

Financial Statements of

**GRAND RIVER HOSPITAL
CORPORATION**

Year ended March 31, 2007
(Expressed in Thousands of Dollars)



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AUDITORS' REPORT

To the Board of Directors of Grand River Hospital Corporation

We have audited the statement of financial position of Grand River Hospital Corporation (the "Hospital") as at March 31, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with the Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Waterloo, Canada
May 11, 2007

GRAND RIVER HOSPITAL CORPORATION

Statement of Financial Position
(Expressed in Thousands of Dollars)

March 31, 2007, with comparative figures for 2006


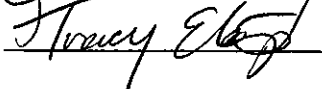
	2007	2006 (as restated) (see note 2)
Assets		
Current assets:		
Cash and short-term investments (note 3)	\$ 26,020	\$ 17,461
Accounts receivable (note 4)	12,791	10,430
Inventories	1,977	2,068
Prepaid expenses	2,510	2,138
	<u>43,298</u>	<u>32,097</u>
Capital assets (note 5)	149,269	157,264
Accrued defined benefit plans (note 6)	12,363	13,787
	<u>\$ 204,930</u>	<u>\$ 203,148</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 34,636	\$ 32,780
Deferred contributions (note 7)	6,751	2,532
Current portion of deferred credit (note 8 (a))	143	143
Current portion of long-term debt (note 8 (b))	59	59
Current portion of capital lease obligation (note 8(c))	141	-
	<u>41,730</u>	<u>35,514</u>
Other long-term liabilities (note 8(d))	822	404
Deferred capital contributions (note 9)	124,890	129,592
Net assets:		
Invested in capital assets (note 10)	22,619	26,735
Internally restricted - education and corporate development	1,200	1,200
Unrestricted	13,669	9,703
	<u>37,488</u>	<u>37,638</u>
Commitments and contingencies (note 11)		
	<u>\$ 204,930</u>	<u>\$ 203,148</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director
 Director

GRAND RIVER HOSPITAL CORPORATION

Statement of Operations

(Expressed in Thousands of Dollars)

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Ontario Ministry of Health and Long-Term Care	\$ 210,172	\$ 193,262
Other	44,570	42,286
Amortization of deferred capital contributions related to equipment (note 9)	3,859	3,381
	258,601	238,929
Expenses:		
Salaries, wages, benefits and purchased services	156,110	144,819
Medical staff remuneration	19,258	17,344
Non-salary	72,806	69,267
Amortization of equipment	7,867	7,537
	256,041	238,967
Excess (deficiency) of revenue over expenses for Ontario Ministry of Health and Long-Term Care purposes	2,560	(38)
Amortization of buildings and building improvements	(7,756)	(7,301)
Amortization of deferred capital contributions related to buildings and building improvements (note 9)	5,046	4,521
Deficiency of revenue over expenses	\$ (150)	\$ (2,818)

See accompanying notes to financial statements.

GRAND RIVER HOSPITAL CORPORATION

Statement of Changes in Net Assets
(Expressed in Thousands of Dollars)

Year ended March 31, 2007, with comparative figures for 2006

	Invested in capital assets	Internally restricted	Unrestricted	2007 Total	2006 Total (as restated) (see note 2)
Balance, beginning of year, as previously reported	\$ 25,169	\$ 1,200	\$ 9,703	\$ 36,072	\$ 38,890
Restatement (note 2)	1,566	-	-	1,566	1,566
Balance, beginning of year, as restated	26,735	1,200	9,703	37,638	40,456
Excess (deficiency) of revenue over expenses	(6,718)	-	6,568	(150)	(2,818)
Investment in capital assets (note 10)	2,602	-	(2,602)	-	-
Balance, end of year	\$ 22,619	\$ 1,200	\$ 13,669	\$ 37,488	\$ 37,638

See accompanying notes to financial statements.

GRAND RIVER HOSPITAL CORPORATION

Statement of Cash Flows
(Expressed in Thousands of Dollars)

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (applied to):		
Operations:		
Deficiency of revenue over expenses	\$ (150)	\$ (2,818)
Employer cash contributions to the KWH pension plan	(6,272)	(6,092)
Items not involving cash:		
Amortization of equipment	7,867	7,537
Amortization of buildings	7,756	7,301
Amortization of deferred contributions related to equipment	(3,859)	(3,381)
Amortization of deferred contributions related to buildings	(5,046)	(4,521)
Defined benefit expense	7,696	5,988
Change in non-cash operating working capital (note 12)	2,065	(6,971)
	<u>10,057</u>	<u>(2,957)</u>
Investing activities:		
Purchase and construction of capital assets, net of disposals	(6,747)	(14,363)
Financing activities:		
Contributions received for capital purposes	5,308	9,354
Principal repayments on long-term debt and capital lease	(59)	(151)
	<u>5,249</u>	<u>9,203</u>
Increase (decrease) in cash	8,559	(8,117)
Cash and short-term investments, beginning of year	17,461	25,578
Cash and short-term investments, end of year	\$ <u>26,020</u>	\$ <u>17,461</u>

See accompanying notes to financial statements.

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

The Grand River Hospital Corporation (the "Hospital") is a regional provider of community hospital services to the Cities of Kitchener, Waterloo and the Regional Municipality of Waterloo. The Hospital provides its services through the Kitchener-Waterloo Health Centre ("KWH"), the Freeport Health Centre ("Freeport") and other locations. The Hospital is incorporated under the Corporations Act (Ontario) without share capital and is a registered charity under the Income Tax Act (Canada) and is exempt from income taxes.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements present only the accounts of the Hospital as a separately managed entity. They do not include the accounts of the following related, but separate entities:

Grand River Hospital Volunteer Association
Grand River Hospital Foundation

The financial information of these entities is reported separately from the Hospital.

(b) Basis of funding:

The Hospital is funded primarily by the Province of Ontario, in accordance with budget arrangements established with the Ontario Ministry of Health and Long-Term Care (the "Ministry"). The funding is provided to the Hospital on a global basis as well as a cost reimbursement basis for specific programs. Except for certain programs, a surplus of revenue over expense incurred during a fiscal year is not required to be returned to the Ministry. As well, the Ministry's stated policy is that deficits incurred by the Hospital will not be funded.

(c) Revenue recognition:

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

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 Ontario Ministry of Health and Long-Term Care. 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.

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

1. Significant accounting policies (continued):

(c) Revenue recognition (continued):

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, 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 on a straight-line basis, at a rate corresponding with the amortization rate of the related capital assets.

Revenue from the Ministry, preferred accommodation, as well as income from parking and other ancillary operations, is recognized when the goods are sold or the service is provided.

(d) Measurement uncertainty:

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 dates of the financial statements and the reported amounts of revenue and expenses during the years. Significant items subject to such estimates and assumptions include the carrying amount of accrued pension benefit, capital assets, accounts payable and accrued liabilities, and valuation allowances for receivables. Actual results could differ from those estimates.

(e) Inventories:

Inventories are valued at lower of cost or market.

Provision has been made for any obsolete or unusable inventory on hand.

(f) Capital assets:

Capital assets are recorded at cost less accumulated amortization. The Hospital records amortization of its capital assets on a straight-line basis over the estimated useful life of the asset at the following annual rates:

Buildings and building improvements	2% to 20%
Furniture and equipment	5% to 20%
Equipment under capital lease	20%

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

1. Significant accounting policies (continued):

(g) Employee benefits plans:

The Hospital accrues its obligations under employee benefit plans as the employees render the services necessary to earn the pension. The Hospital has the following accounting policies:

(i) Defined benefit plans:

The Hospital has defined benefit pension plans covering substantially all of the KWH employees and a supplemental pension plan for a specific group of employees. The benefits are based on years of service and the employee's final average earnings. The cost of this program is being funded currently.

Effective April 1, 2006, the Hospital provides a defined benefit plan covering health and dental care benefits to a specific union group upon early retirement. Early retirees, who are in receipt of pension benefits, also receive health and dental benefits under the plan until the age of 65. The cost of health and dental benefits related to employees' current service is charged to income annually.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, expected health and dental costs and retirement ages of employees.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value which represent a market-related value. The market-related value of assets has been used for determining the expected return on assets component of the annual expense and for determining the amount of experience gains (losses) to be amortized. The market values at the measurement date are developed from the market values at each of the four preceding fiscal year-ends by accumulating these amounts with contributions, benefit payments, expenses and assumed investment return for the period up to the measurement date. Assumed investment return is calculated assuming that each year assets earned interest at the expected rate of return on assets during the applicable period.

Past service costs from plan amendments or plan initiations are amortized on a straight-line basis over the average remaining service period up to the full eligibility date of each of employees active at the date of amendment or plan initiation. The past service costs related to the plan initiation are being amortized over 8 years.

Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation.

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

1. Significant accounting policies (continued):

(g) Employee benefits plans (continued):

(i) Defined benefit plans:

The transitional asset is being amortized at \$3,423 per year and will be fully amortized in the year ended March 31, 2013.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 13 years (2006 - 13 years).

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(ii) Multi-employer plan:

Defined contribution plan accounting is applied to the multi-employer defined benefit Hospitals of Ontario Pension Plan ("HOOPP") for which the Hospital does not have the necessary information to apply defined benefit plan accounting.

(h) Contributed services:

Volunteers contribute numerous hours to assist the Hospital in carrying out certain charitable aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and is not reflected in these financial statements.

2. Restatement:

The Hospital has adjusted its previously reported 2006 comparative figures to appropriately account for the amortization of deferred capital contributions restricted for capital assets at a rate corresponding with the amortization rate of the capital assets in which they funded. As a result of this correction, deferred capital contributions decreased by \$1,566 and net assets invested in capital assets increased by \$1,566. There was no impact on the previously reported deficiency of revenue over expenses for 2006.

3. Cash and short-term investments:

The Hospital's investment policy restricts short-term investments to highly liquid, high grade Canadian federal and provincial government bonds, commercial paper of Canadian corporations, and bankers acceptances. At year end, \$2,491 (2006 - \$2,393) is held in short-term investment instruments bearing interest at 4.15% (2006 - 3.75%).

The remaining cash is in a current account bearing interest at a rate of prime minus 1.75%. At year end, the prime rate was approximately 6.00% (2006 - 5.50%).

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

4. Accounts receivable:

	2007	2006
Ontario Ministry of Health and Long-Term Care:		
Operating	\$ 1,223	\$ 414
Capital	-	1,104
Cancer Care Ontario	3,221	1,800
Grand River Hospital Foundation	302	180
Other	8,045	6,932
	<u>\$ 12,791</u>	<u>\$ 10,430</u>

5. Capital assets:

	2007		2006	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 809	\$ -	\$ 809	\$ 809
Buildings and related service equipment and improvements	192,915	76,800	116,115	121,558
Furniture and equipment	65,260	42,889	22,371	25,866
Construction in progress	9,974	-	9,974	9,031
	<u>\$ 268,958</u>	<u>\$ 119,689</u>	<u>\$ 149,269</u>	<u>\$ 157,264</u>

Certain land and buildings designated for Hospital purposes of the KWH are leased to the Hospital, at a nominal charge, by The Corporation of The City of Kitchener and The Corporation of The City of Waterloo.

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

6. Pension and other defined benefit plans:

Substantially all of the employees of the KWH are members of a defined benefit registered pension plan and several individuals also participate in an unfunded supplemental pension plan, both of which are final average earnings programs. The Hospital measures its accrued benefit obligations for accounting purposes based on the most recent actuarial valuation as at December 31, 2005, together with a projection of these results to March 31, 2007 and 2006. The next required valuation will be undertaken as at December 31, 2008.

Substantially all of the employees of Freeport are eligible to be members of HOOPP, which is a multi-employer, defined benefit, final pay, contributory plan. As HOOPP's assets and liabilities are not segmented by participating employer, the Hospital accounts for its HOOPP obligation on a cash basis (as a defined contribution plan). The most recent actuarial valuation of the plan at December 31, 2005 indicated that the plan is fully funded on a solvency basis.

The expense for the Hospital's benefit plans are included in the statement of operations and are as follows:

(a) Multi-employer defined benefit plan:

	2007	2006
Cash paid for contributions to HOOPP - Freeport	\$ 3,212	\$ 3,252

(b) The information, relating to the Hospital's defined benefit plans:

	2007	2006	2007
	Pension plan	Pension plan	Other benefit plan
Current service costs, net of employees' contributions	\$ 9,923	\$ 9,153	\$ 52
Interest cost	15,016	14,300	100
Less - expected return on plan assets	(17,236)	(16,119)	-
Amortization of transitional asset	(3,423)	(3,423)	-
Amortization of past service costs	681	681	273
Amortization of experience loss on plan assets	2,310	1,396	-
Benefit plan expense	7,271	5,988	425
Cash paid for employer contributions	(6,272)	(6,092)	-
	\$ 999	\$ (104)	\$ 425

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

6. Pension and other defined benefit plans (continued):

(b) The information, relating to the Hospital's defined benefit plans (continued):

	2007	2006	2007
	Pension plan	Pension plan	Other benefit plan
Accrued benefit obligation:			
Balance, beginning of year	\$ (275,962)	\$ (245,471)	\$ -
Current service costs, inclusive of employee contributions	(14,904)	(13,989)	(52)
Interest cost	(15,016)	(14,300)	(100)
Less – benefits paid	8,864	7,601	-
Actuarial loss	(7,014)	(9,803)	-
Plan initiation	-	-	(2,170)
Balance, end of year	\$ (304,032)	\$ (275,962)	\$ (2,322)
Plan assets:			
Fair value, beginning of year	\$ 272,097	\$ 236,376	\$ -
Actual return on plan assets	23,580	32,394	-
Employer contributions (included in salaries, wages and benefits)	6,273	6,092	-
Employees' contributions	4,981	4,836	-
Less benefits paid	(8,864)	(7,601)	-
Fair value, end of year	\$ 298,067	\$ 272,097	\$ -
Funded status-plan deficit	\$ (5,965)	\$ (3,865)	\$ (2,322)
Unamortized net actuarial loss	33,914	35,555	-
Unamortized transitional asset	(20,534)	(23,957)	-
Unamortized past service costs	5,373	6,054	1,897
Accrued defined benefit plans	\$ 12,788	\$ 13,787	\$ (425)

All plans are in a deficit position as at March 31, 2007 and 2006.

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

6. Pension and other defined benefit plans (continued):

The significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligation and benefit costs, are as follows:

	2007	2006
Accrued benefit obligation at end of year:		
Rate of compensation increase	4.00%	4.00%
Discount rate (pension benefits)	5.15%	5.30%
Discount rate (other benefits)	4.60%	-
Benefit costs for fiscal year:		
Expected long-term rate of return on plan assets	6.75%	6.75%
Discount rate (pension benefits)	5.30%	5.75%
Discount rate (other benefits)	4.60%	-
Healthcare costs (other benefits)	10.00%	-
Dental costs (other benefits)	4.50%	-
Rate of compensation increase	4.00%	4.50%

The KWH pension plan consists of the following assets as at December 31:

	2007	2006
Short-term investments	-	0.7%
Bonds	40.4%	38.0%
Pooled investments	59.6%	61.3%
	100.0%	100.0%

7. Deferred contributions:

Deferred contributions represent unspent restricted grants for education and research, and deferred funding from Ministry of Health and Long Term Care for start-up costs in the amount of \$1,713 and for the Integrated Cancer Program of \$2,534. The changes in the deferred contributions balance are as follows:

	2007	2006
Balance, beginning of year	\$ 2,532	\$ 2,288
Contributions received during the year	4,972	1,062
Less amounts recognized as revenue during the year	(753)	(818)
Balance, end of year	\$ 6,751	\$ 2,532

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

8. Other long-term liabilities:

(a) Deferred credit:

The Hospital has entered into a long-term supply contract for certain medical equipment and supplies. On entering into the supply contract in 2002, the Hospital received \$1,000 as a discount on the future purchase of supplies under the terms of the contract. The discount is being recognized on a straight-line basis over the 7 year term of the contract as a reduction of the cost of the related medical supplies purchased under the contract.

The details of the deferred credit are as follows:

	2007		2006	
Deferred credit	\$	1,000	\$	1,000
Accumulated amortization		715		572
		285		428
Less current portion of deferred credit		143		143
	\$	142	\$	285

(b) Long-term debt:

	2007		2006	
Medical equipment loan, bearing no interest, with annual payments of \$59, maturing May 2008	\$	119	\$	178
Less current portion of long-term debt		59		59
	\$	60	\$	119

Principal payments are due as follows:

2008	\$	59
2009		60
	\$	119

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

8. Other long-term liabilities (continued):

(c) Obligation under capital lease:

	2007
Year ending March 31:	
2008	\$ 169
2009	169
2010	170
2011	170
2012	170
Total minimum lease payments	848
Less amount representing interest at 4.94%	87
Present value of net minimum capital lease payments	761
Current portion of obligation under capital lease	141
	\$ 620

(d) Other long-term liabilities consist of:

	2007	2006
Deferred credit	\$ 142	\$ 285
Long-term debt	60	119
Capital Lease	620	-
	\$ 822	\$ 404

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

9. Deferred capital contributions:

The changes in deferred capital contributions are as follows:

	2007	2006 (as restated) (see note 2)
Balance, beginning of year	\$ 129,592	\$ 129,884
Contributions from:		
Grand River Hospital Foundation (note 13)	2,709	4,188
Ontario Ministry of Health and Long-Term Care	275	459
The Regional Municipality of Waterloo	579	2,520
Cancer Care Ontario	225	193
Other capital contributions	415	250
	133,795	137,494
Less:		
Amortization of deferred capital contributions related to equipment	(3,859)	(3,381)
Amortization of deferred capital contributions related to buildings and building improvements	(5,046)	(4,521)
Balance, end of year	\$ 124,890	\$ 129,592

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

10. Net assets invested in capital assets:

Net assets invested in capital assets is calculated as follows:

	2007	2006 (as restated) (see note 2)
Capital assets	\$ 149,269	\$ 157,264
Amounts financed by:		
Deferred capital contributions	(124,890)	(129,592)
Accounts payable and accrued liabilities	(880)	(759)
Long-term liabilities	(880)	(178)
	\$ 22,619	\$ 26,735

Net change in net assets invested in capital assets is calculated as follows:

	2007	2006
Amortization of capital assets	\$ (15,623)	\$ (14,838)
Amortization of deferred capital contributions	8,905	7,902
	(6,718)	(6,936)
Purchases and construction of capital assets, net of disposals	7,628	12,075
Accounts payable and accrued liabilities related to capital assets	(120)	2,288
Amounts funded by deferred capital contributions	(4,203)	(7,610)
Long-term liabilities related to capital assets	(703)	151
	2,602	6,904
Net change in net assets invested in capital assets	\$ (4,116)	\$ (32)

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

11. Commitments and contingencies:

(a) Service commitments:

The Hospital has outsourced its information systems under an agreement that expires in 2009. Specific medical equipment support services are outsourced under agreements that expire 2011 and 2012, respectively. The payments that cover the operating components under the terms of these agreements are as follows:

2008	\$ 3,912
2009	4,014
2010	451
2011	266
2012	11

(b) Capital commitments:

The Hospital has entered into several contracts relating to major capital projects.

The commitments are as follows as at March 31, 2007:

Major capital projects:	
Inpatient Oncology, High-dose Radiotherapy and Special Testing, Engineering Master Plan and Fan Replacement	\$ 11,643

These projects are being funded by the Ontario Ministry of Health and Long-Term Care, the Regional Municipality of Waterloo and the Grand River Hospital Foundation.

(c) Operating lease commitments:

The Hospital is committed to payments under various operating leases for office and medical equipment. The annual payments are as follows:

2008	\$ 1,042
2009	752
2010	200
2011	69
2012	34

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

11. Commitments and contingencies (continued):

(d) Contingencies:

The nature of the Hospital's activities is such that there may be litigation pending or in the prospect at any time. With respect to claims at March 31, 2007, management believes that the Hospital has valid defenses and appropriate insurance coverage in place. In the event claims are successful, management believes that such claims are not expected to have a material effect on the Hospital's financial position.

The Hospital participates in Healthcare Insurance Reciprocal of Canada, a pooling of the public liability insurance risks of its hospital members. All members of the pool pay premiums which are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the year in which they were members. No assessments have been made to March 31, 2007.

12. Net change in non-cash operating working capital balances:

	2007	2006
Accounts receivable not applicable to capital assets	\$ (3,465)	\$ (2,086)
Inventories	91	(394)
Prepaid expenses	(372)	(389)
Accounts payable and accrued liabilities not applicable to capital assets	1,735	(4,203)
Deferred contributions not applicable to capital assets	4,219	244
Long-term liabilities not applicable to capital assets	(143)	(143)
Net change in non-cash operating working capital balances	\$ 2,065	\$ (6,971)

13. Related party transactions:

(a) Grand River Hospital Foundation:

The Grand River Hospital Foundation (the "Foundation") is an independent organization which raises funds to finance the purchase of capital assets, as directed by the Foundation's donors, for the Hospital. Although the Foundation is a separate entity and disburses funds at the discretion of its own Board of Governors, some of the Foundation Board members are also members of the Hospital. The accounts of the Foundation are not included in these financial statements.

During the year, the Foundation donated \$2,709 (2006 - \$4,188) to the Hospital to fund capital projects. At March 31, 2007, there is \$302 (2006 - \$180) due from the Foundation to the Hospital. At December 31, 2006, the Foundation had net assets of \$19,768 (2005 - \$16,579).

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

13. Related party transactions (continued):

(b) Volunteer Association:

The Grand River Hospital Volunteer Association (the "Volunteer Association") is an independent organization, which raises funds and contributes these funds to the Foundation, which in turn contributes the funds to the Hospital for the purpose mentioned above. The accounts of the Volunteer Association are not included in these financial statements.

At March 31, 2007, there is \$50 (2006 - \$75) due from the Volunteer Association to the Hospital.

(c) Grand River Regional Cancer Centre:

Effective January 1, 2006, the former joint venture agreement with Cancer Care Ontario (CCO) ended and the Hospital entered into an integration cancer program agreement ("ICP") with CCO. Certain assets are to be transferred in the future from CCO to the Hospital, for \$nil consideration, pending Ministry approval. The net book value and related unamortized portion of capital grants of the assets yet to be transferred is \$1,123. Under the ICP, equipment with a unit value greater than \$250 will remain the property of CCO and is not reflected in these financial statements.

Also under the ICP, CCO as paymaster for the Ministry, provides operating funding, restricted for cancer services, to the Hospital for ambulatory, hotel and corporate costs of \$16,679 for the year ending March 31, 2007 (2006 - \$15,424). Ministry funding for inpatient oncology services remains as part of the Hospital's global funding.

14. Supplemental cash flow information:

	2007	2006
Cash received for interest	\$ 825	\$ 359
Non-cash investing and financing activities:		
Acquisition of capital assets through capital leases	761	-

GRAND RIVER HOSPITAL CORPORATION

Notes to Financial Statements, continued
(Expressed in Thousands of Dollars)

Year ended March 31, 2007

15. Financial instruments:

The carrying values of cash and short-term investments, accounts receivable, and accounts payable and accrued liabilities, approximate their fair value due to the relatively short periods to maturity of the instruments.

The carrying value of the Hospital's long-term debt is comparable to its fair market value. Fair value has been calculated using the estimated future cash flows of the actual outstanding debt instruments, discounted at current market rates available to the Hospital for the same or similar instruments.

16. Change in comparative figures:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for 2007.