Financial Statements **March 31, 2015**(in thousands of dollars)



June 26, 2015

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, 2015 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, 2015 and the results of its operations, changes in net assets, remeasurement gains and losses and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Pricewaterhouse Coopers LLP
Chartered Professional Accountants, Licensed Public Accountants

Statement of Financial Position

As at March 31, 2015

(in thousands of dollars)		
	2015 \$	2014 \$
Assets		
Current assets Restricted cash and cash equivalents (note 3) Restricted short-term investments (note 3) Accounts receivable (note 4) Inventories Prepaid expenses and deposits	43,746 6,900 78,207 13,053 6,441	256,956 44,613 60,320 12,409 5,935
	148,347	380,233
Restricted portfolio investments (note 5)	78,258	95,595
Other non-current assets	7,893	3,312
Capital assets (note 6)	829,073	797,445
Liabilities	1,063,571	1,276,585
Current liabilities Bank indebtedness (note 7) Accounts payable and accrued liabilities Deferred revenue Current portion of obligations under capital leases (note 8) Current portion of long-term debt (note 9)	72,883 131,282 8,074 10,526 5,821	105,563 378,241 8,848 11,867 2,786
	228,586	507,305
Obligations under capital leases (note 8)	14,114	17,112
Long-term debt (note 9)	59,844	51,855
Post-retirement benefit obligations (note 10(b))	58,579	56,538
Other long-term liability	2,957	2,194
Derivative liability	12,728	9,387
Deferred capital contributions (note 11)	590,417	566,084
Deferred research contributions (note 12)	99,350	70,330
Net Assets (Deficit)	1,066,575	1,280,805
Unrestricted	(255,373)	(267,132)
Invested in capital assets (note 13(a))	167,285	169,029
Board designated	85,785	85,580
Accumulated remeasurement gains (losses)	(701)	8,303
	(3,004)	(4,220)
	1,063,571	1,276,585

Commitments and contingencies (notes 15 and 16(e))

Approved by the Board of Directors

_ Director

Director

Statement of Operations

For the year ended March 31, 2015

(in thousands of dollars)		
	2015 \$	2014 \$
Revenue Ontario Ministry of Health and Long-Term Care (MOHLTC) Ontario Health Insurance Plan Ministry of Community and Social Services Patient and third party payers Income from restricted portfolio investments (note 5) Amortization of deferred capital contributions (note 11) Ancillary and other recoveries Research (note 12)	992,435 38,556 29,039 24,162 13,336 29,082 115,011 93,201	970,676 38,495 27,928 24,288 29,016 26,268 112,316 104,600
Expenses	1,334,822	1,333,587
Salaries and employee benefits Medical staff remuneration Medical and surgical supplies	778,837 80,399 62,674 76,182	762,014 80,300 68,548 73,441
Drugs Facilities Amortization of capital assets Other expenses	76,162 23,506 51,296 150,743	24,030 47,250 147,723
Research	1,324,602	78,248 1,281,554
Excess of revenue over expenses before designated transfer of assets	10,220	52,033
Designated transfer of assets (note 16(c))		(290,000)
Excess of revenue over expenses for the year	10,220	(237,967)

Statement of Changes in Net Assets

For the year ended March 31, 2015

(in thousands of dollars)

				2015	2014
	Unrestricted \$	Invested in capital assets \$ (note 13)	Board designated \$	Total \$	Total \$
Net assets (deficit) - Beginning of year	(267,132)	169,029	85,580	(12,523)	225.444
Excess of revenue over expenses	(201,132)	169,029	00,000	(12,525)	225,444
for the year	10,220	_	_	10,220	(237,967)
Transfer to Board designated	(2,313)	-	2,313	-	-
Transfer from Board designated Net change in invested in capital	2,108	-	(2,108)	-	-
assets (note 13(b))	1,744	(1,744)	<u>-</u>	-	
Net assets (deficit) - End of					
year `´´	(255,373)	167,285	85,785	(2,303)	(12,523)

Statement of Remeasurement Gains and Losses For the year ended March 31, 2015

(in thousands of dollars)		
	2015 \$	2014 \$
Accumulated remeasurement gains - Beginning of year	8,303	4,240
Unrealized (losses) gains attributable to Derivatives Restricted portfolio investments Foreign exchange	(3,341) 7,015 2,409	3,152 17,483 9,417
Unrealized gains reclassified to deferred contributions Restricted portfolio investments Foreign exchange	(1,632) (1,859) (3,491)	(2,801) (2,737) (5,538)
Realized gains reclassified to statements of operations Restricted portfolio investments Foreign exchange	(9,162) (2,434) (11,596)	(18,987) (1,464) (20,451)
Net remeasurement gains (losses) for the year	(9,004)	4,063
Accumulated remeasurement gains (losses) - End of year	(701)	8,303

Statement of Cash Flows

For the year ended March 31, 2015

(in thousands of dollars)	2015 \$	2014 \$
Cash provided by (used in)		
Operating activities Excess of revenue over expenses for the year	10,220	(237,967)
Add (deduct): Non-cash items Amortization of capital assets Amortization of deferred capital contributions Non-pension post-retirement benefits expense Gain on disposal of deferred capital Loss on disposal of capital assets Gain on disposal of restricted portfolio investments	51,296 (29,082) 5,446 (1,966) 4,191 (9,162)	47,250 (26,268) 5,433 (1,726) 3,333 (18,987)
Net change in non-cash working capital balances related to operations (note 14) Non-pension benefit contributions Increase (decrease) in deferred contributions	30,943 (13,689) (3,405) 29,020	(228,932) (3,087) (3,430) (40,700)
	42,869	(276,149)
Capital activities Purchase of capital assets Proceeds from disposal of capital assets	(64,897) 1,155	(45,176) 363
	(63,742)	(44,813)
Investing activities (Increase) decrease in other non-current assets Decrease in restricted portfolio investments - net Decrease (increase) in restricted cash and cash equivalents - net Designated transfer of assets (note 16(c))	(4,581) 58,549 213,210 (255,000)	316 193,760 (171,004) 255,000
	12,178	278,072
Financing activities Contributions received for capital purposes Proceeds received on long-term debt Repayment of long-term debt Increase in other long-term liability Payment of obligations under capital leases	41,875 15,000 (3,976) 763 (12,287)	46,371 600 (5,505) 884 (12,368)
	41,375	29,982
Decrease (increase) in bank indebtedness during the year	32,680	(12,908)
Bank indebtedness - Beginning of year	(105,563)	(92,655)
Bank indebtedness - End of year	(72,883)	(105,563)
Supplemental information Interest paid Non-cash transactions	4,966	5,527
Purchase of capital assets included in accounts payable and accrued liabilities Donated capital asset and deferred capital contributions additions Purchase of capital assets through lease obligations	7,468 13,506 7,948	5,549 - 7,583

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

1 Purpose of the organization

Hamilton Health Sciences Corporation (the Hospital) is a family of seven unique hospitals, a cancer centre and an urgent care centre, serving more than 2.3 million residents of Hamilton and south central 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 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 16(a), (b), (c) and (d)), or the activities of Bay Area Health Trust (BAHT), which is a non-controlled for-profit entity (note 16(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, 2014, the Hospital entered into an amending agreement extending the H-SAA to March 31, 2015.

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 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.

Notes to Financial Statements March 31, 2015

(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.

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.

Notes to Financial Statements March 31, 2015

(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. In accordance with PSAS, the plan is accounted for as a defined contribution plan as there is insufficient information to apply defined benefit plan accounting.

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 by volunteers 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

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

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

3 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 \$43,746 (2014 - \$256,956) 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 \$32,743 (2014 - \$230,408), construction facilities of \$10,983 (2014 - \$26,526) and patient trusts of \$20 (2014 - \$22).

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 designated trusts and research operations is invested in high interest savings accounts, Canadian holdings with an average rate of 1.26% (2014 - 1.50%), US dollar holdings average rate of 0.42% (2014 - 0.43%) and euro holdings average rate of nil% (2014 - 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 2.64% (2014 - 2.77%) and are recorded at fair value of \$6,900 (2014 - \$26,405) as at March 31, 2015, with a cost of \$6,817 (2014 - \$25,651). Additionally, restricted short-term investments include \$nil (2014 - \$18,208) of equity holdings at fair value as of March 31, 2015, with a cost of \$nil (2014 - \$14,670). These funds are held for the Hospital's internally and externally designated trusts, commitments and research operations.

4 Accounts receivable

Accounts receivable consist of the following:

	\$	2014 \$
MOHLTC Ontario Health Insurance Plan Patient	14,515 4,197 11,753	15,372 4,042 11,367
BAHT (note 16(e)) Foundation, WLMH Foundation, Auxiliary and Volunteer	1,540	2,512
Association (notes 16(a), (b), (c) and (d)) Research Other	2,671 23,220 20,311	2,828 4,271 19,928
	78,207	60,320

2014

2015

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

5 Restricted portfolio investments

Long-term investments consist of the following:

		2015		2014
	Cost \$	Fair value \$	Cost \$	Fair value \$
Fixed income				
Canadian	34,750	39,926	37,523	40,793
US	6,333	6,307	13,489	13,524
Euro	-	-	2,153	2,193
Equities				
Canadian	9,143	12,015	11,500	14,384
US	15,039	20,010	20,000	24,701
	65,265	78,258	84,665	95,595

Fixed income investments have a weighted average term of 6.05 years (2014 - 7.29 years) to maturity and have an average yield of 4.09% (2014 - 4.26%) as at March 31, 2015.

Investment income consists of the following:

	2015 \$	2014 \$
Interest and dividend income Net realized gains Less: Investment fees	4,460 9,162 (286)	10,836 18,987 (807)
	13,336	29,016

6 Capital assets

Capital assets consist of the following:

			2015
	Cost \$	Accumulated amortization	Net \$
Land	1,126	-	1,126
Building and building improvements	819,935	152,615	667,320
Equipment	419,846	337,871	81,975
Construction-in-progress	78,652	-	78,652
	1,319,559	490,486	829,073

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

			2014
	Cost \$	Accumulated amortization \$	Net \$
Land Building and building improvements Equipment Construction-in-progress	1,126 791,471 391,516 61,465	126,295 321,838	1,126 665,176 69,678 61,465
	1,245,578	448,133	797,445

Included in equipment are assets under capital leases at a cost of \$31,481 (2014 - \$55,376) and accumulated amortization of \$15,294 (2014 - \$35,942).

Capital assets with a cost of \$14,289 (2014 - \$6,798) were disposed of in fiscal 2015 at a loss of \$4,191 (2014 - \$3,333) 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.

7 Bank indebtedness

As at March 31, 2015, the Hospital has available a \$75,000 unsecured demand operating line of credit that bears interest at prime rate less 0.80%. As at March 31, 2015, the bank's prime interest rate is 2.85% (2014 - 3.00%). As at March 31, 2015, the Hospital had a short-term bridging facility of \$52,000 (2014 - \$52,000) at rates ranging from 0.92% to 1.01%, which was repaid in April 2015 through funding received from the MOHLTC.

As at March 31, 2015, the bank indebtedness is \$2,169 (2014 - \$34,933) with items in transit of \$18,714 (2014 - \$18,630), resulting in bank indebtedness of \$20,883 (2014 - \$53,563) along with the short-term bridging facility of \$52,000 (2014 - \$52,000) for a total bank indebtedness of \$72,883 (2014 - \$105,563).

As at March 31, 2015, the Hospital remained compliant with its lending covenants.

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

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8 Lease commitments

The Hospital has entered into various arrangements for the leasing of computer and medical equipment. The weighted average effective interest rate of the capital leases is 3.02% (2014 - 3.33%).

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

	Capital leases \$	Operating leases \$
2016 2017 2018 2019 2020	11,093 6,773 4,256 2,527 1,098	3,781 2,495 825 116 2
Total minimum lease payments Less: Amount representing interest	25,747 1,107	7,219
Obligations under capital leases Less: Current portion	24,640 10,526	
Long-term debt	14,114	
Long-term debt consists of the following:		
	2015 \$	2014 \$
Capital loan payable by August 1, 2025 in monthly principal and interest instalments of \$58 at 4.65% per annum (a)	5,705	6,121
Capital loan payable by April 15, 2029 in quarterly principal and interest instalments of \$397 at 5.255% per annum (b) Capital loan payable by September 17, 2029 in quarterly	15,874	16,590
principal and interest instalments of \$150 at 4.33% per annum (c)	5,747	5,987
Capital loan payable by April 15, 2029 in quarterly principal and interest instalments of \$586 at 5.255% per annum (d) Development charges payable by July 23, 2018 to the City of	23,457	24,516
Hamilton in interest-free annual instalments of \$137 (e)	547	684
Pharmacy loan payable by January 1, 2018 in monthly principal and interest instalments of \$11 at 3.05% per annum (f)	350	467
Medical equipment charges payable by December 30, 2016 in interest-free quarterly instalments of \$26 (g) Capital loan payable by October 15, 2019 in monthly principal	175	276
and interest installments of \$261 at 1.42% (h)	13,810	<u>-</u>
Less: Current portion	65,665 5,821	54,641 2,786
	59,844	51,855

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

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, 2015, 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, 2015.

- 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 a Swap Agreement in place 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 a Swap Agreement in place that fixes the interest rate at 4.33%, plus stamping fees of 1.80%.
- d) 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 a Swap Agreement in place that fixes the interest rate at 5.255%, plus stamping fees of 0.25%.
- e) 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.
- f) 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%.

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

- g) On April 1, 2012, the Hospital entered into a \$498, five-year interest free payment plan arrangement with a vendor for medical equipment.
- h) On October 31, 2015, the Hospital entered into a \$15,000, five-year financing agreement for the purpose of financing capital acquisitions. The Hospital has a Swap Agreement in place that fixes the interest rate at 1.42%, plus stamping fee of 0.25%.

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

	\$
2016	5,821
2017	5,994
2018	6,126
2019	6,243
2020	5,014
Thereafter	36,467
	65,665

10 Employee future benefit plans

a) Multi-employer plan

The Hospital's contributions to HOOPP during the year amounted to \$49,328 (2014 - \$47,661) 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, 2014 indicates the plan has a 14.8% 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, 2015.

The sick leave benefit plan for employees was previously amended such that the future accumulation of sick leave credits was discontinued; however, employees are entitled to cash payments on a portion of their accumulated sick bank entitlements on termination of employment. As at March 31, 2015, the sick leave obligation amounted to \$4,498 (2014 - \$4,857).

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

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

	2015 \$	2014 \$
Accrued benefit obligation Unamortized actuarial losses	63,819 (5,240)	60,371 (3,833)
Post-retirement benefit liability	58,579	56,538

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

	2015 \$	2014 \$
Post-retirement benefit liabilities, as at April 1 Current service cost Interest cost Amortization of actuarial losses	56,538 2,693 2,454 299	54,535 2,698 2,309 426
Benefits paid	61,984 (3,405)	59,968 (3,430)
Post-retirement liability, as at March 31	58,579	56,538

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

	2015 %	2014 %
Discount rate	3.00	4.00
Expected annual increase in dental care costs	4.00	4.00
Expected annual increase in health-care costs*	7.00	6.75

^{*} The current rate is 7.00%. The rate is presumed to decline by 0.25% decrements per annum to an ultimate rate of 5.00%.

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

11 Deferred capital contributions

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

	2015 \$	2014 \$
Balance - Beginning of year Add: Contributions for capital purposes	566,084	547,707
MOHLTC grant	27,517	33,708
Foundations and Volunteer Association	18,500	5,791
Other	9,364	6,872
Less: Amortization Disposals of related capital assets	621,465 29,082 1,966	594,078 26,268 1,726
Balance - End of year	590,417	566,084

Included in the above balance are contributions of \$18,934 (2014 - \$21,288) received but not yet utilized to purchase capital assets.

12 Deferred research contributions

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

2015 \$	2014 \$
70,330 99,380 (73,851)	111,030 9,871 (56,109)
3,491	5,538
99,350	70,330
	\$ 70,330 99,380 (73,851) 3,491

Research revenue of \$93,201 (2014 - \$104,600) consists of externally restricted research grants and donations recognized in income during the year of \$73,851 (2014 - \$56,109) and \$19,350 (2014 - \$48,491) from research administered accounts, internally restricted by the Hospital's Board of Directors.

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Notes to Financial Statements March 31, 2015

(in thousands of dollars)

13 Net assets invested in capital assets

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

(Increase) decrease in long-term debt

a)	ivel assets invested in capital assets are calculated as follows.		
		2015 \$	2014 \$
	Capital assets - net Less: Amounts funded by	829,073	797,445
	Deferred capital contributions spent (note 11)	(571,483)	(544,796)
	Obligations under capital leases (note 8)	(24,640)	(28,979)
	Long-term debt (note 9)	(65,665)	(54,641)
		167,285	169,029
b)	Net change invested in capital assets is calculated as follows:		
		2015 \$	2014 \$
	Purchase of capital assets - net	82,924	48,974
	Amounts funded by deferred capital contributions	(55,769)	(38,387)
	Amortization of capital assets	(51,296)	(47,250)
	Amortization of deferred capital contributions	29,082	26,268
	Decrease in obligations under capital leases	4,339	4,785
			·

(11,024)

(1,744)

14 Statement of cash flows

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

	2015 \$	2014 \$
Accounts receivable Inventories	(17,887) (644)	(9,173) (16)
Prepaid expenses and deposits	(506)	(1,642)
Accounts payable and accrued liabilities	6,122	13,628
Deferred revenue	(774)	(5,884)
	(13,689)	(3,087)

2,072

(3,538)

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

15 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, 2015, 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, 2015.
- 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 in March 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 \$92,533 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, 2015 are estimated at \$102,835 (2014 \$39,703).
- g) As at March 31, 2015, the Hospital has outstanding letters of credit of \$50 (2014 \$25) 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.

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

16 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 \$12,868 during fiscal 2015 (2014 \$5,156) for capital and \$1,209 (2014 \$1,472) for research. Included in the Hospital's assets as at March 31, 2015 is \$1,910 (2014 \$2,194) 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 \$3,818 (2014 \$2,656) during the year for capital and non-capital expenses. Included in the Hospital's assets as at March 31, 2015 is \$463 (2014 \$634) in accounts receivable from the Volunteer Association.
- c) HHSRI solicits, receives, manages and distributes 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 Canada 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, finance and administrative services to HHSRI under a Management Services Agreement. During fiscal 2015, HHSRI paid the Hospital \$341 (2014 \$40) for services under the Management Services Agreement and HHSRI contributed \$2,000 (2014 \$nil) to the Hospital for research. During fiscal 2014, the Hospital authorized a designated gift of \$290,000 to HHSRI, of which \$255,000 was transferred in fiscal 2015.
- 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 \$250 (2014 \$175) during the year for capital and non-capital expenses. The Auxiliary contributed \$6 (2014 \$9) during the year for capital and non-capital expenses. Included in the Hospital's assets as at March 31, 2015 is \$1,369 (2014 \$804) in accounts receivable from the WLMH Foundation and \$1 (2014 \$2) 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

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

Foundation and McMaster University. Transactions with BAHT are considered to be in the normal course of operations and are recorded at the exchange amount.

Included in the Hospital's assets as at March 31, 2015 is \$1,540 (2014 - \$2,512) in accounts receivable of which \$330 (2014 - \$438) is interest bearing at a rate of prime less 0.20%. Included in the Hospital's accounts payable is \$348 (2014 - \$73). In the current year, the Hospital earned investment income of \$11 (2014 - \$16) and paid \$8,966 (2014 - \$9,045) of non-salary expenses to BAHT. The Hospital has guaranteed a portion of BAHT's financing and as at December 31, 2014, \$49,830 (2013 - \$52,005) was outstanding.

The Hospital has 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.

17 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

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

expensed as incurred. Changes in unrealized gains and losses of restricted portfolio investments related to research are recorded in deferred research contributions.

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

Derivatives

The Hospital currently employs interest rate swaps to convert its variable interest rate on \$64,593 of its floating rate loan facilities to a fixed interest rate (note 9). Interest rate swaps are employed in order to reduce 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:

	Level 1	Level 2 \$	Level 3	Total \$
Restricted cash and cash equivalents	43,746	-	-	43,746
Restricted short-term investments	6,900	-	-	6,900
Restricted portfolio investments	78,258	-	-	78,258
Derivative liability		12,728	-	12,728
	128,904	12,728	-	141,632

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

2015

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

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 cash and cash equivalents and restricted investment portfolio, which includes cash and securities denominated in US dollars and euros. As at March 31, 2015, the total amount of cash and securities denominated in a foreign currency was \$46,489 (2014 - \$99,005).

The Hospital's estimate of the effect on net assets as at March 31, 2015 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 \$465 (2014 - \$990).

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, 2015, the Hospital's total exposure to other price risk is \$78,258 (2014 - \$95,595). The Hospital's estimate on the effect of net assets as at March 31, 2015 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 \$783 (2014 - \$956). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

Notes to Financial Statements March 31, 2015

(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, 2015, the following accounts receivable were past due but not impaired:

	30 days \$	60 days \$	90 days \$	Over 120 days \$
Accounts receivable	23,979	8,792	2,997	6,135

The Hospital is also exposed to credit risk through its restricted portfolio investments in high quality bonds and equity securities and loans receivable from financially stable organizations. 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. In order to satisfy its known short and long-term cash obligations, the Hospital has submitted requests for additional working capital relief funding from the MOHLTC. Without access to these additional funding arrangements, the Hospital would need to maintain its cash advance from the MOHLTC in order to continue to meet its obligations without exploring additional cash management strategies by utilizing its current available short-term borrowing facilities.

Notes to Financial Statements March 31, 2015

(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 Accounts payable and	71,968	-	-	-	71,968
accrued liabilities Obligations under capital	124,754	14,604	-	-	139,358
lease	6,214	4,312	14,114	-	24,640
Long-term debt	2,962	2,859	26,731	33,113	65,665
Other long-term liability	-	-	-	2,957	2,957
Derivative liability		-	-	12,728	12,728
	205,898	21,775	40,845	48,798	317,316

18 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 \$71,382 (2014 - \$67,540) and received \$74,960 (2014 - \$70,352) from the MOHLTC. As applicable, the surplus in funding is owed to the MOHLTC, and, as such, a payable of \$3,578 (2014 - \$2,812) has been included in accounts payable and accrued liabilities.

b) Diabetes Education Program

During the year, the Diabetes Education Program incurred expenses of \$972 (2014 - \$945) and received \$874 (2014 - \$879) from HNHB/LHIN.

	2015 \$	2014 \$
Revenue	874	879
Expenses Salaries and benefits Purchased services General operating expenditures Travel/transportation	950 - 21 1	754 179 11 1
Total expenses	972	945

Notes to Financial Statements March 31, 2015

(in thousands of dollars)

c) Emergency Department Physician Program

During the year, the Emergency Department Physician Program at the WLMH site incurred expenses of \$1,911 (2014 - \$1,959) and received \$1,911 (2014 - \$1,959) from the MOHLTC.

	2015 \$	2014 \$
Revenues Physician		
MOHLTC APP premium payments	1,404 466	1,431 477
Medical trainee program Mentorship program	2	- 37
OHIP, 3rd party	39	14
	1,911	1,959
Expenses Physician		
Participating physicians' services	1,389 466	1,416 478
APP premium payments Non-participating physicians' services Mentorship program	33 -	31 14
	1,888	1,939
Administration		
Medical director Billing administration	7 16	6 14
	23	20
Total expenses	1,911	1,959

19 Comparative balances

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.