Financial statements of

Niagara Health System

March 31, 2013 and March 31, 2012

Niagara Health System
March 31, 2013 and March 31, 2012

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Independent Auditor's Report

To the Supervisor of
Niagara Health System

We have audited the accompanying financial statements of Niagara Health System, which comprise the statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, and the statements of operations, change in net debt and cash flows for the years ended March 31, 2013 and March 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Niagara Health System as at March 31, 2013, March 31, 2012 and April 1, 2011 and the results of its operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
May 27, 2013

Niagara Health System

Statements of operations
years ended March 31, 2013 and March 31, 2012

	2013	2012 (Note 2)
	$	$
Revenue		
Ministry of Health and Long-Term Care		
Base allocation	**326,264,309**	327,249,404
One-time funding, specialized programs	**7,938,004**	13,543,735
Other	**10,225,197**	8,369,483
Cancer Care Ontario	**13,072,159**	10,175,980
Patient revenue from other payers	**33,210,804**	34,689,037
Differential and co-payments	**3,434,717**	3,517,683
Recoveries and miscellaneous	**10,888,877**	11,999,473
Amortization of grants and donations - equipment	**4,109,296**	4,763,898
	409,143,363	414,308,693
Expenses		
Compensation - salaries and wages	**208,193,870**	205,764,938
Benefit contributions for employees	**57,632,629**	58,013,879
Employee future benefits (Note 12)	**2,343,198**	6,883,618
Medical staff remuneration	**38,802,321**	38,282,415
Supplies and other expenses	**53,336,325**	54,993,303
Medical and surgical supplies	**28,486,126**	28,613,679
Drugs and medical gases	**21,943,048**	22,281,293
Bad debts	**597,521**	597,394
Interest on short-term borrowings	**1,311,501**	1,447,338
Interest on capital lease obligations	**196,131**	359,275
Amortization of equipment and software licenses	**7,481,547**	8,517,848
Equipment rentals and leases	**2,110,572**	2,258,913
	422,434,789	428,013,893
Deficit from operations before restructuring costs and other votes	**(13,291,426)**	(13,705,200)
Restructuring costs	**(5,113,502)**	(2,802,708)
Deficit from operations before other votes	**(18,404,928)**	(16,507,908)
Deficit from other votes (Note 15)	**(77,465)**	(93,673)
Deficit before other items	**(18,482,393)**	(16,601,581)
Other items (Note 16)	**(6,897,963)**	(2,686,505)
Deficit	**(25,380,356)**	(19,288,086)

The accompanying notes to the financial statements are an integral part of this financial statement.

Niagara Health System

Statements of change in net debt
years ended March 31, 2013 and March 31, 2012

	Investment in land, buildings and equipment	**Endowments and trusts**	**Externally restricted**	**Internally restricted**	**Unrestricted**	**March 31, 2013**
	$	**$**	**$**	**$**	**$**	**$**
Balance, beginning of the year	**37,069,238**	**3,938,130**	**71,864**	**113,846**	**(143,726,571)**	**(102,533,493)**
Deficit	**(11,761,355)**	**-**	**-**	**-**	**(13,619,001)**	**(25,380,356)**
Transfer of funds	**-**	**(91,859)**	**(448)**	**-**	**92,307**	**-**
Investment in capital assets	**9,889,350**	**(63,842)**	**-**	**(40,000)**	**(9,785,508)**	**-**
Interest income	**-**	**63,842**	**463**	**4,630**	**(68,935)**	**-**
Balance, end of year	**35,197,233**	**3,846,271**	**71,879**	**78,476**	**(167,107,708)**	**(127,913,849)**

	Investment in land, buildings and equipment	Endowments and trusts	Externally restricted	Internally restricted	Unrestricted	March 31, 2012 (Note 2)
	$	$	$	$	$	$
Balance, beginning of the year	38,398,856	3,981,290	71,532	238,874	(125,935,959)	(83,245,407)
Deficit	(6,085,175)	-	-	-	(13,202,911)	(19,288,086)
Transfer of funds	-	(43,160)	-	-	43,160	-
Investment in capital assets	4,755,557	(63,888)	-	(132,344)	(4,559,325)	-
Interest income	-	63,888	332	7,316	(71,536)	-
Balance, end of year	37,069,238	3,938,130	71,864	113,846	(143,726,571)	(102,533,493)

The accompanying notes to the financial statements are an integral part of this financial statement.

Niagara Health System

Statements of financial position
as at March 31, 2013, March 31, 2012 and April 1, 2011

	March 31, 2013	March 31, 2012 (Note 2)	April 1, 2011 (Note 2)
	$	$	$
Assets			
Current assets			
Cash	**9,996**	10,725	10,262
Cash - restricted for capital (Note 7)	**-**	-	22,504,010
Receivables	**17,164,889**	15,904,698	27,332,007
Inventories	**6,067,737**	4,753,520	4,506,242
Prepaid and other current assets	**15,424,426**	9,393,918	6,114,957
Patient trust funds	**9,582**	8,741	11,842
	38,676,630	30,071,602	60,479,320
Land, buildings and equipment (Note 6)	**927,381,358**	160,676,860	156,533,352
Advance deposit - building construction (Note 4)	**-**	191,437,891	22,504,010
Long-term receivable (Note 5)	**188,060,112**	-	-
Cash and investments restricted for capital (Note 7)	**22,435,027**	68,813,246	225,056,644
Endowments and trust funds (Note 8)	**3,846,271**	3,938,130	3,981,290
	1,180,399,398	454,937,729	468,554,616
Liabilities			
Current liabilities			
Short-term borrowings (Note 9)	**102,906,495**	93,990,981	90,710,846
Payables and accruals	**75,517,353**	52,992,518	74,463,889
Patient trust accounts	**9,582**	8,741	11,842
Unearned revenues	**2,800,374**	3,772,755	3,950,045
Current portion of obligations under capital leases (Note 10)	**1,310,900**	2,538,996	3,685,786
Current portion of long-term debt (Note 11)	**7,068,553**	-	166,971
Current portion of employee future benefits (Note 12)	**1,785,200**	1,608,500	1,314,900
Current portion of deferred contributions (Note 13)	**34,966,057**	24,065,814	7,525,623
	226,364,514	178,978,305	181,829,902
Obligations under capital leases (Note 10)	**1,191,893**	2,502,793	5,041,789
Long-term debt (Note 11)	**212,126,480**	8,167,759	-
Employee future benefits (Note 12)	**23,548,700**	22,185,100	16,570,600
Deferred contributions (Note 13)	**845,081,660**	345,637,265	348,357,732
	1,308,313,247	557,471,222	551,800,023
Commitments and contingent liabilities (Notes 17 and 18)			
Net debt	**(127,913,849)**	(102,533,493)	(83,245,407)
	1,180,399,398	454,937,729	468,554,616

Approved by the Supervisor

_____________________ Supervisor

The accompanying notes to the financial statements are an integral part of this financial statement.

Niagara Health System

Statements of cash flows
years ended March 31, 2013 and March 31, 2012

	2013	2012 (Note 2)
	$	$
Operating activities		
Deficit	**(25,380,356)**	(19,288,086)
Items not involving cash		
Amortization of land improvements, buildings and equipment (Note 14)	**12,862,487**	14,126,516
Amortization of deferred contributions (Notes 13 and 14)	**(7,208,686)**	(8,031,490)
Writedown of land and buildings held for sale net of deferred contributions (Note 16)	**6,190,778**	-
Loss on disposal of equipment	**(83,225)**	(9,850)
Change in non-cash working capital items		
Receivables	**(1,260,191)**	11,427,308
Inventories	**(1,314,217)**	(247,278)
Prepaid and other current assets	**(6,030,508)**	(3,278,961)
Long term receivable	**(188,060,112)**	-
Payables and accruals	**22,524,835**	(21,471,371)
Employee future benefits	**1,540,300**	5,908,100
Unearned revenues	**(972,381)**	(177,290)
	(187,191,276)	(21,042,402)
Investing activities		
Investments (including endowments and trust funds)	**46,470,078**	178,790,568
Additions to land, buildings and equipment	**(798,691,283)**	(18,272,714)
Advance deposit - building construction	**191,437,891**	(168,933,881)
Proceeds from sale of equipment	**86,466**	12,540
	(560,696,848)	(8,403,487)
Financing activities		
Increase in short-term borrowings	**8,915,514**	3,280,136
Decrease in obligations under capital leases	**(2,538,996)**	(3,685,786)
Increase in long-term debt	**211,027,274**	8,000,788
Increase in deferred contributions (Note 13)	**530,483,603**	21,851,214
	747,887,395	29,446,352
Net (decrease) increase in cash	**(729)**	463
Cash, beginning of year	**10,725**	10,262
Cash, end of year	**9,996**	10,725
Supplemental cash flow information		
Interest income received	**319,294**	299,654
Interest expense paid	**6,047,329**	2,010,754

The accompanying notes to the financial statements are an integral part of this financial statement.

1. Nature of operations

Created at the direction of the Province of Ontario's Health Services Restructuring Commission in March 2000, the Niagara Health System ("NHS" or the "Hospital") is Ontario's largest multi-site hospital amalgamation. The NHS is comprised of six sites serving 431,000 residents across the 12 municipalities making up the Regional Municipality of Niagara.

Sites are as follows: Greater Niagara General Site in Niagara Falls; Welland Hospital Site, Douglas Memorial Site in Fort Erie, Niagara-on-the-Lake Site, Port Colborne Site and the newly constructed and opened St. Catharines Site which replaced two sites (the St. Catharines General and Ontario Street sites).

The NHS operates 710 acute care, complex continuing care, and mental health beds as well as 115 long term care beds and 78 addiction treatment beds. A wide range of inpatient and outpatient clinics and services are provided at the six sites. The NHS has 4,300 employees, approximately 620 physicians and over 1,100 volunteers.

The Niagara Health System is incorporated under the laws of Ontario as a corporation without share capital and is a registered charity under the *Income Tax Act*. Continued operations are dependent upon the receipt of funding from the Ministry of Health and Long Term Care ("MOHLTC") through the Hamilton Niagara Haldimand Brant Local Health Integration Network ("HNHBLHIN").

The provincial Government appointed Dr. Kevin Smith as Supervisor for the Niagara Health System on August 31, 2011 to restore public confidence in the hospital system.

As Supervisor, Dr. Smith assumes the full powers of the Hospital's Board, the Hospital, its officers and members of the Hospital. Dr. Smith reports directly to the Minister of Health and Long-Term Care.

2. Adoption of a new accounting framework

The Public Sector Accounting Board ("PSAB") issued new standards for government (public sector) not-for-profit organizations ("Government NPO's"). For years beginning on or after January 1, 2012, government NPO's have a choice of:

(a) Public sector accounting standards including PS 4200 to PS 4270 for government not-for-profit organizations; or

(b) Public sector accounting standards.

The Hospital has chosen to follow Public sector accounting standards including PS 4200 to PS 4270 for government not-for-profit organizations (the "new standards").

Effective April 1, 2012, the Hospital adopted the requirements of this new accounting framework. These are the Hospital's first financial statements prepared in accordance with this framework and the transitional provisions of Section 2125 - First-time adoption by government organizations ("PS 2125") have been applied. The date of transition to the new standards is April 1, 2011 and the Hospital has prepared and presented an opening statement of financial position at the date of transition to the new standards. This opening statement of financial position is the starting point for the Hospital's accounting under the new standards. In its opening statement of financial position, under the recommendations of Section PS 2125, the Hospital:

(a) recognized all assets and liabilities whose recognition is required by the new standards;

(b) did not recognize items as assets or liabilities if the new standards do not permit such recognition

(c) reclassified items that it recognized previously as one type of asset or liability, but are recognized as a different type of asset or liability under the standards; and

(d) applied the new standards in measuring all recognized assets and liabilities.

2. Adoption of a new accounting framework (continued)

In accordance with the requirements of Section PS 2125, the accounting policies set out in Note 3 have been consistently applied (except for the new standards on financial instruments as disclosed in Note 3) to all years presented and adjustments resulting from the adoption of the new standards have been applied retrospectively, excluding where optional exemptions and mandatory exceptions available under PS 2125 have been applied.

The following exemption and exception were used at the date of transition to the new framework:

Optional exemption

Actuarial gains and losses

The Hospital has elected to recognize all unamortized actuarial gains and losses into unrestricted net debt at the date of transition.

Mandatory exception

The estimates made by the Hospital under the CICA Handbook – Accounting Part V – Pre-Changeover Accounting Standards (“Canadian GAAP”) were not revised for the application of the new standards except where necessary to reflect any differences in accounting policy or where there was objective evidence that those estimates were in error. As a result the Hospital has not used hindsight to revise estimates.

Reconciliation of net debt and deficit

The Hospital issued financial statements for the year ended March 31, 2011 using Canadian GAAP. The adoption of the new standards resulted in adjustments to previously reported liabilities, net debt, and deficit. An explanation of how the transition from Canadian GAAP to the new standards has affected the Hospital’s financial position, operations and change in net assets is set out in the notes and tables below.

The impact of the adoption of the new standards on the Statement of Financial Position as at April 1, 2011 is summarized as follows:

	Balance as previously reported March 31, 2011	Adjustment	Reference	Balance as adjusted as at April 1, 2011
	$	$		$
Employee future benefits	15,448,800	1,121,800	(a)	16,570,600
Total liabilities	550,678,223	1,121,800	(a)	551,800,023
Net debt	(82,123,607)	(1,121,800)	(a)	(83,245,407)

2. Adoption of a new accounting framework (continued)

Reconciliation of net debt and deficit (continued)

The impact of the adoption of the new standards on the Statement of Financial Position as at March 31, 2012 is summarized as follows:

	Balance as previously reported March 31, 2012	Adjustment	Reference	Balance as adjusted as at March 31, 2012
	$	$		$
Current portion of employee future benefits	1,314,900	293,600	(b)	1,608,500
Employee future benefits	17,154,200	5,030,900	(b)	22,185,100
Total liabilities	552,146,722	5,324,500	(b)	557,471,222
Net debt	(97,208,993)	(5,324,500)	(b)	(102,533,493)

The impact of the adoption of the new standards on the Statement of Operations for the year ended March 31, 2012 is summarized as follows:

	Balance as previously reported March 31, 2012	Adjustment	Reference	Balance as adjusted as at March 31, 2012
	$	$		$
Expenses				
Employee future benefits expense	2,680,918	4,202,700	(c)	6,883,618
Deficit	(15,085,386)	(4,202,700)	(c)	(19,288,086)

Explanation of adjustments

(a) Employee future benefits liability as at April 1, 2011

The Hospital modified its discount rate to comply with the new standards; the rate used under Canadian GAAP as at March 31, 2011 was 5.00%. In addition, under the previous framework, the attribution period of benefits was from the date of hire to the age of eligibility which was 55. Under the new standards the attribution period of benefits is from date of hire to expected age of retirement which the hospital has estimated as 59. The change in discount rate combined with the change in attribution period resulted in a decrease of the employee future benefit liability for an amount of $3,009,000.

Under with the new standards, past service costs are not amortized over the expected average remaining service life of the related employee group rather are recognized immediately; this resulted in an increase of the employee future benefit liability for an amount of $315,900.

The Hospital elected at the transition date to recognize all unamortized gains and losses into unrestricted net debt; this resulted in an increase of the employee future benefit liability for an amount of $3,814,900.

Cumulative impact of adjustments noted in (a) total $1,121,800.

2. Adoption of a new accounting framework (continued)

Reconciliation of net debt and deficit (continued)

Explanation of adjustments (continued)

(b) Employee future benefits liability as at March 31, 2012

In addition, during the year ended March 31, 2012, the Hospital provided past services costs to eligible employees. Under the new standards, past service costs are not amortized over the expected average remaining service life of the related employee group rather are recognized immediately; this resulted in an increase of the employee future benefit liability for an amount $4,202,700.

Cumulative impact of adjustments noted in (a) above and (b) total $ 5,324,500. $293,600 of the cumulative impact of adjustments relates to current portion of employee future benefits liability. $5,030,900 of the cumulative impact of adjustments relates to long term portion of employee future benefits liability.

(c) Employee future benefits expense for the year ended March 31, 2012

The additional expense of $4,202,700 represents the impact of the change in treatment of the past service costs noted in (b) above.

3. Accounting policies

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards for government not-for-profit organizations including the 4200 series of standards, as issued by the Public Sector Accounting Board, and reflect the following significant accounting policies:

Revenue recognition

The financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenue is recorded when earned and expenses are recorded when incurred.

The Niagara Health System follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Provincial equipment and building grants received are deferred and amortized on a straight-line basis at a rate corresponding with the amortization rate for the related equipment or building purchased. Donations received are deferred and amortized on a straight-line basis at a rate corresponding with the amortization rate for the related equipment or building purchased.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

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

Funding

Under the *Health Insurance Act* and the regulations thereto, the Niagara Health System is funded primarily by the Province of Ontario in accordance with budget arrangements established by the MOHLTC and HNHBLHIN. These financial statements reflect agreed funding arrangements approved by the HNHBLHIN and MOHLTC with respect to the year ended March 31, 2013.

3. Accounting policies (continued)

Funding (continued)

To the extent which MOHLTC or HNHBLHIN funding has been received with the stipulated requirement that the Hospital provide specific services, for example, open a certain number of acute care beds, and these services have not yet been performed, the revenue recognition is deferred until such time as the services are performed with the monies spent. In the event that the services are not performed in accordance with the funding requirements, the funds received in excess of monies spent could be recovered by the MOHLTC or HNHBLHIN.

Inventories

Inventories consist primarily of hospital supplies held for patient care and are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Land, buildings and equipment

Land, buildings and equipment are stated at cost. Depreciation of land improvements, buildings and equipment is provided on a straight-line basis over the assets estimated useful lives at the rates indicated as follows:

Land improvements	2 - 10%
Buildings	2 - 10%
Equipment	4 - 20%
Building and building service equipment - St. Catharines site	2 - 10%

Construction-in-progress comprises construction, development costs and interest capitalized during the construction period. No depreciation is recorded until construction is substantially complete and the assets are ready for productive use. In 2013, $641,845 was capitalized (2012 - $3,146,440). The new St. Catharines site health complex, although substantially completed through the Project Agreement with Plenary Health, was not operational until patient opening on March 24, 2013. At March 31, 2013 no amortization was recorded until all programs and spaces were fully operational and complete in fiscal 2013/14.

Impairment of long-lived assets

An impairment charge is recognized for long-lived assets when an event or change in circumstances causes an asset's carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. The impairment loss is calculated as the difference between the fair value of the assets and their carrying value.

Leased equipment

Equipment leased with terms which transfer substantially all of the benefits and risks of ownership to the Hospital are accounted for as "capital leases", as though an asset has been purchased and a liability incurred. The assets are amortized on a straight line basis at rates ranging from 4% - 20% per annum commencing in the month of purchase. All other items of leased equipment are accounted for as operating leases.

Pension plan

Substantially all of the employees of the Niagara Health System are eligible to be members of the Healthcare of Ontario Pension Plan ("HOOPP") which is a multi-employer final average pay contributory pension plan. For HOOPP, the Hospital uses defined contribution plan accounting as required by Canadian public sector accounting standards. Should there be a contribution deficiency in the plan, the Hospital may be required to make additional contributions to cover these deficiencies.

Past service costs arising from a plan amendment are recognized in the period of the plan amendment.

3. Accounting policies (continued)

Employee future benefits

The Niagara Health System pays certain benefits of its retired employees including life insurance, health benefits, dental benefits and deluxe travel benefits. These post-retirement costs are recognized in the period in which the employees rendered their services to the Niagara Health System.

The actuarial determination of the accrued benefit obligations were determined using the projected benefit method pro-rated on service.

Experience gains or losses in a year are combined with the unamortized balance of gains or losses from prior years. The Niagara Health System amortizes these accrued benefit obligation into future years' expenses over the average remaining service life to retirement.

Contributed services

The Niagara Health System is dependent on the voluntary services of many individuals. Since these services are not normally purchased by the Niagara Health System and because of the difficulty in estimating their fair market value, these services are not recorded in these financial statements.

Use of estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of useful lives for amortization and valuation of capital assets, estimates of accounts receivable collectability and allowance for doubtful accounts, revenue recognition, deferred revenue and the estimation of future employee benefits. Actual results could differ from management's best estimates as additional information becomes available in the future. These estimates and assumptions are reviewed periodically and as adjustments become necessary they are reported in earnings in the periods in which they are known.

The revenue recognized from the MOHLTC and the HNHBLHIN requires some estimation. The Hospital has entered into accountability agreements that set out the rights and obligations of the parties in respect of funding provided to the Hospital by the MOHLTC and HNHBLHIN for the years ended March 31, 2013 and 2012. The accountability agreements set out certain performance standards and obligations that establish acceptable results for the Hospital’s performance in a number of areas.

If the Hospital does not meet its performance standards or obligations, the MOHLTC and the HNHBLHIN have the right to adjust funding received by the Hospital. Neither the MOHLTC nor HNHBLHIN are required to communicate certain funding adjustments until after submission of year end data. Since this data is not submitted until after the completion of the financial statements, the amount of the MOHLTC/HNHBLHIN funding received during a year may be increased or decreased subsequent to year end. The amount of revenue recognized in these financial statements represents management’s best estimates of amounts that have been earned during the year.

Classification of financial instruments

All financial instruments reported on the Statement of Financial Position of the Hospital are measured as follows:

Cash	Amortized cost
Receivables	Amortized cost
Cash and investments restricted for capital	Amortized cost
Long-term receivable	Amortized cost
Short-term bank borrowings	Amortized cost
Payables and accruals	Amortized cost
Long-term debt	Amortized cost
Obligations under capital leases	Amortized cost

3. Accounting policies (continued)

Classification of financial instruments (continued)

Financial instruments measured at amortized cost are initially recognized at cost, and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Writedowns on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect or recovery. Financial assets are then written down to net recoverable value with the writedown being recognized in the Statement of operations.

4. Advance deposit - building construction

	March 31, 2013	March 31, 2012 (Note 2)	April 1, 2011 (Note 2)
	$	$	$
Advance deposit - building construction	**-**	191,437,891	22,504,010

The Niagara Health System entered into financial arrangements with Plenary Health Niagara to design, build, finance and maintain the new health-care complex in St. Catharines on March 27, 2009. According to the agreement, the Hospital made construction progress payments from April 2011 to February 2012 in advance of the substantial completion payment which was due November 26, 2012. With substantial completion achieved, the advance deposit is now part of the construction cost of the new hospital.

5. Long term receivable

	March 31, 2013	March 31, 2012 (Note 2)	April 1, 2011 (Note 2)
	$	$	$
Ministry of Health and Long-Term Care receivable	**180,658,684**	-	-
Other receivable - St. Catharines site	**7,401,428**	-	-
	188,060,112	**-**	**-**

The Niagara Health System has recognized the MOHLTC funding for the new St. Catharines site construction project as a long-term receivable based on its agreement with the MOHLTC and a corresponding deferred contribution. The Hospital, through its fully funded Local Share Plan, has received commitments from the regional municipalities through tax levies and the hospital foundations to fund a portion of the remaining share of the project.

6. Land, buildings and equipment

			March 31, 2013
	Cost	Accumulated depreciation	Net book value
	$	$	$
Land	**6,075,759**	**-**	**6,075,759**
Land improvements	**662,316**	**440,978**	**221,338**
Land and buildings held for sale	**5,737,434**	**2,669,822**	**3,067,612**
Buildings	**124,000,690**	**61,206,060**	**62,794,630**
Equipment	**183,797,072**	**115,656,348**	**68,140,724**
Building and buildling service equipment			
- St. Catharines site	**763,480,217**	**-**	**763,480,217**
Construction-in-progress			
- other sites	**19,615,146**	**-**	**19,615,146**
	1,103,368,634	**179,973,208**	**923,395,426**
Equipment under capital lease	**22,771,828**	**18,785,896**	**3,985,932**
	1,126,140,462	**198,759,104**	**927,381,358**

			March 31, 2012 (Note 2)
	Cost	Accumulated depreciation	Net book value
	$	$	$
Land	3,262,362	-	3,262,362
Land improvements	926,905	490,313	436,592
Land under development	5,425,543	-	5,425,543
Buildings	188,534,728	101,985,187	86,549,541
Equipment	128,284,688	110,216,711	18,067,977
Construction-in-progress			
- new hospital	28,084,295	-	28,084,295
Construction-in-progress			
- other sites	13,074,069	-	13,074,069
	367,592,590	212,692,211	154,900,379
Equipment under capital lease	22,771,828	16,995,347	5,776,481
	390,364,418	229,687,558	160,676,860

6. Land, buildings and equipment (continued)

			April 1, 2011 (Note 2)
	Cost	Accumulated depreciation	Net book value
	$	$	$
Land	3,262,362	-	3,262,362
Land improvements	837,242	453,562	383,680
Land under development	5,420,643	-	5,420,643
Buildings	185,833,498	96,446,156	89,387,342
Equipment	124,048,836	104,893,090	19,155,746
Construction-in-progress - new hospital	23,658,069	-	23,658,069
Construction-in-progress - other sites	6,971,121	-	6,971,121
	350,031,771	201,792,808	148,238,963
Equipment under capital lease	22,771,828	14,477,439	8,294,389
	372,803,599	216,270,247	156,533,352

Building and building service equipment - St. Catharines Site

The Niagara Health System entered into financial arrangements with Plenary Health Niagara to design, build, finance and maintain the new health-care complex in St. Catharines on March 27, 2009. The new hospital project was delivered using an alternate financing and procurement model. The building opened to receive patients on March 24, 2013.

Land and buildings held for sale

The Hospital wrote down the value of the land and building for the St. Catharines General and Ontario Street Sites by $19,121,057 in anticipation of the upcoming sale of both properties. See Note 17 for further details regarding the sale of these properties. The net write down for the properties was $6,190,778 (see Note 16 Other items) after recognition of corresponding funding of $12,930,279 (see Note 13 Deferred contributions).

7. Cash and investments restricted for capital

Cash and investments restricted for capital are represented by the following:

	March 31, 2013		March 31, 2012 (Note 2)		April 1, 2011 (Note 2)	
	Market value	**Cost**	Market value	Cost	Market value	Cost
	$	**$**	$	$	$	$
G.I.C.s, 1.73% to 2.06%, maturing May 2011	**-**	**-**	-	-	397,828	397,828
Government and other Bonds, 1.75% to 5.2%, maturing from May 2012 to June 2017	**5,362,773**	**5,416,646**	6,984,124	7,037,997	6,443,813	6,525,614
G.I.C.s, 1.3%, maturing May 2012	**-**	**-**	15,169,356	15,169,356	22,788,825	22,788,825
Money Market Fund	**2,495,063**	**2,495,063**	21,712,929	21,712,929	13,669,069	13,669,069
G.I.C.s, 1%, maturing Feb 2014	**30,133**	**30,133**	30,133	30,133	30,133	30,133
Total investment vehicles	**7,887,969**	**7,941,842**	43,896,542	43,950,415	43,329,668	43,411,469
Add: Restricted construction payment treasury account, interest prime less 1.75% (1.25% interest rate)	**10,228,209**	**10,228,209**	2,234	2,234	187,737,258	187,737,258
Add: Restricted cash in restricted bank accounts	**2,047,486**	**2,047,486**	21,841,580	21,841,580	14,718,344	14,718,344
Total investment vehicles for capital purposes	**20,163,664**	**20,217,537**	65,740,356	65,794,229	245,785,270	245,867,071
Other investments						
Restricted cash	**2,217,490**	**2,217,490**	3,019,017	3,019,017	1,693,583	1,693,583
Total cash and investments for capital	**22,381,154**	**22,435,027**	68,759,373	68,813,246	247,478,853	247,560,654
Less: current portion of cash and investments for capital	**-**	**-**	-	-	22,504,010	22,504,010
Long term portion of cash and investments for capital	**22,381,154**	**22,435,027**	68,759,373	68,813,246	224,974,843	225,056,644

7. Cash and investments restricted for capital (continued)

Investments are tracked to support restricted funds which have been received by the Niagara Health System in advance of the expenditures required under the terms of each commitment. The Niagara Health System has borrowed from the internally restricted investments to offset the need for additional bank borrowings to fund current operations. Interest is credited on these funds at a rate similar to the rate that would have been charged by the bank. Borrowings are from restricted funds other than those for capital building purposes.

	Balance, beginning of the year	**Transfer during year**	**Interest**	**Balance, March 31, 2013**
	$	**$**	**$**	**$**
Restricted investments				
NHS	**3,994,414**	**(879,763)**	**68,935**	**3,183,586**
MOHLTC Capital and SuperBuild	**64,818,832**	**(46,050,383)**	**482,992**	**19,251,441**
	68,813,246	**(46,930,146)**	**551,927**	**22,435,027**

	Balance, beginning of the year	Addition (transfer) during year	Interest	Balance, March 31, 2012
	$	$	$	$
Restricted investments				
NHS	1,846,916	2,075,962	71,536	3,994,414
MOHLTC Capital and SuperBuild	245,713,738	(182,375,724)	1,480,818	64,818,832
	247,560,654	(180,299,762)	1,552,354	68,813,246

The restricted investments represent contributions received for capital projects and funds internally restricted by the previous Boards of Directors of the founding hospitals for capital projects and equipment specific to each site.

The Niagara Health System received capital grants under the SuperBuild Growth Fund for capital projects directed by the Health Services Restructuring Commission (“HSRC”). In establishing the grant, the MOHLTC focused solely on the new construction component of HSRC directions. Use of the grant is restricted to capital initiatives that are consistent with implementing the functional program which is approved in writing by the MOHLTC for addressing HSRC directions under development/discussion and subject to MOHLTC approval in writing for addressing HSRC directions.

Also, the Hospital received capital grants from the MOHLTC to fund their cost-share commitment for approved capital projects. The unspent SuperBuild and MOHLTC capital grants have been invested and the interest income has been added to the original grants.

8. Endowments and trust funds

Endowments and trust funds are represented by the following:

	March 31, 2013		March 31, 2012 (Note 2)		April 1, 2011 (Note 2)	
	Cost	**Fair market value**	Cost	Fair market value	Cost	Fair market value
	$	**$**	$	$	$	$
Mutual funds	**304,382**	**304,382**	296,738	296,738	287,603	287,603
Cash - treasury accounts	**3,541,889**	**3,541,889**	3,641,392	3,641,392	3,693,687	3,693,687
Total cash and investments for endowments and trusts	**3,846,271**	**3,846,271**	3,938,130	3,938,130	3,981,290	3,981,290

9. Short-term borrowings

As at March 31, 2013, the Niagara Health System has a $30,000,000 (2012 - $30,000,000, April 1, 2011 - $22,000,000), unsecured demand operating line of credit. The line of credit bears interest at prime plus 1%. As at March 31, 2013 the short term borrowings are $21,884,142 (2012 - $13,986,238, April 1, 2011 – $14,017,263) against this facility. The hospital also has a short term bridge facility of $75,000,000 through Bankers Acceptance Notes for $55,000,000 at 1.78% and $20,000,000 at 1.75% fixed rates (2012 - $75,000,000 at prime plus 1%, April 1, 2011 – $75,000,000 at prime plus 1%). On April 15, 2013 the Niagara Health System was advanced $75,000,000 toward its 2013/14 funding by the HNHBLHIN and subsequently all bridge financing was repaid.

10. Obligations under capital leases

Future minimum payments under capital leases, by year end in aggregate, consist of the following at March 31, 2013:

	March 31, 2013
	$
2014	**1,420,691**
2015	**1,027,016**
2016	**174,124**
2017	**34,835**
2018	**11,612**
Total minimum lease payments	**2,668,278**
Less: Amount representing interest at rates 1.51% - 6.1%	**(165,485)**
Balance of obligation	**2,502,793**
Less: current portion of obligations under capital lease	**1,310,900**
	1,191,893

The debt obligation is secured by the specific equipment under capital lease.

11. Long-term debt

	March 31, 2013	March 31, 2012 (Note 2)	April 1, 2011 (Note 2)
	$	$	$
Bank of Montreal - borrowings at a fixed interest rate 6.59% (as at March 31, 2006) with monthly principal payments of $83,486 plus interest, due May 31, 2011			
- Funds used for operating activities	**-**	-	118,909
- Funds used for investment in land, buildings and equipment	**-**	-	48,062
Energy Retrofit Construction facility - borrowings at an interest rate of prime plus 0.5%	**9,463,821**	8,167,759	-
St. Catharines Site mortgage - borrowings at an interest rate of 9.1%, payable over the next 30 years in monthly payments, which escalate based on consumer price index	**209,731,212**	-	-
	219,195,033	8,167,759	166,971
Less: current portion of long-term debt	**7,068,553**	-	166,971
	212,126,480	8,167,759	-

Energy Retrofit Construction facility

On July 20, 2011 the Hospital entered into a financing agreement for up to $11,900,000 against this facility, for the purposes of financing construction costs related to an energy retrofit project at 6 sites of the Niagara Health System. As at March 31, 2013, $9,463,821 (2012 - $8,167,759, April 1, 2011 - $nil) was drawn on this facility.

There are two components to this credit arrangement. The first is an unsecured interim construction loan maturing September 2, 2013, where interest at prime plus 0.5% is capitalized against the loan during this period.

For the second component, the Hospital has in place a swap facility effective September 3, 2013 for $11,000,000, repaid over a 10 year period utilizing operating savings achieved under a performance contract. Funds advanced on the credit facility are payable in monthly payments. Under the terms of the swap agreement, the Hospital agrees with the counterparty to exchange its floating interest rate for a fixed interest rate of 4.35%. The use of the swap effectively enables the Hospital to convert floating rate interest obligations into fixed rate obligations and thus manage its exposure to interest rate risk. This swap agreement will be designated as a hedge when executed.

St Catharines Site mortgage

The Hospital entered into an alternate financing and procurement project under Public Infrastructure Renewal's ReNew Ontario Infrastructure investment plan with Plenary Health Niagara LP to Design, Build, Finance and Maintain (DBFM) the new health care complex in St. Catharines. The facility was substantially completed on November 26, 2012. Under the terms of the Project Agreement, payments will be made by the Hospital for principal and interest costs. Payments have comprised construction progress payments, payment at substantial completion and mortgage payments. Of this total $209.7 million of principal has been recorded as at March 31, 2013 as a long-term obligation for these mortgage payment and will be paid over a 30-year period with payments having commenced after the substantial completion date.

12. Employee future benefits

The Niagara Health System pays certain benefits of its retired employees including life insurance, health benefits, dental benefits and travel benefits. These post-retirement benefits are recognized in the period in which the employees rendered their services to the Niagara Health System.

The Niagara Health System measures its accrued benefits obligations for accounting purposes at December 31 each year. The most recent actuarial valuation of the benefit plans was March 31, 2013. Information about the defined benefit plan is as follows:

	March 31, 2013	March 31, 2012 (Note 2)	April 1, 2011 (Note 2)
	$	$	$
Accrued benefit obligation	**30,188,800**	25,939,200	17,885,500
Less: experience loss	**4,854,900**	2,145,600	-
Accrued benefit liability	**25,333,900**	23,793,600	17,885,500
Current portion	**1,785,200**	1,608,500	1,314,900
Long-term portion	**23,548,700**	22,185,100	16,570,600
	25,333,900	23,793,600	17,885,500

Movement in the accrued benefit obligation is as follows:

	March 31, 2013	March 31, 2012 (Note 2)
	$	$
Accrued benefit obligation, beginning of the year	**25,939,200**	17,885,500
Adjustment for additional obligation due to new valuation	**2,127,100**	-
Accrual for service	**1,430,900**	1,071,200
Interest on accrued benefits	**1,354,700**	1,309,400
ONA/OPSEU Award	**-**	5,073,000
Benefits paid for the year	**(1,608,500)**	(1,545,500)
Experience loss	**945,400**	2,145,600
Accrued benefit obligation, end of year	**30,188,800**	25,939,200

12. Employee future benefits (continued)

Included in the statement of operations is an amount of $2,343,198 (2012 - $6,883,618) regarding employee future benefits. This amount is comprised of:

	March 31, 2013	March 31, 2012 (Note 2)
	$	$
Plan expense		
Current service cost	**1,430,900**	1,071,200
Interest cost	**1,345,700**	1,309,400
Actuarial loss	**372,200**	-
ONA/OPSEU Award	**-**	5,073,000
	3,148,800	7,453,600
Employee contributions to plan	**(805,602)**	(569,982)
Net benefit expense	**2,343,198**	6,883,618

As at March 31, 2013, the experience loss is $4,854,900 (2012 - $2,145,600, April 1, 2011 - $nil). The average remaining service period to retirement is 11 years (2012 - 12 years).

The main actuarial assumptions employed for the valuation are as follows:

Interest (discount rate)

The obligations as at March 31, 2013 of the present value of future liabilities was determined using a rate of 4.35% (2012 - 5.63%, April 1, 2011 – 4.52%) and the expense for the year then ended were determined using a discount rate of 4.69% (2012 - 5.63%).

Medical costs

Medical costs were assumed to increase to a rate of 8% in 2013 (2012 - 9%), decreasing by 0.25% (2012 - 0.5%) increments per annum to an ultimate rate of 5% in 2026 and thereafter.

Dental costs

Dental costs were assumed to increase at 4% (2012 - 4%) per annum.

Travel costs

Travel trend rates were assumed to increase at 3% (2012 - 3%) per annum.

13. Deferred contributions

	March 31, 2013	March 31, 2012 (Note 2)	April 1, 2011 (Note 2)
	$	$	$
Balance, beginning of year	**369,703,079**	355,883,355	174,689,691
Contributions received and interest earned during the year	**530,483,603**	21,851,214	189,241,500
Disposals, net book value adjustment	**-**	-	(13,539)
Writedown of land and buildings held for sale (Note 6)	**(12,930,279)**	-	-
Amortization	**(7,208,686)**	(8,031,490)	(8,034,297)
	880,047,717	369,703,079	355,883,355
Less: current portion of deferred contributions	**(34,966,057)**	(24,065,814)	(7,525,623)
Balance, end of year	**845,081,660**	345,637,265	348,357,732

14. Net debt

Endowments and trust funds

All of the assets restricted for endowment or trusts purposes are subject to externally imposed restrictions that the principal be maintained intact. The interest earned on the funds is restricted for expenditures that meet the stipulations of the donation.

Externally restricted funds

The Niagara Health System has $71,879 (2012 - $71,864, April 1, 2011 - $71,532) in externally restricted funds. Externally restricted funds represent donations which have been restricted by the donor for a specific expenditure or type of expenditure. The Supervisor, in place of the Board of Trustees, has the discretion to spend the funds in accordance with the stipulations of the donations.

Internally restricted funds

	March 31, 2013	March 31, 2012 (Note 2)	April 1, 2011 (Note 2)
	$	$	$
	78,476	113,846	238,874

The internally restricted net assets represent contributions received for capital projects and funds internally restricted by the previous Boards of Directors of the founding hospitals for capital projects and equipment specific to each site.

14. Net debt (continued)

Investment in land, buildings, equipment and investments

	March 31, 2013	March 31, 2012 (Note 2)	April 1, 2011 (Note 2)
	$	$	$
Investments	**21,501,306**	67,867,114	224,020,486
Land, buildings and equipment	**927,381,358**	160,676,860	156,533,352
Advance deposit - building construction (Note 4)	**-**	191,437,891	22,504,010
Long term receivable	**188,060,112**	-	-
Deferred contributions (Note 13)	**(880,047,717)**	(369,703,079)	(355,883,355)
Long-term debt (Note 11)	**(219,195,033)**	(8,167,759)	(48,062)
Obligations under capital lease (Note 10)	**(2,502,793)**	(5,041,789)	(8,727,575)
	35,197,233	37,069,238	38,398,856

Changes in net assets invested in land, buildings, equipment and investments is calculated as follows:

	2013	2012
	$	$
Amortization of land improvements, buildings and equipment	**(12,862,487)**	(14,126,516)
Amortization of deferred contributions	**7,208,686**	8,031,490
Loss on disposal of equipment	**83,225**	9,850
Write down of land and buildings held for sale (Note 6)	**(19,121,057)**	-
Write down of deferred contributions relating to land and buildings held for sale (Note 13)	**12,930,279**	-
	(11,761,354)	(6,085,176)
Net land, buildings and equipment additions	**798,691,283**	18,272,714
Proceeds on sale on assets	**(86,466)**	(12,540)
Net increase in deferred contributions	**(530,483,603)**	(21,851,214)
Advance deposit - building	**(191,437,891)**	168,933,881
Long term receivable	**188,060,112**	-
Proceeds from long-term debt and obligations under capital lease	**(208,488,278)**	(4,433,911)
Decrease in cash and investments	**(46,365,808)**	(156,153,372)
	9,889,349	4,755,558
	(1,872,005)	(1,329,618)

15. Other votes

Other votes represent funding received for specific programs/services from the MOHLTC, approved by a separate vote of the Provincial legislature. Funding for other votes is not included in the Hospital's global funding.

	2013	2012
	$	$
Revenue	**8,314,277**	8,252,987
Expenses	**8,391,742**	8,346,660
	(77,465)	(93,673)

16. Other items

	2013	2012
	$	$
Amortization of building and land improvements	**(5,312,481)**	(5,511,786)
Amortization of deferred grants	**3,404,418**	3,254,022
Donation and grant revenue	**6,513,729**	300,356
Loss on disposal of asset	**(279,483)**	-
Writedown of land and buildings held for sale (Note 6)	**(6,190,778)**	-
Capital interest - net	**(4,311,244)**	(1,357)
Endowment and trust interest loss (income)	**(9,709)**	56,155
Extended care unit and interim long-term care loss	**(712,415)**	(783,895)
	(6,897,963)	(2,686,505)

17. Commitments

Operating leases and service contracts

The Niagara Health System is committed to payments under operating leases and service contracts for certain equipment and facilities through 2018 in the total amount of $3,589,867. Annual payments are as follows:

	$
2014	1,544,860
2015	870,784
2016	635,667
2017	372,486
2018	166,070
	3,589,867

The terms of the service contracts range up to three years. All contracts have renewable options up to a maximum of five years.

17. Commitments (continued)

Sale of Ontario Street Site properties

On January 19, 2006, the Niagara Health System entered into a contract to sell all of the properties that were acquired from the Hotel Dieu Hospital asset transfer. The first phase of the sale closed in January 2006 and the remaining properties will be transferred on July 5, 2013. The Niagara Health System received $800,000 upon signing of the contract and will receive a further $2.0 million over the next five years.

Sale of St Catharines General Site properties

The St. Catharines General Site properties (Queenston, Prince and Valleyview Streets), have been sold to Butera Group Inc. with the expected final closing date of sale to be May 30, 2013.

New health-care complex

The Niagara Health System entered into financial arrangements with Plenary Health Niagara to design, build finance and maintain the new health-care complex in St. Catharines on March 27, 2009. Over the 30-year period, payment commitments related to facilities and lifecycle maintenance are expected to be as follows:

Commitment payments are as follows:

	$
2014	6,075,127
2015	6,231,682
2016	6,870,473
2017	8,059,414
2018	7,551,930
2019 and thereafter	342,393,224
	377,181,851

These payments related to facilities maintenance and lifecyle costs will be indexed over the term of the agreement to provide for changes in certain operating costs. The Hospital has entered into an agreement with the MOHLTC to share in these costs based on MOHLTC funding policy.

See Note 6 for further details regarding the new health-care complex.

18. Contingent liabilities

As at March 31, 2013 there were a number of claims outstanding, none of which exceeded the insurance coverage of the Niagara Health System. The nature of Niagara Health System activities is such that there is usually litigation pending or in prospect at any time. With respect to claims and possible claims, management believes Niagara Health System has valid defenses and/or appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have material adverse effect on Niagara Health System's financial position and results of operations.

The Hospital participates in the Healthcare Insurance Reciprocal of Canada (“HIROC”), a registered Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces of Ontario, Manitoba, Saskatchewan and Newfoundland. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No such assessments have been made to March 31, 2013.

19. Pension plan

Substantially all of the employees of the Niagara Health System are members of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Plan members will receive benefits, terminating on death, based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing plan assets in trust and through the Plan investments policy.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with contributions by employees of 6.9% of the first $51,100 of salary and 9.2% thereafter, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for the employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. Contributions to the Plan made during the year by the Niagara Health System on behalf of its employees amounted to $17,246,597 (2012 - $17,337,795) and are included in the statement of operations.

20. Financial instruments and risk management

Establishing fair value

The carrying value of cash, receivables, long-term receivable, cash and investments restricted for capital, payables and accruals, obligations under capital leases and bank borrowings approximates their fair value because of the relatively short period to maturity of the instruments. The fair value of long-term debt is not materially different from their carrying values as it bears interest at variable rates and has financing conditions similar to those currently available to the Hospital.

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Hospital does not have any financial instruments carried at fair value.

The Niagara Health System manages its exposure to the risks associated with financial instruments that have the potential to affect its operating and financial performance in accordance with its Risk Management Policy. The objective of the policy is to reduce the volatility in cash flow and earnings. The Board of Trustees monitors compliance with the risk management policies and reviews risk management policies and procedures on an annual basis.

19. Financial instruments and risk management (continued)

The Niagara Health System has exposure to the following risks associated with its financial instruments.

Credit risk

Cash and investments restricted for capital

Credit risk associated with cash and investments restricted for capital is minimized substantially by ensuring these assets are invested in financial obligations of: governments; major financial institutions that have been accorded investment grade ratings by a primary rating agency; and/or other creditworthy parties. An ongoing review is performed to evaluate changes in the status of the issuers authorized for investment under the Niagara Health System's investment policy.

Accounts receivable

Credit risk associated with accounts receivable is minimized due to the nature of the Niagara Health System's funding from the Province of Ontario. For other accounts receivable, the Niagara Health System maintains allowances for potential credit losses, and any such losses to date have been within management's expectations.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the credit quality of the parties extended credit, as well as the large number of smaller customers.

The Niagara Health System must make estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information and reasons for the accounts being past due are all considered in the determination of when to allow for past due accounts; the same factors are considered when determining whether to write off amounts charged to the allowance account against the amounts receivable.

Liquidity risk

Liquidity risk is the risk that the Niagara Health System will not be able to meet a demand for cash or fund its obligations as they come due.

Liquidity risk also includes the risk of the Niagara Health System not being able to liquidate assets in a timely manner at a reasonable price.

The Niagara Health System meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and financing activities and holding assets that can be readily converted into cash. The Niagara Health System has a short term unsecured bank financing facility in place should it be required to meet temporary fluctuations in cash requirements as well as funding arrangements in place with the MOHLTC and HNHBLHIN as described in Note 3.

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in the market interest rates. The interest rate exposure of the Niagara Health System arises from its interest bearing assets and its pension and other post-retirement benefit obligations. The Niagara Health System also has short term borrowings subject to interest rate risk.

The primary objective of the Niagara Health System with respect to its investments in fixed income investments is to ensure the security of principal amounts invested and provide for a high degree of liquidity, while achieving a satisfactory investment return.

The Niagara Health System manages the interest rate risk exposure of its fixed income investments by using a laddered portfolio with varying terms to maturity. The laddered structure of maturities helps to enhance the average portfolio yield while reducing the sensitivity of the portfolio to the impact of interest rate fluctuations. At March 31, 2013, the Niagara Health System had $7,909,441 (2012 - $43,896,542, April 1, 2011 - $43,329,668) of investments exposed to interest rate risk.

19. Financial instruments and risk management (continued)

Interest rate risk (continued)

The Niagara Health System is exposed to interest rate risk since changes in interest rates may impact the Hospital’s borrowing costs. Floating rate debt exposes the Niagara Health System to fluctuations in short-term interest rates. At March 31, 2013, the Niagara Health System had $25,689,004 (2012 - $90,971,964, April 1, 2011 - $89,017,263) of short-term borrowings subject to variable interest rate. The risk is mitigated for part of the year as Provincial funding is advanced.

21. Related parties and shared services

Related parties

The Hospital is associated with the following foundations and auxiliaries: Niagara Health System Foundation, St. Catharines General Hospital Foundation, St. Catharines General Hospital Auxiliary, Greater Niagara General Hospital Foundation, Greater Niagara General Hospital Auxiliary, Douglas Memorial Hospital Foundation, Douglas Memorial Hospital Auxiliary, Port Colborne Hospital Foundation, Port Colborne General Hospital Auxiliary, Niagara-on-the-Lake Hospital Foundation, Niagara-on-the-Lake Hospital Auxiliary, Welland Hospital Foundation and Welland Hospital Auxiliary.

The foundations and auxiliaries are independent organizations that raise funds for capital renovations and equipment and holds resources for the benefit of the Hospital and its sites. All amounts received from the foundations and auxiliaries are restricted in use by the organizations and, accordingly, are accounted for by the Hospital as externally restricted contributions. The foundations and auxiliaries contributed $12,497,607 during 2013 (2012 - $6,356,304). Included in the Hospital's assets as at March 31, 2013 is $1,729,673 (2012 - $1,246,689, April 1, 2011 - $6,031,610) in accounts receivable from the foundations and auxiliaries.

Shared service

The Hospital is a member of Mohawk Shared Services Inc. (“Mohawk”). Mohawk is a not-for-profit organization which provides centralized Laundry Services, Diagnostic Imaging Repository Services, and Mohawk Supply Chain Services to its members and participants in the Hamilton-Niagara and surrounding areas. Mohawk is incorporated without share capital under the laws of the Province of Ontario and is exempt from income taxes under the Income Tax Act. Member hospitals share in paying the operating costs for the corporation. The Hospital’s share of operating costs in 2013 were $1,341,074 (2012 - $1,221,668) reflected in expenses on the Statement of Operations. There were no accounts payable to Mohawk for operating costs included in the Hospital’s liabilities at March 31, 2013 (2012 - $Nil, April 1, 2011 - $94,300).