

Financial statements of

St. John's Rehab Hospital

March 31, 2009

St. John's Rehab Hospital

March 31, 2009

Table of contents

| | |
|--|------|
| Auditor's Report | 1 |
| Balance Sheet | 2 |
| Statement of Revenue and Expenses | 3 |
| Statement of Changes in Net Assets | 4 |
| Statement of Cash Flows | 5 |
| Notes to the Financial Statements | 6-13 |

Auditors' Report

To the Members of
St. John's Rehab Hospital

We have audited the Balance Sheet of St. John's Rehab Hospital as at March 31, 2009 and the Statements of Revenue and Expenses, 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.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
May 8, 2009


St. John's Rehab Hospital

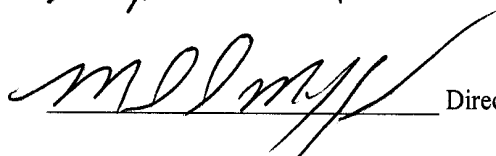
Balance Sheet

As at March 31, 2009

| | 2009 | 2008 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Assets | | |
| Current | | |
| Cash and cash equivalents | 3,255,016 | 5,327,906 |
| Short-term investments | 222,049 | - |
| Accounts receivable (Note 4) | 1,194,838 | 1,335,589 |
| Due from St. John's Rehab Foundation (Note 5) | 1,771,579 | 327,988 |
| Inventories | 220,824 | 244,268 |
| Prepaid expenses | 95,522 | 81,497 |
| | 6,759,828 | 7,317,248 |
| Property, plant and equipment (Note 6) | 9,330,464 | 7,354,376 |
| | 16,090,292 | 14,671,624 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | 6,738,652 | 6,035,661 |
| Long-term | | |
| Accumulated sick benefits | 275,257 | 271,886 |
| Employee future benefits (Note 7) | 132,200 | 118,600 |
| Deferred property, plant and equipment contributions (Note 8) | 6,235,155 | 5,537,996 |
| | 6,642,612 | 5,928,482 |
| | 13,381,264 | 11,964,143 |
| Net assets | | |
| Invested in property, plant and equipment (Note 9) | 3,095,309 | 1,816,380 |
| Unrestricted | (386,281) | 891,101 |
| | 2,709,028 | 2,707,481 |
| | 16,090,292 | 14,671,624 |

Approved by the Board

 Director

 Director

St. John's Rehab Hospital

Statement of Revenue and Expenses

Year ended March 31, 2009

| | 2009 | 2008 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Revenue | | |
| Ministry of Health and Long-Term Care | | |
| Global funding | 23,067,452 | 21,395,990 |
| One-time funding | 1,319,642 | 475,487 |
| Other votes & paymaster | 927,297 | 100,066 |
| Preferred accommodation | 2,849,687 | 2,235,635 |
| Other patient revenue | 531,560 | 792,469 |
| Parking | 452,450 | 434,502 |
| Dietary | 336,202 | 344,490 |
| Amortization of deferred property, plant and equipment contributions | 865,486 | 1,029,492 |
| Marketed services | 3,857,584 | 4,453,013 |
| Other revenue | 799,373 | 533,560 |
| | 35,006,733 | 31,794,704 |
| Expenses | | |
| Inpatient | 16,571,487 | 15,401,182 |
| Ambulatory care | 1,726,673 | 1,608,294 |
| Administration | 6,046,076 | 5,585,899 |
| Environmental services | 3,231,394 | 3,030,152 |
| Direct patient support services | 2,791,403 | 2,627,597 |
| Education and research | 334,007 | 216,923 |
| Marketed services | 3,042,140 | 2,969,010 |
| Amortization of property, plant and equipment (Note 6) | 334,709 | 373,289 |
| Other votes and paymaster | 927,297 | 100,066 |
| | 35,005,186 | 31,912,412 |
| Excess of revenue over expenses | | |
| (expenses over revenue) | 1,547 | (117,708) |

St. John's Rehab Hospital

Statement of Changes in Net Assets

Year ended March 31, 2009

| | 2009 | | 2008 | |
|--|---|------------------|------------------|-----------|
| | Invested in property, plant and equipment | Unrestricted | Total | |
| | \$ | \$ | \$ | |
| Net assets, beginning of year | 1,816,380 | 891,101 | 2,707,481 | 2,825,189 |
| Excess of (expenses over revenue) revenue over expenses | (79,348) | 80,895 | 1,547 | (117,708) |
| Purchase of property, plant and equipment | 2,920,922 | (2,920,922) | - | - |
| Deferred property, plant and equipment contributions received | (1,562,645) | 1,562,645 | - | - |
| Net assets, end of year | 3,095,309 | (386,281) | 2,709,028 | 2,707,481 |

St. John's Rehab Hospital

Statement of Cash Flows

Year ended March 31, 2009

| | 2009 | 2008 |
|--|--------------------|------------------|
| | \$ | \$ |
| Operating activities | | |
| Excess of revenue over expenses (expenses over revenue) | 1,547 | (117,708) |
| Items not requiring a cash outlay | | |
| Amortization of property, plant and equipment | 944,834 | 1,061,443 |
| Amortization of deferred property, plant and equipment contributions | (865,486) | (1,029,492) |
| Employee future benefits expense | 56,800 | 59,500 |
| | <u>137,695</u> | <u>(26,257)</u> |
| Changes in non-cash operating items | | |
| Decrease in accounts receivable | 140,751 | 435,578 |
| Increase in due from St. John's Rehab Foundation | (1,443,591) | (160,110) |
| Decrease in inventories | 23,444 | 24,977 |
| Increase in prepaid expenses | (14,025) | (17,004) |
| Increase in accounts payable and accrued liabilities | 702,991 | 1,076,492 |
| | <u>(452,735)</u> | <u>1,333,676</u> |
| Financing and investing activities | | |
| Increase (decrease) in accumulated sick leave | 3,371 | (327) |
| Employee future benefits paid | (43,200) | (42,900) |
| (Increase) decrease in short-term investments | (222,049) | 3,150,000 |
| Deferred property, plant and equipment contributions received | 1,562,645 | 929,057 |
| Purchase of property, plant and equipment | (2,920,922) | (1,067,491) |
| | <u>(1,620,155)</u> | <u>2,968,339</u> |
| (Decrease) increase in cash and cash equivalents | (2,072,890) | 4,302,015 |
| Cash and cash equivalents, beginning of year | 5,327,906 | 1,025,891 |
| Cash and cash equivalents, end of year | <u>3,255,016</u> | <u>5,327,906</u> |

St. John's Rehab Hospital

Notes to the Financial Statements

March 31, 2009

1. Description of business

St. John's Rehab Hospital ("Hospital") was incorporated without share capital in 1936. The Hospital is Ontario's largest freestanding adult specialty rehabilitation hospital. The Hospital provides specialized inpatient, outpatient and outreach rehabilitation for individuals with major trauma, transplants, burns, amputations, musculoskeletal, neurological and neurosurgical, cardiovascular and other complex care conditions. The Hospital is a registered charity under the *Income Tax Act* and accordingly is exempt from income taxes, provided certain requirements of the *Income Tax Act* are met.

2. Changes in accounting policies

Adoption of accounting policies

Capital disclosures

In December 2007, the CICA issued Section 1535 "Capital Disclosures". On April 1, 2008, the Hospital adopted the requirements of this section. The adoption of this new standard has not resulted in any change in how the Hospital accounts for its transactions, but does require additional disclosure, which is presented in Note 13.

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. As permitted by the amendments, the Corporation has elected 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. The adoption of this amendment did not have an impact on the current or prior years' financial statements.

Future accounting changes

Financial Statements by Not-For-Profit Organizations

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 apply Section 1751, Interim Financial Statements, when preparing interim financial statements in accordance with GAAP; f) requirement for not-for-profit organizations that recognize capital assets to depreciate and assess these capital assets for impairment in the same manner as other entities reporting on a GAAP basis; g) requirement to disclose related party transactions in accordance with Section 3840; Related Party Transactions; and h) new disclosure requirements regarding the allocation of fundraising and general support costs.

St. John's Rehab Hospital

Notes to the Financial Statements

March 31, 2009

3. Significant accounting policies

Financial statement presentation

The financial statements have been prepared in accordance with the Canadian generally accepted accounting principles for not-for-profit organizations, using the deferral method of reporting restricted contributions. The financial statements do not include the assets, liabilities and operations of St. John's Rehab Foundation ("Foundation"), and St. John's Rehabilitation Hospital Auxiliary ("Auxiliary"). The Hospital has economic interest in the net assets of the Foundation, and the Auxiliary. Revenues generated by both organizations may be donated to the Hospital upon approval by their respective boards.

Revenue recognition

Under the *Health Insurance Act* and the regulations thereto, the Hospital is funded primarily by the Ontario Ministry of Health and Long-Term Care ("Ministry") and the Central Local Health Integration Network (LHIN) in accordance with budget arrangements established by the Ministry and/or LHIN. These financial statements reflect agreed funding arrangements approved by the Ministry and/or LHIN with respect to the year ended March 31, 2009. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. 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.

Revenue from preferred accommodation and marketed services is recognized when the service is provided or the goods are sold.

Cash and cash equivalents

Cash and cash equivalents consist of cash on account and financial instruments which are readily convertible to cash within 90 days without significant change in value.

Financial instruments

The Hospital has classified each of its financial instruments into the following accounting categories:

| Asset/liability | Category | Measurement |
|--|---|----------------|
| Cash and cash equivalents | Held-for-trading | Fair value |
| Short-term investments | Available-for-sale and held-to-maturity | Fair value |
| Accounts receivable | Loans and receivables | Amortized cost |
| Due from St. John's Rehab Foundation | Loans and receivables | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |

The category for an item determines its accounting treatment as follows:

- Held-for-trading items are carried at fair value, with changes in their fair value recognized in the statement of operations in the current period.
- Available-for-sale items are carried at fair value, with changes in their fair value recognized in the statement of changes in net assets until realized.

St. John's Rehab Hospital

Notes to the Financial Statements

March 31, 2009

3. Significant accounting policies (continued)

Financial instruments (continued)

- Held-to-maturity items are carried at amortized cost, using the effective interest method.
- Loans and receivables are carried at amortized cost, using the effective interest method, net of any impairment.
- Other liabilities are carried at amortized cost, using the effective interest method.

Transaction costs related to the acquisition or sale of financial assets or liabilities are expensed as incurred.

The Canadian Institute of Chartered Accountants ("CICA") has decided that not-for-profit organizations will not be required to apply sections 3862 and 3863 of the CICA Handbook which would otherwise have applied to the financial statements of the Hospital for the year ended March 31, 2009. The Hospital has elected to use this exemption and has therefore followed the disclosure requirements of section 3861 of the CICA Handbook.

Supplies and drugs

Supplies and drugs are valued at the lower of average cost and current replacement cost.

Property, plant and equipment

Property, plant and equipment assets are stated at cost. Repairs and maintenance are charged to expense. Betterments which extend the estimated useful life of the asset are capitalized. Land improvements, buildings and equipment are amortized on the straight-line method at various rates as disclosed in Note 6. Equipment purchases amounting to \$2,500 or less are expensed. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value.

Employee future benefits

The Hospital accrues its obligations under employee benefit plans and the related costs. The cost of benefits earned by employees is actuarially determined using the projected unit method pro-rated on service and management's best estimate of salary escalation, retirement ages of employees and expected costs.

Deferred property, plant and equipment contributions

Building and equipment grants received by the Hospital are deferred and amortized on a straight-line basis at a rate corresponding to the amortization rate for the related building or equipment purchased.

Contributed services

A substantial number of volunteers and Auxiliary members contribute a significant amount of their time each year. Because of the difficulty in determining the fair value, contributed services are not recognized in the financial statements.

Use of estimates and assumptions

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

St. John's Rehab Hospital

Notes to the Financial Statements

March 31, 2009

4. Accounts receivable

| | 2009 | 2008 |
|--------------------------------------|------------------|------------------|
| | \$ | \$ |
| Accounts receivable | 1,532,043 | 1,724,696 |
| Less allowance for doubtful accounts | 337,205 | 389,107 |
| | 1,194,838 | 1,335,589 |

5. Related party transactions

The Hospital received the following donations:

| | 2009 | 2008 |
|---|------------------|----------------|
| | \$ | \$ |
| St. John's Rehab Foundation - capital | 1,450,560 | 211,054 |
| St. John's Rehab Foundation - research | 227,000 | 150,000 |
| St. John's Rehab Foundation - operating | 199,154 | 44,478 |
| | 1,876,714 | 405,532 |

Amounts received for capital purposes are recorded as deferred property, plant and equipment contributions. Amounts received for research and operating are recognized as revenue when earned.

During the year the Hospital provided administrative services to the Foundation for which a fee of \$45,000 (2008 - \$41,040) was charged. At March 31, 2009, \$1,771,579 is due from the Foundation (2008 - \$327,988).

6. Property, plant and equipment

| | | 2009 | 2008 | | |
|-----------------------------|--------------------------|-------------------|-----------------------------|-------------------|-------------------|
| | Rates of amortization | Cost | Accumulated depreciation | Net book value | Net book value |
| | | \$ | \$ | \$ | \$ |
| Land | | 27,334 | - | 27,334 | 27,334 |
| Capital projects in process | | 4,984,628 | - | 4,984,628 | 2,493,717 |
| Land improvements | 4% - 10% | 797,309 | 616,043 | 181,266 | 218,455 |
| Buildings | 2% - 10% | 11,477,169 | 9,145,317 | 2,331,852 | 2,629,373 |
| Equipment | 5% - 20% | 11,548,401 | 9,743,017 | 1,805,384 | 1,985,497 |
| | | 28,834,841 | 19,504,377 | 9,330,464 | 7,354,376 |

The total amortization of property, plant and equipment assets is \$944,834 (2008 - \$1,061,443) for the year ended March 31, 2009, \$610,125 (2008 - \$688,154) of which has been allocated to several operating expense categories. The unallocated portion is \$334,709 (2008 - \$373,289).

St. John's Rehab Hospital

Notes to the Financial Statements

March 31, 2009

6. Property, plant and equipment (continued)

The Hospital is planning a capital redevelopment program, which includes a new wing. The most recent cost estimate for the redevelopment program is \$49.3 million. The Ministry will contribute up to 90% of the approved construction costs. The balance will be funded by the Hospital, its related organizations and various fund raising activities.

In November 2004, the Hospital received notification that the Ministry would provide a capital grant of up to \$3.5 million towards the costs associated with developing the capital redevelopment program through the design stage. The Hospital has recognized \$2.2 million of this grant by March 31, 2009 (2008 - \$2.1 million) and has recorded the amount as deferred property, plant and equipment contributions. Costs incurred to date in relation to this project of \$3.8 million (2008 - \$2.4 million) are included in capital projects in process.

7. Employee future benefits

The Hospital provides certain medical, drug and survivor coverage benefits to its employees in certain situations. The Hospital accrues its obligation under employee benefit plans and related costs as they are earned. The expense figures have been determined using the projected benefit method pro-rated on service.

The most recent actuarial valuation of the Plan for accounting purposes was performed at April 1, 2006.

The Hospital included \$56,800 (2008 - \$59,500) in its benefit expense for the year, the associated benefits paid were \$43,200 (2008 - \$42,900).

| | 2009 | 2008 |
|--|----------------|----------------|
| | \$ | \$ |
| Change in accrued benefit obligation | | |
| Accrued benefit obligation, beginning of year | 508,500 | 552,200 |
| Current service service cost | 7,800 | 8,300 |
| Interest cost | 29,700 | 28,300 |
| Benefits paid | (43,200) | (42,900) |
| Actuarial loss | (78,700) | (37,400) |
| Accrued benefit obligation, end of year | 424,100 | 508,500 |
| Reconciliation of liability | | |
| Accrued benefit obligation | 424,100 | 508,500 |
| Unamortized actuarial losses | (281,900) | (378,800) |
| Unamortized past service costs | (10,000) | (11,100) |
| Employee future benefit liability | 132,200 | 118,600 |
| Plan expense | | |
| Current service costs | 7,800 | 8,300 |
| Interest cost | 29,700 | 28,300 |
| Amortization of actuarial losses | 18,200 | 21,800 |
| Amortization of past service costs | 1,100 | 1,100 |
| | 56,800 | 59,500 |

St. John's Rehab Hospital

Notes to the Financial Statements

March 31, 2009

7. Employee future benefits (continued)

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

| | |
|-------------------------|---|
| Discount rate | 7.75% per annum |
| General inflation | 6.00% per annum |
| Dental care trend rate | 4.00% per annum |
| Medical care trend rate | 9.00% in 2007; decreasing by 0.5% per annum to an ultimate rate of 5.0% per annum |

8. Deferred property, plant and equipment contributions

Deferred property, plant and equipment contributions represent the unamortized amounts of donations and grants received for the purchase of property, plant and equipment. The amortization of these contributions is recorded as revenue in the Statement of Revenue and Expenses.

| | 2009 | 2008 |
|---|-----------|-------------|
| | \$ | \$ |
| Balance, beginning of year | 5,537,996 | 5,638,431 |
| Contributions received during the year | 1,562,645 | 929,057 |
| Amounts recognized in revenue in the year | (865,486) | (1,029,492) |
| Balance, end of year | 6,235,155 | 5,537,996 |

9. Invested in property, plant and equipment

| | 2009 | 2008 |
|---|-------------|-------------|
| | \$ | \$ |
| Property, plant and equipment | 9,330,464 | 7,354,376 |
| Amounts financed by deferred property, plant and equipment contributions | (6,235,155) | (5,537,996) |
| | 3,095,309 | 1,816,380 |

10. Pension plan

Substantially all of the employees of the Hospital are members 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 members of the Ontario Hospital Association. Plan members receive benefits based on the length of service and on the average of annualized earnings during the five consecutive years, prior to retirement or death, that provide the highest earnings. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to \$1,480,182 (2008 - \$1,396,853) and are included in the Statement of Revenue and Expenses.

St. John's Rehab Hospital

Notes to the Financial Statements

March 31, 2009

11. Commitments, contingencies and guarantees

- A. The nature of the Hospital's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2009, management believes the Hospital has valid defences and an appropriate insurance coverage in place. Management believes in the event any claims are successful, that such claims are not expected to have a material effect on the Hospital's financial position.
- B. A group of hospitals, including St. John's Rehab Hospital, has formed the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the public liability insurance risks of its members. All members of the pool pay annual premiums which are actuarially determined. All members are subject to re-assessments for losses, if any, experienced by the pool for the years in which they were members, and these losses could be material. No assessments have been made to March 31, 2009.
- C. In the normal course of business, the Hospital enters into agreements that meet the definition of a guarantee. The Hospital's primary guarantees are as follows:
 - (a) The Hospital has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Hospital agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. 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.
 - (c) 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 associations 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 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.

12. Commitment note for construction

The Hospital is in the process of a construction project to expand our receiving facilities, add to our site services and an expansion of the west parking lot. As a part of that construction project, the Hospital has entered into a stipulated price contract with Percon Construction Incorporated and at March 31, 2009, \$3.2M of that contract remains committed for work to be done.

St. John's Rehab Hospital

Notes to the Financial Statements

March 31, 2009

13. Capital disclosures

The Hospital considers its net assets and deferred capital contributions as its capital.

Net Assets

As a not-for-profit organization, the Hospital operations are reliant on revenues generated annually. The Hospital has accumulated net assets over its history to March 31, 2009 of \$2,709,028. (2008 - \$2,707,481) which are presented in the statement of financial position as net assets.

The majority of this amount relates to invested in capital assets which represent accumulated net assets which have been dedicated to the Corporation's capital asset acquisitions and development.

Deferred capital contribution

Capital grants and capital donations are treated as deferred capital contributions and amortized over the life of the related capital assets. At March 31, 2009, the Corporation was in compliance with all restrictions applicable to these funding sources.

14. Comparative figures

Certain of the prior year amounts have been reclassified to conform to the current year's basis of presentation.