



**Financial Statements of**



**HAMILTON HEALTH SCIENCES  
CORPORATION**

**Year ended March 31, 2010**





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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, 2010 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, 2010 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 19, 2010





# Hamilton Health Sciences

Statement of Financial Position  
(in thousands of dollars)


March 31, 2010, with comparative figures for 2009

	2010	2009
<b>ASSETS</b>		
<b>Current</b>		
Restricted cash and cash equivalents <i>[notes 4 and 11]</i>	\$ 121,277	\$ 140,482
Short-term investments <i>[note 4]</i>	13,914	17,256
Accounts receivable <i>[note 5]</i>	56,290	49,263
Inventories	19,029	15,034
Prepaid expenses and deposits	5,006	4,332
<b>Total current assets</b>	<b>215,516</b>	<b>226,367</b>
Long-term investments <i>[note 6]</i>	212,666	187,651
Long-term investment in Bay Area Health Trust <i>[note 19(c)]</i>	121	-
Capital assets, net <i>[note 7]</i>	475,137	374,099
<b>Total assets</b>	<b>903,440</b>	<b>788,117</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Bank indebtedness <i>[note 8]</i>	\$ 79,227	\$ 71,637
Capital financing <i>[note 9]</i>	25,000	46,745
Accounts payable and accrued liabilities	104,945	122,641
Current portion of obligations under capital leases <i>[note 10]</i>	4,992	4,086
Current portion of long-term debt <i>[note 11]</i>	1,719	909
<b>Total current liabilities</b>	<b>215,883</b>	<b>246,018</b>
Obligations under capital leases <i>[note 10]</i>	10,579	10,015
Long-term debt <i>[note 11]</i>	47,593	8,412
Accrued benefit liability <i>[note 12]</i>	40,571	36,697
Unrealized losses on revaluation of derivative hedges	6,769	12,150
Deferred capital contributions <i>[note 13]</i>	317,857	247,315
Deferred contributions <i>[note 14]</i>	155,375	183,765
<b>Total liabilities</b>	<b>794,627</b>	<b>744,372</b>
<b>Net assets (deficit)</b>		
Unrestricted	\$ (253,182)	\$ (222,804)
Invested in capital assets <i>[note 15 (a)]</i>	130,824	107,511
Board designated	231,171	159,038
<b>Total net assets</b>	<b>108,813</b>	<b>43,745</b>
Commitments and contingencies <i>[notes 10, 18, 19]</i>		
	\$ 903,440	\$ 788,117

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, 2010, with comparative figures for 2009

	2010	2009
<b>REVENUE</b>		
Ontario Ministry of Health and Long-Term Care	\$ 833,944	\$ 802,522
Ontario Health Insurance Plan	32,326	37,221
Ministry of Community and Social Services	25,242	25,714
Patient and third party payors	20,263	22,333
Amortization of deferred capital contributions <i>[note 13]</i>	15,610	15,990
Investment income	9,360	5,594
Ancillary and other recoveries	102,992	107,718
Research <i>[note 14]</i>	174,707	185,832
	1,214,444	1,202,924
<b>EXPENSES</b>		
Salaries and employee benefits <i>[notes 12 and 16]</i>	654,730	640,876
Medical staff remuneration	68,222	73,794
Medical and surgical supplies	57,137	54,678
Drugs	60,016	57,254
Facilities	26,570	41,893
Amortization of capital assets	32,144	29,885
Other expenses	138,897	132,891
Research	129,836	142,987
	1,167,552	1,174,258
<b>Excess of revenue over expenses for the year</b>	<b>\$ 46,892</b>	<b>\$ 28,666</b>

See accompanying notes to financial statements.





# Hamilton Health Sciences

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

Year ended March 31, 2010, with comparative figures for March 31, 2009

	2010			2009	
	Unrestricted	Invested in capital assets <i>[note 15[a]]</i>	Board designated	Total	Total
<b>Net assets (deficit), beginning of year</b>	\$ (222,804)	\$ 107,511	\$ 159,038	\$ 43,745	\$ 35,618
Excess of revenue over expenses for the year	46,892	-	-	46,892	28,666
Transfer to Board designated	(59,284)	-	59,284	-	-
Net change invested in capital assets <i>[note 15[b]]</i>	(23,313)	23,313	-	-	-
Net change in unrealized losses on available-for-sale investments	(54)	-	12,849	12,795	(12,517)
Net change in unrealized losses on revaluation of derivative hedges	5,381	-	-	5,381	(8,022)
<b>Net assets (deficit), end of year</b>	\$ (253,182)	\$ 130,824	\$ 231,171	\$ 108,813	\$ 43,745

See accompanying notes to financial statements.





# Hamilton Health Sciences

## Statement of Cash Flows (in thousands of dollars)

Year ended March 31, 2010, with comparative figures for March 31, 2009

	2010	2009
<b>Cash provided by (used in):</b>		
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses for the year	\$ 46,892	\$ 28,666
Add (deduct) non-cash items:		
Amortization of capital assets	32,144	29,885
Amortization of deferred capital contributions	(15,610)	(15,990)
Non-pension post-retirement benefits expense [note 12[b]]	5,511	5,559
	68,937	48,120
Net change in non-cash working capital balances related to operations [note 17]	(27,471)	18,030
Non-pension benefit contributions	(1,637)	(1,514)
Decrease in deferred contributions	(28,390)	(16,888)
<b>Cash provided by operating activities</b>	<b>11,439</b>	<b>47,748</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(135,103)	(118,767)
(Increase) decrease in investments, net	(8,878)	2,278
Decrease (increase) in restricted cash and cash equivalents	19,205	(7,832)
Increase in investment in Bay Area Health Trust	(121)	-
<b>Cash used in investing activities</b>	<b>(124,897)</b>	<b>(124,321)</b>
<b>FINANCING ACTIVITIES</b>		
Contributions received for capital purposes	86,152	54,420
Increase (decrease) in long-term debt	39,991	(864)
(Decrease) increase in capital financing	(21,745)	3,156
Increase in obligations under capital leases	1,470	2,139
<b>Cash provided by financing activities</b>	<b>105,868</b>	<b>58,851</b>
<b>Increase in bank indebtedness during the year</b>	<b>7,590</b>	<b>17,722</b>
Bank indebtedness, beginning of year	71,637	53,915
<b>Bank indebtedness, end of year</b>	<b>\$ 79,227</b>	<b>\$ 71,637</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ 3,977	\$ 3,020
Purchase of capital assets included in accounts payable and accrued liabilities	4,316	6,237

See accompanying notes to financial statements.





# Hamilton Health Sciences

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

March 31, 2010

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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 [note 19[c]].

These financial statements, including the comparative figures, include the carrying value of the assets and liabilities and revenue and expenses of St. Peter's Hospital.

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 revenue 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.





# Hamilton Health Sciences

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

March 31, 2010

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

### (a) Revenue recognition (continued)

The Hospital operates under a Hospital Service Accountability Agreement ("H-SAA") 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 H-SAA 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.

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 net realizable 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 are recorded through the statement of changes in net assets for board designated trust investments and deferred contributions for research.





# Hamilton Health Sciences

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

March 31, 2010

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

### (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.

### (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.





# Hamilton Health Sciences

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

March 31, 2010

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

### (h) Employee benefit plans

#### (i) Multi-employer plan

Defined contribution plan accounting is applied to the Healthcare 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 prorated 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.

#### (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.





# Hamilton Health Sciences

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

March 31, 2010

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

### (k) Financial instruments

#### (i) Recognition and measurement

Under the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3855 "Financial Instruments – Recognition and Measurement" and 3861 "Financial Instruments – Disclosure and Presentation", 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 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.

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, capital financing and current and long-term debt 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.





# Hamilton Health Sciences

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

March 31, 2010

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

### (k) Financial instruments (continued)

#### (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 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.

## 3. CHANGE IN ACCOUNTING POLICIES

Effective April 1, 2009, the Hospital adopted the Canadian Institute of Chartered Accountants ("CICA") amendments to the 4400 Sections of the CICA Handbook. These amendments eliminate the requirement to show net assets invested in capital assets as a separate component of net assets, clarify the requirement for revenue and expenses to be presented on a gross basis when the not-for-profit organization is acting as principal and require a statement of cash flows. The Hospital also adopted the CICA amendments to Section 1000 of the CICA Handbook. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching of revenue and expense items.

Adoption of these recommendations had no significant impact on the financial statements for the year ended March 31, 2010. The Hospital has elected to continue to show net assets invested in capital assets as a separate component of net assets.





# Hamilton Health Sciences

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

March 31, 2010

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

Restricted cash and cash equivalents in the amount of \$121,277 [2009 - \$140,482] consists of cash and fixed term securities with remaining maturities of less than three months at the date of acquisition and consist of Canadian, USD and EURO currencies. These funds are held for the Hospital's internally and externally designated trusts and research operations \$110,490 [2009 - \$122,977], construction facilities \$10,750 [2009 - \$17,505] and patient trusts \$37 [2009 - nil].

The fixed term securities earn interest at an average rate of 1.09% [2009 - 0.70%] 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 1.75%, if the combined balance in all Canadian bank accounts is equal to or greater than \$5,000, otherwise the interest rate is prime less 1.85%, US bank accounts at the US BA rate less 4% which currently stands at the minimum rate of 0%, and EURO bank accounts earn no interest.

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 5.00% [2009 - 3.88%] and are recorded at market value as at March 31, 2010, with a cost of \$13,567 [2009 - \$17,518]. All short term investments as at March 31, 2010 are restricted investments.

## 5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2010	2009
Ontario Ministry of Health and Long-Term Care	\$ 15,271	\$ 16,380
Patient receivables	6,517	4,887
Bay Area Health Trust [note 19(c)]	3,261	7,937
Hamilton Health Sciences Foundation and Hamilton Health Sciences Volunteer Association [notes 19(a) and (b)]	1,812	1,816
Other	29,429	18,243
	\$ 56,290	\$ 49,263





# Hamilton Health Sciences

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

March 31, 2010

## 6. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	2010		2009	
	Cost	Market value	Cost	Market value
Fixed income - Canadian	\$ 156,353	\$ 160,271	\$ 107,998	\$ 108,979
Fixed income - U.S.	18,417	19,055	45,431	44,558
Equities - Canadian	33,904	30,587	42,733	31,693
Equities - U.S.	3,027	2,753	4,093	2,421
	\$ 211,701	\$ 212,666	\$ 200,255	\$ 187,651

Fixed income investments have an average term of 11.20 years [2009 - 10.58 years] to maturity and have a weighted average yield of 4.61% [2009 - 4.87%] as at March 31, 2010.

## 7. CAPITAL ASSETS

Capital assets consist of the following:

	2010		2009	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 890	\$ -	\$ 890	\$ 890
Building and building improvements	312,510	37,332	275,178	81,701
Equipment	297,250	237,406	59,844	71,094
Construction in progress	139,225	-	139,225	220,414
	\$ 749,875	\$ 274,738	\$ 475,137	\$ 374,099

Included in equipment are assets under capital leases at a cost of \$27,475 [2009 - \$22,558] and accumulated amortization of \$11,286 [2009 - \$7,014].

Fully depreciated capital assets with a cost of \$526 [2009 - \$6,970] were removed from the accounts in fiscal 2010.





# Hamilton Health Sciences

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

March 31, 2010

## 8. BANK INDEBTEDNESS

As at March 31, 2010, the Hospital has a \$75,000 [2009 - \$75,000] unsecured demand operating line of credit. The line of credit bears interest at prime rate less 0.20%. As at March 31, 2010, the Bank's prime interest rate is 2.25% [2009 - 2.50%]. As at March 31, 2010 the bank indebtedness is \$27,089 [2009 - \$14,264] of the facility and a short-term bridging facility of \$42,000 [2009 - \$50,000] at a BA rate of 0.44% plus stamping fee of 0.75%, which was repaid in May 2010.

## 9. CAPITAL FINANCING

Capital financing consists of the following:

	2010	2009
Energy enhancement construction facility	\$ 25,000	\$ 46,745

On September 26, 2007, the Hospital entered into an amended \$28,000 financing agreement for the purpose of financing construction costs related to energy retrofit contracts at the McMaster Hospital Site. The balance of the facility at March 31, 2010 was \$25,000, plus an additional \$3,000 was drawn on the agreement subsequent to year end. As at March 31, 2010, \$24,379 [2009 - \$43,941] of capital financing has been used to purchase capital assets.

There are two components to this credit agreement. 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, April 15, 2010, Facility #2 will repay Facility #1 and will itself be repaid over a period of 19 years utilizing operating savings achieved under the Performance Contracts. Borrowing under this facility is by way of a bankers acceptance. All facilities are unsecured.





# Hamilton Health Sciences

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

March 31, 2010

## 9. CAPITAL FINANCING (continued)

The Hospital has in place an Interest Rate Swap Agreement [the "Swap Agreement"]. Under the terms of the Swap 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 5.255%. 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 Swap Agreement has been designated as a hedge. The fair value of the Swap 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, 2010. The Swap Agreement is in a net unfavourable position of \$3,504 [2009 - \$6,366].

## 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% [2009 – 4.5%].

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

	Capital leases	Operating leases
2011	\$ 5,561	\$ 1,145
2012	5,290	945
2013	3,677	515
2014	2,219	281
2015	593	132
Total minimum lease payments	17,340	3,018
Less interest included in lease payable	1,769	-
Obligations under capital leases	15,571	-
Less current portion	4,992	-
	\$ 10,579	\$ -





# Hamilton Health Sciences

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

March 31, 2010

## 11. LONG-TERM DEBT

Long-term debt consists of the following:

	2010	2009
Non-revolving capital loan payable by August 1, 2025 in monthly blended principal and interest installments at a variable rate [a]	\$ 7,606	\$ 7,936
Capital loan payable by April 1, 2011 in monthly principal and interest installments of \$24 at 5.36% per annum [b]	301	564
Capital loan payable by September 15, 2011 in monthly principal and interest installments of \$29 at 5.21% per annum [c]	505	821
Capital loan payable by April 15, 2029 in monthly principal and interest installments of \$395 at 5.255% per annum [d]	19,092	-
Capital loan payable by September 17, 2029 in monthly principal and interest installments of \$150 at 4.33% per annum [e]	6,808	-
Restructuring loan payable by May 12, 2014 in monthly principal and interest installments starting in May 2011 at 2.29% per annum, plus stamping fee [f]	15,000	-
	49,312	9,321
Less current portion	1,719	909
	\$ 47,593	\$ 8,412

[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, 2010, the balance in the Net Profit Account is greater than the minimum required balance and is included in restricted cash and cash equivalents on the statement of financial position.





# Hamilton Health Sciences

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

March 31, 2010

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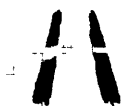
## 11. LONG-TERM DEBT (continued)

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.

The Hospital has in place a Swap Agreement, which will expire on August 1, 2025, that fixes the interest rate at 4.65%. This Swap Agreement has been designated as a hedge. The fair value of the Swap 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, 2010. The Swap Agreement is in a net unfavourable position of \$587 [2009 - \$1,343].

- [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.
- [d] On September 26, 2007, the Hospital entered into a \$19,500 financing arrangement for the purpose of financing construction costs related to energy retrofit contracts at the Chedoke, Henderson, and General Hospital sites. The Hospital has in place a Swap Agreement that fixes the interest rate at 5.255%. This Swap Agreement has been designated as a hedge. The Swap Agreement is in a net unfavourable position of \$2,397 [2009 - \$4,441].
- [e] On January 22, 2009, the Hospital entered into a \$6,900 financial arrangement for the purpose of financing the related construction costs for the central utility plant upgrade at the Henderson site. The Hospital has entered into a Swap Agreement that fixes the interest rate at 4.33%. This Swap Agreement has been designated as a hedge. The Swap Agreement is in a net unfavourable position of \$231 [2009 - nil].





# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
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March 31, 2010

## 11. LONG-TERM DEBT (continued)

[f] On July 10, 2009, the Hospital entered into a \$15,000 demand installment loan for the purpose of financing the payment of severance costs and the costs incurred to implement cost efficiency strategies. Subsequent to year end, this loan was converted to a committed financing arrangement and as a result is being classified as long-term. The Hospital has in place a Swap Agreement that fixes the interest rate of 2.29%, plus a stamping fee of 1.15%. This Swap Agreement has been designated as a hedge. The Agreement is in a net unfavourable position of \$50.

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

2011	\$	1,719
2012		5,532
2013		6,231
2014		6,299
2015		2,206
Thereafter		27,325
	\$	49,312

## 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 \$42,064 [2009 - \$41,632] 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, 2009 indicates the Plan has a 2% surplus 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 accrued post-retirement benefit liability is calculated based on the latest actuarial valuation performed on April 1, 2010.

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, 2010 the sick leave obligation amounted to \$7,829 [2009 - \$7,608].





# Hamilton Health Sciences

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

March 31, 2010

## [b] Accrued post-retirement benefits (continued)

As at March 31, 2010 the Hospital's post-retirement accrued benefit liability is made up of the following:

	2010	2009
Accrued benefit obligation	\$ 46,436	\$ 38,149
Assets	-	-
Net unfunded accrued benefit obligation	46,436	38,149
Unamortized experience (losses) gains	(1,226)	4,206
Unamortized prior service costs	(4,639)	(5,658)
Accrued benefit liability	\$ 40,571	\$ 36,697

The Hospital's non-pension post retirement benefits expense for the year is \$5,511 [2009 - \$5,559]. It is comprised of the following:

	2010	2009
Accrual for services	\$ 1,621	\$ 1,933
Interest on accrued benefits	2,824	2,489
Actuarial losses (gains) during the year	5,374	(6,871)
Plan amendments during the year	104	-
Adjustment for prior service costs	1,110	1,123
Adjustment for experience (gains) losses	(5,522)	6,885
	\$ 5,511	\$ 5,559

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:

	2010 %	2009 %
Discount rate	5.50%	7.25%
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 7.5%. 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  
(in thousands of dollars, except where noted)

March 31, 2010

## 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:

	2010	2009
<b>Balance, beginning of year</b>	\$ 247,315	\$ 208,885
Add contributions for capital purposes		
MOHLTC grant	54,007	6,309
Research grants	142	1,703
Superbuild interest	4	74
Hamilton Health Sciences Foundation and Hamilton Health Sciences Volunteer Association	3,024	5,080
Other	15,686	17,195
Canada Foundation for Innovation	13,289	24,022
Transfers	-	42
Unrealized gain	-	(5)
Less amortization	(15,610)	(15,990)
<b>Balance, end of year</b>	\$ 317,857	\$ 247,315

Included in the above balance are contributions of \$47.806 [2009 - \$48,090] 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:

	2010	2009
<b>Balance, beginning of year</b>	\$ 183,765	\$ 200,753
Externally restricted contributions received	83,809	112,484
Less amount recognized as revenue during the year	(113,559)	(129,372)
Net change in unrealized losses on deferred research balances	1,360	(100)
<b>Balance, end of year</b>	\$ 155,375	\$ 183,765

Research revenue of \$174,707 (2009 - \$185,832) consists of externally restricted research grants recognized in income during the year of \$113,559 (2009 - \$129,372) and \$61,148 (2009 - \$56,460) of revenue from research administered accounts, internally restricted by the Hospital's Board of Directors.





# Hamilton Health Sciences

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

March 31, 2010

## 15. NET ASSETS INVESTED IN CAPITAL ASSETS

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

	2010	2009
Capital assets, net	\$ 475,137	\$ 374,099
Less amounts funded by		
Capital financing [note 9]	(24,379)	(43,941)
Deferred capital contributions [note 13]	(270,051)	(199,225)
Obligations under capital leases [note 10]	(15,571)	(14,101)
Debt [note 11]	(34,312)	(9,321)
	\$ 130,824	\$ 107,511

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

	2010	2009
Purchase of capital assets	\$ 133,182	\$ 125,004
Amounts funded by deferred capital contributions	(86,436)	(60,351)
Amortization of capital assets	(32,144)	(29,885)
Amortization of deferred capital contributions	15,610	15,990
Decrease (increase) in capital portion of capital financing	19,562	(16,176)
Increase in obligations under capital leases	(1,470)	(2,139)
(Increase) decrease in long-term debt	(24,991)	864
Other	-	(2,700)
	\$ 23,313	\$ 30,607

## 16. SEVERANCE AND TERMINATION BENEFITS

The Hospital's operational costs are expected to increase 4 to 5% in 2010/2011, while the funding increase will be approximately 1.5%. The Hospital has been mandated to balance its budget as per the H-SAA with the LHIN. In response to this challenge, the Hospital has conducted a comprehensive review aimed at identifying efficiencies that can be implemented. Although the Hospital has taken initiatives to minimize the impact on staff, 130 positions will be affected.

The Hospital has incurred \$4,339 [2009 - \$3,057] of severance and termination expenses in the statement of operations for the year ended March 31, 2010.





# Hamilton Health Sciences

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

March 31, 2010

## 17. STATEMENT OF CASH FLOWS

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

	2010	2009
Accounts receivable	\$ (7,027)	\$ 35,001
Inventories	(3,995)	(788)
Prepaid expenses and deposits	(674)	(610)
Accounts payable and accrued liabilities	(15,775)	(15,573)
	\$ (27,471)	\$ 18,030

## 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, 2010, 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, 2010.
- [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. In addition, 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

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

March 31, 2010

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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 the MOHLTC. 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 of Phase 1 by July 2010 and Phase 2 by March 2012, with total completion by July 2012. The Hospital will be making an interim payment for construction and financing costs in July 2010, a substantial completion payment in March 2012 and a final payment in July 2012.

This project falls 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 MOHLTC. The deferred portion will represent 90% of construction as per the MOHLTC's funding formula (June 2006).

The total capital expenditures commitments for these and other projects outstanding at March 31, 2010 are estimated at \$32,354 [2009 - \$73,145].

- [e] At March 31, 2010 the Hospital had outstanding letters of credit of \$2,441 [2009 - \$2,303] related to various construction and renovation projects.
- [f] The Hospital is in the process of developing pay equity plans with certain employee groups. It is not possible at this time to make an estimate of the amount payable to labour groups, if any, that may result and accordingly, no provision has been made in the financial statements.

## 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 \$2,612 during fiscal 2010 [2009 - \$393] for capital and \$1,491 [2009 - \$498] for research. As at December 31, 2009, the Foundation had net assets of \$57,170 [2009 - \$48,749]. Included in the Hospital's assets as at March 31, 2010 is \$1,488 [2009 - \$903] in accounts receivable from the Foundation.





# Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS  
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March 31, 2010

## 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 \$1,669 [2009 - \$1,894] during the year for capital and non-capital expenses and has net assets of \$275 [2009 - \$441] as at March 31, 2010. Included in the Hospital's assets as at March 31, 2010 is \$324 [2009 - \$913] 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:

	2010	2009
<b>Statement of financial position</b>		
Accounts receivable	\$ 3,261	\$ 7,937
Capital assets, net	9,184	9,611
Accounts payable and accrued liabilities	916	3,001
<b>Statement of operations</b>		
Investment income	44	200
Amortization of capital assets	461	195
Other non-salary expense	8,204	17,562





# Hamilton Health Sciences

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

March 31, 2010

## 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, 2009 and December 31, 2008:

	December 31, 2009	December 31, 2008
Assets	\$ 64,622	\$ 67,340
Liabilities and Trustees' Equity	64,622	67,340
Revenue	17,002	24,247
Expenses	16,769	23,733
Cash provided by operating activities	3,016	205
Cash used in investing activities	(136)	(1,064)
Cash used in financing activities	(2,268)	(862)

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 \$45,000 at a fixed rate of 6.318% due January 1, 2031 and \$18,000 at a weighted average rate of 5.847% due on January 1, 2013. At December 31, 2009 the Trust had \$41,674 [2008 - \$42,622] and \$16,840 [2008 - \$17,248] outstanding, respectively, with the current portion amounting to \$1,438.

At March 31, 2010 the Trust has borrowed \$3,261 [2009 - \$7,937] from the Hospital's facility and are being charged a rate of prime less 1.15%.

The Hospital has entered into an operating lease agreement with the Trust, which includes the management of three cogeneration facilities, each located at hospital sites. The agreement states that the Hospital is responsible for all variable costs required to operate and maintain the equipment of each facility.

## 20. SHARED SERVICES

The Hospital is a member of Mohawk Shared Services Inc. ("Mohawk"). Mohawk is a not-for-profit organization which provides centralized Laundry services, Diagnostic imaging repository services, Employee assistance program and Supply chain services to its members and participants in Hamilton and the surrounding districts. Mohawk is incorporated without share capital under the laws of the Province of Ontario and is exempt from income taxes under the Income Tax Act.

On April 1, 2010, the Hospital entered into an agreement with Mohawk to sell the Hospital inventory being stored in the Mohawk warehouse. The value of this inventory at March 31, 2010 is \$5,142.





# Hamilton Health Sciences

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

March 31, 2010

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## 21. 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, 2010 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.

## 22. CLINICAL EDUCATION

During the year the Clinical Education Program incurred expenses of \$50,772 [2009 - \$46,992] and received \$52,362 [2009 - \$47,849] from the MOHLTC. As applicable, the excess of this funding must be returned to the MOHLTC, and, as such, payable of \$1,590 [2009 - \$857] has been included in the statement of financial position.

## 23. 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.

## 24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial presentation adopted in the current period.