NIAGARA HEALTH SYSTEM

Financial Statements
for the Year Ended March 31, 2010
and Auditors' Report to the Board of Trustees

DURWARD JONES BARKWELL & COMPANY LLP Chartered Accountants

NIAGARA HEALTH SYSTEM

FINANCIAL STATEMENTS
MARCH 31, 2010

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AUDITORS' REPORT

To the Board of Trustees of
Niagara Health System:

We have audited the statement of financial position of Niagara Health System as at March 31, 2010 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Niagara Health System's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Niagara Health System as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Durward Jones Barkwell & Company LLP

Durward Jones Barkwell & Company LLP
Licensed Public Accountants

May 6, 2010

NIAGARA HEALTH SYSTEM

STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2010

	2010	2009
REVENUE		
Ministry of Health and Long Term Care		
Base allocation	**$ 313,077,751**	$ 291,798,287
One-time funding, specialized programs	**16,127,457**	11,895,655
Other	**8,364,102**	7,620,636
	337,569,310	311,314,578
Cancer Care Ontario	**8,111,642**	8,446,466
Patient revenue from other payers	**32,876,789**	32,483,045
Differential and co-payments	**6,125,526**	6,532,537
Recoveries and miscellaneous	**12,531,463**	11,976,987
Amortization of grants and donations - equipment	**5,422,185**	7,713,974
	402,636,915	378,467,587
EXPENSES		
Compensation - salaries and wages	**200,057,848**	196,279,380
Benefit contributions for employees	**55,916,063**	51,775,042
Employee future benefits (Note 9)	**1,894,584**	1,531,249
Medical staff remuneration	**35,962,410**	34,832,651
Supplies and other expense	**49,457,341**	49,317,164
Medical and surgical supplies	**26,984,621**	25,880,136
Drugs and medical gases	**20,614,684**	21,018,653
Bad debts	**564,714**	565,221
Interest - short term borrowings	**875,753**	1,150,229
Interest on capital lease obligations	**544,901**	522,078
Amortization of equipment and software licenses	**10,081,229**	10,369,756
Equipment rentals and leases	**3,104,479**	3,595,062
	406,058,627	396,836,621
DEFICIT FROM OPERATIONS BEFORE OTHER VOTES	**(3,421,712)**	(18,369,034)
DEFICIT FROM OTHER VOTES (Note 12)	**(77,695)**	(68,036)
DEFICIT BEFORE OTHER ITEMS	**(3,499,407)**	(18,437,070)
OTHER ITEMS (Note 13)	**(2,366,673)**	(835,006)
DEFICIT BEFORE ONE TIME PAYMENTS	**(5,866,080)**	(19,272,076)
ONE TIME FUNDING, PREVIOUS YEARS' RESTRUCTURING ACTIVITIES (Note 14)	**25,000,000**	-
SURPLUS (DEFICIT) FOR THE YEAR AFTER ONE TIME FUNDING	**$ 19,133,920**	$ (19,272,076)

NIAGARA HEALTH SYSTEM
STATEMENT OF CHANGES IN NET ASSETS
MARCH 31, 2010

	Investment in land, buildings and equipment (Note 11)	Endowments and trusts (Note 11)	Externally restricted (Note 11)	Internally restricted (Note 11)	Unrestricted	2010	2009
Balance, beginning of the year	$ 41,968,601	$ 3,981,290	$ 72,513	$ 398,385	$(139,377,538)	**$(92,956,749)**	$(73,732,791)
Surplus (deficit)	(6,600,447)	-	-	-	25,734,367	**19,133,920**	(19,272,076)
Accumulated gains (losses) Unrealized (losses) gains on available-for-sale financial assets	-	-	-	-	(102,692)	**(102,692)**	48,118
Investment in capital assets	1,189,253	(28,913)	-	(87,540)	(1,072,800)	**-**	-
Interest income	-	28,913	(1,096)	13,028	(40,845)	**-**	-
Balance, end of the year	$ 36,557,407	$ 3,981,290	$ 71,417	$ 323,873	$(114,859,508)	**$(73,925,521)**	$(92,956,749)

NIAGARA HEALTH SYSTEM
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2010

	2010	2009
ASSETS		
Current		
Cash	$ **12,998**	$ 41,397
Receivables	**26,174,381**	23,016,245
Inventories	**4,020,727**	3,930,951
Prepaids and other current assets	**6,079,883**	4,540,070
Patient trust funds	**11,185**	12,417
	36,299,174	31,541,080
Land, buildings and equipment (Note 3)	**156,833,368**	155,879,649
Cash and investments restricted for capital (Note 4)	**67,768,719**	70,186,030
Endowments and trust funds (Note 5)	**3,981,290**	3,981,290
	$ **264,882,551**	$ 261,588,049
LIABILITIES		
Current		
Short term bank borrowings (Note 6)	$ **75,128,378**	$ 94,636,120
Short term internal borrowings (Notes 4)	**3,188,235**	2,603,511
Payables and accruals	**52,350,541**	55,396,321
Patient trust accounts	**11,185**	12,417
Unearned revenues	**4,250,322**	1,903,177
Current portion of obligations under capital leases	**3,977,809**	3,373,869
Current portion of long term debt	**1,001,830**	1,001,830
Current portion of employee future benefits	**1,240,900**	1,167,800
Current portion of deferred contributions	**7,719,167**	7,083,914
	148,868,367	167,178,959
Obligations under capital leases (Note 7)	**7,950,910**	8,567,839
Long term debt (Note 8)	**166,971**	1,168,801
Employee future benefits (Note 9)	**14,851,300**	14,330,100
Deferred contributions (Note 10)	**166,970,524**	163,299,099
Commitments and contingency (Notes 15 & 16)		
	338,808,072	354,544,798
NET ASSETS (Page 3)	**(73,925,521)**	(92,956,749)
	$ **264,882,551**	$ 261,588,049

Approved by the Board of Trustees:

_______________ Trustee   S Hudson _______________ Trustee

NIAGARA HEALTH SYSTEM

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2010

		2010		2009
OPERATING ACTIVITIES				
Surplus (deficit)	**$**	**19,133,920**	$	(19,272,076)
Items not affecting cash:				
Amortization of land improvements, buildings and equipment (Note 11)		**15,712,503**		15,766,155
Amortization of deferred contributions (Note 11)		**(8,827,313)**		(10,900,410)
Accumulated (losses) gains, net (Page 3)		**(102,692)**		48,118
Gain on disposal of equipment (Note 11)		**(284,743)**		(13,271)
		25,631,675		(14,371,484)
Changes in non-cash operating activities:				
Receivables		**(3,158,136)**		(3,935,562)
Inventories		**(89,776)**		(502,156)
Prepaids and other current assets		**(1,539,813)**		(2,078,658)
Payables and accruals		**(3,045,780)**		567,654
Unearned revenues		**2,347,145**		(461,244)
		20,145,315		(20,781,450)
INVESTING ACTIVITIES				
Investments (including endowments and trust funds)		**2,417,311**		(21,171,887)
Additions to land, buildings and equipment		**(16,675,406)**		(11,609,167)
Proceeds from sale of equipment		**287,264**		24,000
		(13,970,831)		(32,757,054)
FINANCING ACTIVITIES				
(Decrease) increase in short term bank borrowings		**(19,507,742)**		55,060,362
Increase (decrease) in short term internal borrowings		**584,724**		(36,792,784)
Decrease in obligations under capital leases		**(12,989)**		(1,468,800)
Decrease in long-term debt		**(1,001,830)**		(1,001,830)
Increase in employee future benefits		**594,300**		471,900
Deferred contributions		**13,140,654**		39,183,846
Mortgage repayments		**-**		(1,886,622)
		(6,202,883)		53,566,072
NET (DECREASE) INCREASE IN CASH		**(28,399)**		27,568
CASH, BEGINNING OF THE YEAR		**41,397**		13,829
CASH, END OF THE YEAR	**$**	**12,998**	$	41,397

SUPPLEMENTAL INFORMATION TO THE STATEMENT OF CASH FLOWS

The following items relating to interest are included in cash from operating activities:

Interest income received	**$**	**181,227**	$	283,063
Interest expense paid	**$**	**1,653,539**	$	1,961,101

NIAGARA HEALTH SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2010

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)** is Ontario's largest multi-site hospital amalgamation. The NHS is comprised of seven sites serving 434,000 residents across the 12 municipalities making up the Regional Municipality of Niagara.

Sites are as follows: Greater Niagara General Site in Niagara Falls, St. Catharines General Site, Welland Site, Douglas Memorial Site in Fort Erie, Niagara-on-the-Lake Site, Port Colborne General Site and St. Catharines' Ontario Street Site (formerly known as Hotel Dieu Health Science Hospital, Niagara).

The NHS operated 737 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 seven sites. The NHS has 4,300 employees, approximately 477 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 Hamilton Niagara Haldimand Brant Local Health Integration Network.

The Niagara Health System received one-time funding during the year in the amount of $25,000,000 to assist the NHS with expenses that occurred with the 2008/09 fiscal year in implementing early opportunities in their Hospital Improvement Plan (HIP) and also to address financial expenditures arising from earlier restructuring activities. The NHS will continue to implement the Hospital Improvement Plan to ensure appropriate, efficient and quality health services.

The Niagara Health System also received an additional $14 million in base funding for 2009/10 fiscal year. The additional base funding is in recognition of, and to support, the ongoing implementation of the Hospital Improvement Plan and to address the acknowledged base funding shortfalls.

2. 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.

The amount of pledges to the Niagara Health System is not included in revenue until such time as funds are received.

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 Ministry of Health and Long Term Care (MOHLTC) and Hamilton Niagara Haldimand Brant Local Health Integration Network (HNHBLHIN). These financial statements reflect agreed funding arrangements approved by the HNHBLHIN and MOHLTC with respect to the year ended Wednesday, March 31, 2010.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts with original maturities of three months or less. Long term borrowings are considered to be financing activities.

Inventories

Inventories 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. Amortization 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%

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased equipment

Equipment taken on lease with terms which transfer substantially all of the benefits and risks of ownership to the organization 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 equipment held on lease 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 Hospitals of Ontario Pension Plan which is a multi-employer final average pay contributory pension plan. Employer contributions made to the plan during the year are included in employee benefits expense in the statement of operations.

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 the portion of the total that exceeds 10% of the accrued benefit obligation into future years' expenses over the average remaining service period of active employees.

Past service costs arising from a plan amendment are amortized over future years of service to full eligibility of active employees.

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 generally accepted accounting principles 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 of capital assets, estimates of accounts receivable collectability and allowance for doubtful accounts, revenue recognition 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments
The organization classified its cash as held for trading. Financial assets classified as held for trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in the statement of operations in the period in which the change occurs. Investments in debentures, bonds, and marketable securities are classified as available-for-sale. Investments classified as available-for-sale are recorded at fair market value and any change in fair value is recorded in net assets in the period in which the change occurs. Receivables are classified as loans and receivables. Short term bank borrowings, short term internal borrowings, payables and accruals, long term debt and mortgage payable are classified as other liabilities. Financial instruments classified as loans and receivables and other liabilities are carried at amortized cost using the effective interest method. Interest income or expense is included in the statement of operations over the expected life of the instrument.

The following policies and assumptions were used to determine fair value of each class of financial assets and liabilities:

Short term financial instruments (cash, receivables, short term bank borrowings, short term internal borrowings, payables and accruals) are measured at their carrying amount since it is comparable to the fair value due to approaching maturity of these financial instruments. The carrying value of long term debt approximates fair value since this instrument bears interest at a rate comparable to current market conditions. Investments in marketable securities are recorded at their fair values based on quoted market prices.

Future accounting standards
The CICA's Accounting Standards Board has announced that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards ("IFRS") as Canadian generally accepted accounting principles for years beginning on or after January 1, 2011. However, the Accounting Standards Board deferred the requirement for Not-for-Profit organizations to adopt IFRS and is currently considering implications of its separate strategy for Not-for-Profit organizations which is outlined in the Exposure Draft recently issued. Management will monitor the Accounting Standards Board direction in this matter.

NIAGARA HEALTH SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

3. LAND, BUILDINGS AND EQUIPMENT

	Cost	Accumulated amortization	Net book value 2010	Net book value 2009
Land	$ 3,262,362	$ -	**$ 3,262,362**	$ 3,262,362
Land improvements	826,237	428,018	**398,219**	422,387
Land under development	5,415,750	-	**5,415,750**	5,408,761
Buildings	182,614,835	90,855,586	**91,759,249**	88,422,594
Equipment	119,471,272	99,016,905	**20,454,367**	21,213,977
Construction-in-progress - New Hospital	17,717,861	-	**17,717,861**	13,935,868
Construction-in-progress - Other Sites	6,256,665	-	**6,256,665**	12,232,145
	335,564,982	190,300,509	**145,264,473**	144,898,094
Equipment under capital lease	22,762,560	11,193,665	**11,568,895**	10,981,555
	$358,327,542	$201,494,174	**$ 156,833,368**	$ 155,879,649

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. The new hospital project will be delivered using an alternate financing and procurement model. Plenary Health Niagara will receive payments from the Niagara Health System as follows:

- Construction Progress payments from April 8, 2011 to February 1, 2012 totaling $187,000,000
- Substantial Completion Payment of $276,000,000 expected on November 26, 2012
- Annual contract payments over a 30 year period after substantial completion totaling $740,138,996
- Life Cycle Payments over a 30 year period after substantial completion totaling $84,277,000

Payments cover construction, building maintenance, lifecycle repair and renewal and project financing. Construction of the new facility has begun and was approximately 23% complete at the end of the fiscal year. Expected construction completion is November 26, 2012. The total contract cost of the new health-care complex project after 30 years is approximately $1.42 Billion with a net present value of approximately $759 million. The implied interest rate on the project is approximately 5%. The new health-care complex is fully funded through a combination of Ministry of Health and Long Term Care funding, as well as local share commitments of $116.9 million (net present value). The local share of $116.9 million for Niagara is being supported by:

Fundraising (of the $40 million It's Our Time Campaign)	$ 25.0 million
Retail/commercial opportunities and other funding sources	27.1 million
Regional/Municipal tax levies	60.0 million
Other grants/funding sources	4.8 million
	$116.9 million

NIAGARA HEALTH SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

4. CASH AND INVESTMENTS RESTRICTED FOR CAPITAL

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

	2010		2009	
	Market value	**Cost**	Market value	Cost
GICs, 0.5%, maturing May, 2010	**$ 223,069**	**$ 223,069**	$ -	$ -
GICs, 3.4% and 1.6%, maturing December 2009 and June 2010	**-**	**-**	386,840	386,840
GICs , 0.55%%, maturing May 2010	**29,958,364**	**29,958,364**	29,722,524	29,722,524
GICs, 1%, maturing February 2011	**30,133**	**30,133**	30,133	30,133
Government bonds, 2.7%-6.25%, maturing from May 2010 to June 2017	**6,346,052**	**6,333,475**	6,286,113	6,167,644
Money market funds	**6,402,327**	**6,402,327**	1,071,972	1,071,972
	42,959,945	**42,947,368**	37,497,582	37,379,113
Add: Restricted cash	**21,633,116**	**21,633,116**	30,203,406	30,203,406
Less: Unrealized gain on available-for-sale assets	**(12,577)**	**-**	(118,469)	-
	64,580,484	**$ 64,580,484**	67,582,519	$ 67,582,519
Other investments:				
Short term internal borrowings	**3,188,235**		2,603,511	
	$ 67,768,719		$ 70,186,030	

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.

NIAGARA HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

4. CASH AND INVESTMENTS RESTRICTED FOR CAPITAL (continued)

	Balance, beginning of the year	Donations	Transfers and additions during the year	Interest	Balance, end of the year
Restricted					
NHS	$ 2,738,147	$ 3,565,973	$ (3,107,775)	$ 50,730	**$ 3,247,075**
SuperBuild	7,335,211	-	(331,271)	251,532	**7,255,472**
MOHLTC Capital	60,112,672	-	(3,159,122)	312,622	**57,266,172**
	$ 70,186,030	$ 3,565,973	$ (6,598,168)	$ 614,884	**$ 67,768,719**

The NHS 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 the 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.

5. ENDOWMENTS AND TRUST FUNDS

Endowments and trust funds are represented by the following:

	2010		2009	
	Market value	**Cost**	Market value	Cost
Mutual funds	**$ 286,954**	**$ 280,487**	$ 273,477	$ 270,209
Cash - treasury accounts	**3,694,336**	**3,700,803**	3,707,813	3,711,081
	$ 3,981,290	**$ 3,981,290**	$ 3,981,290	$ 3,981,290

6. SHORT TERM BANK BORROWINGS

During the current year, the Niagara Health System received an advance of $100,000,000 from the HNHBLHIN. After receipt of additional funding a $75,000,000 bridge financing loan was required. The principal financial institution was unable to provide bridge financing for the full $75,000,000 cash advance. The Niagara Health System entered into agreements with two other financial institutions for the remainder of the bridge financing loan. The HNHBLHIN advance commenced on November 16, 2009 and was fully repaid on March 15, 2010 and $70,000,000 was drawn on the bridge financing facilities. On April 15, 2010 the Niagara Health System was advanced $75,000,000 toward its 2010/11 funding by the HNHBLHIN and subsequently all bridge financing was repaid within two business days.

A summary of the short term bank borrowings are as follows:

	2010	2009
Bank of Montreal, non-revolving bridge financing credit facility, bearing interest at the option of prime or banker's acceptance rate plus 2%, secured by a letter of comfort from HNHBLHIN.	**$ 20,000,000**	$ 45,000,000
Toronto Dominion Bank, a demand loan facility of $25 million bearing interest at prime plus 2%, secured by a letter of comfort from HNHBLHIN.	**25,000,000**	15,000,000
Pacific & Western Bank of Canada, a short term line of credit of $25 million bearing interest at prime plus 2%, secured by a letter of comfort from HNHBLHIN.	**25,000,000**	25,000,000
Bank of Montreal, operating line of credit of $18 million, bearing interest at bank prime plus 1%.	**5,128,378**	9,636,120
	$ 75,128,378	$ 94,636,120

The Niagara Health System has a revolving credit facility for major expenditures and/or construction, subject to specified conditions, of $15,000,000 bearing interest at prime plus 1%. No funds were advanced on the revolving credit facility at March 31, 2010. Funds advanced on the credit facility are payable in monthly or quarterly payments with a maximum term of 10 years at the borrowers option.

NIAGARA HEALTH SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

7. OBLIGATIONS UNDER CAPITAL LEASES

Future minimum payments under capital leases, by year and in aggregate, consist of the following at March 31, 2010:

	2010	2009
Fiscal year ending 2010	$ -	$ 4,053,241
Fiscal year ending 2011	4,481,559	3,681,357
Fiscal year ending 2012	4,042,855	3,024,673
Fiscal year ending 2013	2,533,793	1,729,422
Fiscal year ending 2014	1,186,632	382,260
Fiscal year ending 2015	802,996	100,720
Fiscal year ending 2016 and thereafter	3,872	3,872
Total minimum lease payments	13,051,707	12,975,545
Amounts representing interest	(1,122,988)	(1,033,837)
Balance of obligation	11,928,719	11,941,708
Current portion of obligations	3,977,809	3,373,869
Long term portion of obligations	$ 7,950,910	$ 8,567,839

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

8. LONG TERM DEBT

	2010	2009
Bank of Montreal - borrowings at a fixed interest rate of 6.59% with monthly principal payments of $83,486 plus interest, due May 31, 2011	$ 1,168,801	$ 2,170,631
Less current portion	1,001,830	1,001,830
	$ 166,971	$ 1,168,801

The principal repayments required in the next two fiscal years are as follows:

2011	$ 1,001,830
2012	166,971
	$ 1,168,801

Bank of Montreal loan is broken down as follows:	2010	2009
Funds used for operating activities	$ 832,370	$ 1,545,820
Funds used for investment in land, buildings and equipment	336,431	624,811
	$ 1,168,801	$ 2,170,631

NIAGARA HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

9. 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 31st of each year. The most recent actuarial valuation of the benefit plans was March 31, 2009. Information about the defined benefit plan is as follows:

	2010	2009
Accrued benefit obligation, beginning of the year	$ 15,773,800	$ 15,288,800
Adjustment for additional obligation due to new valuation	2,718,800	99,100
Accrual for service	499,400	550,800
Interest on accrued benefits	1,176,700	880,700
Benefits paid for the year	(1,167,800)	(1,045,600)
Expected accrued benefit obligation, end of the year	19,000,900	15,773,800
Actual accrued benefit obligation, end of the year	19,000,900	15,773,800
Experience gain (loss)	$ -	$ -
Accrued benefit obligation, end of the year	$ 19,000,900	$ 15,773,800
Less: Unamortized past service costs	401,900	487,900
Experience losses (gains)	2,506,800	(212,000)
Accrued benefit liability, end of the year	$ 16,092,200	$ 15,497,900
Current portion	$ 1,240,900	$ 1,167,800
Long term portion	14,851,300	14,330,100
	$ 16,092,200	$ 15,497,900

As at March 31, 2010, the unamortized past service cost is $401,900 (2009 - $487,900). The average remaining service period to full eligibility is 8 years (2009 - 10 years).

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

Interest (discount rate): The obligations as at March 31, 2010 of the present value of future liabilities was determined using a rate of 5.75% and the expense for the year then ended were determined using a discount rate of 7.50%

Medical costs: Medical costs were assumed to increase at a rate of 9% in 2011, decreasing by 0.5% increments per annum to an ultimate rate of 5% in 2018 and thereafter.

Dental costs: Dental costs were assumed to increase at 4% per annum.

Travel costs: Travel trend rates were assumed to increase at 3% per annum.

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NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

10. DEFERRED CONTRIBUTIONS

Deferred contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2010	2009
Balance, beginning of the year	**$ 170,383,013**	$ 142,102,680
Contributions received and interest earned during the year	**13,140,654**	39,183,846
Disposals, net book value adjustment	**(6,663)**	(3,103)
Amortization	**(8,827,313)**	(10,900,410)
	174,689,691	170,383,013
Less: Current portion of deferred contributions	**(7,719,167)**	(7,083,914)
	$ 166,970,524	$ 163,299,099

11. NET ASSETS

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 $71,417 (2009 - $72,513) 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 Board of Trustees have the discretion to spend the funds in accordance with the stipulations of the donations.

Internally restricted funds

2010	2009
$ 323,873	$ 398,385

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

NIAGARA HEALTH SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

11. NET ASSETS (continued)

Investment in land, buildings and equipment

	2010	2009
Investments in land, buildings and equipment is represented by:		
Investments	$ 66,678,880	$ 69,038,484
Land, buildings and equipment	156,833,368	155,879,649
Deferred contributions	(174,689,691)	(170,383,013)
Long term debt	(336,431)	(624,811)
Obligations under capital leases	(11,928,719)	(11,941,708)
	$ 36,557,407	$ 41,968,601

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

	2010	2009
Amortization of land improvements, buildings and equipment	$ (15,712,503)	$ (15,766,155)
Amortization of deferred contributions	8,827,313	10,900,410
Gain on disposal of equipment	284,743	13,271
	(6,600,447)	(4,852,474)
Net land, buildings and equipment additions	16,675,406	11,609,167
Proceeds on sale of assets	(287,264)	(24,000)
Net increase in deferred contributions	(13,140,654)	(39,183,846)
Repayment of long term debt and obligations under capital leases	301,369	1,757,173
Repayment of mortgages payable	-	1,886,622
(Decrease) increase in cash and investments	(2,359,604)	20,968,940
	1,189,253	(2,985,944)
	$ (5,411,194)	$ (7,838,418)

12. 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.

	2010	2009
Revenues	$ 7,605,872	$ 7,823,992
Expenses	(7,683,567)	(7,892,028)
	$ (77,695)	$ (68,036)

NIAGARA HEALTH SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2010

13. OTHER ITEMS

	2010	2009
Amortization of building and land improvements	$ (5,516,033)	$ (5,280,660)
Amortization of deferred grants	3,703,327	3,152,102
Grant and donation revenue	-	1,968,235
Capital interest - net	(112,762)	(178,784)
Endowment and trust interest income	42,085	135,660
Loss on disposal of equipment	-	(472)
Extended Care Unit and Interim Long Term Care loss	(483,290)	(631,087)
	$ (2,366,673)	$ (835,006)

14. ONE TIME FUNDING, PREVIOUS YEARS' RESTRUCTURING ACTIVITIES

NHS received $25,000,000 of one time finding for 2008/09 fiscal year from the HNHBLHIN based on the Minister's of Health approval.

The funding was received in 2009/10 fiscal year to assist the NHS with expenses that occurred with the 2008/09 fiscal year in implementing early opportunities in their Hospital Improvement Plan (HIP) and also to address financial expenditures arising from earlier restructuring activities.

15. 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 2013 in the total amount of $3,995,476. Annual payments are as follows:

2011	$ 3,204,365
2012	530,967
2013	260,144
	$ 3,995,476

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

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 HDH asset transfer. The first phase of the sale closed in January 2006 and the remaining properties will be sold as of December 14, 2012. The Niagara Health System received $800,000 upon signing of the contract, and the balance of approximately $2,050,000 to be received on December 14, 2012, the expected final closing date. As the values of the properties were adjusted at the time of the asset transfer, no gains or losses are expected to be realized at the closing date. The Niagara Health System has the right to either accelerate or extend the closing date for two six month term extension options.

15. COMMITMENTS (continued)

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. Commitment payments are as follows:

Construction Payments April 8, 2011 to February 1, 2012	$ 187,000,000
Substantial Completion Payment expected November 26, 2012	276,000,000
Annual payments from 2013 to 2043	824,415,996
	$1,287,415,996

See Note 3 for further details regarding the New Health-Care Complex.

16. CONTINGENT LIABILITY

As at March 31, 2010, there were a number of claims outstanding, none of which exceed 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 defences 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.

17. PENSION PLAN

Substantially all of the employees of the Niagara Health System are members of the Hospitals 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 $47,200 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 $15,975,886 (2009 - $16,106,632) and are included in the statement of operations.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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.

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 the 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 Notes 1 and 6.

NIAGARA HEALTH SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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, 2010, the Niagara Health System had $42,959,945, (2009 - $37,497,582) of investments exposed to interest rate risk.

The Niagara Health System is exposed to interest rate risk since changes in interest rates may impact the organization's borrowing costs. Floating rate debt exposes the Niagara Health System to fluctuations in short-term interest rates. At March 31, 2010, the Niagara Health System had $75,128,378,(2009 - $94,636,120) of short-term borrowings subject to variable interest rate. The risk is mitigated for part of the year as Provincial funding is advanced.

Currency risk
It is management's opinion that the Niagara Health System is not subject to significant currency risk.

19. CAPITAL MANAGEMENT

The Niagara Health System's objective when managing capital is to safeguard the Niagara Health System's ability to continue as a going concern so that it can continue to provide a wide range of patient-focused care and services to people throughout Niagara. The Niagara Health System has signed a 2008-2010 Hospital Service Accountability Agreement (H-SAA) with the HNHBLHIN. The Niagara Health System is tracking positively on the majority of the performance indicators in the H-SAA. This agreement sets out the roles and responsibilities of both parties with respect to funding, performance and service.

In July 2008 the Niagara Health System developed a five year Hospital Improvement Plan (HIP). The HIP is a framework for the Niagara Health System to enhance quality of hospital health care across Niagara over the long term, while at the same time, balance financial pressures, the needs of Niagara's aging population and the challenges of the ongoing shortage of doctors, nurses and other health professionals. The plan was endorsed by the HNHBLHIN in December 2008.

The HIP includes more than $28 million of savings over the five year period through the creation of Centres of Excellence, improved quality and efficiency initiatives and working in collaboration with the HNHBLHIN and other community agencies to ensure patients are cared for in the most appropriate setting. Approximately $16 million in savings were achieved at March 31, 2010.

The Niagara Health System received one-time funding during the year in the amount of $25,000,000 to assist the NHS with expenses that occurred with the 2008/2009 fiscal year in implementing early opportunities in their Hospital Improvement Plan (HIP) and also to address financial expenditures arising from earlier restructuring activities. The NHS will continue to implement the HIP to ensure appropriate, efficient and quality health services.

The Niagara Health System also received an additional $14 million in base funding for 2009/10 fiscal year. The additional base funding is in recognition of, and to support, the ongoing implementation of the HIP and to address the acknowledged base funding shortfalls.

20. COMPARATIVE FIGURES

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