

Hamilton Health Sciences Corporation

Financial Statements
March 31, 2013 and March 31, 2012
(in thousands of dollars)



June 26, 2013

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 statements of financial position as at March 31, 2013 and March 31, 2012 and the statements of operations, changes in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012 and the statement of remeasurement gains and losses for the year ended March 31, 2013, 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 public sector accounting standards, 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 audits. We conducted our audits 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 audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hamilton Health Sciences Corporation as at March 31, 2013 and March 31, 2012 and the results of its operations, its remeasurement gains and losses and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian public sector accounting standards.

Comparative information

Without modifying our opinion, we draw attention to note 2 to the financial statements, which describes that Hamilton Health Sciences Corporation adopted public sector accounting standards on April 1, 2012 with a transition date of April 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at March 31, 2012 and April 1, 2011 and the statements of operations, changes in net assets and cash flows for the year ended March 31, 2012 and related note disclosures. We were not engaged to report on the restated comparative information, which was prepared in accordance with Canadian public sector accounting standards as at April 1, 2011, and as such, it is unaudited.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Hamilton Health Sciences Corporation

Statements of Financial Position

(in thousands of dollars)

| | March 31, 2013 \$ | March 31, 2012 \$ (restated - note 2) | April 1, 2011 \$ (restated - note 2) |
|--|-------------------------|---|--|
| Assets | | | |
| Current assets | | | |
| Restricted cash and cash equivalents (notes 4 and 10(a)) | 83,834 | 133,842 | 42,615 |
| Restricted short-term investments (note 4) | 61,383 | 34,248 | 36,054 |
| Accounts receivable (note 5) | 50,246 | 49,781 | 60,048 |
| Inventories | 12,276 | 13,416 | 11,875 |
| Prepaid expenses and deposits | 4,064 | 3,883 | 5,789 |
| | 211,803 | 235,170 | 156,381 |
| Restricted portfolio investments (note 6) | 251,300 | 249,175 | 276,806 |
| Other non-current assets | 2,490 | - | - |
| Capital assets (note 7) | 786,158 | 771,241 | 680,076 |
| | 1,251,751 | 1,255,586 | 1,113,263 |
| Liabilities | | | |
| Current liabilities | | | |
| Bank indebtedness (note 8) | 93,494 | 71,076 | 67,494 |
| Accounts payable and accrued liabilities | 121,061 | 152,468 | 117,835 |
| Obligations under capital leases (note 9) | 11,622 | 10,656 | 10,080 |
| Long-term debt (note 10) | 5,372 | 22,317 | 6,435 |
| | 231,549 | 256,517 | 201,844 |
| Obligations under capital leases (note 9) | 22,142 | 24,531 | 26,584 |
| Long-term debt (note 10) | 54,174 | 62,170 | 83,530 |
| Post-retirement benefit obligations (note 11(b)) | 53,840 | 51,824 | 45,098 |
| Other long-term liability | 1,310 | - | - |
| Derivative liability | 12,539 | 12,274 | 6,625 |
| Deferred capital contributions (note 12) | 541,182 | 548,177 | 468,646 |
| Deferred research contributions (note 13) | 111,030 | 107,446 | 113,549 |
| | 1,027,766 | 1,062,939 | 945,876 |
| Net Assets | | | |
| Unrestricted | (277,934) | (266,127) | (244,715) |
| Invested in capital assets (note 14(a)) | 168,226 | 137,904 | 120,126 |
| Board designated | 329,544 | 320,870 | 291,976 |
| Accumulated remeasurement gains | 4,149 | - | - |
| | 223,985 | 192,647 | 167,387 |
| | 1,251,751 | 1,255,586 | 1,113,263 |

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

Statements of Operations

For the years ended March 31, 2013 and March 31, 2012

(in thousands of dollars)

| | 2013 \$ | 2012 \$(restated - note 2) |
|--|------------------|----------------------------------|
| Revenue | | |
| Ontario Ministry of Health and Long-Term Care | 924,509 | 893,332 |
| Ontario Health Insurance Plan | 33,475 | 33,304 |
| Ministry of Communication and Social Services | 27,248 | 28,005 |
| Patient and third party payers | 22,809 | 19,876 |
| Income from restricted portfolio investments (note 6) | 13,817 | 11,204 |
| Amortization of deferred capital contributions (note 12) | 23,652 | 20,790 |
| Ancillary and other recoveries | 100,725 | 105,287 |
| Research (note 13) | 83,357 | 111,321 |
| | <u>1,229,592</u> | <u>1,223,119</u> |
| Expenses | | |
| Salaries and employee benefits | 714,295 | 693,519 |
| Medical staff remuneration | 72,622 | 75,435 |
| Medical and surgical supplies | 64,777 | 62,880 |
| Drugs | 66,374 | 64,139 |
| Facilities | 22,701 | 23,332 |
| Amortization of capital assets | 44,379 | 39,767 |
| Other expenses | 139,930 | 142,217 |
| Research | 79,061 | 97,473 |
| | <u>1,204,139</u> | <u>1,198,762</u> |
| Excess of revenue over expenses for the year | <u>25,453</u> | <u>24,357</u> |

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

Hamilton Health Sciences Corporation

Statements of Changes in Net Assets

For the years ended March 31, 2013 and March 31, 2012

(in thousands of dollars)

| | 2013 | | | 2012 | |
|---|--------------------|--|---------------------------|----------------|---------------------------------------|
| | Unrestricted \$ | Invested in capital assets \$ (note 14(a)) | Board designated \$ | Total \$ | Total \$ (restated) (note 2) |
| Net assets - Beginning of year | | | | | |
| As previously reported | (266,127) | 137,904 | 320,870 | 192,647 | 167,387 |
| Adjustment due to adoption of PS 3450 - Financial Instruments | 12,274 | - | (10,538) | 1,736 | - |
| | (253,853) | 137,904 | 310,332 | 194,383 | 167,387 |
| Excess of revenue over expenses for the year | 25,453 | - | - | 25,453 | 24,357 |
| Transfer to Board designated | (24,615) | - | 24,615 | - | - |
| Transfer from Board designated | 5,403 | - | (5,403) | - | - |
| Net change in invested in capital assets (note 14(b)) | (30,322) | 30,322 | - | - | - |
| Net change in unrealized gains on available-for-sale investments | - | - | - | - | 6,552 |
| Net change in unrealized losses on revaluation of derivatives | - | - | - | - | (5,649) |
| Net assets - End of year | (277,934) | 168,226 | 329,544 | 219,836 | 192,647 |

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

Hamilton Health Sciences Corporation

Statement of Remeasurement Gains and Losses

For the year ended March 31, 2013

(in thousands of dollars)

| | |
|---|---------|
| | \$ |
| Accumulated remeasurement losses - Beginning of year | |
| As previously reported | - |
| Adjustment due to adoption of PS 3450 - Financial Instruments | (1,736) |
| As restated | (1,736) |
| Unrealized gains (losses) attributable to | |
| Derivatives | (265) |
| Restricted portfolio investments | 10,037 |
| Foreign exchange | 1,013 |
| | 10,785 |
| Unrealized gains (losses) reclassified to deferred contributions | |
| Restricted portfolio investments | 145 |
| Foreign exchange | (751) |
| | (606) |
| Realized losses reclassified to statements of operations | |
| Restricted portfolio investment | (4,286) |
| Foreign exchange | (8) |
| | (4,294) |
| Net remeasurement gains for the year | 5,885 |
| Accumulated remeasurement gains - End of year | 4,149 |

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

Hamilton Health Sciences Corporation

Statements of Cash Flows

For the years ended March 31, 2013 and March 31, 2012

(in thousands of dollars)

| | 2013 \$ | 2012 \$ (restated) (note 2) |
|--|------------|--------------------------------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Excess of revenue over expenses for the year | 25,453 | 24,357 |
| Add (deduct): Non-cash items | | |
| Amortization of capital assets | 44,379 | 39,767 |
| Amortization of deferred capital contributions | (23,652) | (20,790) |
| Non-pension post-retirement benefits expense | 4,852 | 9,576 |
| Loss on disposal of capital assets | 650 | - |
| | 51,682 | 52,910 |
| Net change in non-cash working capital balances related to operations (note 15) | (10,096) | 23,901 |
| Non-pension benefit contributions | (2,836) | (2,850) |
| Increase (decrease) in deferred contributions | 3,584 | (6,103) |
| | 42,334 | 67,858 |
| Capital activities | | |
| Purchase of capital assets | (70,574) | (108,979) |
| Proceeds from disposal of capital assets | 463 | - |
| | (70,111) | (108,979) |
| Investing activities | | |
| Increase in other non-current assets | (2,490) | - |
| (Increase) decrease in restricted portfolio investments - net | (23,110) | 35,989 |
| Decrease (increase) in restricted cash and cash equivalents | 50,008 | (91,227) |
| | 24,408 | (55,238) |
| Financing activities | | |
| Contributions received for capital purposes | 15,832 | 104,589 |
| Repayment of long-term debt | (24,941) | (5,478) |
| Increase in other long-term liability | 1,310 | - |
| Payment of obligations under capital leases | (11,250) | (6,334) |
| | (19,049) | 92,777 |
| Increase in bank indebtedness during the year | (22,418) | (3,582) |
| Bank indebtedness - Beginning of year | (71,076) | (67,494) |
| Bank indebtedness - End of year | (93,494) | (71,076) |
| Supplemental information | | |
| Interest paid | 5,787 | 5,942 |
| Non-cash transactions | | |
| Purchase of capital assets included in accounts payable and accrued liabilities | 5,638 | 26,455 |
| Donated capital asset and deferred capital contributions additions | 825 | 4,268 |
| Purchase of capital assets through lease obligations | 9,827 | 4,857 |

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

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

1 Purpose of the organization

Hamilton Health Sciences Corporation (the Hospital) is a family of six unique hospitals and a cancer centre, serving more than 2.2 million residents of Hamilton, 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 Transition to Canadian public sector accounting standards

Commencing with the 2013 fiscal year, the Hospital has adopted public sector accounting standards (PSAS) as issued by the Public Sector Accounting Board. These financial statements are the first financial statements for which the Hospital has applied PSAS for government not-for-profit organizations.

The impact of the transition to PSAS on the net assets at the date of transition, April 1, 2011, and the comparative statement of operations is presented below. These accounting changes have been applied retroactively with restatement of prior periods, except for the accounting standards contained in PS 3450, Financial Instruments, as this standard specifically prohibits retroactive application.

The following changes have been implemented to comply with PSAS:

a) Statements of financial position

Post-retirement obligations were the only statements of financial position items impacted by the transition to PSAS (except for the net assets reconciled in (c) below):

| | March 31 2012 \$ | April 1, 2011 \$ |
|--|------------------------|------------------------|
| Post-retirement benefit obligations - as previously stated | 46,308 | 42,849 |
| Discount rate (i) | - | - |
| Recognition of net cumulative actuarial losses (ii) | 3,801 | 3,801 |
| Past service costs (iii) | 9,031 | 3,510 |
| Attribution period (iv) | (5,062) | (5,062) |
| Difference in pension expense under PSAS | (2,254) | - |
| Post-retirement benefit obligations - restated | 51,824 | 45,098 |

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

Statement of operations

| | 2012 \$ |
|---|---------------|
| Excess of revenue over expenses for the year - as previously stated | 27,624 |
| Adjustments to the excess of revenue over expenses for the year | |
| Conversion to PSAS | |
| Post-retirement benefit obligations | |
| Discount rate (i) | - |
| Past service costs (iii) | (5,521) |
| Difference in pension expense under PSAS | 2,254 |
| Excess of revenue over expenses for the year - as restated | <u>24,357</u> |

b) Net assets

The impact of the transition on net assets as at April 1, 2011 is as follows:

| | April 1, 2011 \$ |
|---|------------------------|
| Net assets - Beginning of year - as previously stated | 169,636 |
| Adjustments to net assets | |
| Conversion to PSAS | |
| Post-retirement benefit obligations | |
| Discount rate (i) | - |
| Recognition of net cumulative actuarial gains/losses (ii) | (3,801) |
| Past service costs (iii) | (3,510) |
| Attribution period (iv) | 5,062 |
| Net assets - Beginning of year - as restated | <u>167,387</u> |

- i) The Hospital is to revalue its post-retirement benefit obligations using a discount rate referencing the Hospital's cost of borrowing. The calculated rate did not change from the previous rate used and therefore, there was no impact.
- ii) The Hospital has retroactively recognized all unamortized actuarial gains and losses on the date of transition. Accumulated actuarial gains and losses are amortized over the remaining service life of the employee group.
- iii) The Hospital has retroactively recognized unamortized past service costs relating to previous years' plan amendments as PSAS requires these costs to be expensed fully in the year the plan has been amended.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

- iv) The Hospital has revalued its post-retirement benefit obligations using an attribution period from the employees' date of hire to the first day of payment. The change has been applied retroactively.

- c) Exemptions

The Hospital has elected to use the exemption to recognize all cumulative actuarial gains and losses as at the date of transition to PSAS directly in net assets.

- d) Adoption of financial instruments accounting standards

The Hospital adopted the new financial instruments standard on a prospective basis as required by the standard. The cumulative unrealized net losses in opening net assets have been transferred to the accumulated remeasurement gains - beginning of year in the statement of remeasurement gains and losses.

3 Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared by management in accordance with PSAS, including standards that apply to government not-for-profit organizations.

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)) or the activities of Bay Area Health Trust (BAHT), which is a non-controlled for-profit entity (note 17(c)).

A summary of the significant accounting policies is as follows:

- a) Revenue recognition

The Hospital operates under a Hospital Service Accountability Agreement (the H-SAA) with the Hamilton Niagara Haldimand Brant Local Health Integration Network (the HNHB /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, 2012, the Hospital entered into an amending agreement extending the H-SAA to March 31, 2013.

If the Hospital does not meet certain performance standards or obligations, the HNHB /LHIN has the right to adjust some funding streams received by the Hospital. Given that the HNHB /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.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

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.

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.

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. In circumstances where all contractual obligations are satisfied, excess funding may be retained by the Hospital at the completion of a research project. These funds are recognized as revenue and are internally restricted by the Board of Directors for future research initiatives.

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 replacement value.

c) 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 and 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. Construction-in-progress is transferred to the appropriate asset category once the particular project is complete and amortization commences when the assets are ready for use.

d) 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, excluding executor costs, under the lease with a corresponding liability for the related lease obligations. The discount rate used to determine the present value of the lease payment is the lower of the Hospital's rate of incremental borrowing or the interest rate implicit in the lease. Charges to expenses are made for amortization on the equipment and interest on the lease obligations.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

e) Employee benefit plans

- Multi-employer plan

Employees of the Hospital are eligible to be members of the Hospitals of Ontario Pension Plan (HOOPP), which is a multi-employer average of the best five years' pay contributory pension plan, and employees are entitled to certain post-employment benefits. The plan is accounted for as a defined contribution plan.

- Post-retirement benefit obligations

The Hospital accrues its obligations under non-pension employee benefit plans as employees render services.

Certain employees of the Hospital are entitled to receive other post-employment benefits. The cost of these benefits is determined using the accrued benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages of employees and health-care costs. The discount rate used to determine the accrued benefit obligation was determined by reference to the Hospital's long-term cost of borrowing consistent with the specific rates of interest and periods committed to by the Hospital on amounts borrowed. The Hospital estimated its long-term cost of borrowing by referencing the rate of return on provincial government bonds with an additional risk premium specific to the Hospital for varying durations based on the cash flows expected from the post-retirement benefit obligations. Past service costs relating to plan amendments are expensed when incurred. Actuarial gains and losses are amortized over the remaining service periods of the employees. The average remaining service period of active employees is 15 years.

f) 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.

g) 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.

h) Use of estimates

The preparation of financial statements in conformity with PSAS 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. Amounts subject to significant estimates include accounts receivable, accrued liabilities, impairment of investments and post-retirement benefit obligations.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

4 Restricted cash and cash equivalents and short-term investments

Restricted cash and cash equivalents are Board designated funds and consist of cash on hand, demand deposits and short-term investments that are highly liquid, subject to insignificant risk of changes in value and have a short-term maturity of less than 90 days.

Restricted cash and cash equivalents in the amount of \$83,834 (2012 - \$133,842) 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 of \$72,802 (2012 - \$92,960), construction facilities of \$11,000 (2012 - \$40,843) and patient trusts of \$32 (2012 - \$39).

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 1.46% (2012 - 1.43%), US dollar holdings average rate of 0.35% (2012 - 0.45%) and euro holdings average rate of nil% (2012 - nil%).

Restricted 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 2.73% (2012 - 2.84%) and are recorded at fair value as at March 31, 2013, with a cost of \$61,169 (2012 - \$33,889). These funds are held for the Hospital's internally and externally designated trusts and research operations.

5 Accounts receivable

Accounts receivable consist of the following:

| | 2013 \$ | 2012 \$ |
|--|---------------|---------------|
| MOHLTC | 9,509 | 7,397 |
| Ontario Health Insurance Plan | 3,666 | 3,709 |
| Patient | 10,345 | 8,472 |
| BAHT (note 17(c)) | 2,756 | 3,297 |
| Foundation and Volunteer Association (notes 17(a) and (b)) | 1,439 | 1,303 |
| Other | 22,531 | 25,603 |
| | <u>50,246</u> | <u>49,781</u> |

Hamilton Health Sciences Corporation

Notes to Financial Statements
March 31, 2013 and March 31, 2012

(in thousands of dollars)

6 Restricted portfolio investments

Long-term investments consist of the following:

| | 2013 | | 2012 | |
|--------------|----------------|------------------|----------------|------------------|
| | Cost \$ | Fair value \$ | Cost \$ | Fair value \$ |
| Fixed income | | | | |
| Canadian | 108,234 | 116,326 | 123,396 | 131,341 |
| US | 6,383 | 6,398 | 13,460 | 13,554 |
| Euro | 1,859 | 1,922 | 5,328 | 5,335 |
| Equities | | | | |
| Canadian | 70,225 | 74,215 | 60,701 | 61,948 |
| US | 48,166 | 52,439 | 35,753 | 36,997 |
| | <u>234,867</u> | <u>251,300</u> | <u>238,638</u> | <u>249,175</u> |

Fixed income investments have an average term of 9.63 years (2012 - 7.47 years) to maturity and have a weighted average yield of 3.84% (2012 - 4.05%) as at March 31, 2013.

Investment income revenue consists of the following:

| | 2013 \$ | 2012 \$ |
|------------------------------|---------------|---------------|
| Interest and dividend income | 10,173 | 10,254 |
| Realized gains and losses | 4,286 | 1,635 |
| Less: Investment fees | (642) | (685) |
| | <u>13,817</u> | <u>11,204</u> |

7 Capital assets

Capital assets consist of the following:

| | 2013 | | |
|------------------------------------|------------------|-----------------------------------|----------------|
| | Cost \$ | Accumulated amortization \$ | Net \$ |
| Land | 890 | - | 890 |
| Building and building improvements | 774,035 | 97,136 | 676,899 |
| Equipment | 355,281 | 287,262 | 68,019 |
| Construction-in-progress | 40,350 | - | 40,350 |
| | <u>1,170,556</u> | <u>384,398</u> | <u>786,158</u> |

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

| | 2012 | | |
|------------------------------------|------------------|-----------------------------------|----------------|
| | Cost \$ | Accumulated amortization \$ | Net \$ |
| Land | 890 | - | 890 |
| Building and building improvements | 642,731 | 72,537 | 570,194 |
| Equipment | 338,511 | 272,723 | 65,788 |
| Construction-in-progress | 134,369 | - | 134,369 |
| | <u>1,116,501</u> | <u>345,260</u> | <u>771,241</u> |

Included in equipment are assets under capital leases at a cost of \$50,854 (2012 - \$43,149) and accumulated amortization of \$29,366 (2012 - \$22,714).

Capital assets with a cost of \$6,355 (2012 - \$1,404) were disposed of in fiscal 2013 at a loss of \$650 (2012 - \$nil).

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 (Juravinski)).

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

8 Bank indebtedness

As at March 31, 2013, the Hospital has available a \$75,000 unsecured demand operating line of credit. The line of credit bears interest at prime rate less 0.80%. As at March 31, 2013, the bank's prime interest rate is 3.00% (2012 - 3.00%). As at March 31, 2013, the Hospital had a short-term bridging facility of \$52,000 (2012 - \$52,000) at a rate of 2.2%, which was repaid in May 2013.

As at March 31, 2013, the bank indebtedness is \$13,422 (2012 - bank balance \$1,983) with outstanding items of \$28,072 (2012 - \$21,059), resulting in bank indebtedness of \$41,494 (2012 - \$19,076) along with the short-term bridging facility of \$52,000 (2012 - \$52,000) for a total bank indebtedness of \$93,494 (2012 - \$71,076).

During the year, the Hospital remained compliant with its lending covenants.

9 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 3.57% (2012 - 3.84%).

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

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

| | Capital leases \$ | Operating leases \$ |
|------------------------------------|-------------------------|---------------------------|
| 2014 | 12,623 | 1,613 |
| 2015 | 11,008 | 763 |
| 2016 | 7,735 | 611 |
| 2017 | 3,418 | 537 |
| 2018 | 900 | 184 |
| Total minimum lease payments | 35,684 | 3,708 |
| Less: Amount representing interest | 1,920 | |
| Obligations under capital leases | 33,764 | |
| Less: Current portion | 11,622 | |
| | 22,142 | |

10 Long-term debt

Long-term debt consists of the following:

| | 2013 \$ | 2012 \$ |
|---|------------|------------|
| Capital loan payable by August 1, 2025 in monthly principal and interest instalments of \$58 at 4.65% per annum (a) | 6,519 | 6,898 |
| Capital loan payable by April 15, 2029 in quarterly principal and interest instalments of \$397 at 5.255% per annum (b) | 17,268 | 17,908 |
| Capital loan payable by September 17, 2029 in quarterly principal and interest instalments of \$150 at 4.33% per annum (c) | 6,210 | 6,422 |
| Restructuring loan payable by May 12, 2014 in monthly principal and interest instalments of \$432 starting in May 2011 at 2.29% per annum (d) | 2,833 | 10,834 |
| Holdback loan payable by March 18, 2013 renewed periodically at current bankers' acceptance rates, currently 2.36% (e) | - | 15,000 |
| Capital loan payable by April 17, 2029 in quarterly principal and interest instalments of \$586 at 5.255% per annum (f) | 25,519 | 26,468 |
| Development charges payable by July 23, 2018 to the City of Hamilton in interest-free annual instalments of \$137 (g) | 821 | 957 |
| Medical equipment charges payable by December 30, 2016 in interest-free quarterly instalments of \$26 (h) | 376 | - |
| | 59,546 | 84,487 |
| Less: Current portion | 5,372 | 22,317 |
| | 54,174 | 62,170 |

- 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 Juravinksi sites. On a monthly basis, the Hospital is required to deposit the net profit, as defined, from the parking

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

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, 2013, 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 statements of financial position.

As security, the bank has a first ranking specific assignment of all rights, title and interest in and to all net profit and any other revenue and income arising from the General and 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 financing agreement, 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 fees of 0.45%. 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, 2013.

- b) 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 5.255%, plus stamping fees of 0.25%.
- c) On January 22, 2009, the Hospital entered into a \$6,900, 20-year financing 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 fees of 1.80%.
- d) 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 fees of 1.15%. In March 2013, the Hospital made a one-time lump sum payment of \$3,000.
- e) 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 was repaid in March 2013.
- f) 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 Agreement that fixes the interest rate at 5.255%, plus stamping fees of 0.25%.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

- g) 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 General sites.
- h) On April 1, 2012, the Hospital entered into a \$498, five-year interest free payment plan arrangement with a vendor for medical equipment.

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

| | \$ |
|------------|---------------|
| 2014 | 5,372 |
| 2015 | 2,669 |
| 2016 | 2,801 |
| 2017 | 2,910 |
| 2018 | 2,996 |
| Thereafter | <u>42,798</u> |
| | <u>59,546</u> |

11 Employee future benefit plans

a) Multi-employer plan

The Hospital's contributions to HOOPP during the year amounted to \$44,906 (2012 - \$43,750) and are included in salaries and employee benefits expense in the statements of operations. The most recent actuarial valuation of HOOPP as at December 31, 2012 indicates the plan has a 4.19% surplus in disclosed actuarial assets and is fully funded on a solvency basis.

b) Post-retirement benefit obligations

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 post-retirement benefit obligations are calculated based on the latest actuarial valuation performed on March 31, 2013.

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 on termination of employment. As at March 31, 2013, the sick leave obligation amounted to \$5,282 (2012 - \$5,539).

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

The post-retirement benefit obligations as at March 31 include the following components:

| | 2013 \$ | 2012 \$ |
|-----------------------------------|---------------|---------------|
| Accrued benefit obligation | 59,964 | 54,369 |
| Unamortized actuarial gains | (6,124) | (2,545) |
| Post-retirement benefit liability | <u>53,840</u> | <u>51,824</u> |

The movement in the post-retirement benefit obligations during the year is as follows:

| | 2013 \$ | 2012 \$ |
|--|---------------|---------------|
| Post-retirement benefit liabilities, as at April 1 | 51,824 | 45,098 |
| Current service cost | 2,470 | 2,044 |
| Interest cost | 2,217 | 2,391 |
| Plan amendment | - | 5,521 |
| Amortization of actuarial (gains) losses | 165 | (241) |
| | <u>56,676</u> | <u>54,813</u> |
| Benefits paid | (2,836) | (2,989) |
| Post-retirement liability, as at March 31 | <u>53,840</u> | <u>51,824</u> |

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

| | 2013 % | 2012 % |
|--|-----------|-----------|
| Discount rate | 4.00 | 5.00 |
| Expected annual increase in dental care costs | 4.00 | 4.00 |
| Expected annual increase in health-care costs* | 7.00 | 5.00 |

* The current rate is 7.0%. The rate is presumed to decline by 0.25% decrements per annum to an ultimate rate of 5.0%.

12 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:

Hamilton Health Sciences Corporation

Notes to Financial Statements
March 31, 2013 and March 31, 2012

(in thousands of dollars)

| | 2013 \$ | 2012 \$ |
|---|------------|------------|
| Balance - Beginning of year | 548,177 | 468,646 |
| Add: Contributions for capital purposes | | |
| MOHLTC grant | 6,253 | 76,439 |
| Foundation and Volunteer Association | 4,695 | 12,619 |
| Other | 5,709 | 11,263 |
| | 564,834 | 568,967 |
| Less: Amortization | 23,652 | 20,790 |
| Balance - End of year | 541,182 | 548,177 |

Included in the above balance are contributions of \$13,727 (2012 - \$23,680) received but not yet used to purchase capital assets.

13 Deferred research contributions

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

| | 2013 \$ | 2012 \$ |
|--|------------|------------|
| Balance - Beginning of year | 107,446 | 113,549 |
| Externally restricted contributions received | 62,499 | 72,303 |
| Less: Amount recognized as revenue during the year | (59,521) | (78,044) |
| Net change in unrealized gains on deferred research balances | 606 | (362) |
| Balance - End of year | 111,030 | 107,446 |

Research revenue of \$83,357 (2012 - \$111,321) consists of externally restricted research grants and donations recognized in income during the year of \$59,521 (2012 - \$78,044) and \$23,836 (2012 - \$33,277) from research administered accounts, internally restricted by the Hospital's Board of Directors.

14 Net assets invested in capital assets

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

| | 2013 \$ | 2012 \$ |
|---|------------|------------|
| Capital assets - net | 786,158 | 771,241 |
| Less: Amounts funded by | | |
| Deferred capital contributions spent | (527,455) | (524,497) |
| Obligations under capital leases (note 9) | (33,764) | (35,187) |
| Long-term debt | (56,713) | (73,653) |
| | 168,226 | 137,904 |

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

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

| | 2013 \$ | 2012 \$ |
|--|---------------|---------------|
| Purchase of capital assets - net | 59,296 | 130,932 |
| Amounts funded by deferred capital contributions | (26,610) | (96,966) |
| Amortization of capital assets | (44,379) | (39,767) |
| Amortization of deferred capital contributions | 23,652 | 20,790 |
| Increase in obligations under capital leases | 1,423 | 1,477 |
| Decrease in long-term debt | 16,940 | 1,312 |
| | <u>30,322</u> | <u>17,778</u> |

15 Statement of cash flows

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

| | 2013 \$ | 2012 \$ |
|--|-----------------|---------------|
| Accounts receivable | (465) | 10,267 |
| Inventories | 1,140 | (1,541) |
| Prepaid expenses and deposits | (181) | 1,906 |
| Accounts payable and accrued liabilities | (10,590) | 13,269 |
| | <u>(10,096)</u> | <u>23,901</u> |

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, 2013, 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, 2013.
- 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.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

- d) The Hospital has contracted for the Henderson Hospital Redevelopment Project (renamed the Juravinski Hospital). This project falls under Infrastructure Ontario's Alternative Financing and Procurement Model and provides updated community hospital services and positions 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. Substantial completion was reached in March 2013, with total completion and final payment expected by June 2013.

The total capital expenditure commitments for these and other projects outstanding at March 31, 2013 are estimated at \$24,647 (2012 - \$30,381).

- e) As at March 31, 2013, the Hospital has outstanding letters of credit of \$804 (2012 - \$2,543) 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 \$2,598 during fiscal 2013 (2012 - \$10,474) for capital and \$703 (2012 - \$1,061) for research. As at December 31, 2012, the Foundation had net assets of \$71,123 (2011 - \$67,153). Included in the Hospital's assets as at March 31, 2013 is \$822 (2012 - \$834) 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 \$3,527 (2012 - \$3,357) during the year for capital and non-capital expenses and has a net asset (deficiency) of (\$1,368) (2012 - net assets of \$1,422) as at March 31, 2013. Included in the Hospital's assets as at March 31, 2013 is \$616 (2012 - \$469) 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. Transactions with BAHT are considered to be in the normal course of operations and are recorded at the exchange amount.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

Included in the Hospital's assets as at March 31, 2013 is \$2,756 (2012 - \$3,297) in accounts receivable of which \$585 (2012 - \$1,045) is interest bearing at a rate of prime less 0.20%. Included in the Hospital's accounts payable is \$261 (2012 - \$2). In the current year, the Hospital earned investment income of \$23 (2012 - \$762) and paid \$8,750 (2012 - \$8,911) of non-salary expenses to BAHT. The Hospital has guaranteed a portion of BAHT's financing and as at December 31, 2012, \$53,934 (2011 - \$55,552) was outstanding.

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 the Hospital is responsible for all variable costs required to operate and maintain the equipment of each facility.

18 Financial instruments and risk management

Financial instruments

The Hospital's financial instruments consist of restricted cash and cash equivalents, restricted short-term investments, restricted portfolio investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, long-term debt, obligations under capital leases and derivatives.

The Hospital's financial instruments are measured as follows:

| Assets/liabilities | Measurement category |
|--|----------------------|
| Restricted cash and cash equivalents | fair value |
| Restricted short-term investments | fair value |
| Restricted portfolio investments | fair value |
| Accounts receivable | amortized cost |
| Bank indebtedness | amortized cost |
| Accounts payable and accrued liabilities | amortized cost |
| Long-term debt | amortized cost |
| Obligations under capital leases | amortized cost |
| Derivatives | fair value |

Restricted portfolio investments

The Hospital invests in publicly traded equities (held directly) and fixed income securities. Publicly traded equities are reported at fair value. Fixed income securities are managed on a fair value basis and are therefore reported at fair value.

Changes in the fair value of restricted portfolio investments that are Board designated are recorded in the statement of remeasurement gains and losses until the financial instrument is settled. Transaction costs are expensed as incurred. Changes in unrealized gains and losses of restricted portfolio investments related to research are recorded in deferred research contributions.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

Interest and dividends attributable to restricted portfolio investments are reported in the statements of operations.

Derivatives

The Hospital currently employs interest rate swaps to convert its variable interest rate on \$58,000 of its floating rate loan facilities to a fixed interest rate. Interest rate swaps are employed in order to eliminate variability in future interest cash flows. The swaps are measured at fair value until the swap is settled and the change in fair value is recorded in the statement of remeasurement gains and losses.

Fair value measurement

The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate, based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

The following table illustrates the classification of the Hospital's financial instruments within the fair value hierarchy as at March 31:

| | 2013 | | |
|--------------------------------------|---------------|---------------|---------------|
| | Level 1 \$ | Level 2 \$ | Level 3 \$ |
| Restricted cash and cash equivalents | 83,834 | - | - |
| Restricted short-term investments | 61,383 | - | - |
| Restricted portfolio investments | 251,300 | - | - |
| Derivative liability | - | 12,539 | - |
| | 396,517 | 12,539 | - |
| | 409,056 | | |
| | 2012 | | |
| | Level 1 \$ | Level 2 \$ | Level 3 \$ |
| Restricted cash and cash equivalents | 133,842 | - | - |
| Restricted short-term investments | 34,248 | - | - |
| Restricted portfolio investments | 249,175 | - | - |
| Derivative liability | - | 12,274 | - |
| | 417,265 | 12,274 | - |
| | 429,539 | | |

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

Risk management

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 with regards to its restricted short-term investments, restricted portfolio investments and floating rate debt, which are regularly monitored.

- Market risk

The Hospital is exposed to market risk through the fluctuation of financial instrument fair values due to changes in market prices. The significant market risks to which the Hospital is exposed are interest rate, currency and other price risks.

- Interest rate risk

The interest rate risk is the risk the fair value of the future cash flows of a financial instrument fluctuates because of changes in market interest rates. The Hospital is exposed to interest rate risk on its investments and long-term debt. Of these risks, the Hospital's principal exposure is that increases in the floating interest rates on its debt, if unmitigated, could lead to decreases in cash flow and excess interest cost. The Hospital has effectively fixed its interest rate on the majority of its long-term debt by entering into various interest rate swaps.

- Currency risk

Currency risk is the risk changes in market prices, such as foreign currency exchange rates and interest rates will affect the Hospital's future cash flows or the fair value of its financial instruments. The Hospital's exposure to foreign currency exchange risk is on the restricted investment portfolio, which includes securities denominated in US dollars and euros. As at March 31, 2013, the total amount of securities denominated in a foreign currency was \$96,514 (2012 - \$98,819).

The Hospital's estimate of the effect on net assets as at March 31, 2013 due to a 1.0% increase or decrease in the exchange rates, with all other variables held constant, would approximately amount to an increase or decrease of \$965.

- Other price risk

Other price risk refers to the risk the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from risks noted above). The Hospital is exposed to price risk through its restricted portfolio investments.

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

As at March 31, 2013, the Hospital's total exposure to other price risk is \$251,300. The Hospital's estimate on the effect of net assets as at March 31, 2013 due to a 1.0% increase or decrease in the fair value of long-term investments, with all other variables held constant, would approximately amount to an increase or decrease of \$2,513. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

- Sensitivity analysis

The sensitivity analysis included in this note should be used with caution as the changes are hypothetical and are not predictive of future performance. The above sensitivities are calculated with reference to year-end balances and will change due to fluctuations in the balances in the future. In addition, for the purpose of the sensitivity analysis, the effect of a variation in a particular assumption on the fair value of the financial instruments was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may magnify or counteract the effect on the fair value of the financial instrument.

- Credit risk

The Hospital is exposed to credit risk in the event of non-payment by patients for non-insured services and services provided to non-resident patients. The risk is common to hospitals as they are required to provide care for patients regardless of their ability to pay for services provided.

As at March 31, 2013, the following accounts receivable were past due but not impaired:

| | 30 days | 60 days | 90 days | Over |
|---------------------|---------|---------|---------|----------|
| | \$ | \$ | \$ | 120 days |
| | | | | \$ |
| Accounts receivable | 10,631 | 5,576 | 1,955 | 6,920 |

- Liquidity risk

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

Hamilton Health Sciences Corporation

Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars)

The table below is a maturity analysis of the Hospital's financial liabilities:

| | Up to 6 months \$ | More than 6 months up to 1 year \$ | More than 1 year up to 5 years \$ | More than 5 years \$ | Total \$ |
|---|-------------------------|--|--|----------------------------|-------------|
| Bank indebtedness | 93,494 | - | - | - | 93,494 |
| Accounts payable and accrued liabilities | 121,061 | - | - | - | 121,061 |
| Obligations under capital lease | 5,958 | 5,664 | 22,142 | - | 33,764 |
| Long-term debt | 3,693 | 1,679 | 11,376 | 42,798 | 59,546 |
| Other long-term liability | - | - | 609 | 701 | 1,310 |
| | 224,206 | 7,343 | 34,127 | 43,499 | 309,175 |