Hamilton Health Sciences Corporation

Financial Statements
March 31, 2014
(in thousands of dollars)

June 30, 2014

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 statement of financial position as at March 31, 2014 and the statements of operations, changes in net assets, remeasurement gains and losses 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 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 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 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, 2014 and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton Health Sciences Corporation

Statement of Financial Position

As at March 31, 2014

(in thousands of dollars)

	2014 $	2013 $ (restated - note 3)
Assets		
Current assets		
Restricted cash and cash equivalents (notes 4 and 10(a))	256,956	85,952
Restricted short-term investments (note 4)	44,613	61,676
Accounts receivable (note 5)	60,320	51,147
Inventories	12,409	12,393
Prepaid expenses and deposits	5,935	4,293
	380,233	215,461
Restricted portfolio investments (note 6)	95,595	252,394
Other non-current assets	3,312	3,628
Capital assets (note 7)	797,445	795,721
	1,276,585	1,267,204
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	105,563	92,655
Accounts payable and accrued liabilities	378,241	109,702
Deferred revenue	8,848	14,732
Current portion of obligations under capital leases (note 9)	11,867	11,622
Current portion of long-term debt (note 10)	2,786	5,372
	507,305	234,083
Obligations under capital leases (note 9)	17,112	22,142
Long-term debt (note 10)	51,855	54,174
Post-retirement benefit obligations (note 11(b))	56,538	54,535
Other long-term liability	2,194	1,310
Derivative liability	9,387	12,539
Deferred capital contributions (note 12)	566,084	547,707
Deferred research contributions (note 13)	70,330	111,030
	1,280,805	1,037,520
Net Assets (Deficit)		
Unrestricted	(267,132)	(276,667)
Invested in capital assets (note 14(a))	169,029	172,567
Board designated	85,580	329,544
Accumulated remeasurement gains	8,303	4,240
	(4,220)	229,684
	1,276,585	1,267,204

Commitments and contingencies (notes 16 and 17(e))

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, 2014

(in thousands of dollars)

	2014 $	2013 $ (restated - note 3)
Revenue		
Ontario Ministry of Health and Long-Term Care (MOHLTC)	970,676	949,717
Ontario Health Insurance Plan	38,495	35,847
Ministry of Communication and Social Services	27,928	27,248
Patient and third party payers	24,288	23,465
Income from restricted portfolio investments (note 6)	29,016	13,890
Amortization of deferred capital contributions (note 12)	26,268	24,360
Ancillary and other recoveries	112,316	102,266
Research (note 13)	104,600	83,357
	1,333,587	1,260,150
Expenses		
Salaries and employee benefits	762,014	734,275
Medical staff remuneration	80,300	76,926
Medical and surgical supplies	68,548	65,560
Drugs	73,441	66,758
Facilities	24,030	23,201
Amortization of capital assets	47,250	45,313
Other expenses	147,723	143,778
Research	78,248	79,061
	1,281,554	1,234,872
Excess of revenue over expenses before designated transfer of assets	52,033	25,278
Designated transfer of assets (note 17(c))	(290,000)	-
Excess of revenue over expenses (expenses over revenue) for the year	(237,967)	25,278

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, 2014

(in thousands of dollars)

	2014				2013
	Unrestricted **$**	**Invested in capital assets** **$** (note 14)	**Board designated** **$**	**Total** **$**	**Total** **$** (restated - note 3)
Net assets (deficit) - Beginning of year	(276,667)	172,567	329,544	225,444	200,166
Excess of expenses over revenue for the year	(237,967)	-	-	(237,967)	25,278
Designated transfer of assets (note 17(c))	290,000	-	(290,000)	-	-
Transfer to Board designated	(52,896)	-	52,896	-	-
Transfer from Board designated	6,860	-	(6,860)	-	-
Net change in invested in capital assets (note 14(b))	3,538	(3,538)	-	-	-
Net assets (deficit) - End of year	(267,132)	169,029	85,580	(12,523)	225,444

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, 2014

(in thousands of dollars)

	2014 $	2013 $ (restated - note 3)
Accumulated remeasurement gains (losses) - Beginning of year	4,240	(1,649)
Unrealized gains (losses) attributable to		
Derivatives	3,152	(265)
Restricted portfolio investments	17,483	10,041
Foreign exchange	9,417	1,013
	30,052	10,789
Unrealized losses (gains) reclassified to deferred contributions		
Restricted portfolio investments	(2,801)	145
Foreign exchange	(2,737)	(751)
	(5,538)	(606)
Realized gains reclassified to statements of operations		
Restricted portfolio investment	(18,987)	(4,286)
Foreign exchange	(1,464)	(8)
	(20,451)	(4,294)
Net remeasurement gains for the year	4,063	5,889
Accumulated remeasurement gains - End of year	8,303	4,240

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, 2014

(in thousands of dollars)

	2014 $	2013 $ (restated - note 3)
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses (expenses over revenue) for the year	(237,967)	25,278
Add (deduct): Non-cash items		
Amortization of capital assets	47,250	45,313
Amortization of deferred capital contributions	(26,268)	(24,360)
Non-pension post-retirement benefits expense	5,433	4,922
Gain on disposal of deferred capital	(1,726)	-
Loss on disposal of capital assets	3,333	650
Gain on disposal of restricted portfolio investments	(18,987)	(4,286)
	(228,932)	47,517
Net change in non-cash working capital balances related to operations (note 15)	(3,087)	(10,135)
Unpaid designated transfer of assets (note 17(c))	255,000	-
Non-pension benefit contributions	(3,430)	(2,860)
Increase (decrease) in deferred contributions	(40,700)	3,584
	(21,149)	38,106
Capital activities		
Purchase of capital assets	(45,176)	(71,788)
Proceeds from disposal of capital assets	363	463
	(44,813)	(71,325)
Investing activities		
Decrease (increase) in other non-current assets	316	(2,490)
Decrease (increase) in restricted portfolio investments - net	193,760	(18,749)
(Increase) decrease in restricted cash and cash equivalents - net	(171,004)	50,008
	23,072	28,769
Financing activities		
Contributions received for capital purposes	46,371	17,140
Proceeds received on long-term debt	600	-
Repayment of long-term debt	(5,505)	(24,941)
Increase in other long-term liability	884	1,310
Payment of obligations under capital leases	(12,368)	(11,250)
	29,982	(17,741)
Increase in bank indebtedness during the year	(12,908)	(22,191)
Bank indebtedness - Beginning of year	(92,655)	(70,464)
Bank indebtedness - End of year	(105,563)	(92,655)
Supplemental information		
Interest paid	5,527	5,787
Non-cash transactions		
Purchase of capital assets included in accounts payable and accrued liabilities	5,549	5,638
Donated capital asset and deferred capital contributions additions	-	825
Purchase of capital assets through lease obligations	7,583	9,827

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

(in thousands of dollars)

1 Purpose of the organization

Hamilton Health Sciences Corporation (the Hospital or HHS) is a family of seven unique hospitals and a cancer centre, serving more than 2.3 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 Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards (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), Hamilton Health Sciences Volunteer Association (the Volunteer Association), Hamilton Health Sciences Research Institute (HHSRI), West Lincoln Memorial Hospital Foundation (the WLMH Foundation) and West Lincoln Memorial Auxiliary (the Auxiliary), which are non-controlled not-for-profit entities (notes 17(a), (b), (c) and (d)), or the activities of Bay Area Health Trust (BAHT), which is a non-controlled for-profit entity (note 17(e)).

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, 2013, the Hospital entered into an amending agreement extending the H-SAA to March 31, 2014.

If the Hospital does not meet certain performance standards or obligations, the HNHB/LHIN has the right to adjust certain 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.

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.

(in thousands of dollars)

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.

Investment income is recognized as revenue when earned.

Revenue from other services is recognized when an arrangement is in place, services are provided or goods are sold and collectability is reasonably assured.

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.

(in thousands of dollars)

e) Employee benefit plans

- Multi-employer plan

  Employees of the Hospital are eligible to be members of the Healthcare 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 14 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 the recoverability of accounts receivable, the measurement of accrued

(in thousands of dollars)

liabilities, post-retirement benefit obligations and the determination of the fair value of investments and derivatives.

3 Amalgamation

Hamilton Health Sciences Corporation and West Lincoln Memorial Hospital (WLMH) were amalgamated effective November 29, 2013. As the entities are subject to common control, the financial statements of the Hospital have been prepared in accordance with the continuity of interests method of accounting. Under the continuity of interests method of accounting, the carrying value of the assets and liabilities of each of the combining entities have been carried forward at their book values. Accordingly, the comparative balances, results of operations and capital structure are based on the continuing operations of the Hospital as if Hamilton Health Sciences Corporation and West Lincoln Memorial Hospital had been combined since their inception.

The net assets of each of the combining entities as at April 1, 2013 were as follows:

	HHS $	WLMH $	Combined $
Current Assets	211,803	3,658	215,461
Capital Assets	786,158	9,563	795,721
Other Assets	253,790	2,232	256,022
Current Liabilities	231,549	2,534	234,083
Other Liabilities	796,217	7,220	803,437
Net Assets	223,985	5,699	229,684

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 $256,956 (2013 - $85,952) 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 $230,408 (2013 - $72,802), construction facilities of $26,526 (2013 - $13,118) and patient trusts of $22 (2013 - $32).

Cash in the Hospital’s Canadian bank account earns interest at a rate of prime less 1.63%. Cash in the Hospital’s US bank accounts earns interest at the US bankers’ acceptance rate less 4%, which currently stands at the minimum rate of nil%. Cash in the Hospital’s euro bank accounts earns 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 1.50% (2013 - 1.46%), US dollar holdings average rate of 0.43% (2013 - 0.35%) and euro holdings average rate of nil% (2013 - nil%).

(in thousands of dollars)

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 2.77% (2013 - 2.73%) and are recorded at fair value of $26,405 (2013 - $61,676) as at March 31, 2014, with a cost of $25,651 (2013 - $61,456). Additionally, restricted short-term investments include $18,208 (2013 - $nil) of equity holdings at fair value as of March 31, 2014, with a cost of $14,670 (2013 - $nil) related to holdings that will be sold in the short-term to fulfill the outstanding HHSRI payable. These funds are held for the Hospital's internally and externally designated trusts, commitments and research operations.

5 Accounts receivable

Accounts receivable consist of the following:

	2014 **$**	**2013** **$**
MOHLTC	15,372	9,601
Ontario Health Insurance Plan	4,042	3,666
Patient	11,367	10,849
BAHT (note 17(e))	2,512	2,756
Foundation and Volunteer Association (notes 17(a) and (b))	2,828	1,439
Other	24,199	22,836
	60,320	51,147

6 Restricted portfolio investments

Long-term investments consist of the following:

	2014		**2013**	
	Cost **$**	**Fair value** **$**	**Cost** **$**	**Fair value** **$**
Fixed income				
Canadian	37,523	40,793	109,242	117,420
US	13,489	13,524	6,383	6,398
Euro	2,153	2,193	1,859	1,922
Equities				
Canadian	11,500	14,384	70,225	74,215
US	20,000	24,701	48,166	52,439
	84,665	95,595	235,875	252,394

Fixed income investments have an average term of 7.29 years (2013 - 9.63 years) to maturity and have a weighted average yield of 4.26% (2013 - 3.84%) as at March 31, 2014.

(in thousands of dollars)

Investment income consists of the following:

	2014 $	2013 $
Interest and dividend income	10,836	10,246
Net realized gains	18,987	4,286
Less: Investment fees	(807)	(642)
	29,016	13,890

7 Capital assets

Capital assets consist of the following:

			2014	2013
	Cost $	Accumulated amortization $	Net $	Net $
Land	1,126	-	1,126	1,126
Building and building improvements	791,471	126,295	665,176	680,169
Equipment	391,516	321,838	69,678	71,004
Construction-in-progress	61,465	-	61,465	43,422
	1,245,578	448,133	797,445	795,721

Included in equipment are assets under capital leases at a cost of $55,376 (2013 - $50,854) and accumulated amortization of $35,942 (2013 - $29,366).

Capital assets with a cost of $6,798 (2013 - $6,355) were disposed of in fiscal 2014 at a loss of $3,333 (2013 - $650) which is included in other expenses in the statement of operations.

Construction-in-progress consists primarily of the McMaster University Medical Centre/McMaster's Children's Hospital Redevelopment project.

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, 2014, the Hospital has available a $76,000 unsecured demand operating line of credit that bears interest at prime rate less 0.80%. As at March 31, 2014, the bank's prime interest rate is 3.00% (2013 - 3.00%). As at March 31, 2014, the Hospital had a short-term bridging facility of $52,000 (2013 - $52,000) at a rate of 1.27%, which was repaid in April 2014.

(in thousands of dollars)

As at March 31, 2014, the bank indebtedness is $34,933 (2013 - bank indebtedness $12,583) with items in transit of $18,630 (2013 - $28,072), resulting in bank indebtedness of $53,563 (2013 - $40,655) along with the short-term bridging facility of $52,000 (2013 - $52,000) for a total bank indebtedness of $105,563 (2013 - $92,655).

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 3.33% (2013 - 3.57%).

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

	Capital leases $	**Operating leases $**
2015	12,634	5,317
2016	9,361	4,774
2017	5,045	3,332
2018	2,525	943
2019	799	90
Total minimum lease payments	30,364	14,456
Less: Amount representing interest	1,385	
Obligations under capital leases	28,979	
Less: Current portion	11,867	
	17,112	

10 Long-term debt

Long-term debt consists of the following:

	2014 $	**2013 $**
Capital loan payable by August 1, 2025 in monthly principal and interest instalments of $58 at 4.65% per annum (a)	6,121	6,519
Capital loan payable by April 15, 2029 in quarterly principal and interest instalments of $397 at 5.255% per annum (b)	16,590	17,268
Capital loan payable by September 17, 2029 in quarterly principal and interest instalments of $150 at 4.33% per annum (c)	5,987	6,210
Restructuring loan payable (d)	-	2,833
Capital loan payable by April 17, 2029 in quarterly principal and interest instalments of $586 at 5.255% per annum (e)	24,516	25,519
Development charges payable by July 23, 2018 to the City of Hamilton in interest-free annual instalments of $137 (f)	684	821

(in thousands of dollars)

	2014 $	2013 $
Pharmacy loan payable by January 1, 2018 in monthly principal and interest instalments of $11 at 3.05% per annum (g)	467	-
Medical equipment charges payable by December 30, 2016 in interest-free quarterly instalments of $26 (h)	276	376
	54,641	59,546
Less: Current portion	2,786	5,372
	51,855	54,174

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 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, 2014, the balance in the net profit account is greater than the minimum required balance and is included in restricted cash and cash equivalents on the statement of financial position.

   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, 2014.

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%.

(in thousands of dollars)

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%. The loan was fully repaid during the year.

e) 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%.

f) 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.

g) On June 1, 2013, the Hospital entered into a $600, five year financing agreement for the purpose of financing construction costs related to the new retail pharmacy at the General site. The interest rate is equal to prime rate less a 0.20% discount, plus an administration fee of 0.25%.

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:

	$
2015	2,786
2016	2,922
2017	3,034
2018	3,102
2019	3,391
Thereafter	39,406
	54,641

(in thousands of dollars)

11 Employee future benefit plans

a) Multi-employer plan

The Hospital's contributions to HOOPP during the year amounted to $47,661 (2013 - $46,056) 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, 2013 indicates the plan has a 13.7% 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, 2014.

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, 2014, the sick leave obligation amounted to $4,857 (2013 - $5,282).

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

	2014 **$**	**2013** **$**
Accrued benefit obligation	60,371	60,715
Unamortized actuarial gains	(3,833)	(6,180)
Post-retirement benefit liability	56,538	54,535

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

	2014 **$**	**2013** **$**
Post-retirement benefit liabilities, as at April 1	54,535	52,473
Current service cost	2,698	2,506
Interest cost	2,309	2,247
Amortization of actuarial losses	426	169
	59,968	57,395
Benefits paid	(3,430)	(2,860)
Post-retirement liability, as at March 31	56,538	54,535

(in thousands of dollars)

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

	2014 %	**2013** %
Discount rate	4.00	4.00
Expected annual increase in dental care costs	4.00	4.00
Expected annual increase in health-care costs*	6.75	7.00

* The current rate is 6.75%. 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:

	2014 $	**2013** $
Balance - Beginning of year	547,707	554,102
Add: Contributions for capital purposes		
MOHLTC grant	33,708	6,261
Foundations and Volunteer Association	5,791	5,956
Other	6,872	5,748
	594,078	572,067
Less: Amortization	26,268	24,360
Disposals of related capital assets	1,726	-
Balance - End of year	566,084	547,707

Included in the above balance are contributions of $21,288 (2013 - $15,030) received but not yet utilized 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:

	2014 $	**2013** $
Balance - Beginning of year	111,030	107,446
Externally restricted contributions received	9,871	62,499
Less: Amount recognized as revenue during the year	(56,109)	(59,521)
Net change in unrealized market and foreign exchange gains on invested unspent deferred research balances	5,538	606
Balance - End of year	70,330	111,030

(in thousands of dollars)

Research revenue of $104,600 (2013 - $83,357) consists of externally restricted research grants and donations recognized in income during the year of $56,109 (2013 - $59,521) and $48,491 (2013 - $23,836) 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:

	2014 **$**	**2013** **$**
Capital assets - net	797,445	795,721
Less: Amounts funded by		
Deferred capital contributions spent (note 12)	(544,796)	(532,677)
Obligations under capital leases (note 9)	(28,979)	(33,764)
Long-term debt (note 10)	(54,641)	(56,713)
	169,029	172,567

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

	2014 **$**	**2013** **$**
Purchase of capital assets - net	48,974	60,510
Amounts funded by deferred capital contributions	(38,387)	(27,991)
Amortization of capital assets	(47,250)	(45,313)
Amortization of deferred capital contributions	26,268	24,360
Decrease in obligations under capital leases	4,785	1,423
Decrease in long-term debt	2,072	16,940
	(3,538)	29,929

15 Statement of cash flows

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

	2014 **$**	**2013** **$**
Accounts receivable	(9,173)	(511)
Inventories	(16)	1,142
Prepaid expenses and deposits	(1,642)	(203)
Accounts payable and accrued liabilities	13,628	(11,078)
Deferred revenue	(5,884)	515
	(3,087)	(10,135)

(in thousands of dollars)

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, 2014, 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, 2014.

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. Completion of the project is expected in fiscal 2015/16.

d) Commercial and financial close was reached on the March 27, 2014 for the Hospital's McMaster Children's Health Centre. This project falls under Infrastructure Ontario's Alternative Financing and Procurement Model and the Ministry of Children and Youth Services (MCYS) is funding this project to bring together four ambulatory children's treatment services currently located at the Chedoke campus. The overall budget for the project including facilities is projected at $108,469 and will be cost-shared with the MCYS. Completion of the project is expected in fiscal 2015/16.

e) The Hospital has committed to an infrastructure upgrade project at the WLMH site. Costs are projected to be $5,437 with a maximum grant of $4,959.

f) The total capital expenditure commitments for the projects described in (a) through (e) above and other minor projects outstanding as at March 31, 2014 are estimated at $39,703 (2013 - $25,754).

g) As at March 31, 2014, the Hospital has outstanding letters of credit of $25 (2013 - $804) related to various construction and renovation projects.

h) 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 these labour groups and accordingly no provision has been made in the financial statements.

(in thousands of dollars)

17 Related party transactions

a) The Foundation, an independent organization, raises funds and holds resources solely for the benefit of the Hospital. The Foundation is incorporated without share capital under the laws of the Province of Ontario and is a charitable organization registered under the Income Tax Act. The Hospital is considered to be affiliated with the Foundation due to common directors on the boards. 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 $5,156 during fiscal 2014 (2013 - $2,598) for capital and $1,472 (2013 - $703) for research. Included in the Hospital's assets as at March 31, 2014 is $2,194 (2013 - $823) 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. In November 2011, 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 $2,656 (2013 - $3,527) during the year for capital and non-capital expenses. Included in the Hospital's assets as at March 31, 2014 is $634 (2013 - $616) in accounts receivable from the Volunteer Association.

c) HHSRI was established to solicit, receive, manage and distribute funds in respect of the advancement of health science research and education and the improvement of patient care in support of legislated and strategic priorities of the Hospital. HHSRI is a corporation without share capital and was established on January 28, 2014 under the laws of the Province of Ontario and is a registered charity under the Income Tax Act. The Hospital is considered to be affiliated with and has significant influence over HHSRI as the Chief Executive Officer (CEO) of the Hospital is also the CEO and a board member of HHSRI. The Hospital provides executive management and administrative services to HHSRI. As at March 31, 2014, the Hospital authorized a designated gift of $290,000 to HHSRI as a direct transfer of cash and investments from the Hospital. As of March 31, 2014, $35,000 was transferred in cash to HHSRI with the balance of $255,000 recorded in accounts payable and accrued liabilities.

d) The WLMH Foundation and the Auxiliary are both independent organizations. The WLMH Foundation receives and maintains funds for charitable purposes which it donates to the Hospital for the use of operations, renovations, maintenance and equipment. The Auxiliary raises money to assist the Hospital in the acquisition of medical equipment and to assist the programs. The WLMH Foundation contributed $175 (2013 - $827) during the year for capital and non-capital expenses. The Auxiliary contributed $9 (2013 - $439) during the year for capital and non-capital expenses. Included in the Hospital's assets as at March 31, 2014 is $804 (2013 - $1,118) in accounts receivable from the WLMH Foundation and $2 (2013 - $nil) from the Auxiliary.

e) BAHT is a for-profit 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.

(in thousands of dollars)

Included in the Hospital's assets as at March 31, 2014 is $2,512 (2013 - $2,756) in accounts receivable of which $438 (2013 - $585) is interest bearing at a rate of prime less 0.20%. Included in the Hospital's accounts payable is $73 (2013 - $261). In the current year, the Hospital earned investment income of $16 (2013 - $23) and paid $9,045 (2013 - $8,750) of non-salary expenses to BAHT. The Hospital has guaranteed a portion of BAHT's financing and as at December 31, 2013, $52,005 (2012 - $53,934) 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.

(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 $53,000 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:

				2014
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Restricted cash and cash equivalents	256,956	-	-	256,956
Restricted short-term investments	44,613	-	-	44,613
Restricted portfolio investments	95,595	-	-	95,595
Derivative liability	-	9,387	-	9,387
	397,164	9,387	-	406,551

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.

(in thousands of dollars)

- 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 cash and cash equivalents and restricted investment portfolio, which includes cash and securities denominated in US dollars and euros. As at March 31, 2014, the total amount of cash and securities denominated in a foreign currency was $99,005 (2013 - $96,514).

    The Hospital's estimate of the effect on net assets as at March 31, 2014 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 $990 (2013 - $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.

    As at March 31, 2014, the Hospital's total exposure to other price risk is $95,595 (2013 - $252,394). The Hospital's estimate on the effect of net assets as at March 31, 2014 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 $956 (2013 - $2,524). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(in thousands of dollars)

- 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, 2014, the following accounts receivable were past due but not impaired:

	30 days **$**	**60 days** **$**	**90 days** **$**	**Over 120 days** **$**
Accounts receivable	7,273	5,360	2,316	5,829

The Hospital is also exposed to credit risk through its restricted portfolio investments in high quality bonds and equity securities. Management considers the credit risk to be low as the Hospital only places its investments with reputable and financially stable organizations and the portfolio is monitored by the Investment Committee.

- 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.

(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	105,563	-	-	-	105,563
Accounts payable and accrued liabilities	387,089	-	-	-	387,089
Obligations under capital lease	6,044	5,823	17,112	-	28,979
Long-term debt	1,453	1,333	12,093	39,762	54,641
Other long-term liability	-	-	1,254	940	2,194
Derivative liability	-	-	-	9,387	9,387
	500,149	7,156	30,459	50,089	587,853

19 Funding agreements

The Hospital entered into funding agreements with various parties which require the disclosure of the revenues and expenditures for the respective program as follows:

a) Clinical education program

During the year, the Clinical Education Program incurred expenses of $67,540 (2013 - $63,168) and received $70,352 (2013 - $63,433) from the MOHLTC. As applicable, the surplus in funding is owed to the MOHLTC, and, as such, a payable of $2,812 (2013 - $265) has been included in accounts payable and accrued liabilities.

b) Diabetes education program

During the year, the Diabetes Education Program incurred expenses of $945 (2013 - $872) and received $879 (2013 - $879) from HNHB/LHIN.

	2014 $	2013 $
Revenue	879	879
Expenses		
Salaries and benefits	754	690
Purchased services	179	165
General operating expenditures	11	16
Travel/transportation	1	1
Total expenses	945	872

(in thousands of dollars)

c) Emergency department physician program

During the year, the Emergency Department Physician Program at the WLMH site incurred expenses of $1,959 (2013 - $2,003) and received $1,959 (2013 - $2,003) from the MOHLTC.

	2014 **$**	**2013** **$**
Revenues		
Physician		
Ministry of Health	1,431	1,438
APP premium payments	477	504
Medical trainee program	-	7
Mentorship program	37	-
OHIP, 3rd party	14	54
	1,959	2,003
Expenses		
Physician		
Participating physicians' services	1,416	1,396
APP premium payments	478	504
Medical trainee program	-	7
Non-participating physicians' services	31	70
Mentorship program	14	-
	1,939	1,977
Administration		
Medical director	6	6
Billing administration	14	16
Staff training and courses	-	4
	20	26
Total expenses	1,959	2,003

20 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.