Financial statements of
Southlake Regional Health Centre

March 31, 2024

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Independent Auditor's Report

To the Board of Directors of
Southlake Regional Health Centre

Opinion

We have audited the financial statements of Southlake Regional Health Centre (the "Hospital"), which comprise the statement of financial position as at March 31, 2024, and the statements of operations and changes in net assets, re-measurement gains and losses and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2024, and the results of its operations, changes in net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Hospital in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Hospital's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Hospital or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Hospital's financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Hospital to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
May 21, 2024

Southlake Regional Health Centre

Statement of financial position

As at March 31, 2024

(In thousands of dollars)

	Notes	2024	2023
		$	$
Assets			
Current assets			
Cash	3	**70,738**	52,800
Short-term investment	4	**15,000**	40,000
Accounts receivable	5	**43,609**	49,417
Inventories		**4,230**	4,152
Prepaid expenses		**6,757**	5,431
		140,334	151,800
Restricted cash	6	**—**	25
Investment in joint venture	8	**1,005**	1,014
Capital assets	9	**279,564**	271,567
Derivative assets	10 and 19	**2,573**	2,592
		423,476	426,998
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15	**158,316**	162,771
Current portion of capital lease obligation	11	**—**	58
Current portion of long-term debt	10	**3,616**	3,541
		161,932	166,370
Long-term liabilities			
Long-term debt	10	**25,505**	29,121
Capital lease obligation	11	**—**	5
Deferred capital grants and donations	12	**189,787**	180,531
Asset retirement obligations	13	**1,594**	1,469
Accrued post-retirement benefits	14	**24,961**	23,657
		403,779	401,153
Commitments and contingent liabilities	7, 16, 17 and 18		
Net asset		**17,322**	23,431
Accumulated re-measurement gains		**2,375**	2,414
		19,697	25,845
		423,476	426,998

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

Approved by the Board

______________________________, Chair of the Board

______________________________, Treasurer

Southlake Regional Health Centre

Statement of operations and changes in net assets

Year ended March 31, 2024

(In thousands of dollars)

	Notes	2024	2023
		$	$
Revenue			
Ontario Ministry of Health and Ontario Health		**508,440**	466,190
Preferred accommodation and other		**27,709**	26,926
Patient care		**30,178**	27,978
Specified programs		**14,120**	12,651
Amortization of deferred equipment grants and donations	12	**6,250**	5,815
Gain on disposal of capital assets		**69**	—
		586,766	539,560
Expenses			
Salaries, wages and employee benefits		**376,638**	351,797
Supplies and other		**81,752**	77,789
Medical and surgical supplies		**60,666**	54,396
Drugs		**40,906**	33,571
Specified programs		**14,256**	12,661
Amortization of furniture and equipment		**13,554**	14,133
		587,772	544,347
Deficiency of revenue over expenses per Hospital Service Accountability Agreement		**(1,006)**	(4,787)
Amortization of deferred building grants and donations	12	**6,451**	6,092
Amortization of buildings and land improvements		**(10,956)**	(10,140)
Interest expense		**(598)**	(721)
Deficiency of revenue over expenses		**(6,109)**	(9,556)
Net assets, beginning of year		**23,431**	32,987
Net assets, end of year		**17,322**	23,431

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

Southlake Regional Health Centre

Statement of re-measurement gains and losses

Year ended March 31, 2024

(In thousands of dollars)

	Notes	2024 $	2023 $
Accumulated re-measurement gains at beginning of year		**2,414**	1,815
Unrealized (losses)/gains attributable to derivatives – interest rate swap	19	**(19)**	590
Unrealized (losses)/gains attributable to foreign exchange		**(20)**	9
Accumulated re-measurement gains at end of year		**2,375**	2,414

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

Southlake Regional Health Centre
Statement of cash flows
Year ended March 31, 2024
(In thousands of dollars)

	Notes	2024 $	2023 $
Operating activities			
Deficiency of revenue over expenses for the year		**(6,109)**	(9,556)
Add (deduct) items not affecting cash			
Amortization of capital assets		**24,510**	24,247
Net change in asset retirement obligations		**97**	77
Amortization of deferred capital grants and donations		**(12,701)**	(11,907)
Post-retirement benefits		**2,347**	2,485
Gain on disposal of capital assets		**(69)**	—
Unrealized currency translation losses		**(19)**	9
Post-retirement payments		**(1,042)**	(861)
		7,014	4,494
Net change in non-cash working capital balances related to operations			
Accounts receivable		**5,808**	(8,877)
Inventories		**(78)**	(93)
Prepaid expenses		**(1,326)**	(319)
Accounts payable and accrued liabilities		**(4,455)**	18,191
		6,963	13,396
Investing activities			
Investment in Joint Venture		**9**	(116)
Redemption/(Purchase) of short-term investment		**25,000**	(40,000)
		25,009	(40,116)
Capital activities			
Proceeds from sale of capital assets		**69**	—
Purchase of capital assets		**(32,481)**	(29,981)
		(32,412)	(29,981)
Financing activities			
Net capital contributions received from			
Southlake Regional Health Centre Foundation		**6,091**	3,883
Ontario Ministry of Health and Ontario Health/Other		**15,866**	14,736
Restricted cash utilized for capital	6	**25**	396
Repayments of long-term debt	10	**(3,541)**	(12,516)
Repayments of capital leases		**(63)**	(141)
		18,378	6,358
Net increase/(decrease) in cash during the year		**17,938**	(50,343)
Cash, beginning of year		**52,800**	103,143
Cash, end of year		**70,738**	52,800
Other information			
Total interest paid		**598**	721

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

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 (the "Ministry") and Ontario Health ("OH") 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") (Note 7), nor the Southlake Regional Health Centre Foundation (the "Foundation") (Note 6), 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 assets/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 re-measurement gains and losses until they are realized, when they are transferred to the statement of operations and changes in net assets. 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 re-measurement gains and losses, and recognized into the statement of operations and changes in net assets. If the loss in value subsequently reverses, the write-down to the statement of operations is not reversed until the instrument is sold or disposed. On sale or disposal, the amount held in accumulated re-measurement gains and losses associated with that instrument is removed from accumulated re-measurement losses and recognized in the Statement of operations and changes in net assets.

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.

2. Significant accounting policies (continued)

Financial instruments (continued)

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.

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 and OH. 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.

Investment in joint venture

Investments in jointly controlled entities are accounted for using the modified equity method, whereby the investment is initially recorded at cost and adjusted thereafter to recognize the Hospital's share of the jointly controlled entity's net surplus or deficit for its fiscal year ending within the Hospital's fiscal year. Any distributions received are accounted for as a reduction in the investment.

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	8-20 years
Buildings	20-40 years
Leasehold improvements	lease term
Furniture and equipment	5-20 years
IT Equipment and software	3-10 years

2. Significant accounting policies (continued)

Capital assets (continued)

Projects in process comprise of 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.

When a capital asset no longer has any long-term service potential to the Hospital, the excess of the carrying value amount over any residual value is recognized as an expense in the Statement of operations and changes in net assets.

Equipment under capital leases

Assets leased on terms that transfer substantially all of the benefits and risks of ownership to the Hospital are accounted for as capital leases as though the asset had been purchased and a liability incurred. All other leases are accounted for as operating leases.

Capital lease obligations are recorded at the present value of the minimum lease payments. The discount rate used to determine the present value of the lease payments is the lower of the Hospital's rate for incremental borrowing or the interest rate implicit in the lease.

Asset retirement obligations

Asset retirement obligations (ARO's) are provisions for legal obligations for the retirement of the Hospital's capital assets that are either in productive use or no longer in productive use.

An ARO liability is recognized when, as at the financial reporting date:

(a) There is a statutory, contractual, or legal obligation to incur retirement costs in relation to a capital asset;

(b) The past transaction or event giving rise to the liability has occurred;

(c) It is expected that future economic benefits will be given up; and

(d) A reasonable estimate of the amount can be made.

Liabilities are recognized by the Hospital in the period in which an obligation arises for statutory, contractual, or legal obligations associated with the retirement of capital assets when those obligations result from the acquisition, construction, development, or normal operation of the capital assets. The obligations are measured initially at management's best estimate of the present value of the estimated future cash flows required to settle the retirement obligation. For capital assets that are still in productive use, there is a corresponding increase to the carrying value of the related capital asset. For assets that are not recorded or are no longer in productive use, the liability is expensed in the period. In subsequent periods, the liability is accreted over time and adjusted for changes in the liability estimate, as applicable or timing of the future cash flows. The capitalized asset retirement costs are amortized on the same basis as the related asset, and accretion expense is included in the Statement of operations and changes in net assets.

2. Significant accounting policies (continued)

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 Healthcare 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.

(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. 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. Past service costs and settlement gains (losses) are recognized when incurred.

Contributed materials and services

The Hospital 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, asset retirement obligations, 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 2023-2024. The HSAA sets out certain performance standards and obligations that establish acceptable results for the Hospital's performance in a number of areas.

(In thousands of dollars)

2. Significant accounting policies (continued)

Use of estimates (continued)

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.

Adoption of new accounting standard

During the year, the Hospital adopted the new accounting standard, Section PS3400, Revenue on a prospective basis. This standard establishes how to account for and report on revenue, specifically differentiating between revenue arising from transactions that include performance obligations, referred to as "exchange transactions", and transactions that do not have performance obligations, referred to as "non-exchange transactions". The adoption of this new standard has no impact on these financial statements.

3. Credit facilities

The Hospital has an operating line of credit to a maximum of $40,000, available by overdraft, fixed rate operating advances or standby letters of credit. This Credit Facility bears interest at the bank's prime rate minus 10 basis points. As at March 31, 2024, there was nil amount (nil in 2023) in borrowings under this Credit Facility. In addition, the Hospital has a standby letter of credit in the amount of $500 (Note 7) outstanding. As at March 31, 2024, there were nil amounts (nil in 2023) applied against the letter of credit.

4. Short-term investment

The Hospital has invested in a $15,000 ($40,000 in 2023) 90-day non-redeemable guaranteed investments certificates (GICs).

5. Accounts receivable

Accounts receivable consist of the following:

	2024	2023
	$	$
Ontario Ministry of Health and Ontario Health	**16,501**	21,210
OHIP	**2,206**	2,322
Vendor rebates	**14,545**	14,288
Foundation	**5**	2,835
Insurers, patients and other	**12,153**	10,490
	45,410	51,145
Less: allowance for doubtful accounts	**(1,801)**	(1,728)
	43,609	49,417

6. Southlake Regional Health Centre Foundation

The Foundation, an independent organization, raises funds and holds resources primarily for the benefit of the Hospital. During the year ended March 31, 2024, the Foundation authorized grants to the Hospital of $6,091 ($3,883 in 2023) substantially for capital projects and equipment. The Foundation authorized grants, $67 ($453 in 2023) related to Hospital operations.

7. Southlake Residential Care Village

The Village runs a long-term care facility of 192 beds which is located on the Hospital property. 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 effective February 26, 2002 comprised of $2,000 which bears an interest payable monthly at bank’s prime rate minus 2.5% and $2,030 which is non-interest bearing. As at March 31, 2024, $200 ($200 in 2023) amounts were paid towards the long-term loan. 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 its lender for $500. All direct costs and financing fees related to the letter of credit are the responsibility of the Village.

The Hospital 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 which compensates the Hospital for parking revenue lost or rendered unusable as a result of the new facility. Pursuant to an agreement between the Village and its lender, 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 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 Village facility for Hospital use. Annual lease payments are $726.

8. Investment in joint venture

The Hospital has a 50% interest in Southlake ProResp Inc., a joint venture with ProResp Inc. Southlake ProResp is a supplier of home oxygen and other respiratory care products. Net investment income of $122 ($116 in 2023) has been included in the Statement of operations and changes in net assets. The reserve fund of $131 for equipment maintenance program was reclassed to Accounts receivable resulting in an overall decrease in investment in joint venture of $9 (nil in 2023).

(In thousands of dollars)

9. Capital assets

Capital assets consist of the following:

	Cost $	Accumulated amortization $	2024 Net book value $	2023 Net book value $
Land	**7,215**	**—**	**7,215**	7,215
Land improvements	**4,903**	**4,589**	**314**	387
Buildings	**353,746**	**173,926**	**179,820**	178,179
Leasehold improvements	**14,296**	**8,487**	**5,809**	5,053
Furniture and equipment	**190,545**	**150,830**	**39,715**	35,993
IT Equipment and software	**93,139**	**75,572**	**17,567**	21,134
Projects in process	**29,124**	**—**	**29,124**	23,606
	692,968	**413,404**	**279,564**	271,567

10. Long-term debt

Summary

	2024 $	2023 $
HIS project bank loan (a)	**3,228**	3,165
Equipment Refinancing loan (b)	**388**	376
Current portion	**3,616**	3,541
HIS project bank loan (a)	**24,481**	27,709
Equipment Refinancing loan (b)	**1,024**	1,412
Long-term portion	**25,505**	29,121
Total	**29,121**	32,662

Principal repayments summary

	HIS Project Bank loan $	Equipment Refinancing Bank loan $	Total $
2024 current portion	3,228	388	3,616
2025	3,293	400	3,693
2026	3,358	413	3,771
2027	3,426	211	3,637
2028	3,495	—	3,495
2029-2034	10,909	—	10,909
	27,709	1,412	29,121

10. Long-term debt (continued)

(a) *Health Information System (HIS) Project Bank Loan*

The Hospital secured a Credit Facility in the amount of $40,000, referred to as the HIS Project Loan to repay the HIS Project Development Loan and provide long-term Financing for the HIS Project. In order to create a fixed interest rate financing structure, the Hospital entered into a Banker's Acceptance (BA) Loan & Interest Rate Swap. The BA Loan has a floating rate of interest based on a market driven BA rate plus a Credit Spread referred to as the Stamping Fee. In order to fix the interest rate, the Hospital was provided with an Interest Rate Swap. The Interest Rate Swap contract allows for fixed rate interest payments to be exchanged for floating rate payments.

The fixed interest rate is 1.6% and the Stamping Fee is 0.37%. Amortization is for 12 years and payments are to be made quarterly. This agreement expires with the maturity of the loan on March 5, 2032. As at March 31, 2024 there was $27,709 ($30,874 in 2023) in Borrowings under this Credit Facility.

(b) *Equipment Refinancing Loan*

The Hospital secured a Credit Facility in the amount of $2,678 to refinance equipment purchases. In order to create a fixed interest rate financing structure, the Hospital entered into a Banker's Acceptance (BA) Loan & Interest Rate Swap. The BA Loan has a floating rate of interest based on a market driven BA rate plus a Credit Spread referred to as the Stamping Fee. In order to fix the interest rate, the Hospital was provided with an Interest Rate Swap. The Interest Rate Swap contract allows for fixed rate interest payments to be exchanged for floating rate payments.

The fixed interest rate is 1.12% and the Stamping Fee is 1.95%. Amortization is for 7 years and payments are to be made quarterly. This agreement expires with the maturity of the loan on August 16, 2027. As at March 31, 2024 there was $1,412 ($1,788 in 2023) in borrowings under this Credit Facility.

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. For the HIS and Equipment Refinancing swap agreements, the notional amount of the Hospital's interest rate swaps as of March 31, 2024 is $29,121 ($32,662 in 2023).

Fair value of the interest rate swaps was calculated using the discounted cash flow method. Fair value as of March 31, 2023 of these interest rate swaps is an asset of $2,573 ($2,592 asset in 2023) which is reflected on the Statement of financial position.

(In thousands of dollars)

11. Capital lease obligation

The Hospital entered into a lease agreement for new equipment. The lease had an interest rate of 3.50% that expired on March 31, 2024. The capital lease is recorded as follows:

	2024	2023
	$	$
Capital lease obligation	**—**	63
Less: current portion	**—**	58
	—	5

12. Deferred capital grants and donations

Deferred capital grants and donations represent the unamortized balance of contributions received for the purchase of capital assets in the amount of $189,787 ($180,531 in 2023).

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

	2024	2023
	$	$
Balance, beginning of year	**180,531**	173,819
Net contributions received during the year		
Southlake Regional Health Centre Foundation	**6,091**	3,883
Ontario Ministry of Health and Ontario Health/Other	**15,866**	14,736
	202,488	192,438
Amortization of deferred grants and donations	**(12,701)**	(11,907)
Balance, end of year	**189,787**	180,531

13. Asset retirement obligations (ARO)

An asset retirement obligation was recognized in the Statement of financial position, representing the estimated asbestos costs for buildings, decommissioning and removal of equipment and contractual lease obligation. Accretion expenses are included as part of Amortization of capital assets.

A reconciliation of the beginning and ending aggregate carrying amount of the liability is as follows:

	2024	2023
	$	$
Balance, beginning of year	**1,469**	1,392
Changes during the year		
Estimated liabilities incurred	**97**	50
Accretion expense	**28**	27
	1,594	1,469

(In thousands of dollars)

14. Pension and other post-retirement benefit plans

Pension plan

Substantially all of the employees of the Hospital are members of the Healthcare of Ontario Pension Plan (HOOPP), which is a multi-employer defined benefit pension plan. Contributions to the plan made during the year by the Hospital on behalf of its employees amounted to $23,989 ($22,652 in 2023) and are included in the salaries, wages and employee benefits in the Statement of operations.

Contributions to the multi employer defined benefit plan are expensed when due. The most recent actuarial valuation of the plan as at December 31, 2023 indicates the plan is fully funded.

Post-employment future benefits

The Hospital provides certain retirement and post-employment benefits to most of its employees.

The Hospital's non-pension post-retirement benefit plans are comprised of medical, dental and life insurance coverage for certain groups of employees who have retired from the Hospital and are based on the age and service requirements of the plan.

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

	2024 **$**	2023 $
Accrued benefit obligation, beginning of year	**19,301**	19,778
Current period service cost	**1,590**	1,738
Interest on accrued benefits	**927**	780
Plan amendment	**447**	—
Benefit payments	**(1,042)**	(861)
Actuarial gains/(losses)	**1,416**	(2,134)
Accrued benefit obligation, end of year	**22,639**	19,301
Accrued post-retirement benefit obligation, end of year	**22,639**	19,301
Less: unamortized actuarial	**2,322**	4,356
	24,961	23,657

Included in the Statement of operations and changes in net assets is an amount of $2,347 ($2,485 in 2023) regarding employee future benefits. This amount is comprised of:

	2024 **$**	2023 $
Total benefit cost recognized		
Current period benefit cost	**1,591**	1,738
Amortization of actuarial gains	**(171)**	(33)
Amortization of past service costs	**447**	—
Recognition of unamortized gains as an offset to prior service cost	**(447)**	—
Retirement benefit interest expense	**927**	780
	2,347	2,485

(In thousands of dollars)

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

Post-retirement benefit liability (continued)

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

	2024 $	2023 $
Discount rate to determine accrued post-treatment benefit obligation	**4.00%**	4.55%
Extended healthcare cost escalations, grading down to 4% per annum over 20 years per annum thereafter	**6.00%**	6.00%
Dental cost increases	**5.20%**	4.98%
Expected average remaining service life of employees	**15.5**	15.5

15. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	2024 $	2023 $
Vendor payables and accruals	**56,296**	50,563
Accrued liability – salaries/wages & vacation earned	**49,413**	59,119
Employee/employer remittances payable	**7,149**	9,196
Deferred operating revenue	**44,465**	42,900
Other	**993**	993
	158,316	162,771

16. Commitments

(a) On April 1, 2010, 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 December 21, 2010. The term of the lease is co-terminus with the lease in the Medical Arts Building.

17. 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, 2024, 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.

17. Contingent liabilities (continued)

(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. No assessments have been made for the year ended March 31, 2024.

18. 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.

19. 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.

19. 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, 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.

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 assets at fair value as at:

	Level 1 $	Level 2 $	Level 3 $	2024 Total $
Derivative assets	**—**	**2,573**	**—**	**2,573**

(In thousands of dollars)

19. Financial instruments and risk management policy (continued)

Fair value hierarchy (continued)

	Level 1 $	Level 2 $	Level 3 $	2023 Total $
Derivative assets	—	2,592	—	2,592

There have been no movements between levels for the year ended March 31, 2024.

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:

	2024 **$**	2023 $
Derivative asset/(liabilities)		
Balance, beginning of year	**2,592**	2,002
Changes during the period		
Gain for the period recognized in the statement of re-measurement gains and losses	**(19)**	590
Balance, end of year	**2,573**	2,592

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 short-term borrowing, 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.

Interest rate risk related to the short-term borrowing is mitigated given the short time to maturity of the debt. Furthermore, the Hospital has the option of converting this debt to long-term at its convenience.

As at March 31, 2024 and 2023 the bank indebtedness was nil and is monitored daily.

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.

20. Related party transactions

The related parties and the nature of their transactions are identified in (Note 6) the Foundation, (Note 7) the Village, (Note 8) Southlake ProResp Inc., and (Note 16) Commitments. All the transactions were monetary in nature and recorded at the exchange value.