

Hamilton Health Sciences Corporation

Financial Statements

March 31, 2012

(in thousands of dollars)



June 28, 2012

Independent Auditor's Report

To the Board of Directors of Hamilton Health Sciences Corporation

We have audited the accompanying financial statements of Hamilton Health Sciences Corporation, which comprise the balance sheet as at March 31, 2012 and the statements of operations, changes in net assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hamilton Health Sciences Corporation as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The financial statements for the year ended March 31, 2011 were audited by another public accountant who expressed an unqualified opinion on those financial statements in their report dated June 23, 2011.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Hamilton Health Sciences Corporation

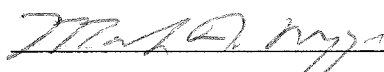
Balance Sheet

As at March 31, 2012

(in thousands of dollars)

	2012 \$	2011 \$
Assets		
Current assets		
Restricted cash and cash equivalents (notes 3 and 9(a))	133,842	42,615
Short-term investments (note 3)	34,248	36,054
Accounts receivable (note 4)	49,781	60,048
Inventories	13,416	11,875
Prepaid expenses and deposits	3,883	5,789
	<u>235,170</u>	<u>156,381</u>
Long-term investments (note 5)	249,175	276,806
Capital assets (note 6)	<u>771,241</u>	<u>680,076</u>
	<u>1,255,586</u>	<u>1,113,263</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	71,076	67,494
Accounts payable and accrued liabilities	152,468	117,835
Current portion of obligations under capital leases (note 8)	10,656	10,080
Current portion of long-term debt (note 9)	22,317	6,435
	<u>256,517</u>	<u>201,844</u>
Obligations under capital leases (note 8)	24,531	26,584
Long-term debt (note 9)	62,170	83,530
Accrued benefit liability (note 10(b))	46,308	42,849
Unrealized losses on revaluation of derivative hedges	12,274	6,625
Deferred capital contributions (note 11)	548,177	468,646
Deferred contributions (note 12)	<u>107,446</u>	<u>113,549</u>
	<u>1,057,423</u>	<u>943,627</u>
Net Assets		
Unrestricted	(260,611)	(242,466)
Invested in capital assets (note 13(a))	137,904	120,126
Board designated	<u>320,870</u>	<u>291,976</u>
	<u>198,163</u>	<u>169,636</u>
	<u>1,255,586</u>	<u>1,113,263</u>
Commitments and contingencies (notes 16 and 17(c))		

Approved by the Board of Directors



Director



Director

The accompanying notes are an integral part of these financial statements.

Hamilton Health Sciences Corporation

Statement of Operations

For the year ended March 31, 2012

(in thousands of dollars)

	2012 \$	2011 \$
Revenue		
Ontario Ministry of Health and Long-Term Care	893,332	874,327
Ontario Health Insurance Plan	33,304	33,019
Ministry of Communication and Social Services	28,005	26,670
Patient and third party payors	19,876	20,860
Amortization of deferred capital contributions (note 11)	20,790	16,282
Investment income	11,204	14,379
Ancillary and other recoveries	105,287	99,132
Research (note 12)	111,321	140,834
	<u>1,223,119</u>	<u>1,225,503</u>
Expenses		
Salaries and employee benefits (notes 10 and 14)	690,252	679,266
Medical staff remuneration	75,435	69,350
Medical and surgical supplies	62,880	61,187
Drugs	64,139	64,474
Facilities	23,332	25,404
Amortization of capital assets	39,767	35,307
Other	142,217	139,951
Research	97,473	93,690
	<u>1,195,495</u>	<u>1,168,629</u>
Excess of revenue over expenses for the year	<u>27,624</u>	<u>56,874</u>

The accompanying notes are an integral part of these financial statements.

Hamilton Health Sciences Corporation

Statement of Changes in Net Assets

For the year ended March 31, 2012

(in thousands of dollars)

	2012			2011	
	Unrestricted \$	Invested in capital assets \$	Board designated \$	Total \$	Total \$
Net assets - Beginning of year	(242,466)	120,126	291,976	169,636	108,813
Excess of revenue over expenses for the year	27,624	-	-	27,624	56,874
Transfer to Board designated	(24,699)	-	24,699	-	-
Transfer from Board designated	2,357	-	(2,357)	-	-
Net change invested in capital assets (note 13(b))	(17,778)	17,778	-	-	-
Net change in unrealized gains on available-for-sale investments	-	-	6,552	6,552	3,805
Net change in unrealized losses on revaluation of derivative hedges	(5,649)	-	-	(5,649)	144
Net assets - End of year	(260,611)	137,904	320,870	198,163	169,636

The accompanying notes are an integral part of these financial statements.

Hamilton Health Sciences Corporation

Statement of Cash Flows

For the year ended March 31, 2012

(in thousands of dollars)

	2012 \$	2011 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	27,624	56,874
Add (deduct): Non-cash items		
Amortization of capital assets	39,767	35,307
Amortization of deferred capital contributions	(20,790)	(16,282)
Non-pension post-retirement benefits expense (note 10(b))	6,309	5,292
	52,910	81,191
Net change in non-cash working capital balances related to operations (note 15)	23,901	14,849
Non-pension benefit contributions	(2,850)	(3,014)
Decrease in deferred contributions	(6,103)	(41,826)
	67,858	51,200
Investing activities		
Purchase of capital assets - net	(113,836)	(239,471)
(Decrease) increase in investments - net	35,989	(82,475)
(Increase) decrease in restricted cash and cash equivalents	(91,227)	78,662
	(169,074)	(243,284)
Financing activities		
Contributions received for capital purposes	104,589	167,071
(Decrease) increase in long-term debt	(5,478)	40,653
Decrease in capital financing	-	(25,000)
(Decrease) increase in obligations under capital leases	(1,477)	21,093
	97,634	203,817
Increase (decrease) in bank indebtedness during the year	3,582	(11,733)
Bank indebtedness - Beginning of year	67,494	79,227
Bank indebtedness - End of year	71,076	67,494
Supplemental information		
Interest paid	5,942	5,100
Non-cash transactions		
Purchase of capital assets included in accounts payable and accrued liabilities	26,455	5,091
Capital asset and deferred capital contributions additions	4,268	-

The accompanying notes are an integral part of these financial statements.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2012

(in thousands of dollars)

1 Purpose of the organization

Hamilton Health Sciences is a family of six unique hospitals and a cancer centre, serving more than 2.2 million residents of Hamilton and Central South and Central West Ontario. The Hospital is an academic health science organization 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 and liabilities and the 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 (notes 17(a) and (b)).

The Bay Area Health Trust (BAHT), a commercial entity, is accounted for by the equity method (note 17(c)).

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.

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 Hospital'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, 2010 and 2011. Effective April 1, 2011, an amending agreement was entered into extending the H-SAA to fiscal 2012. This amendment has been further extended to June 30, 2012, at which time the LHIN and Hospital intend on negotiating further amendments that extend the H-SAA to March 31, 2013.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2012

(in thousands of dollars)

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.

Revenue from other services is recognized when services are provided or goods are sold.

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.

d) Capital assets

Capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at fair 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 to 40 years
Equipment	5 to 20 years

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.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2012

(in thousands of dollars)

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 amortizable 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

- 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.

- 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 from plan amendments is 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.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2012

(in thousands of dollars)

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.

k) Financial instruments

- Recognition and measurement

Under The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments - Recognition and Measurement, and Section 3861 Financial Instruments - Disclosure and Presentation, all financial instruments are initially recorded on the balance sheet 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 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; and
- accounts payable and accrued liabilities, capital financing and current and long-term debt are classified as other liabilities.

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(in thousands of dollars)

- 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.

- 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.

1) Future accounting changes

In December 2010, the Public Sector Accounting Board of the CICA changed the accounting framework required to be followed by government not-for-profit organizations. Effective for fiscal years beginning on or after January 1, 2012, government not-for-profit organizations will be required to select from either: (a) the CICA Public Sector Accounting Handbook, including sections PS 4200 to PS 4270; or alternatively (b) the CICA Public Sector Accounting Handbook without sections PS 4200 to PS 4270. The Hospital has elected to transition to option (a) noted above. The Hospital will adopt the new accounting standards for government not-for-profit organizations for its fiscal year beginning on April 1, 2012. The impact of the transition to this new accounting framework has not been determined at this time.

3 Restricted cash and cash equivalents and short-term investments

Restricted cash and cash equivalents in the amount of \$133,842 (2011 - \$42,615) consist of cash and fixed term securities with remaining maturities of less than three months at the date of acquisition and include Canadian, US dollar and euro currencies. These funds are held for the Hospital's internally and externally designated trusts and research operations (\$92,960 (2011 - \$40,490)), construction facilities (\$40,843 (2011 - \$2,073)) and patient trusts (\$39 (2011 - \$52)).

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March 31, 2012

(in thousands of dollars)

There are no fixed term securities held in restricted cash and cash equivalents as at March 31, 2012. The fixed term securities earned interest at an average rate of 0.33% during 2011. 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 bankers' acceptance rate less 4%, which currently stands at the minimum rate of nil% and euro bank accounts earn no interest.

A portion of the cash held in the research operations balance is invested in high interest savings accounts, Canadian holdings with an average rate of 1.43% (2011 - 1.36%), US dollar holdings average rate of 0.45% (2011 - 0.20%) and euro holdings average rate of nil% (2011 - 0.54%).

Short-term investments consist of government and corporate bonds and other fixed term securities with remaining maturities of less than one year. These investments earn interest at an average of 2.84% (2011 - 3.24%) and are recorded at fair value as at March 31, 2012, with a cost of \$33,889 (2011 - \$35,962). All short-term investments as at March 31, 2012 are restricted investments. These funds are held for the Hospital's internally and externally designated trusts and research operations.

4 Accounts receivable

Accounts receivable consist of the following:

	2012 \$	2011 \$
MOHLTC	7,397	20,040
Ontario Health Insurance Plan receivable	3,709	3,602
Patient receivables	8,472	8,992
Trust (note 17(c))	3,297	3,686
Foundation and Volunteer Association (notes 17(a) and (b))	1,303	1,491
Other	25,603	22,237
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	49,781	60,048

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March 31, 2012

(in thousands of dollars)

5 Long-term investments

Long-term investments consist of the following:

	2012		2011	
	Cost \$	Fair value \$	Cost \$	Fair value \$
Fixed income				
Canadian	123,396	131,341	143,965	146,013
US	13,460	13,554	24,212	25,628
Euro	5,328	5,335	5,481	5,411
Equities				
Canadian	60,701	61,948	64,067	65,312
US	35,753	36,997	34,467	34,442
	238,638	249,175	272,192	276,806

Fixed income investments have an average term of 7.47 years (2011 - 9.67 years) to maturity and have a weighted average yield of 4.05% (2011 - 4.22%) as at March 31, 2012.

6 Capital assets

Capital assets consist of the following:

	2012		2011	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	890	-	890	890
Building and building improvements	642,731	72,537	570,194	546,047
Equipment	338,511	272,723	65,788	63,029
Construction-in-progress	134,369	-	134,369	70,110
	1,116,501	345,260	771,241	680,076

Included in equipment are assets under capital leases at a cost of \$43,149 (2011 - \$36,081) and accumulated amortization of \$22,714 (2011 - \$16,961).

Fully amortized capital assets with a cost of \$1,404 (2011 - \$3,204) were removed from the accounts in fiscal 2012.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2012

(in thousands of dollars)

Construction-in-progress consists primarily of the McMaster University Medical Centre/McMaster's Children's Hospital Redevelopment and the Henderson Redevelopment project (renamed the Juravinski Hospital).

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

7 Bank indebtedness

As at March 31, 2012, the Hospital has available a \$75,000 (2011 - \$75,000) unsecured demand operating line of credit. The line of credit bears interest at prime rate less 0.20%. As at March 31, 2012, the bank's prime interest rate is 3.00% (2011 - 3.00%). As at March 31, 2012, the Hospital had a short-term bridging facility of \$52,000 (2011 - \$42,000) at a bankers' acceptance rate of 1.22% plus stamping fee of 0.44%, which was repaid in April 2012.

As at March 31, 2012, the bank balance is \$1,983 (2011 - indebtedness of \$15,522) with outstanding items of \$21,059 (2011 - \$9,972) resulting in bank indebtedness of \$19,076 (2011 - \$25,594) along with the short-term bridging facility of \$52,000 (2011 - \$42,000) for a total bank indebtedness of \$71,076 (2011 - \$67,494).

8 Lease commitments

The Hospital has entered into various arrangements for the leasing of computer and medical equipment. The weighted average effective interest rate of the capital leases is 3.84% (2011 - 4.09%).

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

	Capital leases \$	Operating leases \$
2013	11,811	1,216
2014	10,380	412
2015	8,764	243
2016	5,491	97
2017	1,171	64
Total minimum lease payments	37,617	2,032
Less: Amount representing interest	2,430	
Obligations under capital leases	35,187	
Less: Current portion	10,656	
	24,531	

The fair value of the capital leases at March 31, 2012 is approximately \$34,521 using a weighted average effective interest rate of 3.84%.

Hamilton Health Sciences Corporation

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March 31, 2012

(in thousands of dollars)

9 Long-term debt

Long-term debt consists of the following:

	2012 \$	2011 \$
Capital loan payable by August 1, 2025 in monthly principal and interest instalments of \$58 at 4.65% per annum (a)	6,898	7,260
Capital loan payable by April 1, 2011 in monthly principal and interest instalments of \$24 at 5.36% per annum (b)	-	24
Capital loan payable by September 15, 2011 in monthly principal and interest instalments of \$29 at 5.21% per annum (c)	-	173
Capital loan payable by April 15, 2029 in quarterly principal and interest instalments of \$397 at 5.255% per annum (d)	17,908	18,516
Capital loan payable by September 17, 2029 in quarterly principal and interest instalments of \$150 at 4.33% per annum (e)	6,422	6,621
Restructuring loan payable by May 12, 2014 in monthly principal and interest instalments of \$432 starting in May 2011 at 2.29% per annum (f)	10,834	15,000
Holdback loan payable by March 18, 2013 renewed periodically at current bankers' acceptance rates, currently 2.36% (g)	15,000	15,000
Capital loan payable by April 17, 2029 in quarterly principal and interest instalments of \$586 at 5.255% per annum (h)	26,468	27,371
Development charges payable by July 23, 2018 to the City of Hamilton in interest-free instalments of \$137 (i)	957	-
	84,487	89,965
Less: Current portion	22,317	6,435
	62,170	83,530

- a) On July 15, 2005, the Hospital entered into a \$9,000, 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 Juravinski Hospital (Juravinski) sites. On a monthly basis, the Hospital is required to deposit the net profit, as defined, from the parking operations of the General and Juravinski 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 equal to the greater of \$400 or the total of the next scheduled payment of principal and interest. At March 31, 2012, 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 balance sheet.

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 Juravinski 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

Hamilton Health Sciences Corporation

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March 31, 2012

(in thousands of dollars)

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 an interest rate swap agreement (Swap Agreement), which will expire on August 1, 2025, that fixes the interest rate at 4.65%, plus stamping fee of 0.45%. 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, 2012. The Swap Agreement is in a net unfavourable position of \$1,104 (2011 - \$589 - unfavourable position).

- b) On March 31, 2006, the Hospital entered into a separate \$1,256, five-year loan for the purpose of purchasing diagnostic medical equipment. The equipment financed by the loan is pledged as collateral for the loan. The balance of the loan was repaid in April 2011.
- c) On September 15, 2006, the Hospital entered into a separate \$1,541, five-year loan for the purpose of purchasing diagnostic medical equipment. The equipment financed by the loan is pledged as collateral for the loan. The balance of the loan was repaid in September 2011.
- d) On September 26, 2007, the Hospital entered into a \$19,500, 20-year financing arrangement for the purpose of financing construction costs related to energy retrofit contracts at the Chedoke, Juravinski, and General sites. The Hospital has in place a Swap Agreement that fixes the interest rate at 5.25%, plus stamping fee of 0.25%. This Swap Agreement has been designated as a hedge. The Swap Agreement is in a net unfavourable position of \$4,081 (2011 - \$2,294 - unfavourable position).
- e) On January 22, 2009, the Hospital entered into a \$6,900, 20-year financial arrangement for the purpose of financing the related construction costs for the central utility plant upgrade at the Juravinski site. The Hospital has entered into a Swap Agreement that fixes the interest rate at 4.33%, plus stamping fee of 1.80%. This Swap Agreement has been designated as a hedge. The Swap Agreement is in a net unfavourable position of \$932 (2011 - \$251 - unfavourable position).
- f) On July, 2009, the Hospital entered into a \$15,000, five-year financing agreement for the purpose of financing the payment of severance costs and the costs incurred to implement cost efficiency strategies. The Hospital has in place a Swap Agreement that fixes the interest rate at 2.29%, plus stamping fee of 1.15%. This Swap Agreement has been designated as a hedge. The Swap Agreement is in a net unfavourable position of \$128 (2011 - \$102 - unfavourable position).
- g) On June 8, 2010, the Hospital entered into a \$15,000, three-year facility to temporarily bridge finance the MOHLTC construction holdback pending the final settlement of the Juravinski redevelopment construction project and ancillary project construction costs. The loan is repayable on or before March 18, 2013. Borrowing under this facility is by way of bankers' acceptance with a year-end rate of 2.36%.
- h) On September 26, 2007, the Hospital entered into an amended \$25,000 financing agreement for the purpose of financing construction costs related to energy retrofit contracts at the McMaster Hospital Site. In fiscal 2011, an additional \$3,000 was drawn on the facility and the energy enhancement interim construction loan was then converted into a 20-year term loan. The Hospital has in place a Swap

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(in thousands of dollars)

Agreement that fixes the interest rate at 5.255%, plus stamping fee of 0.25%. This Swap Agreement has been designated as a hedge. The Swap Agreement is in a net unfavourable position of \$6,029 (2011 - \$3,389 - unfavourable position).

- i) On October 20, 2011, the Hospital entered into a \$1,367, seven-year interest free financial arrangement with the City of Hamilton for development charges incurred as a result of increased services required from the development of the David Braley Cardiac, Vascular and Stroke Research Institute, Juravinski, and the General sites.

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

	\$
2013	22,317
2014	7,438
2015	3,402
2016	2,701
2017	2,835
Thereafter	45,794
	<hr/>
	84,487
	<hr/>

10 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 \$43,750 (2011 - \$43,021) and are included in salaries and employee benefits expense in the statement of operations. The most recent actuarial valuation of HOOPP as at December 31, 2011 indicates the plan has a 2.65% 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, 2012, the sick leave obligation amounted to \$5,539 (2011 - \$6,063).

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As at March 31, 2012, the Hospital's post-retirement accrued benefit liability is made up of the following:

	2012 \$	2011 \$
Accrued benefit obligation	60,954	47,566
Assets	-	-
Net unfunded accrued benefit obligation	60,954	47,566
Unamortized experience losses	(6,775)	(1,207)
Unamortized prior service costs	(7,871)	(3,510)
Accrued benefit liability	46,308	42,849

The Hospital's non-pension post-retirement benefit expense for the year is \$6,309 (2011 - \$5,292) and is comprised of the following:

	2012 \$	2011 \$
Accrual for services	2,007	1,585
Interest on accrued benefits	2,660	2,559
Actuarial losses during the year	2,984	-
Plan amendments during the year	5,991	-
Adjustment for prior service costs	(4,359)	1,129
Adjustment for experience losses	(2,974)	19
	6,309	5,292

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

	2012 %	2011 %
Discount rate	5.00	5.50
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 7.0%. The rate is presumed to decline by 0.5% increments per annum to an ultimate rate of 5.0%.

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(in thousands of dollars)

11 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:

	2012 \$	2011 \$
Balance - Beginning of year	468,646	317,857
Add: Contributions for capital purposes		
MOHLTC grant	76,439	154,348
Foundation and Volunteer Association	12,619	3,141
Other	10,663	6,818
Canada Foundation for Innovation	600	2,764
	568,967	484,928
Less: Amortization	20,790	16,282
Balance - End of year	548,177	468,646

Included in the above balance are contributions of \$23,680 (2011 - \$20,325) received but not yet used to purchase capital assets.

12 Deferred contributions

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

	2012 \$	2011 \$
Balance - Beginning of year	113,549	155,375
Externally restricted contributions received	72,303	33,647
Less: Amount recognized as revenue during the year	(78,044)	(75,062)
Net change in unrealized gains on deferred research balances	(362)	(411)
Balance - End of year	107,446	113,549

Research revenue of \$111,321 (2011 - \$140,834) consists of externally restricted research grants and donations recognized in income during the year of \$78,044 (2011 - \$75,062) and \$33,277 (2011 - \$65,772) from research administered accounts, internally restricted by the Hospital's Board of Directors.

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(in thousands of dollars)

13 Net assets invested in capital assets

a) Net assets invested in capital assets are calculated as follows:

	2012 \$	2011 \$
Capital assets - net	771,241	680,076
Less: Amounts funded by		
Deferred capital contributions spent (note 11)	(524,497)	(448,321)
Obligations under capital leases (note 8)	(35,187)	(36,664)
Long-term debt (note 9)	(73,653)	(74,965)
	<u>137,904</u>	<u>120,126</u>

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

	2012 \$	2011 \$
Purchase of capital assets - net	130,932	240,246
Amounts funded by deferred capital contributions	(96,966)	(194,552)
Amortization of capital assets	(39,767)	(35,307)
Amortization of deferred capital contributions	20,790	16,282
Decrease in capital portion of capital financing	-	24,379
Increase (decrease) in obligations under capital leases	1,477	(21,093)
Increase (decrease) in long-term debt	1,312	(40,653)
	<u>17,778</u>	<u>(10,698)</u>

14 Severance and termination benefits

The Hospital's operational costs are expected to increase 3% to 4% in 2012 and 2013, while the funding increase will be approximately 0.5%. 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. The Hospital has taken initiatives to minimize the impact on staff.

The Hospital has incurred \$2,094 (2011 - \$9,915) of severance and termination expenses in the statement of operations for the year ended March 31, 2012.

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15 Statement of cash flows

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

	2012 \$	2011 \$
Accounts receivable	10,267	(3,637)
Inventories	(1,541)	7,154
Prepaid expenses and deposits	1,906	(783)
Accounts payable and accrued liabilities	13,269	12,115
	<hr/> 23,901	<hr/> 14,849

16 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, 2012, 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, 2012.
- c) The Hospital has initiated various construction and renovation projects. A major initiative includes the McMaster University Medical Centre/McMaster Children's Hospital Redevelopment, which facilitates key principles of patient and family centred care. This project consists of two distinct phases. Phase One, which includes a Child and Adolescent Mental Health Unit and the expansion of Pediatric Ambulatory, reached substantial completion in August 2010. Currently, the Hospital is in Phase Two of the project which includes the development of a stand-alone Pediatric Intensive Care Unit, Pediatric Emergency Department and Ambulatory Surgical Service improvements.
- d) The Hospital has contracted for the Henderson Hospital Redevelopment Project (renamed the Juravinski Hospital). This initiative will provide updated community hospital services and position the acute care service appropriately to support the Juravinski Cancer Centre that shares the site. 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 financing costs. Phase 1A was completed in July 2010 and substantial completion was reached March 2012, with total completion by July 2012. The Hospital made an interim payment for construction and financing costs in August 2010 and a substantial completion payment in March 2012. Final payment is expected in July 2012.

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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 expenditure commitments for these and other projects outstanding at March 31, 2012 are estimated at \$30,381 (2011 - \$109,987).

- e) At March 31, 2012, the Hospital has outstanding letters of credit of \$2,543 (2011 - \$2,238) 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 that may be payable to labour groups and accordingly no provision has been made in the financial statements.

17 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 \$10,474 during fiscal 2012 (2011 - \$2,750) for capital and \$1,061 (2011 - \$1,061) for research. As at December 31, 2011, the Foundation had net assets of \$67,153 (2010 - \$69,096). Included in the Hospital's assets as at March 31, 2012 is \$834 (2011 - \$1,347) in accounts receivable from the Foundation.
- b) The Volunteer Association is an independent organization that raises funds and holds resources for the benefit of the Hospital. During the year, the Hospital entered into a ten-year lease agreement with the Volunteer Association to manage the Hospital's parking operations. The Volunteer Association pays rent in-kind to the Hospital as an annual irrevocable gift which is restricted for capital projects. All amounts received from the Volunteer Association are restricted and, accordingly, are accounted for as externally restricted contributions. The Volunteer Association contributed \$3,357 (2011- \$1,072) during the year for capital and non-capital expenses and has a net asset (deficiency) of (\$1,422) (2011- net assets of \$350) as at March 31, 2012. Included in the Hospital's assets as at March 31, 2012 is \$469 (2011 - \$144) in accounts receivable from the Volunteer Association.
- c) BAHT is a commercial entity dedicated to developing business opportunities harnessing private sector experience, energy and entrepreneurship to benefit the community by supporting profitable business development in the health-care sector. The beneficiaries of BAHT are the Hospital, the Foundation and McMaster University.

At March 31, 2012, the Hospital has recorded an equity interest of \$98 in BAHT (2011 - \$81), which is included in accounts receivable.

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March 31, 2012

(in thousands of dollars)

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

	2012 \$	2011 \$
Balance sheet		
Accounts receivable	3,297	3,686
Capital assets	8,279	8,741
Accounts payable and accrued liabilities	2	99
Statement of operations		
Investment income	762	544
Amortization of capital assets	462	464
Other non-salary expense	8,911	9,198

The following amounts represent BAHT's assets, liabilities, revenue and expenses:

	\$	\$
Assets	61,008	63,538
Liabilities and trustees' equity	61,008	63,538
Revenue	12,303	12,637
Expenses	11,586	12,227
Cash provided by operating activities	1,202	3,582
Cash used in investing activities	(589)	(235)
Cash used in financing activities	(1,323)	(2,109)

BAHT 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 6.068% due January 1, 2031 and \$18,000 at a weighted average rate of 5.597% due on January 1, 2013. At December 31, 2011, BAHT had \$39,597 (2010 - \$40,667) and \$15,955 (2010 - \$16,410) outstanding, respectively, with the current portion amounting to \$1,676.

As at March 31, 2012 BAHT has borrowed \$1,045 (2011 - \$2,269) from the Hospital's facility and are being charged a rate of prime less 0.20%.

The Hospital has entered into an operating lease agreement with BAHT, 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.

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18 Shared Services

The Hospital is a member of Mohawk Shared Services Inc. (MSSI). MSSI is a not-for-profit organization providing centralized laundry services, diagnostic imaging repository services, employee assistance program and MSSI supply chain services to its members and participants. MSSI is incorporated without share capital under the laws of the Province of Ontario and is exempt from income taxes under the Income Tax Act.

19 Fair value of financial assets and financial liabilities

The Hospital is exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. The Hospital's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the hospital's financial performance. The Hospital is exposed to market risk and interest rate risk with regards to its short and long-term investments and floating rate debt, which are regularly monitored. The Hospital has further addressed the risks around the floating rate debt by entering into interest rate swap agreements that fix the interest rates over the term of the associated debt.

Credit risk

Credit risk arises from credit exposures to customers on outstanding accounts receivable balances. The maximum exposure to credit risk is equal to the carrying values of accounts receivable. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Hospital assesses the credit quality of the counterparties, taking into account their financial position and other factors.

Liquidity risk

Liquidity risk results from the Hospital's potential inability to meet its obligations associated with the financial liabilities as they become due. The Hospital monitors its operations and cash flows to ensure that the current and future obligations will be met. The Hospital believes that its current sources of liquidity are sufficient to cover its currently known short and long-term cash obligations.

20 Clinical Education

During the year, the Clinical Education Program incurred expenses of \$59,909 (2011 - \$55,050) and received \$59,616 (2011 - \$52,302) from the MOHLTC. As applicable, the shortfall in funding is owed by the MOHLTC, and, as such, a receivable of \$293 (2011 - \$2,748 payable to MOHLTC) has been included in the balance sheet.

Hamilton Health Sciences Corporation

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March 31, 2012

(in thousands of dollars)

21 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, capital contributions and the proceeds from specific Foundation fundraising campaigns leveraged with appropriate levels of debt to support infrastructure renewal. In addition, the Hospital has available a short-term bridging facility 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.