Financial statements of

Southlake Regional Health Centre

March 31, 2012

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Deloitte & Touche 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 balance sheet as at March 31, 2012, and the statements of operations and changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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, 2012, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
June 15, 2012

Southlake Regional Health Centre

Statement of operations and changes in net assets
year ended March 31, 2012

(In thousands of dollars)

	2012	2011
	$	$
Revenue		
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	**275,290**	263,599
Cancer Care Ontario	**10,802**	9,135
Preferred accommodation and other	**23,289**	21,069
Patient care	**21,607**	19,591
Specified programs	**3,743**	3,471
Amortization of deferred equipment grants and donations	**9,026**	8,182
	343,757	325,047
Expenses		
Salaries, wages and employee benefits	**216,843**	202,085
Supplies and other	**50,107**	49,514
Medical and surgical supplies	**38,370**	34,513
Drugs	**13,103**	13,323
Specified programs	**3,743**	3,494
Amortization of furniture and equipment	**11,770**	13,645
	333,936	316,574
Excess of revenue over expenses per Hospital Service Accountability Agreement	**9,821**	8,473
Gain on land expropriation	**-**	602
Gain (loss) on disposal of capital assets	**1**	(280)
Amortization of deferred building grants and donations	**5,581**	5,060
Amortization of buildings and land improvements	**(9,190)**	(9,035)
Interest expense	**(3,041)**	(3,810)
Provision for loan impairment	**(2,322)**	-
Excess of revenue over expenses	**850**	1,010
Net assets, beginning of year	**1,710**	185
Accumulated gains and losses included directly in the statement of changes in net assets		
Gain (loss) on derivatives designated as cash flow hedges	**(2,585)**	515
Net assets, end of year	**(25)**	1,710
Accumulated loss on derivatives designated as cash flow hedges	**8,906**	6,320

Southlake Regional Health Centre
Balance sheet
as at March 31, 2012
(In thousands of dollars)

	2012	2011
	$	$
Assets		
Current assets		
Cash	**16,452**	484
Accounts receivable (Note 5)	**19,173**	21,010
Inventories	**2,283**	2,743
Prepaid expenses	**3,383**	4,032
	41,291	28,269
Loan receivable from Southlake Residential Care Village (Note 7)	**-**	2,211
Capital assets, net (Note 8)	**284,107**	292,587
	325,398	323,067
Liabilities		
Current liabilities		
Bank indebtedness (Note 4)	**-**	11,966
Accounts payable and accrued liabilities (Note 12)	**62,784**	53,888
Current portion of Southlake Regional Health Centre Foundation loan (Note 6)	**200**	200
Current portion of long-term debt (Note 9)	**5,072**	4,947
	68,056	71,001
Long-term		
Loan payable to Southlake Regional Health Centre Foundation (Note 6)	**400**	600
Deferred capital grants and donations (Note 10)	**196,653**	188,019
Long-term debt (Note 9)	**44,291**	49,363
Derivative liabilities (Note 9(f))	**8,906**	6,320
Accrued post-retirement benefits (Note 11)	**7,117**	6,054
	325,423	321,357
Contingent liabilities (Note 15)		
Net assets	**(25)**	1,710
	325,398	323,067

Approved by the Board

Bruce Herridge — Board Chair

Paul Roberts — Treasurer

Southlake Regional Health Centre
Statement of cash flows
year ended March 31, 2012
(In thousands of dollars)

	2012	2011
	$	$
Operating activities		
Excess of revenue over expenses for the year	**850**	1,010
Add (deduct) items not affecting cash		
Amortization of capital assets	**20,960**	22,680
Amortization of deferred capital grants and donations	**(14,607)**	(13,242)
Post-retirement benefits	**1,547**	1,094
Provision for loan impairment	**2,322**	-
Gain on expropriation of land	**-**	(602)
(Gain) Loss on disposal of capital assets	**(1)**	280
	11,071	11,220
Net change in non-cash working capital balances related to operations		
Accounts receivable	**1,837**	(1,351)
Inventories	**460**	(126)
Prepaid expenses	**649**	(2,389)
Accounts payable and accrued liabilities	**8,896**	4,960
	22,913	12,314
Investing activities		
Purchase of capital assets	**(12,484)**	(13,145)
Proceeds from sale of capital assets	**5**	10,894
	(12,479)	(2,251)
Financing activities		
Current portion of long-term debt	**125**	143
Capital contributions received from		
Southlake Regional Health Centre Foundation	**4,299**	3,756
Ontario Ministry of Health and Long-Term Care/Other	**4,391**	1,782
Regional Municipality of York	**14,551**	1,762
Repayments of long-term debt	**(5,072)**	(4,947)
Advances to Village	**(111)**	(98)
Repayment of Foundation advance	**(200)**	(200)
Post-retirement payments (Note 11)	**(483)**	(424)
	17,500	1,774
Net increase in cash during the year	**27,934**	11,837
Cash deficiency, beginning of year	**(11,482)**	(23,319)
Cash surplus (deficiency), end of year	**16,452**	(11,482)
Cash consists of		
Cash	**16,452**	484
Bank indebtedness	**-**	(11,966)
	16,452	(11,482)
Other information		
Total interest paid	**3,233**	4,116

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 on the transition 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 for Not-for-Profit organizations. 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

As allowed under CICA Handbook 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
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.

3. Significant accounting policies (continued)

Financial instruments (continued)

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. 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.

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.

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.

3. Significant accounting policies (continued)

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.

Employee benefits plans

(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.

(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.

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 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, amortization of capital assets and deferred capital grants, loan receivable due from the Village, accrued liabilities and accrued post-retirement benefits.

(Tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Use of estimates (continued)

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 and amended to include 2011/12. 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, 2012, there was $Nil (2011 - $11.97 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, 2012, there were no amounts applied against these letters of credit.

In the current year, 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, 2012, there was $Nil in borrowings under this credit facility. This credit facility charges a stand-by fee of 35 basis points.

5. Accounts receivable

Accounts receivable consist of the following:

	2012	2011
	$	$
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	**5,484**	4,447
Cancer Care Ontario	**735**	96
OHIP	**2,685**	2,363
Vendor rebates	**3,533**	6,887
Stevenson Memorial Hospital	**15**	53
Insurers, patients and other	**7,208**	7,663
	19,660	21,509
Less: allowance for doubtful accounts	**487**	499
	19,173	21,010

6. 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, 2012, the Foundation contributed $4.6 million from its annual campaign (2011 - $3.9 million) to the Hospital substantially for equipment. In addition, the Foundation donated $249 thousand (2011 - $262 thousand) toward operations. The net assets of the Foundation as at March 31, 2012 totaled $24.7 million (2011 - $20.8 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. As at March 31, 2012, the loan has been drawn down to $600 thousand (2011- $800 thousand) in the statement of financial position. Interest recorded in the statement of operations related to the loan was $40 thousand (2011 - $50 thousand).

7. 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 $2.0 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. As at March 31, 2012 the Hospital has recorded a $4.4 million reserve for loan impairment against the entire borrowing of which $2.3 million was recorded to Provision for loan impairment in the statement of operations in the current year (2011: $nil). 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 for the first five years, and then increase in the next five years by increments equal to the Consumer Price Index.

(Tabular amounts in thousands of dollars)

8. Capital assets

Capital assets consist of the following:

			2012	2011
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Land	**9,258**	**-**	**9,258**	8,717
Land improvements	**4,123**	**2,669**	**1,454**	1,635
Buildings	**296,036**	**67,577**	**228,459**	235,871
Leasehold improvements	**7,105**	**1,683**	**5,422**	5,380
Furniture and equipment	**163,096**	**134,428**	**28,668**	33,293
Projects in process	**10,846**	**-**	**10,846**	7,691
	490,464	**206,357**	**284,107**	292,587

Projects in process are Capital Projects which have been started and not completed (Note 13).
During the year, $Nil (2011 - $Nil) of interest was capitalized to capital assets.

9. Long-term debt

Summary

	2012	2011
	$	$
Redevelopment bank loan (a)	**1,167**	1,102
Parking lot bank loan (b)	**258**	268
Parking garage bank loan (c)	**1,327**	1,262
Warehouse bank loan (d)	**120**	115
Leasehold improvement bank loan (e)	**2,200**	2,200
Current portion	**5,072**	4,947
Redevelopment bank loan (a)	**20,614**	21,782
Parking lot bank loan (b)	**-**	258
Parking garage bank loan (c)	**15,632**	16,958
Warehouse bank loan (d)	**3,845**	3,965
Leasehold improvement bank loan (e)	**4,200**	6,400
Long-term portion	**44,291**	49,363

(Tabular amounts in thousands of dollars)

9. Long-term debt (continued)

Principal repayments summary

		a)	b)	c)	d)	e)	
	Redevelopment		Parking lot	Parking garage	Warehouse	Leasehold improvements	
	Phase I	Phase II	Bank loan	Bank loan	Bank loan	Bank loan	Total
	$	$	$	$	$	$	$
2013 current portion	628	539	258	1,327	120	2,200	5,072
2014	670	567	-	1,395	126	2,200	4,958
2015	715	595	-	1,466	133	2,000	4,909
2016	763	625	-	1,541	140	-	3,069
2017	814	657	-	1,620	147	-	3,238
2018-2033	7,679	7,530	-	9,609	3,299	-	28,117
	11,269	10,513	258	16,958	3,965	6,400	49,363

(a) *Redevelopment bank loan*

The Hospital has a committed, non-revolving, reducing and/or fixed rate term loan facility of $21.8 million (2011 - $22.9 million).

The Hospital has utilized $11.3 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 $10.5 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.

(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 5.25% and settled on a net basis. This agreement expires with the maturity of the loan on March 1, 2013.

(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.

9. Long-term debt (continued)

(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.

(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.

(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, 2012 is $49.4 million (2011 - $54.3 million).

Fair value of the interest rate swaps was calculated using the discounted cash flow method. Fair value as of March 31, 2012 of these interest rate swaps is $8.9 million (2011 - $6.3 million) and is reflected as a liability on the balance sheet.

(Tabular amounts in thousands of dollars)

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:

	2012	2011
	$	$
Balance, beginning of year	**188,019**	193,961
Contributions received during the year		
Southlake Regional Health Centre Foundation	**4,299**	3,756
Ministry of Health and Long-Term Care/Other	**4,391**	1,782
Regional Municipality of York	**14,551**	1,762
	211,260	201,261
Amortization of deferred capital grants and donations	**(14,607)**	(13,242)
Balance, end of year	**196,653**	188,019

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. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to $12.9 million (2011 - $12.4 million) and are included in salaries, wages and employee benefits expense in the statement of operations.

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, 2012 by Morneau Shepell.

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

(Tabular amounts in thousands of dollars)

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

Accrued benefit liability

	2012	2011
	$	$
Accrued post-retirement benefit obligation	**10,906**	8,063
Less: unamortized past service costs	**(2,002)**	(648)
Less: adjustment experience (loss)	**(1,787)**	(1,361)
	7,117	6,054

	2012	2011
	$	$
Net benefit cost recognized		
Current service cost	**734**	510
Interest cost	**531**	431
Adjustments		
Adjustment for past service costs	**231**	113
Adjustment for experience gains	**51**	40
	1,547	1,094

The expense for the year related to these plans is $1.547 million (2011 - $1.094 million) and employer contributions for these plans were $483 thousand (2011 - $424 thousand).

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

	2012	2011
	%	%
Discount rate to determine liability	**5.00**	5.50
Discount rate to determine expenses	**4.00**	5.00
Dental costs	**4.00**	4.00

The extended healthcare trend rate is 7.5% in fiscal 2012 (2011 - 7.5%), decreasing by 0.5% per annum to an ultimate rate of 5.0% per annum in 2017 and thereafter.

	2012	2011
Average remaining service period of active employees to full eligibility who are expected to receive benefits under the benefit plan (years)	**13.4**	13.4
Average remaining service period of active employees to retirement who are expected to receive benefits under the benefit plan (years)	**16.2**	16.2

(Tabular amounts in thousands of dollars)

12. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	2012	2011
	$	$
Vendor payables and accruals	**19,510**	20,679
Accrued liability - salaries/wages and vacation earned	**17,865**	14,877
Employee/employer remittances payable	**6,394**	5,820
Deferred operating revenue	**18,705**	12,133
Cancer Centre Holdback	**33**	33
Other	**277**	346
	62,784	53,888

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, 2012, construction of the Cancer Centre is 99.6% complete with a holdback of $33 thousand (2011 - $33 thousand). The Cancer Centre Project is expected to be completed in fiscal 2013.

EP Lab Expansion

This is a 3 Phase Project which will create three Cardiac Electrophysiological Procedure Rooms with a total cost of $23.5 million, of which $3.9 million has been spent year to date. The relocation of the Heart Rhythm Program and Cardiology Clinics will be required to accommodate this project. The EP Lab Expansion Project is expected to be completed in fiscal 2015.

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.

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. 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 $1.54 million (2011 - $1.25 million) for monthly membership fees and $223 thousand (2011 - $223 thousand) relating the Hospital’s equity share of the member Hospital loan.

14. Commitments (continued)

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 $459 thousand (2011 - $371 thousand).

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, 2012, 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, 2012, no assessments have been received.

(c) The Hospital has received a claim from a construction company related to additional costs incurred due to delays in the construction of the Stronach Regional Cancer Centre. This claim continues to be in dispute and at this time, the outcome is not determinable.

(d) The Hospital has received a claim from a developer related to a Purchase and Sale Agreement and a Development Agreement. The Hospital has filed a related counterclaim and these claims continue to be in dispute. At this time, the outcome is not determinable.

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.

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.

The Hospital has 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, 2012.

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, 2012 the bank indebtedness was $Nil (2011 - $11.97 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 values 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.