

Financial Statements of

**Southlake Regional
Health Centre**

March 31, 2009

Southlake Regional Health Centre

March 31, 2009

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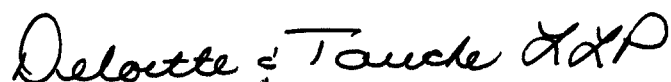
Auditors' Report

To the Members of
Southlake Regional Health Centre

We have audited the balance sheet of Southlake Regional Health Centre as at March 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year, except for the change in accounting policy as explained in Note 2 to the financial statements.



Chartered Accountants
Licensed Public Accountants
May 22, 2009

Southlake Regional Health Centre

Balance Sheet

March 31, 2009

(in thousands of dollars)


	2009	2008
	\$	\$
ASSETS		
CURRENT		
Cash	926	17,747
Accounts receivable (Note 5)	19,373	16,146
Grants receivable from Southlake Regional Health Centre Foundation (Note 6)	-	2,826
Inventories	2,007	2,078
Prepaid expenses	2,298	1,883
TOTAL CURRENT ASSETS	24,604	40,680
Loan receivable from Southlake Residential Care Village (Note 7)	4,134	4,009
Capital assets, net (Note 8)	297,972	275,288
	326,710	319,977
LIABILITIES AND NET ASSETS		
CURRENT		
Bank indebtedness (Note 4)	9,246	-
Accounts payable and accrued liabilities (Note 13)	43,050	52,676
Current portion of Southlake Regional Health Centre Foundation loan (Note 6)	200	200
Current portion of long-term debt (Note 9)	4,669	2,341
TOTAL CURRENT LIABILITIES	57,165	55,217
LONG-TERM		
Loan payable to Southlake Regional Health Centre Foundation (Note 6)	1,000	1,200
Deferred capital grants and donations (Note 10)	191,015	174,847
Long-term debt (Note 9)	59,113	63,782
Derivative liabilities (Note 9(f))	12,183	5,503
Long-term Cancer Centre holdback	-	912
Accrued post-retirement benefits (Note 11)	4,708	4,059
TOTAL LONG-TERM LIABILITIES	268,019	250,303
Contingent liabilities (Note 16)		
Net Assets		
Investment in capital assets (Note 12(a))	43,175	34,318
Unrestricted	(41,649)	(19,861)
TOTAL NET ASSETS	1,526	14,457
	326,710	319,977

Approved by the Board



Board Chair

Stephen Stewart



Treasurer

Katherine Campbell

Southlake Regional Health Centre

Statement of Operations

year ended March 31, 2009

(in thousands of dollars)

	2009	2008
	\$	\$
REVENUE		
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	237,273	221,449
Preferred accommodation and other	22,448	16,834
Patient care	17,012	15,242
Specified programs	3,113	2,879
Amortization of deferred equipment grants and donations	6,717	6,576
	286,563	262,980
EXPENSES		
Salaries, wages and employee benefits (Note 11)	181,327	164,752
Supplies and other	43,385	39,028
Medical and surgical supplies	36,086	33,993
Drugs	10,670	9,584
Specified programs	3,158	2,953
Amortization of furniture and equipment	12,468	12,324
	287,094	262,634
EXCESS OF (EXPENSES) OVER REVENUE / REVENUE OVER EXPENSES PER HOSPITAL SERVICE ACCOUNTABILITY AGREEMENT		
	(531)	346
Amortization of deferred building grants and donations	3,759	4,133
Amortization of buildings and land improvements	(7,056)	(6,635)
Loss on disposal of buildings	-	(261)
Interest expense	(2,423)	(2,089)
DEFICIENCY OF REVENUE OVER EXPENSES FOR THE YEAR		
	(6,251)	(4,506)

Southlake Regional Health Centre

Statement of Changes in Net Assets

year ended March 31, 2009

(in thousands of dollars)

	2009		
	Invested in capital assets (Note 12)	Unrestricted	Total
	\$	\$	\$
BALANCE, BEGINNING OF YEAR	34,318	(19,861)	14,457
(Deficiency) / Excess of revenues over expenses	(9,048)	2,797	(6,251)
Accumulated gains and losses included directly in the statement of changes in net assets:			
Loss on derivatives			
designated as cash flow hedges	-	(6,680)	(6,680)
Net change in net assets invested in capital assets (Note 12(c))	17,905	(17,905)	-
BALANCE, END OF YEAR	43,175	(41,649)	1,526

	2008		
	Invested in capital assets (Note 12)	Unrestricted	Total
	\$	\$	\$
BALANCE, BEGINNING OF YEAR	37,865	(16,799)	21,066
(Deficiency) / Excess of revenues over expenses	(8,250)	3,744	(4,506)
Accumulated gains and losses included directly in the statement of changes in net assets:			
Loss on derivatives			
designated as cash flow hedges	-	(2,103)	(2,103)
Net change in net assets invested in capital assets (Note 12(c))	4,703	(4,703)	-
BALANCE, END OF YEAR	34,318	(19,861)	14,457

	2009	2008
	\$	\$
ACCUMULATED LOSS ON DERIVATIVES DESIGNATED AS CASH FLOW HEDGES	12,183	5,503

Southlake Regional Health Centre

Statement of Cash Flows

year ended March 31, 2009

(in thousands of dollars)

	2009	2008
	\$	\$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
(Deficiency) excess of revenue over expenses for the year	(6,251)	(4,506)
Add (deduct) items not affecting cash:		
Amortization of capital assets	19,524	18,959
Amortization of deferred capital grants and donations	(10,476)	(10,709)
Loss on disposal or impairment of capital assets	-	261
Post-retirement benefits	938	964
	3,735	4,969
Net change in non-cash working capital balances related to operations:		
Accounts receivable	(3,227)	5,579
Grants receivable from Southlake Regional Health Centre Foundation	2,826	(1,199)
Net change in Southlake Residential Care Village receivable	-	(2,009)
Inventories	71	(246)
Prepays	(415)	(445)
Accounts payable and accrued liabilities	(9,626)	(5,129)
	(6,636)	1,520
INVESTING AND FINANCING		
Current portion of long-term debt	2,328	1,155
Net change in investments	-	80
Purchase of capital assets	(42,208)	(47,745)
Proceeds from sale of capital assets	-	455
Capital contributions received from:		
Southlake Regional Health Centre Foundation	5,169	8,139
Ontario Ministry of Health and Long-Term Care/Other	21,475	18,060
Regional Municipality of York	-	2,300
Net change in bank loans and swap acquisition	(5,581)	13,584
Net change in loan receivable from the Village	(125)	-
Repayment of Foundation advance	(200)	(200)
Post-retirement payments	(289)	(263)
	(19,431)	(4,435)
NET (DECREASE) IN CASH DURING THE YEAR	(26,067)	(2,915)
CASH, BEGINNING OF YEAR	17,747	20,662
CASH DEFICIENCY, END OF YEAR	(8,320)	17,747
CASH CONSISTS OF:		
Cash	926	17,747
Bank indebtedness	(9,246)	-
	(8,320)	17,747
OTHER INFORMATION		
Total Interest paid	3,833	3,617

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

1. Status and nature of activities

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

2. Change in accounting policy

Adoption of accounting policies

Section 3855 - Financial Instruments - Recognition and Measurement

On April 23, 2008 the Canadian Institute of Chartered Accountants ("CICA") amended Section 3855, "Financial Instruments - Recognition and Measurement" of the CICA Handbook. The amended section allows not-for-profit organizations to elect not to account for certain non-financial contracts as derivatives and also not to account for certain derivative features embedded in non-financial contracts, leases and insurance contracts as embedded derivatives. If the Hospital did not elect this option it would be required to account for derivative financial instruments and embedded derivative financial instruments in accordance with the guidance in section 3855.

The Hospital has elected to adopt these amendments to Section 3855 effective for its fiscal year beginning on April 1, 2008 and 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. The adoption of this amendment has not resulted in any changes to the current or prior year's financial statements.

Section 3031 – Inventories

On April 1, 2008 the Hospital adopted the recommendations of CICA 3031, which provides guidance on the measurement and disclosure requirements for inventories. The adoption of these new recommendations had no impact on the Hospital's financial statements.

Future accounting changes

Section 3862 - Financial Instruments - Disclosures, Section 3863 - Financial Instruments - Presentation

On October 15, 2008 the CICA deferred indefinitely the requirement of not-for-profit organizations to implement sections 3862 and 3863. Section 3862 requires the disclosure of information about: (a) the significance of financial instruments for the entity's financial position and performance and (b) the nature and extent of risks arising from the financial instruments to which the Organization is exposed during the period and at the balance sheet date, and how the Organization manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives.

The Hospital has elected to defer application of these standards and as such continues to follow the disclosure requirements of section 3861.

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

2. Change in accounting policy (continued)

Future accounting changes (continued)

Section 4400 - Financial Statements by Not-For-Profit Organizations

In September 2008, the CICA issued amendments to several of the existing sections in the 4400 series - Financial Statements by Not-For-Profit Organizations. Changes apply to annual financial statements relating to fiscal years beginning on or after January 1, 2009. Accordingly, the Hospital will have to adopt the amended standards for its fiscal year beginning April 1, 2009. The amendments include a) additional guidance in the applicability of Section 1100, Generally Accepted Accounting Principles; b) removal of the requirement to report separately net assets invested in capital assets; c) requirement to disclose revenues and expenses in accordance with EIC 123, Reporting Revenue Gross as a Principal Versus Net as an Agent; d) requirement to include a statement of cash flows in accordance with Section 1540, Cash Flow Statements; e) requirement to disclose related party transactions in accordance with Section 3840; Related Party Transactions; and f) new disclosure requirements regarding the allocation of fundraising and general support costs.

3. Significant accounting policies

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

Financial instruments

The Hospital has classified each of its financial instruments into the undernoted accounting categories. The Category for an item determines its accounting treatment under the Canadian Institute of Chartered Accountants' standards on the recognition, measurement and presentation of Financial Instruments for not-for-profit organizations.

Financial instrument	Category
Cash	Held-for-trading
Short-term investments and marketable securities	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities

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.

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.

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

3. 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 fixed assets.

Under the *Health Insurance Act* and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care (the "Ministry"). Operating funding is recorded as revenue in the period to which it relates. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. The extent to which the Ministry funding has been received, with the stipulated requirement that the Hospital provides specific services, and these services have not yet been provided, the funding is deferred until such time as the services are performed and the monies spent. Some Ministry revenue is tied to patient volume and activity. Revenue is, therefore, based on actual patient volumes.

Inventories

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

Capital assets

Purchased capital assets are recorded at historical cost less accumulated amortization.

Contributed capital assets are recorded at fair value at the date of the contribution.

Amortization is provided on a straight-line basis at rates based on the estimated service lives of the assets at the following annual rates:

Land improvements	5%
Buildings	2% to 2.5%
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.

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.

Interest and credit risk

The Hospital is subject to credit risk with respect to its accounts receivable and market and interest rate risks with respect to its investments and debt.

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Derivative instruments

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

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

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.

Investments

Investments are recorded at fair value with changes in value recognized immediately in the Statement of Operations. Transaction costs are expensed as incurred.

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.

In particular, the amount of 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. 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. Operating line

The Hospital has an operating line of credit to maximum of \$15 million. This credit facility bears interest at the bank's prime rate minus 50 basis points. As at March 31, 2009, there was \$9.1 million (2008 - \$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. As at March 31, 2009, there were no amounts applied against these letters of credit.

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

5. Accounts receivable

Accounts receivable consist of the following:

	2009	2008
	\$	\$
Stevenson Memorial Hospital	674	369
Southlake Regional Health Centre Foundation reimburseable expenses	-	144
Ontario Ministry of Health and Long-Term Care	3,023	5,781
OHIP	2,079	2,282
Vendor rebates	4,714	-
University of Toronto - Family Medicine teaching unit	2,121	-
Insurers, patients and other	7,178	8,036
	19,789	16,612
Less allowance for doubtful accounts	416	466
	19,373	16,146

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

The Foundation, an independent organization, raises funds and holds resources solely 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, 2009, the Foundation contributed \$5.15 million from its annual campaign (2008 - \$8.14 million) to the Hospital substantially for equipment. In addition, the Foundation donated \$251 thousand (2008 - \$296 thousand) toward operations. As at March 31, 2009, \$NIL (2008 - \$2.83 million) is receivable from the Foundation. The net assets of the Foundation as at March 31, 2009 totaled \$21.34 million (2008 - \$23.18 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 \$200,000. The loan is due on March 31, 2015 and is secured by a promissory note. Interest recorded in the statement of operations related to the loan was \$70 thousand (2008 - \$80 thousand).

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

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

The Hospital provided the Village with a long-term loan of \$2.0 million effective February 26, 2002 with interest payable monthly at prime minus 2.5%. The Hospital also provided long-term financing of \$2.134 million (2008 - \$2.009 million). Of this amount, \$475 thousand bears interest at the bank's prime rate plus 0.5% until the Village obtains permanent financing.

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

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

In addition, to assist with the Village's capital financing arrangement, the Hospital has secured a standby letter of credit in favour of Canada Life for \$500 thousand, effective November 13, 2006 for three years. 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.

Southlake Residential Care Village has not been consolidated in the financial statements of the Hospital. Separate statements of the Village are available on request. Unaudited financial summaries of this unconsolidated entity as of December 31, 2008 and for the year ended are as follows:

	2008	2007
	\$	\$
Financial Position		
Total assets	30,294	31,786
Total liabilities	35,520	35,885
Total net assets	(5,226)	(4,099)
	30,294	31,786
Results of Operations		
Total revenue	12,400	11,828
Total expenses	13,527	12,969
Excess of revenue over expenses	(1,127)	(1,141)
Cash Flows		
Cash provided by (used in) operations	(904)	(428)
Cash used in financing and investing activities	386	576
Increase (decrease) in cash	(518)	148

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

8. Capital assets

Capital assets consist of the following:

			2009	2008
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	8,359	-	8,359	7,601
Land improvements	4,158	2,174	1,984	2,065
Buildings	226,772	43,052	183,720	188,786
Leasehold improvements	12,245	422	11,823	
Furniture and equipment	122,569	96,521	26,048	32,948
Projects in process*	66,038	-	66,038	43,888
	440,141	142,169	297,972	275,288

* These are Capital Projects which have been started and not completed (Note 14).

During the year, \$NIL (2008 - \$344 thousand) interest was capitalized to capital assets.

9. Long-term debt

Summary

	2009	2008
	\$	\$
Redevelopment bank loan (a)	982	927
Parking lot bank loan (b)	241	228
Parking Garage bank loan (c)	1,142	1,087
Warehouse bank loan (d)	104	99
Leasehold improvement bank loan (e)	2,200	-
Current portion (Note 12(a))	4,669	2,341
Redevelopment bank loan (a)	23,925	24,907
Parking lot bank loan (b)	778	1,020
Parking Garage bank loan (c)	19,421	20,563
Warehouse bank loan (d)	4,189	4,292
Leasehold improvement bank loan (e)	10,800	13,000
Long-term portion (Note 12(a))	59,113	63,782

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

9. Long-term debt (continued)

(a) Redevelopment bank loan

The Hospital has a committed, non-revolving, reducing and/or fixed rate term loan facility of \$26.7 million (2008 - \$26.7 million).

The Hospital has utilized \$13.4 million of this facility for Phase I Redevelopment and has entered into a swap agreement related to this loan whereby the floating rate debt is swapped against the fixed rate debt with an interest rate of 6.52% and settled on a net basis. This agreement expires with the maturity of the loan on June 1, 2024.

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

	\$
2010 Current portion	516
2011	551
2012	588
2013	628
2014	670
2015 to 2024	9,973
	<hr/> 12,926 <hr/>

The Hospital has utilized \$12.4 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.

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

	\$
2010 Current portion	466
2011	489
2012	514
2013	540
2014	567
2015 to 2026	9,405
	<hr/> 11,981 <hr/>

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

9. Long-term debt (continued)

(b) Parking lot bank loan

The Hospital has a non-revolving reducing term loan that is fully drawn for \$1.2 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.

Principal repayments are due as follows:

	\$
2010 Current portion	241
2011	254
2012	268
2013	256
	<hr/> 1,019

(c) Parking garage bank loan

The Hospital has a non-revolving reducing term loan that is fully drawn for \$21.7 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 2, 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 2, 2022.

Principal repayments are due as follows:

	\$
2010 Current portion	1,142
2011	1,201
2012	1,262
2013	1,327
2014	1,395
2015 to 2022	14,236
	<hr/> 20,563

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

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 \$4.4 million for the acquisition of a warehouse. Interest on the loan is at the bank's prime rate and repayments are to be made in equal monthly installments of principal plus interest, with the final installment due February 2, 2032.

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

Principal repayments are due as follows:

	\$
2010 Current portion	104
2011	109
2012	114
2013	120
2014	126
2015 to 2032	3,720
	<hr/> 4,293 <hr/>

(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.

Principal repayments are due as follows:

	\$
2010 Current portion	2,200
2011	2,200
2012	2,200
2013	2,200
2014	2,200
2015	2,000
	<hr/> 13,000 <hr/>

Southlake Regional Health Centre

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(Tabular amounts in thousands of dollars)

9. Long-term debt (continued)

- (f) The Hospital enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its investments. 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, 2009 is \$63.8 million (2008 - \$66.1 million).

Fair value of the interest rate swaps was calculated using the discounted cash flow method. Fair value as of March 31, 2009 of these interest rate swaps is \$(12.2) million (2008 - \$(5.5) million) and is reflected as a liability on the balance sheet.

10. Deferred capital grants and donations

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

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

	2009	2008
	\$	\$
Balance, beginning of year	174,847	157,057
Contributions received during the year:		
Southlake Regional Health Centre Foundation	5,169	8,139
Ministry of Health and Long-Term Care/Other	21,475	18,060
Regional Municipality of York	-	2,300
	201,491	185,556
Amortization of deferred capital grants and donations	(10,476)	(10,709)
Balance, end of year (Note 12 (a))	191,015	174,847

11. Pension and other post-retirement benefit plans

The Hospital is a member of the Hospitals 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.

Southlake Regional Health Centre

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(Tabular amounts in thousands of dollars)

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

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

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The most recent actuarial valuation of the plan as at December 31, 2008 indicates the plan is 97% funded. Contributions to the Plan made during the year by the Corporation on behalf of its employees amounted to \$10.8 million (2008 - \$9.69 million) and are included in salaries, wages and employee benefits expense in the statement of operations.

Employee benefits plans

(a) Multi-employer plan

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

(b) Accrued post-retirement benefits

The Hospital accrues its obligations under non-pension employee benefits as full-time employees render services. The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate assumptions. The excess of the cumulative unamortized balance of net actuarial gains (losses) over 10% of the benefit obligations and past service costs are amortized over the average remaining service period of active employees. The average remaining service period of active employees is 15.3 years. Future cost escalation affects the amount of employee future benefits. The accrued benefit obligation related to employee benefits is discounted using current interest rates on long-term debt.

The Hospital's non-pension post-retirement benefit plans are comprised of medical, dental and life insurance coverage for certain groups of full-time employees who have retired from the Hospital and are between the ages of 55 and 65. Spouses of eligible retirees are covered by the plans. The measurement date used to determine the accrued benefit obligation is March 31, 2009. The most recent actuarial valuation of the non-pension post-retirement benefits plan for funding purposes was April 1, 2007 and was extrapolated forward to March 31, 2009.

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

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

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

Accrued benefit liability

	2009	2008
	\$	\$
Accrued post-retirement benefit obligation	5,556	6,077
Less: Unamortized past service costs	(873)	(986)
Adjustment experience gain/(loss)	25	(1,032)
	4,708	4,059
	2009	2008
	\$	\$
Net benefit cost recognized		
Current service cost	431	463
Interest cost	366	321
Actuarial losses/(gains) during year	(1,029)	(543)
Adjustments		
Adjustment for past service costs	113	113
Adjustment for experience gains	1,057	610
	938	964

The expense for the year related to these plans is \$938 thousand (2008 - \$964 thousand) and employer contributions for these plans were \$289 thousand (2008 - \$263 thousand).

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

	2009	2008
Discount rate to determine liability	7.50%	5.75%
Discount rate to determine expenses	5.75%	5.00%
Dental costs	4.00%	4.00%

In both years, the extended healthcare trend rate is 9.0% in fiscal 2009, decreasing by 0.5% per annum to an ultimate rate of 5.0% per annum in 2017 and thereafter.

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2009

(Tabular amounts in thousands of dollars)

12. Net assets invested in capital assets

(a) Net assets invested in capital assets consist of the following:

	2009	2008
	\$	\$
Capital assets, net	297,972	275,288
Amounts financed by deferred capital grants and donations (Note 10)	(191,015)	(174,847)
Amounts financed by long-term loans (Note 9)	(63,782)	(66,123)
	<u>43,175</u>	<u>34,318</u>

(b) Deficiency of revenue over expenses allocated or invested in capital assets consists of the following:

	2009	2008
	\$	\$
Amortization of deferred capital grants and donations	10,476	10,709
Amortization of capital assets	(19,524)	(18,959)
	<u>(9,048)</u>	<u>(8,250)</u>

(c) The net change in net assets invested in capital assets consists of the following:

	2009	2008
	\$	\$
Purchase of capital assets	42,208	47,745
Capital grants and donations received	(26,644)	(28,499)
Net book value of assets sold	-	(315)
Net book value of property demolished (Note 9)	-	(401)
Net change in long-term loans	4,669	(12,672)
Net change in current portion of long-term loans	(2,328)	(1,155)
	<u>17,905</u>	<u>4,703</u>

Southlake Regional Health Centre

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13. Accounts payable

Accounts payable consist of the following:

	2009	2008
	\$	\$
Vendor payables	18,067	20,649
Accrued liability - salaries/wages and vacation earned	13,837	15,329
Employee/Employer remittance payable	5,692	4,944
Post Construction Operating Plan recovery	-	3,221
Other	5,454	8,533
	43,050	52,676

14. 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. At March 31, 2009, the Cancer Centre Project is 67.98% complete with a holdback of \$3.287 million (2008 - \$912 thousand). This project is expected to be completed in September, 2009.

Lab Expansion Project

In June of 2008, the Ministry approved the Lab Expansion Project for the Hospital with a total cost of \$5.17 million. At March 31, 2009, the Lab Expansion Project is 87.74% complete with a holdback of \$338 thousand. This project is expected to be completed in June, 2009.

15. Commitments

The Hospital has entered into a 25-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 is an equity member of the Central Ontario Healthcare Procurement Alliance (COHPA), a not-for-profit shared service organization that will centralize contract management and purchasing/accounts payable transactions. In lieu of an 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.

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March 31, 2009

(Tabular amounts in thousands of dollars)

15. Commitments (continued)

On the basis of contract documentation prepared by Vermeulen/HIND Architects, the Hospital entered into a \$46.6 million contract with Vanbots Construction Company to construct the physical facilities for the new Cancer Centre. The contract was dated May 28, 2007 and provided for a turnover or substantial completion date as of September 17, 2009. The new facility will house three new Linear Accelerators from Elekta Inc. in addition to a new CT Simulator.

16. 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, 2009, 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, 2009, no assessments have been received.

17. 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 favour of third parties. The Hospital's primary guarantees are as follows:

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

The nature of these indemnification agreements prevents the Hospital from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Hospital has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the balance sheet with respect to these agreements.

Southlake Regional Health Centre

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March 31, 2009

(Tabular amounts in thousands of dollars)

18. 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 6). The Hospital utilizes internal control processes throughout the year to ensure compliance with these restrictions prior to the utilization of these resources.