

Financial Statements

**South Shore District Health Authority
Operating as South Shore Health**

March 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Chair and Members of the Board of Directors of the
South Shore District Health Authority

We have audited the accompanying statement of financial position of **South Shore District Health Authority** as at March 31, 2011 and the statements of operations, changes in fund balances, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors 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 in our audit 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 South Shore District Health Authority as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at March 31, 2010 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated June 25, 2010.

Ernst & Young LLP

Chartered Accountants

Halifax, Canada,
June 28, 2011.

**South Shore District Health Authority
Operating as South Shore Health**

STATEMENT OF FINANCIAL POSITION

As at March 31

	Operating Fund \$	Capital Fund \$	2011 Total \$	2010 Total \$
ASSETS				
Current				
Cash and cash equivalents	3,489,127	5,368,661	8,857,788	—
Accounts receivable <i>[note 3]</i>	5,266,801	2,068,428	7,335,229	14,194,758
Inventories	1,003,165	—	1,003,165	1,338,507
Prepaid expenses	407,008	20,000	427,008	591,314
	10,166,101	7,457,089	17,623,190	16,124,579
Long-term assets <i>[note 4]</i>	8,199,920	—	8,199,920	7,775,049
Property, plant and equipment <i>[note 5]</i>	—	31,999,276	31,999,276	33,092,024
	18,366,021	39,456,365	57,822,386	56,991,652
LIABILITIES				
Current				
Bank indebtedness	—	—	—	1,677,563
Accounts payable and accrued liabilities <i>[note 7]</i>	9,913,883	627,563	10,541,446	11,161,635
Revenue received in advance	787,469	—	787,469	884,733
	10,701,352	627,563	11,328,915	13,723,931
Deferred capital grants <i>[note 8]</i>	—	38,880,339	38,880,339	36,031,022
Employee future benefits <i>[note 12]</i>	7,846,697	—	7,846,697	7,376,826
	18,548,049	39,507,902	58,055,951	57,131,779
FUND BALANCES				
Unrestricted	(182,028)	(51,537)	(233,565)	(140,127)
	18,366,021	39,456,365	57,822,386	56,991,652

Commitments *[note 9]*

See accompanying notes

On behalf of the Board:

Director

**South Shore District Health Authority
Operating as South Shore Health**

STATEMENT OF CHANGES IN FUND BALANCE

Year ended March 31

	Operating Fund	Capital Fund	2011 Total	2010 Total
	\$	\$	\$	\$
UNRESTRICTED				
Balance, beginning of year	(5,859)	(134,268)	(140,127)	(1,748,072)
Excess (deficiency) of revenues over expenses	(176,169)	82,731	(93,438)	1,607,945
Balance, end of year	(182,028)	(51,537)	(233,565)	(140,127)

See accompanying notes

**South Shore District Health Authority
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STATEMENT OF OPERATIONS

Year ended March 31

	Operating Fund \$	Capital Fund \$	2011 Total \$	2010 Total \$
REVENUE				
Department of Health and Wellness	70,699,221	—	70,699,221	70,573,792
Veterans Affairs Canada	2,612,427	—	2,612,427	2,505,530
Patient services	2,233,891	—	2,233,891	2,053,239
Program recoveries	10,188,068	—	10,188,068	10,504,797
Amortization of deferred capital grants <i>[note 8]</i>	—	3,463,178	3,463,178	3,348,677
Other	786,567	38,002	824,569	608,172
	86,520,174	3,501,180	90,021,354	89,594,207
EXPENSES				
Administrative Services	5,383,016	—	5,383,016	4,996,668
Support Services	15,938,774	—	15,938,774	16,315,081
Nursing Inpatient Services	23,508,966	—	23,508,966	22,684,225
Ambulatory Care Services	12,400,977	—	12,400,977	12,280,203
Diagnostic and Therapeutic Services	14,890,549	—	14,890,549	14,724,896
Community Health Services	12,239,749	—	12,239,749	11,760,925
Research	43,385	—	43,385	43,788
Education	518,977	—	518,977	426,696
Bad Debts	237,342	—	237,342	122,023
Employee future benefits <i>[note 12]</i>	1,089,057	—	1,089,057	908,407
Other undistributed expenses	445,551	2,422	447,973	289,279
Amortization of property, plant and equipment	—	3,416,027	3,416,027	3,434,072
	86,696,343	3,418,449	90,114,792	87,986,262
Excess (deficiency) of revenues over expenses	(176,169)	82,731	(93,438)	1,607,945

See accompanying notes

**South Shore District Health Authority
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STATEMENT OF CASH FLOWS

Year ended March 31

	Operating Fund	Capital Fund	2011 Total	2010 Total
	\$	\$	\$	\$
Net inflow (outflow) of cash related to the following activities:				
OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	(176,169)	82,731	(93,438)	1,607,945
Items not affecting cash				
Amortization of property, plant and equipment	—	3,416,027	3,416,027	3,431,650
Amortization of deferred capital grants	—	(3,463,178)	(3,463,178)	(3,348,677)
Employee future benefits expense <i>[note 12]</i>	1,089,057	—	1,089,057	896,846
Changes in non-cash working capital items <i>[note 11]</i>	7,670,521	(1,028,797)	6,641,724	(4,630,952)
Employee future benefits paid <i>[note 12]</i>	(619,186)	—	(619,186)	(480,031)
Cash provided by (used in) operating activities	7,964,223	(993,217)	6,971,006	(2,523,219)
FINANCING ACTIVITY				
Proceeds received from grants for capital assets <i>[note 8]</i>	—	6,312,496	6,312,496	4,375,085
Cash provided by financing activity	—	6,312,496	6,312,496	4,375,085
INVESTING ACTIVITIES				
Increase in long-term assets	(424,871)	—	(424,871)	(660,120)
Acquisition of property, plant and equipment	—	(2,323,280)	(2,323,280)	(4,397,521)
Cash used in investing activities	(424,871)	(2,323,280)	(2,748,151)	(5,057,641)
Net change in cash and cash equivalents	7,539,352	2,995,999	10,535,351	(3,205,775)
Cash and cash equivalents (bank indebtedness), beginning of year	(4,050,225)	2,372,662	(1,677,563)	1,528,212
Cash and cash equivalents (bank indebtedness), end of year	3,489,127	5,368,661	8,857,788	(1,677,563)

See accompanying notes

**South Shore District Health Authority
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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

1. DESCRIPTION OF ORGANIZATION

The South Shore District Health Authority [“South Shore Health”] was formed by the *Health Authorities Act of the Province of Nova Scotia* [the “Act”] as assented to by the Lieutenant Governor, on June 8, 2000. The Act came into force by proclamation of the Lieutenant Governor on January 1, 2001. South Shore Health’s mission is to “Work with individuals, families and communities to prevent illness, provide care and improve the health of those we serve.”

The facilities owned and operated by South Shore Health are the Fishermen’s Memorial Hospital, South Shore Regional Hospital and Queens General Hospital. In addition, South Shore Health leases space in other locations to operate community-based programs throughout Lunenburg and Queens counties and supports two Community Health Boards.

South Shore Health is dependent on the Nova Scotia Department of Health and Wellness to provide sufficient funds to continue operations, replace essential equipment and complete its capital projects. South Shore Health is a registered charity under the *Income Tax Act of Canada* and, therefore, is exempt from income tax.

These financial statements do not include the assets, liabilities and results of operations of foundations and auxiliaries that were established to raise funds for the respective hospitals within South Shore Health.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The financial statements have been prepared by management of South Shore Health in accordance with Canadian generally accepted accounting principles [“GAAP”] for not-for-profit organizations and reflect the following significant accounting policies:

Fund accounting

Revenues and expenses related to program delivery and administration are reported in the Operating Fund. The Capital Fund reports the assets, liabilities, revenue and expenses related to South Shore Health’s capital assets, and special purpose and endowment funds.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Financial instruments

As permitted for not-for-profit organizations, South Shore Health has adopted Canadian Institute of Chartered Accountants [“CICA”] *Handbook* Section 3861, *Financial Instruments — Disclosures and Presentation*, in place of Section 3862, *Financial Instruments — Disclosures*, and Section 3863, *Financial Instruments — Presentation*.

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 South Shore Health’s designation of such instruments.

<u>Asset/Liability</u>	<u>Classification</u>
Cash and cash equivalents (bank indebtedness)	Held-for-trading
Accounts receivable	Loans and receivables
Long-term assets	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

Held-for-trading financial instruments are measured at fair value, with changes in fair value recognized in the statement of operations. Loans and receivables are accounted for at amortized cost, using the effective interest rate method. Other liabilities are carried at amortized cost, using the effective interest rate method.

Transaction costs are expensed as incurred.

Cash and cash equivalents (bank indebtedness)

Cash and cash equivalents consist of cash on hand, bank indebtedness, balances with banks and money market investments with maturities of three months or less from the date of acquisition.

Inventories

Inventories are recorded at the lower of cost and net realizable value, and include medical/surgical, drugs, and other general inventory. Cost is determined using the weighted average method.

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NOTES TO FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Property, plant and equipment

Purchased property, plant and equipment are recorded in the Capital Fund at cost. Contributed property, plant and equipment are recorded in the Capital Fund at fair value at the date of contribution. Amortization is provided on a straight-line basis at the following annual rates:

Land improvements	5 – 12.5%
Building and building service equipment	2.5 – 10%
Equipment	5 – 33%

Deferred capital grants

Deferred contributions reported in the Capital Fund include grant revenue received from external sources restricted for the purchase of capital assets. Amortization of deferred capital grants is recognized as revenue on the same basis as the amortization of the related assets.

Pension plan

Pension cost for multi-employer pension plans is equal to South Shore Health's share of the amounts contributed to the plans on behalf of the employees.

Employee future benefits

Employee future benefits are determined as outlined in note 12 and recognized in the period during which benefits are earned by the employee.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Revenue recognition

South Shore Health follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue of the appropriate fund in the year during which the related expenses are incurred. Unrestricted contributions are recognized as revenue of the appropriate fund when received or receivable if the amount to be received can be estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in the restricted Capital Fund balances.

Restricted investment income is recognized as revenue of the appropriate fund in the year during which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant estimates used by management in preparing these financial statements include amounts estimated for final accounts receivable settlements from Veterans Affairs Canada, amounts estimated for accounts receivable from the Department of Health and Wellness for wage contract settlements, allowances for doubtful accounts, inventory valuations, estimated useful life for certain items of property, plant and equipment and employee future benefits assumptions. Actual results could differ from these estimates.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

3. ACCOUNTS RECEIVABLE

	2011		2010	
	Operating Fund \$	Capital Fund \$	Total \$	Total \$
Department of Health and Wellness				
Operating funding	2,748,094	—	2,748,094	6,379,062
Capital grants	—	1,193,016	1,193,016	2,796,951
Veterans Affairs Canada	199,626	—	199,626	169,302
Patient care	795,143	—	795,143	453,391
HST rebates	242,834	171,356	414,190	570,387
Extended care facilities	1,038	—	1,038	13,970
Hornecare/VON	140,670	—	140,670	296,124
Charitable foundations	60,755	704,056	764,811	1,132,923
Psychiatric recoveries	34,253	—	34,253	115,983
HITS-NS-HIS Project	62,676	—	62,676	14,776
Inter-facility	—	—	—	1,299,398
ER physicians	35,024	—	35,024	99,326
Supplier rebate	10,123	—	10,123	17,320
Other	936,565	—	936,565	835,845
	5,266,801	2,068,428	7,335,229	14,194,758

4. LONG-TERM ASSETS

	2011		2010	
	Operating Fund \$	Capital Fund \$	Total \$	Total \$
Employee future benefits receivable	8,115,901	—	8,115,901	7,681,851
Payroll advances receivable	84,019	—	84,019	93,198
	8,199,920	—	8,199,920	7,775,049

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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

4. LONG-TERM ASSETS [Cont'd]

The employee future benefits receivable represents an amount due from the Province of Nova Scotia Department of Health and Wellness. This receivable corresponds to retiring the accrued benefit liability for retirement allowances and retirement health benefits for current and retired employees, respectively, for South Shore Health.

5. PROPERTY, PLANT AND EQUIPMENT

	2011		2010	
	Cost \$	Accumulated amortization \$	Net book value \$	Net book value \$
Land	302,434	—	302,434	302,434
Land improvements	963,783	859,765	104,018	127,910
Building and building service equipment	52,139,824	25,476,582	26,663,242	27,043,265
Equipment	38,920,029	33,990,447	4,929,582	5,618,415
	92,326,070	60,326,794	31,999,276	33,092,024

6. CREDIT FACILITIES

South Shore Health has an available operating line of credit with a Canadian chartered bank totaling \$3.4 million. Interest is charged at prime less 0.75%. There was no amount drawn on the operating line as at March 31, 2011 and 2010.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011		2010	
	Operating Fund \$	Capital Fund \$	Total \$	Total \$
Trade payables	1,544,579	(162)	1,544,417	3,102,187
Accrued liabilities	1,359,807	627,725	1,987,532	1,685,543
Vacation pay	911,363	—	911,363	864,454
Salary and benefits	6,098,134	—	6,098,134	5,509,451
	9,913,883	627,563	10,541,446	11,161,635

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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

8. DEFERRED CAPITAL GRANTS

	2011	2010
	\$	\$
Balance, beginning of year	36,031,022	35,004,614
Grants received for:		
Capital assets purchased	2,249,415	4,324,765
Future capital asset purchases	4,063,081	50,320
Total grants received for capital assets	6,312,496	4,375,085
	42,343,518	39,379,699
Amortization of deferred capital grants	(3,463,179)	(3,348,677)
Balance, end of year	38,880,339	36,031,022

9. COMMITMENTS

Lease and purchase commitments

South Shore Health has committed funds from operations for operating supplies, occupancy and equipment leases. Estimated minimum lease payments and purchase commitments over the next five years are expected to be as follows:

	\$
2012	2,351,536
2013	1,211,436
2014	778,211
2015	491,282
2016	314,372
	5,146,837

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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

10. PENSION PLANS

South Shore Health contributes to two pension plans on behalf of its employees. The first plan is a multi-employer plan administered by Health Association Nova Scotia [formerly the Nova Scotia Association of Health Organizations]. The most recent actuarial valuation was as at October 31, 2010. At that time, there was a funding excess of \$100.4 million on a going concern basis. A projection to December 31, 2010 [the plan year-end] indicates a funding excess of \$109.5 million.

The second plan is also a multi-employer plan administered by the Province of Nova Scotia. The most recent actuarial valuation was completed as at December 31, 2009. At that time, there was an unfunded liability for the entire multi-employer plan of \$1,503 million. A projection to March 31, 2010 applying the same assumptions indicated an unfunded liability of \$1,516 million.

South Shore Health bears no direct financial responsibility for the unfunded liability of either plan as the responsibility lies with the plan administrators. The amount contributed to the plans for the year ended March 31, 2011 was \$4,081,678 [2010 – \$4,008,920] for current service costs which are spread over a number of expense line items in the statement of operations.

11. ADDITIONAL INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

Changes in non-cash working capital items

	2011		2010	
	Operating Fund	Capital Fund	Total	Total
	\$	\$	\$	\$
Accounts receivable	5,066,089	1,793,440	6,859,529	(8,173,924)
Inter-fund balances	2,775,787	(2,775,787)	—	—
Inventories	335,342	—	335,342	(337,274)
Prepaid expenses	161,884	2,422	164,306	(34,739)
Accounts payable and accrued liabilities	(571,317)	(48,872)	(620,189)	4,194,172
Revenue received in advance	(97,264)	—	(97,264)	(279,187)
	7,670,521	(1,028,797)	6,641,724	(4,630,952)

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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

**11. ADDITIONAL INFORMATION RELATING TO THE STATEMENT
OF CASH FLOWS [Cont'd]**

Other information

	2011	2010
	\$	\$
Interest received	<u>24,086</u>	<u>530</u>

Non-cash transactions

During the year there was an amount of \$257,163 [2010 – \$970,361] transferred from construction in progress into capital assets available for use. These non-cash transactions have been excluded from the statement of cash flows.

12. EMPLOYEE FUTURE BENEFITS

Employee future benefits, other than pension, consist of post-retirement allowances and post-retirement health benefits. The cost of post-retirement allowances and post-retirement health benefits is actuarially determined using the projected benefits method prorated on service and use assumptions provided by the Provincial Department of Finance for District Health Authorities. Actuarial gains and losses arise from changes in assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains and losses over 10% of the benefit obligation is amortized over the average remaining service period of active employees. Past-service costs arising from plan amendments are expensed when incurred. The Department of Finance fully funds this liability, thus an offsetting accounts receivable balance is recorded.

The last actuarial valuation for post-retirement allowances was completed as at December 31, 2007. The last actuarial valuation for post-retirement health benefits for CUPE, non-union employees and NSNU employees was completed as at March 31, 2009. The results of these valuations were extrapolated to March 31, 2010. The next actuarial valuation for post-retirement allowances will be completed as at March 31, 2010, and is currently in progress. The next actuarial valuation for post-retirement health benefits for CUPE, non-union employees and NSNU employees will be completed as at March 31, 2012.

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March 31, 2011

12. EMPLOYEE FUTURE BENEFITS [Cont'd]

At March 31, 2011, the total accrued benefit liability for employee future benefits, other than pension, amounted to \$7,846,697 [2010 – \$7,376,826]. Further information about South Shore Health’s employee future benefits, other than pension, is as follows:

	Retirement allowances	Retirement health benefits	2011 Total	2010 Total
	\$	\$	\$	\$
Accrued benefit liability				
Accrued benefit obligation	6,881,596	2,565,237	9,446,833	8,271,919
Unamortized actuarial experience gains	(1,434,536)	(165,600)	(1,600,136)	(895,093)
Accrued benefit liability on the statement of financial position	5,447,060	2,399,637	7,846,697	7,376,826
Plan expenses				
Current service costs	418,300	117,600	535,900	514,600
Interest cost	288,200	104,700	392,900	375,600
Current-year amortized actuarial loss	167,490	(7,233)	160,257	—
Plan amendments	—	—	—	6,646
Net employee future benefits expense on the statement of operations	873,990	215,067	1,089,057	896,846
Change in accrued benefit liability				
Accrued benefit liability, beginning of year	5,149,173	2,227,653	7,376,826	6,960,011
Expense	873,990	215,067	1,089,057	896,846
Benefits paid	(576,103)	(43,083)	(619,186)	(480,031)
Accrued benefit liability, end of year	5,447,060	2,399,637	7,846,697	7,376,826

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March 31, 2011

12. EMPLOYEE FUTURE BENEFITS [Cont'd]

The significant actuarial assumptions used in the measurement of South Shore Health's accrued benefit liability are as follows:

	<u>2011</u>	<u>2010</u>
Retirement allowance discount rate used to determine accrued benefit liability	4.75%	4.75%
Retirement allowance discount rate used to determine benefit expense	4.75%	4.95%
Retirement allowance salary increase rate	2.65 to 5.15%	2.65 to 5.15%
Health benefit discount rate used to determine accrued benefit liability	4.75%	4.75%
Health benefit discount rate used to determine benefit expense	4.75%	4.95%
Extended health care cost trend rates	7.00% decreasing to an ultimate rate of 4.5% per annum over 15 years	6.25% decreasing 0.25% per annum to an ultimate rate of 4.5% per annum
Prescription drug coverage trend rates	7% decreasing to an ultimate rate of 4.5% per annum over 15 years	10.0% decreasing 1.0% per annum to an ultimate rate of 4.5% per annum

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13. FINANCIAL INSTRUMENTS

Fair value

The carrying values of financial instruments, which consist of accounts receivable, accounts payable and accrued liabilities, and long-term assets approximate their fair values.

Credit risk

South Shore Health performs an evaluation of its customers' credit and records an allowance for doubtful accounts as required. Management considers that there is no significant exposure to credit risk as at March 31, 2011.

14. CAPITAL MANAGEMENT

South Shore Health considers its fund balance, short-term debt facilities and deferred contributions as its capital.

Fund balance

As a not-for-profit organization, South Shore Health's operations rely on revenues generated annually. As at March 31, 2011, South Shore Health has an accumulated net fund deficit balance of \$233,562 [2010 – \$140,127] which is presented in the statement of financial position.

A portion of fund balances represents financial resources which are subject to external restrictions on future use. South Shore Health, through its policies, has placed internal restrictions on the use of certain other portions of its accumulated net deficit. Unrestricted funds represent capital that may be utilized for general business operations, a portion of which is retained as working capital, except in the case of the prior-year deficiency.

Debt

South Shore Health maintains an available line of credit for periodic short-term requirements [note 6]. At March 31, 2011, South Shore Health was in compliance with all covenants applicable to its debt instruments.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2011

14. CAPITAL MANAGEMENT [Cont'd]

Deferred contributions

Revenue received in advance of operating and deferred capital grants are received for capital purposes. These contributions are in advance of the expenditures they are intended to fund. At March 31, 2011, South Shore Health was in compliance with all restrictions applicable to these funding sources.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.