

Financial Statements of

**QUINTE HEALTHCARE
CORPORATION**

Year ended March 31, 2011

QUINTE HEALTHCARE CORPORATION

Financial Statements

Year ended March 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Directors of Quinte Healthcare Corporation

We have audited the accompanying financial statements of Quinte Healthcare Corporation, which comprise the statement of financial position as at March 31, 2011, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Quinte Healthcare Corporation as at March 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The financial statements of Quinte Healthcare Corporation as at and for the year ended March 31, 2010 were audited by another auditor who expressed an unmodified opinion on those statements on May 19, 2010.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 28, 2011

Kingston, Canada

QUINTE HEALTHCARE CORPORATION

Statement of Financial Position


March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash	\$ 33,410,743	\$ 16,870,014
Accounts receivable (note 2)	8,124,384	6,660,309
Short-term investments (note 3)	-	2,224,475
Inventories (note 4)	2,667,685	2,195,191
Prepaid expenses	735,205	839,889
	<u>44,938,017</u>	<u>28,789,878</u>
Capital assets (note 5)	159,067,606	154,687,149
	<u>\$ 204,005,623</u>	<u>\$ 183,477,027</u>

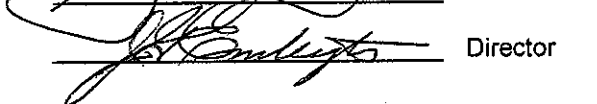
Liabilities, Deferred Capital Contributions and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 41,060,741	\$ 33,981,777
Long-term debt:		
Mortgages payable (note 7)	214,425	224,912
Capital lease payable (note 8)	336,152	-
	<u>550,577</u>	<u>224,912</u>
Employee future benefit liabilities (note 9)	4,892,100	4,700,300
Deferred capital contributions (note 10)	152,157,925	140,600,155
Net assets:		
Invested in capital assets (note 11(a))	20,501,332	19,489,322
Restricted for endowments (note 12)	290,940	290,940
Unrestricted deficiency	(15,447,992)	(15,810,379)
	<u>5,344,280</u>	<u>3,969,883</u>
Contingencies (note 13)		
Commitments (note 19)		
	<u>\$ 204,005,623</u>	<u>\$ 183,477,027</u>

On behalf of the Board:



Director



Director

See accompanying notes to financial statements.

QUINTE HEALTHCARE CORPORATION

Statement of Operations

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Ministry of Health and Long-Term Care and South East Local Health Integration Network (note 14)	\$ 146,430,745	\$ 134,684,045
Patient revenue	24,673,320	24,500,585
Marketed services	2,490,150	2,996,943
Recoveries and other revenue	2,745,768	2,452,203
Investment income	125,676	16,802
Other Ministry programs	4,556,880	4,311,428
Amortization of deferred capital contributions	4,401,210	5,330,514
	<u>185,423,749</u>	<u>174,292,520</u>
Expenses:		
Compensation - salaries	89,243,801	82,387,928
Compensation - benefits	21,201,410	20,989,430
Medical staff remuneration	20,527,419	19,505,102
Medical and surgical supplies	9,451,311	9,674,034
Drugs and medicine	5,601,608	5,471,211
Supplies and other expenses	24,770,381	22,877,155
Other Ministry programs	4,556,880	4,376,996
Employee future benefits (note 9)	576,700	544,200
Amortization of capital assets - equipment	6,960,705	7,505,456
	<u>182,890,215</u>	<u>173,331,512</u>
Excess of revenue over expenses before undernoted	2,533,534	961,008
Amortization of deferred capital grants/donations for buildings and improvements	3,913,905	2,625,938
Amortization of capital assets - buildings and improvements	(5,073,042)	(3,584,551)
	<u>(1,159,137)</u>	<u>(958,613)</u>
Excess of revenue over expenses	<u>\$ 1,374,397</u>	<u>\$ 2,395</u>

See accompanying notes to financial statements.

QUINTE HEALTHCARE CORPORATION

Statement of Changes in Net Assets

Year ended March 31, 2011, with comparative figures for 2010

	Invested in capital assets	Restricted for endowments	Unrestricted	2011	2010
Balance, beginning of year	\$ 19,489,322	\$ 290,940	\$(15,810,379)	\$ 3,969,883	\$ 3,967,488
Excess of revenue over expenses (note 11(a))	(3,718,632)	-	5,093,029	1,374,397	2,395
Net change in investment in capital assets (note 11(b))	4,730,642	-	(4,730,642)	-	-
Balance, end of year	\$ 20,501,332	\$ 290,940	\$(15,447,992)	\$ 5,344,280	\$ 3,969,883

See accompanying notes to financial statements.

QUINTE HEALTHCARE CORPORATION

Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Operations:		
Excess of revenue over expenses	\$ 1,374,397	\$ 2,395
Items not involving cash:		
Amortization of capital assets	12,033,747	11,090,007
Amortization of deferred capital contributions	(8,315,115)	(7,956,454)
Change in non-cash working capital (note 15)	7,471,555	9,814,973
Net increase in employee future benefits (note 9)	191,800	174,700
	<u>12,756,384</u>	<u>13,125,621</u>
Financing activities:		
Deferred capital contributions received	19,872,885	37,982,388
Increase (decrease) in long-term debt	325,665	(10,918)
	<u>20,198,550</u>	<u>37,971,470</u>
Investing activities:		
Purchase of capital assets	(16,414,205)	(38,772,665)
	<u>16,540,729</u>	<u>12,324,426</u>
Increase in cash during the year	16,540,729	12,324,426
Cash, beginning of year	16,870,014	4,545,588
	<u>\$ 33,410,743</u>	<u>\$ 16,870,014</u>
Supplemental cash flow information:		
Interest paid	\$ 10,153	\$ 25,261
Interest received	161,567	66,191

See accompanying notes to financial statements.

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements

Year ended March 31, 2011

The Quinte Healthcare Corporation (the "Corporation") was established on November 26, 1998 under the authority of the Health Services Restructuring Commission as part of the Savings and Restructuring Act, 1996. The Quinte Healthcare Corporation is the amalgamated corporation resulting from the amalgamation of the following predecessor corporations:

- (a) Belleville General Hospital (including the North Hastings District Hospital)
- (b) Trenton Memorial Hospital
- (c) Prince Edward County Memorial Hospital

The Corporation is a registered charity under the Income Tax Act and accordingly is exempt from income taxes.

The function of the Corporation is the provision of quality primary and secondary healthcare services to the residents of the City of Belleville, City of Quinte West, Counties of Hastings and Prince Edward and a portion of Northumberland County.

Under the Health Insurance Act and Regulations thereto, the Corporation is primarily funded by the Province of Ontario in accordance with the funding arrangements established by the Ontario Ministry of Health and Long-Term Care (the "Ministry")/Local Health Integration Network ("LHIN"). The financial statements reflect agreed funding arrangements approved by the Ministry with respect to the year ended March 31, 2011. The Corporation has entered into an accountability agreement with the South East LHIN which requires that the Corporation meet certain financial and non-financial performance indicators.

1. Significant accounting policies:

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

(a) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions which include donations and government grants.

Operating grants are recorded as revenue in the period to which they relate. 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.

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.

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

1. Significant accounting policies (continued):

(a) Revenue recognition (continued):

Externally restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

Endowment contributions are recognized as direct increases in endowment net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

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

(b) Investments:

Investments are designated as available-for-sale and are recorded at their fair value. Realized investment income and unrealized gains and losses from the change in fair value are recorded in deferred contributions to the extent there are external restrictions on the related investments or in the statement of changes in net assets. Fair value is determined at quoted market prices.

(c) Inventories:

Inventories are valued at the lower of cost and net realizable value.

(d) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expenses, while betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Corporation's ability to provide services, its carrying amount is written down to its residual value. Any gains or losses on disposal are charged to operations in the year of disposition.

Projects in progress are amortized when they are considered substantially complete and are ready for use by the Corporation.

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

1. Significant accounting policies (continued):

(d) Capital assets (continued):

Capital assets are amortized on a straight-line basis using the following annual rates:

Asset	Rate
Land improvements	10%
Buildings	2.5% - 20%
Furniture and equipment	5% - 33%

(e) Contributed services:

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

(f) 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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

(g) Employee future benefit liabilities:

The Corporation accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains (losses) arise from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the accrued benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the employee benefit plan is 13 years (2010 – 13 years).

The Corporation is an employer member of the Healthcare of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. The Corporation has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles.

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

2. Accounts receivable:

	2011	2010
Provincial Ministry of Health	\$ 920,733	\$ 846,167
OHIP	1,510,049	1,078,568
Goods and service tax	1,118,590	701,247
Due from foundations	2,417,635	1,784,039
Other	2,385,377	2,470,288
	8,352,384	6,880,309
Less: allowance for doubtful accounts	(228,000)	(220,000)
	\$ 8,124,384	\$ 6,660,309

3. Short-term investments:

Short-term investments are classified as available-for-sale and are adjusted to the market value at the statement of financial position date.

	2011 Market value	2010 Market value
Short-term notes	\$ —	\$ 2,224,475

The full amount of the 2010 investment balance was restricted for amounts that were advanced by the Ministry of Health and Long-Term Care for redevelopment, infrastructure and regional projects.

4. Inventories:

	2011	2010
Main	\$ 1,568,249	\$ 1,020,203
Pandemic	364,852	336,389
Pharmacy	662,796	704,069
CCAC	—	59,659
Food	71,788	74,871
	\$ 2,667,685	\$ 2,195,191

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

5. Capital assets:

	Cost	Accumulated amortization	2011	2010
Land	\$ 1,118,270	\$ -	\$ 1,118,270	\$ 1,118,270
Land improvements	1,168,174	1,148,394	19,780	22,179
Buildings	178,603,888	50,436,777	128,167,111	129,377,197
Furniture and equipment	96,419,041	73,537,276	22,881,765	19,394,367
Projects in progress	6,880,680	-	6,880,680	4,775,136
	\$ 284,190,053	\$ 125,122,447	\$ 159,067,606	\$ 154,687,149

During the year, the Corporation wrote-off capital assets in the amount of \$3,357,479 (2010 - \$10,393,348) and accumulated amortization of capital assets in the amount of \$3,208,648 (2010 - \$10,357,400). This write-off was the result of removing capital assets which had been disposed of or had no further useful life. The difference amounting to \$148,831 (2010 - \$35,948) was reflected in amortization of capital assets.

Cost and accumulated amortization of capital assets at March 31, 2010 amounted to \$271,056,735 and \$116,369,586 respectively.

6. Accounts payable and accrued liabilities:

	2011	2010
Phase 1 redevelopment	\$ -	\$ 1,901,248
Trade accounts payable and accruals	26,470,697	20,949,709
Accrued - salaries and wages	7,880,641	4,801,915
- vacation pay	6,609,276	6,318,880
Current portion of long-term debt	100,127	10,025
	\$ 41,060,741	\$ 33,981,777

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

7. Mortgages payable:

The mortgages are unsecured and were used to finance the purchase of two residential properties as a possible contingency strategy for future parking requirements.

	2011	2010
Mortgage bearing interest at 4.05% per annum, repayable in blended monthly instalments of \$839 until maturity on April 2, 2015.	\$ 119,297	\$ 124,318
Mortgage bearing interest at 4.14% per annum, repayable in blended monthly instalments of \$786 until maturity on May 1, 2015.	105,614	110,619
	<u>224,911</u>	<u>234,937</u>
Less current portion	10,486	10,025
	<u>\$ 214,425</u>	<u>\$ 224,912</u>

Future principal repayments over the next five years are approximately as follows: 2012 - \$10,486; 2013 - \$10,925; 2014 - \$11,380; 2015 - \$11,855; and 2016 - \$12,350.

8. Capital lease payable:

	2011	2010
Capital lease on equipment bearing interest at 0% per annum repayable in blended monthly instalments of \$7,470 until maturity on December 1, 2015	\$ 425,793	\$ -
Less current portion	89,641	-
	<u>\$ 336,152</u>	<u>\$ -</u>

Future principal repayments over the next five years are approximately as follows: 2012 - \$89,641; 2013 - \$89,641; 2014 - \$89,641; 2015 - \$89,641; and 2016 - \$67,229.

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

9. Employee future benefits:

The Corporation provides extended health care, dental and life insurance benefits (as applicable) to eligible employees upon retirement. An independent actuarial study of the post-retirement and post-employment benefits has been undertaken. The most recent valuation of the employee future benefits was prepared as at April 1, 2009. The next valuation of the plan will be effective April 1, 2012.

At March 31, 2011, the Corporation's accrued benefit obligation relating to post-retirement and post-employment benefit plans is \$4,892,100 (2010 - \$4,700,300).

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

Discount rate	5.5%
Discount rate to determine accrued benefit obligation for disclosure at end of period	5.5%
Dental benefits escalation	4.0%
Health benefits escalation	5.0%

Information with respect to the Corporation's post-retirement and post-employment benefit liabilities is as follows:

	2011	2010
Accrued benefit liabilities, beginning of year	\$ 4,700,300	\$ 4,525,600
Current service costs	141,800	94,500
Interest on accrued benefit obligation	305,300	336,900
Benefits paid for the period	(384,900)	(369,500)
Amortization of actuarial loss	112,800	112,800
Adjustment for experience gains/losses	16,800	-
	\$ 4,892,100	\$ 4,700,300

Accrued benefit liabilities at March 31, include the following components:

	2011	2010
Accrued benefit obligation	\$ 5,664,700	\$ 5,602,500
Unamortized past service costs	(11,000)	(123,800)
Unamortized actuarial losses	(761,600)	(778,400)
Accrued benefit liabilities	\$ 4,892,100	\$ 4,700,300

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

10. Deferred capital contributions:

Deferred capital contributions related to capital assets represent the unamortized and unspent balances of donations and grants received for capital assets acquisitions. Details of the continuity of these funds are as follows:

	2011	2010
Balance - beginning of year	\$ 140,600,155	\$ 110,574,219
Additional contributions received	19,872,885	37,982,388
	160,473,040	148,556,607
Less: amounts amortized to revenue	(8,315,115)	(7,956,452)
Balance, end of year	\$ 152,157,925	\$ 140,600,155

The balance of unamortized and unspent funds consists of the following:

	2011	2010
Unamortized capital contributions used to purchase assets	\$ 138,015,698	\$ 134,972,915
Unspent contributions	14,142,227	5,627,240
	\$ 152,157,925	\$ 140,600,155

11. Invested in capital assets:

(a) The investment in capital assets is calculated as follows

	2011	2010
Capital assets	\$ 159,067,606	\$ 154,687,149
Amounts financed by:		
Deferred contributions	(138,015,698)	(134,972,915)
Long-term debt	(550,577)	(224,912)
	\$ 20,501,331	\$ 19,489,322

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

11. Invested in capital assets (continued):

(b) The change in investment in capital assets is calculated as follows:

	2011	2010
Excess of expenses over revenue:		
Amortization of capital assets	\$ (12,033,747)	\$ (11,090,007)
Amortization of deferred capital contributions	8,315,115	7,956,452
	<u>\$ (3,718,632)</u>	<u>\$ (3,133,555)</u>
Net change in investment in capital assets:		
Purchase of capital assets	\$ 16,414,205	\$ 38,772,665
Amounts funded by deferred contributions	(11,357,898)	(37,805,930)
Amounts funded by long-term debt	(325,665)	10,918
	<u>\$ 4,730,642</u>	<u>\$ 977,653</u>

12. Restrictions on net assets:

All of the net assets restricted for endowment purposes are subject to externally imposed restrictions stipulating that the principal be maintained intact. Investment income on the assets is unrestricted.

13. Contingencies:

- (a) The Corporation has received funding from the Ministry and South East LHIN for specific services which are subject to annual final reviews and approval. Pursuant to the related agreements, if the Corporation does not meet specified levels of activity, the Ministry and South East LHIN are entitled to recover funds. Any adjustments resulting from the reviews will be reflected in the year of Ministry approval as an adjustment to revenue on the "Statement of Operations".
- (b) The nature of the Corporation's activities is such that there may be litigation pending or in prospect at any time. With respect to claims at March 31, 2011, management believes that the Corporation has valid defenses and appropriate insurance coverages in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Corporation's financial position.

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

14. Ministry of Health and Long-term Care and South East LHIN Funding:

Included in Ministry of Health and Long-Term Care and South East LHIN revenue is funding for Hospital On-Call coverage totalling \$2,463,781 (2010 - \$2,479,460). Included in patient services revenue is funding for the Alternative Funding Plan for emergency services for the year ended March 31, 2011 for \$8,530,902 (2010 - \$8,078,196).

15. Change in non-cash operating working capital:

	2011	2010
Short-term investments	\$ 2,224,475	\$ 10,355,743
Accounts receivable	(1,464,075)	42,870,944
Inventories	(472,494)	(416,911)
Prepaid expenses	104,684	353,792
Accounts payable and accrued liabilities	7,078,965	(43,348,595)
	<u>\$ 7,471,555</u>	<u>\$ 9,814,973</u>

16. Credit facilities:

The Corporation has an available operating line of credit facility of \$10,000,000 which was not drawn on during the year. The unsecured, operating line is due on demand and bears interest at the bank prime rate less 0.75%. It also has \$4,000,000 of available non-revolving term facility by way of fixed rate term loans at a fixed rate of interest that will be determined at the time of borrowing. Any unused portion of the \$4,000,000 in non-revolving facilities may be cancelled by the bank without notice.

17. Pension plan:

Substantially all of the employees of the Corporation are members of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. The Plan specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contributions to the Plan made during the year by the Corporation on behalf of its employees amounted to \$6,897,269 (2010 - \$6,640,012) and are recorded in the "Statement of Operations". The Healthcare of Ontario Pension Plan's most recent actuarial evaluation is that the plan has a surplus of \$176 million as of December 31, 2010.

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

18. Related party transactions:

- (a) The Belleville General Hospital Foundation Inc., Trenton Memorial Hospital Foundation, Prince Edward County Memorial Hospital Foundation and Tri-County Healthcare Foundation:

The Corporation has an economic interest in the above four foundations. These foundations' principal activity is to collect and maintain funds to be used substantially for building, equipment purchases, and special program costs for Quinte Healthcare Corporation.

The Corporation recognized the following contributions from their foundations to fund building and equipment purchases:

	Equipment		Building	
	2011	2010	2011	2010
The Belleville General Hospital Foundation Inc.	\$ 2,188,703	\$ 4,810,620	\$ 61,149	\$ 6,623,926
Trenton Memorial Hospital Foundation	2,281,939	871,773	-	470,906
Prince Edward County Memorial Hospital Foundation	226,098	632,050	8,453	159,938
Tri-County Healthcare Foundation	1,225,000	1,725,000	-	-
	<u>\$ 5,921,740</u>	<u>\$ 8,039,443</u>	<u>\$ 69,602</u>	<u>\$ 7,254,770</u>

- (b) Belleville General Hospital Auxiliary, Trenton Memorial Hospital Auxiliary, Prince Edward County Memorial Hospital Auxiliary Incorporated, and The North Hastings District Hospital Auxiliary:

The Corporation has an economic interest in the auxiliaries. Quinte Healthcare Corporation auxiliaries promote and extend the interests of the Corporation throughout the City of Belleville, City of Quinte West, Counties of Hastings and Prince Edward and a portion of Northumberland County. They provide volunteer auxiliary services as requested by the Corporation through liaison with the Director of Volunteers and the Vice-President, Human Resources of the organization. The auxiliaries also raise funds for the Corporation to be allocated to special gifts in a manner satisfactory to the administration of the Corporation and in harmony with the planning of the community. Quinte Healthcare Corporation Auxiliaries supported the Corporation through donations to the Tri-County Healthcare Foundation and the foundations in Belleville, Trenton and Picton to fund equipment purchases and special program costs.

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

18. Related party transactions (continued):

(c) Shared Support Services South Eastern Ontario:

The Corporation is a member of a group of seven hospitals with the South East Local Health Integration Network which have voluntarily agreed to enter into a joint project for the purposes of planning, development, implementation and operation of a shared regional supply chain project, consisting of procurement, warehousing, logistics and contract management activities. Shared Support Services South Eastern Ontario ("3SO"), a non-profit corporation, has been created to manage the services and provide procurement oversight on the part of the member hospitals. The project has received start-up funding from the Ministry of Finance. The four-year project implementation period commenced with the signing of a transfer payment agreement in March 2008 and is targeted for completion by 2012.

Each of the participating hospitals is a voting member of 3SO. Therefore, the Corporation has an economic interest, but not control, over 3SO. The assets, liabilities, net assets and results of operations of the 3SO are not included in the financial statements. During the year, the Corporation incurred cost of \$794,617 (2010 - \$120,801) to 3SO for governance/operating costs including the Corporation's portion of the 3SO deficit for the year in the amount of \$58,363. These costs are included in supplies and other expenses on the Statement of Operations.

The Corporation has signed a ten-year commitment to the project and has provided a limited guarantee to a maximum of \$777,000 of a \$5,000,000 line of credit secured by 3SO, representing the Corporation's proportionate share of 15.54%. As at March 31, 2011, 3SO has drawn \$3,810,000 (2010 - \$1,110,000) on this line of credit, of which the Corporation guarantees \$592,074.

(d) Shared Digital Imaging Infrastructure Program:

Quinte Healthcare Corporation is a member of a group of twenty-three hospitals which have voluntarily agreed to enter into a joint project for the purpose of planning, development, implementation and operation of a shared digital diagnostic imaging infrastructure project that will enable timely access to diagnostic imaging information and services and result in improved health status and quality outcomes for patients. A non-profit organization, Hospitals Diagnostic Imaging Repository System (HDIRS), has been created to manage and provide oversight to the project. Each of the twenty-three hospitals is a voting member of HDIRS and has two elected board governors from each of the four geographic areas that are represented by the group of hospitals. Project costs to date have been shared with the Ministry of Health and Long-Term Care and Canada Health Infoway.

QUINTE HEALTHCARE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

19. Commitment:

Belleville General Hospital Redevelopment:

Quinte Healthcare Corporation has contracted for the Phase 2 expansion and redevelopment of the Belleville General Hospital site. The project will construct a new addition to accommodate the relocation of the Emergency Department and the Laboratory. In addition, there are planned renovations of ambulatory and inpatient space to address long-term program needs in Oncology, Cardiology, Perioperative and Mental Health. The project commenced in February 2011 and will require 36 months to complete. The project will be jointly funded by the Ministry of Health and Long-Term Care and Belleville General Hospital Foundation.

20. Capital management:

The Corporation's objectives with respect to capital management are to maintain a minimum capital base that allows the Corporation to continue with and execute its overall purpose as outlined in note 1, and to meet its requirements as outlined in the Hospital Service Accountability Agreement with the South East Local Health Integration Network. The Corporation's Board of Directors perform periodic reviews of the Corporation's capital needs to ensure that they remain consistent with the risk tolerance that is acceptable to the Corporation.

21. Financial instruments:

Financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and mortgages payable. The carrying amounts approximate their fair market value due to the immediate or short-term maturity of these financial instruments. It is management's opinion that the Quinte Healthcare Corporation is not subject to significant market, currency or equity risk related to its financial instruments.

Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet all cash outflow obligations as they come due. The Corporation mitigates this risk by monitoring cash activities and expected outflows.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.