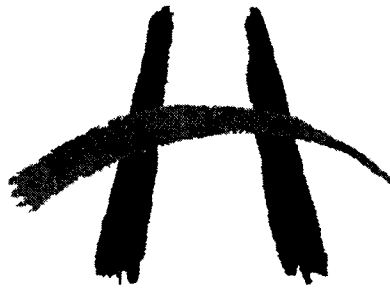




**Financial Statements of**



**HAMILTON HEALTH SCIENCES  
CORPORATION**

**Year ended March 31, 2009**



**KPMG LLP**  
**Chartered Accountants**  
Box 976  
21 King Street West Suite 700  
Hamilton ON L8N 3R1

Telephone (905) 523-8200  
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## Auditors' Report

To the Board of  
**Hamilton Health Sciences Corporation**

We have audited the statement of financial position of Hamilton Health Sciences Corporation as at March 31, 2009 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. In accordance with the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Chartered Accountants, Licensed Public Accountants

Hamilton, Canada

May 15, 2009



# Hamilton Health Sciences

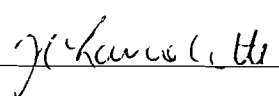
Statement of Financial Position  
(in thousands of dollars)

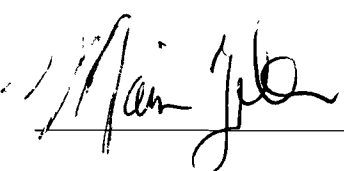
March 31, 2009, with comparative figures for 2008

	2009	2008
<b>ASSETS</b>		
<b>Current</b>		
Restricted cash and cash equivalents <i>[notes 4 and 11]</i>	\$ 140,482	\$ 132,650
Short-term investments <i>[note 4]</i>	17,256	45,950
Accounts receivable <i>[note 5]</i>	49,263	84,264
Inventories	15,034	14,246
Prepaid expenses and deposits	4,332	3,722
<b>Total current assets</b>	<b>226,367</b>	<b>280,832</b>
Long-term investments <i>[note 6]</i>	187,651	173,852
Capital assets, net <i>[note 7]</i>	374,099	278,980
<b>Total assets</b>	<b>788,117</b>	<b>733,664</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Bank indebtedness <i>[note 8]</i>	\$ 71,637	\$ 53,915
Capital financing <i>[note 9]</i>	46,745	43,589
Accounts payable and accrued liabilities	122,641	131,977
Current portion of obligations under capital leases <i>[note 10]</i>	4,086	3,064
Current portion of long-term debt <i>[note 11]</i>	909	864
<b>Total current liabilities</b>	<b>246,018</b>	<b>233,409</b>
Obligations under capital leases <i>[note 10]</i>	10,015	8,898
Long-term debt <i>[note 11]</i>	8,412	9,321
Accrued benefit liability <i>[note 12]</i>	36,697	32,652
Unrealized losses on revaluation of derivative hedges	12,150	4,128
Deferred capital contributions <i>[note 13]</i>	247,315	208,885
Deferred contributions <i>[note 14]</i>	183,765	200,753
<b>Total liabilities</b>	<b>744,372</b>	<b>698,046</b>
<b>Net assets (deficit)</b>		
Unrestricted	\$ (222,804)	\$ (169,474)
Invested in capital assets <i>[note 15 (a)]</i>	107,511	76,904
Board designated	159,038	128,188
<b>Total net assets</b>	<b>43,745</b>	<b>35,618</b>
Commitments and contingencies <i>[notes 10, 18, 19]</i>		
	<b>\$ 788,117</b>	<b>\$ 733,664</b>

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director



# Hamilton Health Sciences

Statement of Operations  
(in thousands of dollars)

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
<b>REVENUE</b>		
Ontario Ministry of Health and Long-Term Care	\$ 802,522	\$ 782,251
Ontario Health Insurance Plan	37,221	37,317
Ministry of Community and Social Services	25,714	23,934
Patient and third party payors	22,333	21,530
Amortization of deferred capital contributions <i>[note 13]</i>	15,990	15,411
Investment income	5,594	10,422
Ancillary and other recoveries	107,718	94,246
Research <i>[note 14]</i>	185,832	108,441
	<b>1,202,924</b>	<b>1,093,552</b>
<b>EXPENSES</b>		
Salaries and employee benefits <i>[note 12 and 16]</i>	640,876	623,467
Medical staff remuneration	73,794	74,858
Medical and surgical supplies	54,678	55,276
Drugs	57,254	58,011
Facilities	41,893	32,284
Amortization of capital assets	29,885	26,002
Other expenses	132,891	127,068
Research	142,987	95,333
	<b>1,174,258</b>	<b>1,092,299</b>
<b>Excess of revenue over expenses for the year</b>	<b>\$ 28,666</b>	<b>\$ 1,253</b>

See accompanying notes to financial statements.



# Hamilton Health Sciences

Statement of Changes in Net Assets  
(in thousands of dollars)

Year ended March 31, 2009, with comparative figures for March 31, 2008

				2009	2008
	Unrestricted	Invested in capital assets <i>[note 15(a)]</i>	Board designated	Total	Total
<b>Net assets (deficit), beginning of year</b>	\$ (169,474)	\$ 76,904	\$ 128,188	\$ 35,618	\$ 37,431
Excess of revenue over expenses for the year	28,666	-	-	28,666	1,253
Transfer to Board designated	(48,522)	-	48,522	-	-
Net change invested in capital assets <i>[note 15(b)]</i>	(30,607)	30,607	-	-	-
Net change in unrealized losses on available-for-sale investments	(6)	-	(12,511)	(12,517)	1,015
Net change in unrealized losses on revaluation of derivative hedges	(8,022)	-	-	(8,022)	(4,081)
Transfer from board designed assets	5,161	-	(5,161)	-	-
<b>Net assets (deficit), end of year</b>	\$ (222,804)	\$ 107,511	\$ 159,038	\$ 43,745	\$ 35,618

See accompanying notes to financial statements



# Hamilton Health Sciences

Statement of Cash Flows  
(in thousands of dollars)

Year ended March 31, 2009, with comparative figures for March 31, 2008

	2009	2008
<b>Cash provided by (used in):</b>		
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses for the year	\$ 28,666	\$ 1,253
Add (deduct) non-cash items:		
Amortization of capital assets	29,885	26,002
Amortization of deferred capital contributions	(15,990)	(15,411)
Non-pension post-retirement benefits expense	5,559	5,151
	48,120	16,995
Net change in non-cash working capital balances related to operations <i>[note 17]</i>	24,267	(31,541)
Non-pension benefit contributions	(1,514)	(1,626)
(Decrease) increase in deferred contributions	(16,888)	42,934
<b>Cash provided by operating activities</b>	<b>53,985</b>	<b>26,762</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(125,004)	(93,096)
Decrease (increase) in investments, net	2,278	(35,864)
Increase in restricted cash and cash equivalents	(7,832)	(33,221)
<b>Cash used in investing activities</b>	<b>(130,558)</b>	<b>(162,181)</b>
<b>FINANCING ACTIVITIES</b>		
Contributions received for capital purposes	54,420	63,429
Decrease in long-term debt	(864)	(821)
Increase in capital financing	3,156	43,589
Increase in obligations under capital leases	2,139	3,649
<b>Cash provided by financing activities</b>	<b>58,851</b>	<b>109,846</b>
<b>Increase in bank indebtedness during the year</b>	<b>17,722</b>	<b>25,573</b>
Bank indebtedness, beginning of year	53,915	28,342
<b>Bank indebtedness, end of year</b>	<b>\$ 71,637</b>	<b>\$ 53,915</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ 3,020	\$ 3,032

See accompanying notes to financial statements.



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
(in thousands of dollars, except where noted)

March 31, 2009

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## 1. PURPOSE OF THE ORGANIZATION

The Hamilton Health Sciences Corporation [the "Hospital"] is a regional provider of comprehensive health services for Central-West Ontario and a provider of community hospital services to the City of Hamilton. The Hospital is an academic health science organization which is incorporated without share capital under the Corporations Act (Ontario) and is a registered charity under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of presentation:**

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

These financial statements include the assets, liabilities and activities of the Hospital. The financial statements do not include the activities of Hamilton Health Sciences Foundation [the "Foundation"] and Hamilton Health Sciences Volunteer Association [the "Volunteer Association"] which are non-controlled not-for-profit entities [note 19[a] and [b]].

The Bay Area Health Trust [the "Trust"], a commercial entity, is accounted for by the equity method.

A summary of the significant accounting policies is as follows:

### **(a) Revenue recognition:**

The Hospital is funded primarily by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care ["MOHLTC"]. Any excess of revenues over expenses earned during a fiscal year may be retained by the Hospital. Therefore, to the extent that deficits are incurred and not funded, future operations may be affected. The MOHLTC provides operating funding including base funding which is expected to be received on an annual basis, and special funding, which is non-recurring in nature, and consequently is unconfirmed for future years.

The Hospital operates under a Hospital Accountability Agreement ("HAA") with the MOHLTC. This agreement sets out the rights and obligations of the two parties in respect of funding provided to the Hospital by the MOHLTC. During 2008, the terms of the agreement were effectively transferred to the Hamilton Niagara Haldimand Brant Local Health Integration Network (the "LHIN"). The HAA sets out the funding provided to the Hospital together with performance standards and obligations of the Hospital that establish acceptable results for the organization's performance. Effective April 1, 2008, the Hospital entered into a new agreement with the LHIN, operating under direction of the MOHLTC, for each of fiscal 2009 and 2010.



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
(in thousands of dollars, except where noted)

March 31, 2009

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Revenue recognition (continued)

If the Hospital does not meet certain performance standards or obligations, the MOHLTC/LHIN has the right to adjust some funding streams received by the Hospital. Given that the MOHLTC/LHIN is not required to communicate funding adjustments until after the submission of year-end data, the amount of revenue recognized in these financial statements represents management's best estimates of amounts earned during the year.

The Hospital follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

### (b) Inventories

Inventories are valued at the lower of average cost and replacement value.

### (c) Long-term investments

Long-term investments are recorded at fair value and are designated as available-for-sale financial assets. Accrued interest on long-term investments is recorded in accounts receivable. Changes in unrealized gains and losses designated for research and St. Peters Hospital site are recorded through the statement of changes in net assets for board designated trust investments and deferred contributions for research and St. Peters Hospital's site investments.

### (d) Capital assets

Capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at fair market value at the date of donation. Amortization is provided on a straight-line basis over the estimated useful life of the related capital asset. The amortization periods are as follows:

Building improvements	20 – 40 years
Equipment	5 – 20 years

The Chedoke site operates in facilities owned by Chedoke Health Corporation. The McMaster University Medical Centre site operates in facilities owned by McMaster University.

Building renovations and alterations that restore original operating conditions are expensed in the year incurred. Building improvements that reduce original operating costs or increase original capacity are capitalized as building improvements.

### (e) Equipment under capital leases

Equipment leases that effectively transfer substantially all of the risks and rewards of ownership to the Hospital as lessee are capitalized at the present value of the minimum payments under the lease with a corresponding liability for the related lease obligations. Charges to expenses are made for amortization on the equipment and interest on the lease obligations.





# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
(in thousands of dollars, except where noted)

March 31, 2009

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Deferred capital contributions

Capital contributions received for the purpose of acquiring depreciable capital assets are deferred and amortized on the same basis and over the same period as the related capital assets.

### (g) Deferred contributions

Grants for sponsored research and other externally restricted contributions are recorded as deferred contributions and recognized as revenue in the periods in which the related expenses are incurred.

### (h) Employee benefit plans

#### (i) Multi-employer plan

Defined contribution plan accounting is applied to the Hospitals of Ontario Pension Plan ["HOOPP"], a multi-employer plan, whereby contributions are expensed when due as the Hospital has insufficient information to apply defined benefit plan accounting.

#### (ii) Accrued post-retirement benefits

The Hospital accrues its obligations under non-pension employee benefit plans as employees render services. The Hospital has adopted the following policies:

- The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefits method pro rated on service and management's best estimate assumptions.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.
- Liabilities are determined using discount rates that are consistent with market rates of high quality debt instruments.
- The excess of the cumulative unamortized balance of the net actuarial gain (loss) over 10% of the benefit obligations is amortized over the average remaining service period of active employees. The average remaining service period of active employees is 14 years.

#### (i) Board designated net assets

Board designated net assets include unrestricted donations and bequests as well as certain fund surpluses designated for specific purposes by the Board of Directors.



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
(in thousands of dollars, except where noted)

March 31, 2009

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Contributed services and materials

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, as such, is not reflected in these financial statements. Contributed materials are also not recognized in these financial statements.

### (k) Financial instruments

In December 2006, the Canadian Institute of Chartered Accountants ("CICA") issued new accounting standards: Handbook Section 3862 "Financial Instruments – Disclosures"; Handbook Section 3863 "Financial Instruments - Presentation". These standards were expected to be effective for the Hospital's financial statements for the year ended March 31, 2009. However in December 2008, the CICA eliminated the requirement for not-for-profit entities to adopt these standards. The Hospital has continued to disclose and present financial instruments under Handbook Section 3861, "Financial Instruments - Disclosure and Presentation" for the year ended March 31, 2009.

#### (i) Recognition and measurement

All financial instruments are initially recorded on the statement of financial position at fair value. They are subsequently valued at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading", "held-to-maturity", "available-for-sale" or "loans and receivables" and financial liabilities are classified as either "held-for-trading" or "other liabilities".

Financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the statement of operations. Financial assets classified as held-to-maturity or loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest method. Available-for-sale financial assets that have a quoted price in an active market are measured at fair value with changes in fair value recorded in deferred contributions if the investment is externally restricted for research or restricted funds for the St. Peters Hospital site and in changes in board designated net assets if the investment is internally restricted. Such gains or losses are reclassified to the statement of operations when the related financial asset is disposed of or when the decline in value is considered to be other-than-temporary.



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
(in thousands of dollars, except where noted)

March 31, 2009

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Recognition and measurement (continued)

The Hospital has classified its financial instruments as follows:

- Restricted cash and cash equivalents and bank indebtedness are classified as held-for-trading.
- Short-term investments and long-term investments are classified as available-for-sale.
- Accounts receivable are classified as loans and receivables.
- Accounts payable and accrued liabilities, and current and long-term debt and obligations under capital leases are classified as other liabilities.

### (ii) Investments and investment income

Publicly traded securities are valued based on the latest bid prices and short-term fixed term securities are valued based on cost plus accrued income, which approximates fair value. The Hospital has elected to use settlement date accounting for regular-way purchases and sales of financial assets and transaction costs are expensed as incurred.

### (iii) Derivatives

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes to notional contract amounts. The Hospital uses an interest rate swaps ["IRS"] as an interest rate risk management solution. In effect, IRS are used to hedge interest rate exposure inherent in floating rate loan facilities. These instruments are used for hedging an on-balance sheet liability and have been designated as a hedge.

Hedges are documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued.

Derivative financial instruments are recorded at their fair value as an asset or liability based on quoted values determined by the counterparty to the interest rate swap contracts. Changes in fair value are recorded in the statement of changes in net assets.

No financial statement recognition is given to embedded derivatives or non-financial contracts with derivative characteristics.



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
(in thousands of dollars, except where noted)

March 31, 2009

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Future accounting policy changes

The CICA has issued revisions to the 4400 series and certain other Handbook sections to amend or improve sections relating to not-for-profit organizations. With respect to presentation, these changes include making the disclosure of net assets invested in capital assets optional; making CICA 1540 “Cash Flow Statements” applicable to not-for-profit organizations; and requiring the reporting of revenues and expenses on a gross basis in the statement of operations unless not required by other guidance. A new Section, CICA 4470 “Disclosure of Allocated Expenses by Not-for-Profit Organizations”, was included in the revisions which require certain disclosures when fundraising and general support expenses are allocated to other functions. These changes in accounting policies will be adopted for the year ending March 31, 2010. Management is currently assessing the impact of these revisions.

## 3. AMALGAMATION

The Hospital was formed as a result of the amalgamation of Hamilton Health Sciences Corporation and St. Peter’s Hospital effective July 18, 2008. The amalgamation has been accounted for using the continuity of interest method as the entities are subject to common control. Under the continuity of interest method, the carrying value of the assets and liabilities of each of the combining entities have been carried forward at their book values. Accordingly, these financial statements, including the comparative figures, are presented as if Hamilton Health Sciences Corporation and St. Peter’s Hospital had been combined since their inception.

The net assets of each of the combining entities as at April 1, 2008 were as follows:

	Hamilton Health Sciences	St. Peter’s Hospital	Combining Adjustments	Combined
Current assets	\$ 265,545	\$ 18,440	\$ (3,153)	\$ 280,832
Capital assets	266,008	12,972	-	278,980
Other assets	172,802	1,050	-	173,852
Current liabilities	227,952	8,948	(3,491)	233,409
Other liabilities	449,012	15,287	338	464,637
Net assets	27,391	8,227	-	35,618



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
(in thousands of dollars, except where noted)

March 31, 2009

## 4. RESTRICTED CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Restricted cash and cash equivalents in the amount of \$140,482 [2008 - \$132,650] consists of cash and fixed term securities with remaining maturities of less than three months at the date of acquisition. These funds are held for the Hospital's research operations \$114,961 [2008 - \$116,457], construction facilities \$17,505 [2008 - \$16,193] and St. Peters Hospital site \$8,016 [2008 - nil]. The fixed term securities earn interest at an average rate of 0.70% [2008 - 2.94%] and have a carrying value that approximates market value. Cash in the Hospital's Canadian bank account earns interest at a rate of prime less 1.85%, and US bank accounts at US BA rate less 4% which currently stands at the minimum rate of 0%.

Short-term investments consist of Government and Corporate Bonds with remaining maturities of less than one year. These investments earn interest at an average of 3.88% [2008 - 4.16%] and are recorded at market value as at March 31, 2009, with a cost of \$17,518 [2008 - \$38,673]. All short term investments as at March 31, 2009 are restricted investments.

## 5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2009		2008	
Ontario Ministry of Health and Long-Term Care	\$	16,207	\$	48,110
Patient receivables		4,887		6,187
Bay Area Health Trust [note 19(c)]		7,937		11,670
Hamilton Health Sciences Foundation and Hamilton Health Sciences Volunteer Association [notes 19(a) and (b)]		1,816		3,625
Other		18,416		14,672
	\$	49,263	\$	84,264

## 6. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	2009		2008	
	Cost	Market value	Cost	Market value
Fixed income - Canadian	\$ 107,998	\$ 108,979	\$ 94,611	\$ 95,717
Fixed income - U.S.	45,431	44,558	29,089	29,223
Equities - Canadian	42,733	31,693	47,058	45,791
Equities - U.S.	4,093	2,421	3,356	3,121
	\$ 200,255	\$ 187,651	\$ 174,114	\$ 173,852

Fixed income investments have an average term of 10.58 years [2008 - 10.83 years] to maturity and have a weighted average yield of 4.87% [2008 - 4.81%] as at March 31, 2009.



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
(in thousands of dollars, except where noted)

March 31, 2009

## 7. CAPITAL ASSETS

Capital assets consist of the following:

	2009		2008	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 890	\$ -	\$ 890	\$ 890
Building and building improvements	111,405	29,704	81,701	65,231
Equipment	284,511	213,417	71,094	81,060
Construction in progress	220,414	-	220,414	131,799
	\$ 617,220	\$ 243,121	\$ 374,099	\$ 278,980

Included in equipment are assets under capital leases at a cost of \$22,558 [2008 - \$16,315] and accumulated amortization of \$7,014 [2008 - \$3,764].

Fully depreciated capital assets with a cost of \$6,970 [2008 - \$7,092] were removed from the accounts in fiscal 2009.

## 8. BANK INDEBTEDNESS

As at March 31, 2009, the Hospital has a \$75,000 [2008 - \$75,000] unsecured demand operating line of credit. The line of credit bears interest at prime rate less 1.15%. As at March 31, 2009, the Bank's prime interest rate is 2.50% [2008 - 5.25%]. As at March 31, 2009 the bank indebtedness is \$14,264 [2008 - \$49,647] of the facility and a short term bridging facility of \$50,000 at prime plus 0.25% that was repaid in April 2009.



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
(in thousands of dollars, except where noted)

March 31, 2009

## 9. CAPITAL FINANCING

Capital financing consists of the following:

	2009	2008
Energy enhancement construction facility [a]	\$ 46,745	\$ 35,990
Redevelopment bridge financing facility [b]		7,599
	\$ 46,745	\$ 43,589

As at March 31, 2009, \$43,941 [2008 - \$27,765] of capital financing has been used to purchase capital assets.

[a] On September 26, 2007, the Hospital entered into a \$47,500 financing arrangement for the purpose of financing construction costs related to energy retrofit contracts. On January 22, 2009, the Hospital entered into an additional \$6,900 financial arrangement, bringing the total financing arrangements to \$54,400. There are three separate credit agreements. The first credit agreement, totaling \$28,000, is to finance the related construction costs at the McMaster Hospital site. The second credit agreement, totaling \$19,500, is to finance the related construction costs at the Chedoke, Henderson, and General Hospital sites. The third credit agreement, totaling \$6,900, is to finance the related construction costs for the central utility plant upgrade at the Henderson site.

There are two components to each of these credit agreements. The first component is an Interim Construction Loan ("Facility #1"). This component finances the construction costs over a period of 18 months. It is an uncommitted facility. The second component is a Committed Reducing Take Out Term Facility ("Facility #2"). Financing is obtained under Facility #1 in accordance with a construction draw schedule. At the end of the construction phase, Facility #2 will repay Facility #1 and will itself be repaid over a period of 20 years utilizing operating savings achieved under the Performance Contracts. Borrowing under each facility is by way of bankers acceptances. The Hospital has entered into interest rate swap transactions to hedge the interest risks associated with drawing by way of bankers acceptances under each of the facilities. The swaps fix the interest rate for Facility #1 at 4.8%, and Facility #2 at 5.255%. Interest rate terms for the third credit agreement have not been finalized. All facilities are unsecured.



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
(in thousands of dollars, except where noted)

March 31, 2009

## 9. CAPITAL FINANCING (continued)

The Hospital has in place Interest Rate Swap Agreements [the "Agreements"]. Under the terms of the Agreements, the Hospital agrees with the counterparty to exchange, at specified intervals and for a specified period, its floating interest rate for a fixed interest rate of 4.8% for Facility #1, and 5.255% for Facility #2. The use of the swaps effectively enables the Hospital to convert floating rate interest obligations into fixed rate obligations and thus manage its exposure to interest rate risk. These Agreements have been designated as a hedge. The fair value of the Agreements is based on amounts quoted by the Hospital's bank to realize favourable contracts or settle unfavourable contracts, taking into account interest rates at March 31. The Agreements are in a net unfavourable position of \$10,807 [2008 - \$3,833].

Subsequent to year end it was determined that the initial take out facility date did not line up with the completion of the construction loan facility. The bank and Hospital signed an amended agreement on April 17, 2009 for the \$28,000 facility which secures the hedge interest rate and allows for the new construction completion date. The loan repayment on the \$28,000 McMaster Hospital site facility will now start one year later and will be repaid in 19 years.

- [b] On January 3, 2008, the Hospital entered into an Unsecured Demand Operating Facility for the purpose of bridge-financing costs incurred on the major redevelopment projects, to the extent that there are offsetting funding commitments in place. The credit limit for the facility is \$25 million. It bears an interest rate at prime less 1.0%. As at March 31, 2009, the prime interest rate is 2.50% [2008- 5.25%]. As at March 31, 2009 the Hospital has drawn \$nil [2008 - \$7,599] of the facility.

## 10. LEASE COMMITMENTS

The Hospital has entered into various arrangements for the leasing of computer and medical equipment. The effective average interest rate of the capital leases is 4.5% [2008 - 4.5%].

The future minimum annual payments under capital and operating leases consist of the following:

	Capital leases	Operating leases
2010	\$ 4,550	\$ 1,559
2011	4,152	815
2012	3,881	631
2013	2,268	243
2014	809	44
Total minimum lease payments	15,660	3,292
Less interest included in lease payable	1,559	-
Obligations under capital leases	14,101	-
Less current portion	4,086	-
	\$ 10,015	\$ -





# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
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## 11. LONG-TERM DEBT

Long-term debt consists of the following:

	2009	2008
Non-revolving capital loan payable by August 1, 2025 in monthly blended principal and interest installments at a variable rate [a]	\$ 7,936	\$ 8,251
Capital loan payable by April 1, 2011 in monthly principal and interest installments of \$24 at 5.36% per annum [b]	564	814
Capital loan payable by September 15, 2011 in monthly principal and interest installments of \$29 at 5.21% per annum [c]	821	1,120
	9,321	10,185
Less current portion	909	864
	\$ 8,412	\$ 9,321

[a] On July 15, 2005, the Hospital entered into a \$9 million, 20-year financing arrangement for the purpose of financing the construction, acquisition and development costs of parking equipment and improvements of the parking facilities at the Hamilton General Hospital ["General"] and Henderson General Hospital ["Henderson"] Sites. The \$9 million facility is comprised of a non-revolving credit facility, and a second facility to hedge the interest risk on the first facility. The second facility fixes the interest rate over the 20-year term at 4.65%. On a monthly basis, the Hospital is required to deposit the Net Profit, as defined, from the parking operations of the General and Henderson sites into a Net Profit Account held at the bank. At all times, the Hospital must maintain a minimum balance in the Net Profit Account the greater of \$400 or the total of the next scheduled payment of principal and interest. At March 31, 2009, the balance in the Net Profit Account is \$476 [2008 - \$421] and is included in restricted cash and cash equivalents on the statement of financial position.

As security, the bank has a first ranking specific assignment of all rights, title and interest in and to all Net Profit and any other revenue and income arising from the General and Henderson Parking Improvements from time to time but expressly excluding payments for monthly parking permits of employees of the Hospital; and a first ranking security agreement in respect of the Net Profit Account. Under the terms of the financing the Hospital is required to comply with certain loan covenants and, at year-end, the Hospital was in compliance with all credit facility covenants.



# Hamilton Health Sciences

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March 31, 2009

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## 11. LONG-TERM DEBT (continued)

The Hospital has in place an Interest Rate Swap Agreement [the "Agreement"], which will expire on August 1, 2025. Under the terms of the Agreement, the Hospital agrees with the counterparty to exchange, at specified intervals and for a specified period, its floating interest rate for a fixed interest rate of 4.65%. The use of the swap effectively enables the Hospital to convert floating rate interest obligations into fixed rate obligations and thus manage its exposure to interest rate risk. This Agreement has been designated as a hedge. The fair value of the Agreement is based on amounts quoted by the Hospital's bank to realize favourable contracts or settle unfavourable contracts, taking into account interest rates at March 31. The Agreement is in a net unfavourable position of \$1,343 [2008 - unfavourable \$295].

- [b] On March 31, 2006 the Hospital entered into a separate \$1,256, 5-year loan for the purpose of purchasing diagnostic medical equipment. The interest is fixed at a rate of 5.36%. The equipment financed by the loan is pledged as collateral for the loan.
- [c] On September 15, 2006 the Hospital entered into a separate \$1,541, 5-year loan for the purpose of purchasing diagnostic medical equipment. The interest is fixed at a rate of 5.21%. The equipment financed by the loan is pledged as collateral for the loan.

The future minimum annual debt principal repayments over the next five years and thereafter are as follows:

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2010	\$	909
2011		955
2012		559
2013		379
2014		397
Thereafter		6,122
	\$	9,321

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# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
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## 12. EMPLOYEE BENEFIT PLANS

### [a] Multi-employer plan

Substantially all of the employees of the Hospital are eligible to be members of HOOPP, which is a multi-employer, defined benefit, final average earnings, contributory pension plan. HOOPP is accounted for as a defined contribution plan. The Hospital's contributions to HOOPP during the year amounted to \$41,632 [2008 - \$39,987] and are included in salaries and employee benefits expense in the statement of operations. The most recent actuarial valuation of HOOPP as of December 31, 2008 indicates the Plan has a 3% deficit in disclosed actuarial assets and is fully funded on a solvency basis.

### [b] Accrued post-retirement benefits

The Hospital's non-pension post-retirement benefit plans comprise medical, dental and life insurance coverage for certain groups of employees who have retired from the Hospital and are between the ages of 55 and 65. The last actuarial valuation was performed on April 1, 2007.

The sick leave benefit plan for employees was previously amended such that the future accumulation of sick leave credits was discontinued except for the St. Peters Hospital site; however, employees are entitled to cash payments on a portion of their accumulated sick bank entitlements upon termination of employment. As at March 31, 2009 the sick leave obligation amounted to \$6,123 [2008 - \$6,500].

As at March 31, 2009 the Hospital's post-retirement accrued benefit liability is made up of the following:

	2009	2008
Accrued benefit obligation	\$ 38,149	\$ 42,113
Assets	-	-
Net unfunded accrued benefit obligation	38,149	42,113
Unamortized experience losses	4,206	(2,679)
Unamortized prior service costs	(5,658)	(6,782)
Accrued benefit liability	\$ 36,697	\$ 32,652



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
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**[b] Accrued post-retirement benefits (continued)**

The Hospital's non-pension post retirement benefits expense for the year is \$5,559 [2008 - \$5,151]. It is comprised of the following:

	2009	2008
Accrual for services	\$ 1,933	\$ 1,990
Interest on accrued benefits	2,489	2,279
Actuarial (gains) losses during the year	(6,871)	(2,400)
Adjustment for prior service costs	1,123	1,123
Adjustment for experience (gains) losses	6,885	2,159
	\$ 5,559	\$ 5,151

The significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligations and expenses for the non-pension post-retirement benefit plans are as follows:

	2009	2008
	%	%
Discount rate	7.25%	5.75%
Expected annual increase in dental care costs	4.00%	4.00%
Expected annual increase in health care costs*	5.00%	5.00%

\* The current rate is 9.0%. The rate is presumed to decline by 0.5% increments per annum to an ultimate rate of 5.0%.



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
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## 13. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The changes in the deferred capital contributions balance are as follows:

	2009	2008
<b>Balance, beginning of year</b>	\$ 208,885	\$ 160,867
Add contributions for capital purposes		
MOHLTC grant	6,309	35,364
Research grants	1,703	6,791
Superbuild interest	74	4
Hamilton Health Sciences Foundation and Hamilton Health Sciences Volunteer Association	5,080	2,385
Other	17,195	16,439
Canadian Foundation for Innovation	24,022	-
Transfers	42	2,446
Unrealized gain	(5)	-
Less amortization	(15,990)	(15,411)
<b>Balance, end of year</b>	<b>\$ 247,315</b>	<b>\$ 208,885</b>

Included in the above balance are contributions of \$48,090 [2008 - \$54,021] received but not yet used to purchase capital assets.

## 14. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants for research. The changes in the deferred contributions balance are as follows:

	2009	2008
<b>Balance, beginning of year</b>	\$ 200,753	\$ 157,297
Externally restricted contributions received	112,484	124,292
Less amount recognized as revenue during the year	(129,372)	(81,358)
Net change in unrealized losses on deferred research balances	(100)	522
<b>Balance, end of year</b>	<b>\$ 183,765</b>	<b>\$ 200,753</b>

Research revenue of \$185,832 (2008 - \$108,441) consists of externally restricted research grants recognized in income during the year of \$129,372 (2008 - \$81,358) and \$56,460 (2008 - \$27,083) of research revenue internally restricted by the Hospital's Board of Directors.



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
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## 15. NET ASSETS INVESTED IN CAPITAL ASSETS

[a] Net assets invested in capital assets are calculated as follows:

	2009	2008
Capital assets, net	\$ 374,099	\$ 278,980
Less amounts funded by		
Capital financing <i>[note 9]</i>	(43,941)	(27,765)
Deferred capital contributions <i>[note 13]</i>	(199,225)	(154,864)
Obligations under capital leases <i>[note 10]</i>	(14,101)	(11,962)
Debt <i>[note 11]</i>	(9,321)	(10,185)
Other	-	2,700
	\$ 107,511	\$ 76,904

[b] Net change in invested in capital assets is calculated as follows:

	2009	2008
Purchase of capital assets	\$ 125,004	\$ 93,096
Amounts funded by deferred capital contributions	(60,351)	(45,350)
Amortization of capital assets	(29,885)	(26,002)
Amortization of deferred capital contributions	15,990	15,411
Increase in capital portion of capital financing	(16,176)	(27,765)
Increase in obligations under capital leases	(2,139)	(3,649)
Decrease in long-term debt	864	821
Other	(2,700)	-
	\$ 30,607	\$ 6,562

## 16. SEVERANCE AND TERMINATION BENEFITS

The Hospital's operational costs are scheduled to rise 4 to 5% in 2009/2010, while the funding increase will be 2.1%. The Hospital has been mandated to meet budget as per the HAA with the MOHLTC. In response to this challenge, the Hospital has conducted a comprehensive review aimed at identifying efficiencies that can be implemented without reducing the volume of patient care. Although the Hospital has taken initiatives to minimize the impact on staff, 250 positions are expected to be affected.

Negotiations for restructuring are ongoing with uncertainty of estimating the final amount of future employee termination benefits. The Hospital has incurred \$3,057 of expenses to date in the statement of operations for the year ended March 31, 2009.



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
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## 17. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2009	2008
Accounts receivable	\$ 35,001	\$ (38,650)
Inventories	(788)	(928)
Prepaid expenses and deposits	(610)	(1,080)
Accounts payable and accrued liabilities	(9,336)	9,117
	\$ 24,267	\$ (31,541)

## 18. COMMITMENTS AND CONTINGENCIES

- [a] The nature of the Hospital's activities is such that there is usually litigation pending or in progress at any time. With respect to claims as at March 31, 2009, it is management's position that the Hospital has valid defenses and appropriate insurance coverage in place, such that there would be no material effect on the financial statements as a result of these claims. In the unlikely event any claims are successful, such claims are not expected to have a material effect on the Hospital's financial position.
- [b] The Hospital participates in the Healthcare Insurance Reciprocal of Canada, a pooling of the public liability insurance risks of its hospital members. All members of the pool pay premiums that 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 for the year ended March 31, 2009.
- [c] The Hospital has initiated various construction and renovation projects. A major initiative includes the Henderson Hospital Redevelopment that will provide updated community hospital services and position the acute care service appropriately to support the Juravinski Regional Cancer Centre that shares the site. The Hamilton General Rehabilitation and Acquired Brain Injury is another major initiative, which will consolidate rehabilitation services currently located in several locations throughout the city.

A third major initiative is the construction of the Cardiac Vascular Stroke Research Institute (CVSRI) Research Building, which will bring two existing groups together; Population Health Research Institute (PHRI) and the Henderson Research Centre (HRC). Finally, the McMaster University Medical Center/McMaster Children's Hospital initiative facilitates key principles of patient and family centered care. This project consists of two distinct phases. Phase One includes a Child and Adolescent Mental Health Unit and the expansion of Pediatric Ambulatory Clinics while Phase Two includes the development of a stand alone Pediatric Intensive Care Unit, Pediatric Emergency Department and Ambulatory Surgical Service Improvements.



# Hamilton Health Sciences

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## 18. COMMITMENTS AND CONTINGENCIES (continued)

[d] The Hospital has contracted for the Henderson Hospital Redevelopment Project. The overall budget for the project including facilities is projected at \$284,239 and will be cost-shared with Ministry of Health and Long-Term Care. The contractor will construct the facilities for a stipulated fixed price of \$198,126 including their financing costs. The contractor has agreed to reach substantial completion by March 2012, and total completion by July 2012. Hamilton Health Sciences repayment of the construction costs and financing will not commence until substantial completion.

The Hospital has contracted for the Hamilton General Rehabilitation and Acquired Brain Injury Project. The overall budget for the project including facilities is \$60,343 and will be cost-shared with Ministry of Health and Long-Term Care. The contractor will construct the facilities for a stipulated fixed price of \$44,986 including their financing costs. The contractor has agreed to reach substantial completion by July 2009. Hamilton Health Sciences repayment of the construction cost and financing will not commence until substantial completion.

These above two projects fall under Infrastructure Ontario's Alternative Financing and Procurement Model. Under this model, the contractor is required to finance project construction until substantial completion at which point the facilities will be transferred to the Hospital. Upon substantial completion, the Hospital will set up the required capital asset as related to construction, as well as any appropriate deferred capital contribution from the Ministry of Health and Long-Term Care. The deferred portion will represent 90% of construction as per the Ministry of Health and Long-Term Care's funding formula (June 2006).

The total capital expenditures commitments for these and other projects outstanding at March 31, 2009 are estimated at \$73,145 [2008 - \$62,657].

## 19. RELATED PARTY TRANSACTIONS

[a] The Foundation, an independent organization, raises funds and holds resources solely for the benefit of the Hospital. All amounts received from the Foundation are restricted in use by the Foundation and, accordingly, are accounted for by the Hospital as externally restricted contributions. The Foundation contributed \$393 during fiscal 2009 [2008 - \$1,666] for capital and \$378 [2008 - \$1,412] for research. As at December 31, 2008, the Foundation had net assets of \$37,284 [2008 - \$44,792]. Included in the Hospital's assets as at March 31, 2009 is \$903 [2008 - \$3,287] in accounts receivable from the Foundation.

An amount of \$8,294 is due to the Foundation from Hospital net assets in trust for future capital expenditures at St. Peter's Hospital site.





# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
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## 19. RELATED PARTY TRANSACTIONS (continued)

- [b] The Volunteer Association is an independent organization that raises funds and holds resources for the benefit of the Hospital. All amounts received from the Volunteer Association are restricted and, accordingly, are accounted for as externally restricted contributions. The Volunteer Association contributed \$1,894 [2008 - \$1,687] during the year and has net assets of \$441 [2008 - \$390] as at March 31, 2009. Included in the Hospital's assets as at March 31, 2009 is \$913 [2008 - \$339] in accounts receivable from the Volunteer Association.
- [c] The Bay Area Health Trust is a commercial entity dedicated to developing business opportunities in association with the Hospital. The purpose of the Trust is to harness private sector experience, energy and entrepreneurship to benefit the community by supporting profitable business development in the Hospital and health care sector. The beneficiaries of the Trust are the Hospital, the Foundation and McMaster University.

Included in the Hospital's results are the following related party transactions with the Trust:

	2009	2008
<b>Statement of financial position</b>		
Accounts receivable	\$ 7,937	\$ 11,670
Capital assets, net	9,611	9,378
Accounts payable and accrued liabilities	3,001	3,417
<b>Statement of operations</b>		
Investment income	200	334
Amortization of capital assets	195	191
Other non-salary expense	17,562	16,468



# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
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## 19. RELATED PARTY TRANSACTIONS (continued)

The following amounts represent the Trust's assets, liabilities, revenue and expenses as at and for the year ended December 31, 2008 and December 31, 2007:

	December 31, 2008	December 31, 2007
Assets	\$ 67,340	\$ 72,833
Liabilities and Trustees' Equity	67,340	72,833
Revenue	24,247	11,799
Expenses	23,733	11,846
Cash provided by operating activities	205	(13,856)
Cash used in investing activities	(1,064)	(980)
Cash provided by financing activities	(862)	13,422

The Trust entered into a financing arrangement for \$63,000, guaranteed by the Hospital, for the purpose of funding the construction of the cogeneration facilities. The financing arrangement consists of \$44,800 at a fixed rate of 6.068% due January 1, 2031 and \$18,200 at a weighted average rate of 5.597% due on January 1st, 2013. At December 31, 2008 the Trust had \$42,622 [2007 - \$43,515] and \$17,248 [2007 - \$17,633] outstanding, respectively, with the current portion amounting to \$1,355.

At March 31, 2009 the Trust has borrowed \$7,937 [2008 - \$11,670] from the Hospital's facility and are being charged a rate of prime less 1.15%.

The Hospital has entered into a service agreement to buy electricity, hot water, steam, chilled water and compressed air from the Trust.

## 20. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of the Hospital's financial instruments is not significantly different from their carrying value at March 31, 2009 unless otherwise noted. The Hospital is subject to credit risk with respect to its accounts receivable and the investments are primarily exposed to foreign currency, interest rate, market and credit risks.

The Hospital is subject to interest rate cash flow risk with respect to its floating rate debt. The Hospital has addressed this risk by entering into interest rate swap agreements that fix the interest rates over the term of the associated debt.



# Hamilton Health Sciences

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## 21. CLINICAL EDUCATION

During the year the Clinical Education Program incurred expenses of \$46,992 [2008 - \$43,664] and received \$47,849 [2008 - \$43,867] from the Ministry of Health and Long Term Care. As applicable, the excess of this funding must be returned to the Ministry, and, as such, a payable of \$857 has been included in the statement of financial position.

## 22. CAPITAL MANAGEMENT

In managing capital, the Hospital focuses on maintaining a balanced operating position and the ability to generate sufficient cash from operations to fund existing debt service requirements and future debt requirements. The Hospital uses accumulated surpluses and the proceeds from specific Foundation fundraising campaigns leveraged with appropriate levels of debt to support infrastructure renewal. In addition the Hospital maintains reserve funds to meet current obligations including debt service and to allow the Hospital to respond to unexpected operating pressures that may occur over the course of the year.

The Hospital is in compliance with all financial and non-financial covenants and had on hand adequate reserve funds during the fiscal year.