasurement gains and losses	813
Balance, end of year	6,993

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 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. Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the long term debt.

As at March 31, 2015 the bank indebtedness was $Nil (2014 - $Nil) and is monitored on a daily basis.

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

17. Related party transactions

The related parties and the nature of their transactions are identified in (Note 5) Southlake Regional Health Centre Foundation, (Note 6) Southlake Residential Care Village and (Note 13) Commitments. All the transactions were monetary in nature and recorded at the exchange value.

18. Comparative figures

Certain comparative numbers have been reclassified to conform to the current year presentation.