

Financial Statements of

**Southlake Regional
Health Centre**

March 31, 2010

Southlake Regional Health Centre

March 31, 2010

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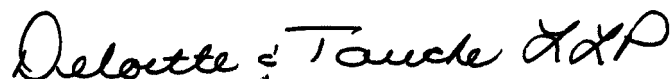
Auditors' Report

To the Members of
Southlake Regional Health Centre

We have audited the balance sheet of Southlake Regional Health Centre as at March 31, 2010 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, 2010 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 21, 2010

Southlake Regional Health Centre

Balance Sheet

as at March 31, 2010

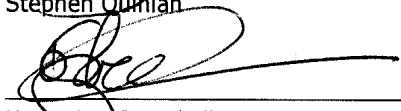
(in thousands of dollars)

	2010	2009
	\$	\$
ASSETS		
CURRENT		
Cash	1,027	926
Accounts receivable (Note 5)	19,659	19,373
Inventories	2,617	2,007
Prepaid expenses	1,643	2,298
TOTAL CURRENT ASSETS	24,946	24,604
Loan receivable from Southlake Residential Care Village (Note 7)	2,112	4,134
Capital assets, net (Note 8)	312,695	297,972
	339,753	326,710
LIABILITIES AND NET ASSETS		
CURRENT		
Bank indebtedness (Note 4)	24,346	9,246
Accounts payable and accrued liabilities (Note 13)	48,928	43,050
Current portion of Southlake Regional Health Centre Foundation loan (Note 6)	200	200
Current portion of long-term debt (Note 9)	4,804	4,669
TOTAL CURRENT LIABILITIES	78,278	57,165
LONG-TERM		
Loan payable to Southlake Regional Health Centre Foundation (Note 6)	800	1,000
Deferred capital grants and donations (Note 10)	193,961	191,015
Long-term debt (Note 9)	54,310	59,113
Derivative liabilities (Note 9(f))	6,835	12,183
Accrued post-retirement benefits (Note 11)	5,384	4,708
TOTAL LIABILITIES	339,568	325,184
Contingent liabilities (Note 16)		
Net Assets		
Investment in capital assets (Note 12(a))	59,621	43,175
Unrestricted	(59,436)	(41,649)
TOTAL NET ASSETS	185	1,526
	339,753	326,710

Approved by the Board



Stephen Quinlan Board Chair



Katherine Campbell Treasurer

Southlake Regional Health Centre

Statement of Operations

year ended March 31, 2010

(in thousands of dollars)

	2010	2009
	\$	\$
REVENUE		
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	241,727	230,174
Cancer Care Ontario	7,767	7,099
Preferred accommodation and other	21,485	22,448
Patient care	17,919	17,012
Specified programs	3,315	3,113
Amortization of deferred equipment grants and donations	8,817	6,717
	301,030	286,563
EXPENSES		
Salaries, wages and employee benefits (Note 11)	189,589	181,327
Supplies and other	44,021	43,385
Medical and surgical supplies	39,131	36,086
Drugs	10,724	10,670
Specified programs	3,354	3,158
Amortization of furniture and equipment	12,655	12,468
	299,474	287,094
EXCESS OF REVENUE OVER EXPENSES / (EXPENSES OVER REVENUE)		
PER HOSPITAL SERVICE ACCOUNTABILITY AGREEMENT	1,556	(531)
Amortization of deferred building grants and donations	5,025	3,759
Amortization of buildings and land improvements	(8,842)	(7,056)
Interest expense	(2,316)	(2,423)
Provision for bad debt	(2,112)	-
DEFICIENCY OF REVENUE		
OVER EXPENSES FOR THE YEAR	(6,689)	(6,251)

Southlake Regional Health Centre

Statement of Changes in Net Assets

year ended March 31, 2010

(in thousands of dollars)

	2010		
	Invested in capital assets (Note 12)	Unrestricted	Total
	\$	\$	\$
BALANCE, BEGINNING OF YEAR	43,175	(41,649)	1,526
(Deficiency) / Excess of revenues over expenses	(7,655)	966	(6,689)
Accumulated gains and losses included directly in the statement of changes in net assets:			
Gain on derivatives designated as cash flow hedges		5,348	5,348
Net change in net assets invested in capital assets (Note 12(c))	24,101	(24,101)	-
BALANCE, END OF YEAR	59,621	(59,436)	185

	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

	2010	2009
	\$	\$
ACCUMULATED LOSS ON DERIVATIVES DESIGNATED AS CASH FLOW HEDGES	6,835	12,183

Southlake Regional Health Centre

Statement of Cash Flows year ended March 31, 2010

(in thousands of dollars)

	2010	2009
	\$	\$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
(Deficiency) of revenue over expenses for the year	(6,689)	(6,251)
Add (deduct) items not affecting cash:		
Amortization of capital assets	21,497	19,524
Amortization of deferred capital grants and donations	(13,842)	(10,476)
Post-retirement benefits	1,017	938
Provision for bad debt	2,112	-
	4,095	3,735
Net change in non-cash working capital balances related to operations:		
Accounts receivable	(286)	(3,227)
Grants receivable from Southlake Regional Health Centre Foundation	-	2,826
Inventories	(610)	71
Prepays	655	(415)
Accounts payable and accrued liabilities	8,546	(9,326)
	12,400	(6,336)
INVESTING		
Purchase of capital assets (net of changes in accounts payable and accrued liabilities relating to capital assets additions of (\$2,688): 2009 (\$300)	(38,888)	(42,508)
FINANCING		
Current portion of long-term debt	135	2,328
Capital contributions received from:		
Southlake Regional Health Centre Foundation	13,794	5,169
Ontario Ministry of Health and Long-Term Care/Other	1,850	21,475
Regional Municipality of York	1,144	-
Repayments of long-term debt	(4,804)	(5,581)
Advances to Village	(90)	(125)
Repayment of Foundation advance	(200)	(200)
Post-retirement payments	(340)	(289)
	(27,399)	(19,731)
NET (DECREASE) IN CASH DURING THE YEAR	(14,999)	(26,067)
CASH, BEGINNING OF YEAR	(8,320)	17,747
CASH DEFICIENCY, END OF YEAR	(23,319)	(8,320)
CASH CONSISTS OF:		
Cash	1,027	926
Bank indebtedness	(24,346)	(9,246)
	(23,319)	(8,320)
OTHER INFORMATION		
Total Interest paid	3,809	3,833

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(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 policies

Adoption of new accounting policies

Section 1000 – Financial statement concepts

On April 1, 2009 the Hospital adopted the amendments made to Section 1000 "Financial statements concepts". The amended section requires an entity to demonstrate that any expenditure that it wishes to present as an asset meets the conceptual definition of an asset or is permitted to be recorded as assets under specific CICA Handbook section. The adoption of these amendments has not resulted in any change in how the Hospital accounts for its transactions.

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

In September 2008, the CICA issued amendments to several of the existing sections in the Not-for-Profit Organizations 4400 series of standards. On April 1, 2009, the Hospital adopted the amendments to this section. The adoption of these amendments has not resulted in any change in how the Hospital accounts for its transactions.

3. Significant accounting policies

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

Financial instruments

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

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

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

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

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.

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.

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in thousands of dollars)

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%
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.

Derivative instruments

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

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

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

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

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 amounts due from the Village, accrued liabilities and accrued post-retirement benefits.

Revenue recognized from the Ministry has a number of estimates. The Hospital has entered into a Hospital Service Accountability Agreement ("HSAA") that sets out the rights and obligations of the two parties with respect to funding provided to the Hospital by the Ministry for fiscal 2008/09 and 2009/10. 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 plus 50 basis points. As at March 31, 2010, there was \$ 24.3 million (2009 - \$9.1 million) in borrowings under this credit facility. The bank granted the Hospital a temporary extension in the operating line of credit to a maximum of \$30 million. In addition, the Hospital has two standby letters of credit in the amounts of \$100 thousand and \$500 thousand. As at March 31, 2010, there were no amounts applied against these letters of credit.

Subsequent to March 31, 2010 the Bank of Montreal has authorized a Bridge Loan credit facility in the amount of \$20 million. The term of the Bridge Loan is from April 9th, 2010 until October 31, 2017. This credit facility bears interest at the bank's prime rate plus 100 basis points.

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in thousands of dollars)

5. Accounts receivable

Accounts receivable consist of the following:

	2010	2009
	\$	\$
Ontario Ministry of Health and Long-Term Care and Central Local Health Integration Network	4,998	2,872
Cancer Care Ontario	4,544	597
OHIP	2,394	2,079
Vendor rebates	1,898	4,714
University of Toronto - Family Medicine teaching unit	-	2,121
Stevenson Memorial Hospital	25	674
Insurers, patients and other	6,178	6,732
	20,037	19,789
Less allowance for doubtful accounts	378	416
	19,659	19,373

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

The Foundation, an independent organization, raises funds and holds resources primarily for the benefit of the Hospital. Amounts received from the Foundation are externally restricted. Accordingly, capital grants and donations are deferred and are recognized when the related expenses are recognized. During the year ended March 31, 2010, the Foundation contributed \$13.8 million from its annual campaign (2009 - \$5.15 million) to the Hospital substantially for equipment. In addition, the Foundation donated \$193 thousand (2009 - \$251 thousand) toward operations. The net assets of the Foundation as at March 31, 2010 totaled \$16.9 million (2009 - \$21.34 million). The Hospital received an advance from the Foundation on August 29, 2002 for \$2.0 million, with interest payable monthly at prime minus 2.5% and no principal repayment for three years. The loan was renegotiated March 29, 2006 and bears interest at 5% per annum payable annually in arrears and requires minimum annual repayments of principal of \$200 thousand. The loan is due on March 31, 2015 and is secured by a promissory note. Interest recorded in the statement of operations related to the loan was \$60 thousand (2009 - \$70 thousand).

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

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

The Hospital provided the Village with a long-term loan of \$2.0 million effective February 26, 2002 with interest payable monthly at prime minus 2.5%. The Hospital also provided long-term financing of \$2.224 million (2009 - \$2.134 million). Of this amount, \$475 thousand bears interest at the bank's prime rate plus 0.5% until the Village obtains permanent financing. As at March 31, 2010 the Hospital has recorded \$2.112 million reserve for bad debt against this borrowing.

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(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 revolving six month standby letter of credit in favour of Canada Life for \$500 thousand. All direct costs and financing fees related to the letter of credit are the responsibility of the Village.

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

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, 2009 and for the year ended are as follows:

	2009	2008
	\$	\$
Financial Position		
Total assets	29,498	30,294
Total liabilities	35,802	35,520
Total net assets	(6,304)	(5,226)
	29,498	30,294
Results of Operations		
Total revenue	13,218	12,400
Total expenses	14,296	13,527
Excess of revenue over expenses	(1,078)	(1,127)
Cash Flows		
Cash provided by (used in) operations	37	(904)
Cash used in financing and investing activities	(115)	386
Increase (decrease) in cash	(78)	(518)

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in thousands of dollars)

8. Capital assets

Capital assets consist of the following:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	8,865	-	8,865	8,359
Land improvements	4,178	2,355	1,823	1,984
Buildings	275,402	50,870	224,532	183,720
Leasehold improvements	15,255	1,265	13,990	11,823
Furniture and equipment	141,562	109,177	32,385	26,048
Projects in process	31,100	-	31,100	66,038
	476,362	163,667	312,695	297,972

Projects in process are Capital Projects which have been started and not completed (Note 14). During the year, \$393 thousand (2009 - \$ NIL) of interest was capitalized to capital assets.

9. Long-term debt

Summary

	2010	2009
	\$	\$
Redevelopment bank loan (a)	1,040	982
Parking lot bank loan (b)	254	241
Parking Garage bank loan (c)	1,201	1,142
Warehouse bank loan (d)	109	104
Leasehold improvement bank loan (e)	2,200	2,200
Current portion (Note 12(a))	4,804	4,669
Redevelopment bank loan (a)	22,884	23,925
Parking lot bank loan (b)	526	778
Parking Garage bank loan (c)	18,220	19,421
Warehouse bank loan (d)	4,080	4,189
Leasehold improvement bank loan (e)	8,600	10,800
Long-term portion (Note 12(a))	54,310	59,113

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(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 (2009 - \$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:

	\$
2011 Current portion	551
2012	588
2013	628
2014	670
2015	715
2016 to 2024	9,257
	<hr/> 12,409 <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:

	\$
2011 Current portion	489
2012	514
2013	540
2014	567
2015	595
2016 to 2026	8,810
	<hr/> 11,515 <hr/>

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(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:

	\$
2011 Current portion	254
2012	268
2013	258
	<hr/> 780

(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:

	\$
2011 Current portion	1,201
2012	1,262
2013	1,327
2014	1,395
2015	1,466
2016 to 2022	12,770
	<hr/> 19,421

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(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:

	\$
2011 Current portion	109
2012	114
2013	120
2014	126
2015	133
2016 to 2032	3,587
	<hr/> 4,189 <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:

	\$
2011 Current portion	2,200
2012	2,200
2013	2,200
2014	2,200
2015	2,000
	<hr/> 10,800 <hr/>

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(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 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, 2010 is \$59.1 million (2009 - \$63.8 million).

Fair value of the interest rate swaps was calculated using the discounted cash flow method. Fair value as of March 31, 2010 of these interest rate swaps is \$6.8 million (2009 - \$(12.2) 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:

	2010	2009
	\$	\$
Balance, beginning of year	191,015	174,847
Contributions received during the year:		
Southlake Regional Health Centre Foundation	13,794	5,169
Ministry of Health and Long-Term Care/Other	1,850	21,475
Regional Municipality of York	1,144	-
	207,803	201,491
Amortization of deferred capital grants and donations	(13,842)	(10,476)
Balance, end of year (Note 12 (a))	193,961	191,015

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

Notes to the Financial Statements

March 31, 2010

(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 March 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 \$11.7 million (2009 - \$10.8 million) and are included in salaries, wages and employee benefits expense in the statement of operations.

Employee benefits plans

(a) Multi-employer plan

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

(b) Accrued post-retirement benefits

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

The Hospital's non-pension post-retirement benefit plans are comprised of medical, dental and life insurance coverage for certain groups of full-time employees who have retired from the Hospital and are between the ages of 55 and 65. Spouses of eligible retirees are covered by the plans. The Hospital retained the services of Morneau Sobeco to perform a valuation of post-employment benefits as at March 31, 2010

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(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

	2010	2009
	\$	\$
Accrued post-retirement benefit obligation	7,545	5,556
Less: Unamortized past service costs	(760)	(873)
Adjustment experience gain/(loss)	(1,401)	25
	5,384	4,708
	2010	2009
	\$	\$
Net benefit cost recognized		
Current service cost	465	431
Interest cost	439	366
Actuarial losses/(gains) during year	1,426	(1,029)
Adjustments		
Adjustment for past service costs	113	113
Adjustment for experience gains	(1,426)	1,057
	1,017	938

The expense for the year related to these plans is \$1017 thousand (2009 - \$938 thousand) and employer contributions for these plans were \$340 thousand (2009 - \$289 thousand).

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

	2010	2009
	%	%
Discount rate to determine liability	5.50	7.50
Discount rate to determine expenses	5.50	5.75
Dental costs	4.00	4.00

The extended healthcare trend rate is 8.5% in fiscal 2010 (2009 9.0%), 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, 2010

(Tabular amounts in thousands of dollars)

12. Net assets invested in capital assets

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

	2010	2009
	\$	\$
Capital assets, net	312,695	297,972
Amounts financed by deferred capital grants and donations (Note 10)	(193,961)	(191,015)
Amounts financed by long-term loans (Note 9)	(59,113)	(63,782)
	<u>59,621</u>	<u>43,175</u>

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

	2010	2009
	\$	\$
Amortization of deferred capital grants and donations	13,842	10,476
Amortization of capital assets	(21,497)	(19,524)
	<u>(7,655)</u>	<u>(9,048)</u>

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

	2010	2009
	\$	\$
Purchase of capital assets	36,220	42,208
Capital grants and donations received	(16,788)	(26,644)
Net change in long-term loans	4,804	4,669
Net change in current portion of long-term loans	(135)	(2,328)
	<u>24,101</u>	<u>17,905</u>

13. Accounts payable

Accounts payable consist of the following:

	2010	2009
	\$	\$
Vendor payables and accruals	18,485	18,067
Accrued liability - salaries/wages and vacation earned	14,422	13,690
Employee/Employer remittance payable	5,359	5,692
Cancer Centre Holdback	4,854	3,287
Deferred Operating Revenue	5,449	2,133
Other	359	181
	<u>48,928</u>	<u>43,050</u>

Southlake Regional Health Centre

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in thousands of dollars)

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, 2010, Construction of the Cancer Centre is 98.14% complete with a holdback of \$4.854 million (2009 - \$3.287 million). The Cancer Centre Project is expected to be completed in fiscal 2011.

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, 2010, the Lab Expansion Project is 100% complete.

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 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.

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 March 22, 2010.

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 September 17th, 2008 an amended contract was signed to upgrade the parking equipment and extend the initial contract for a period of 30 months. The contract will expire on July 31st, 2013. The annual cost of this service is \$263 thousand.

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, 2010, 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, 2010, no assessments have been received.

Southlake Regional Health Centre

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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.

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.

Southlake Regional Health Centre

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March 31, 2010

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19. 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, 2010.

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, 2010 the bank indebtedness was \$24.3 million and is monitored on a daily basis.

Fair values

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

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

20. 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 15) Commitments. All the transactions were monetary in nature and recorded at the exchange value.