NIAGARA HEALTH SYSTEM

Financial Statements
for the Year Ended March 31, 2009
and Auditors' Report to the Board of Trustees

DURWARD JONES BARKWELL & COMPANY LLP Chartered Accountants

NIAGARA HEALTH SYSTEM

FINANCIAL STATEMENTS
MARCH 31, 2009

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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, 2009 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, 2009 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, 2009

NIAGARA HEALTH SYSTEM

STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2009

	2009	2008
REVENUE		
Ministry of Health and Long Term Care		
Base allocation	**$ 291,798,287**	$ 284,039,781
One-time payments	**20,342,121**	24,093,945
Other	**7,620,636**	6,779,284
	319,761,044	314,913,010
Patient revenue from other payers	**32,483,045**	33,121,430
Differential and co-payments	**6,532,537**	6,660,498
Recoveries and miscellaneous	**11,976,987**	11,649,797
Amortization of grants and donations - equipment	**7,713,974**	5,148,777
	378,467,587	371,493,512
EXPENSES		
Compensation - salaries and wages	**196,279,380**	191,229,433
Benefit contributions for employees	**51,775,042**	51,454,640
Employee future benefits (Note 10)	**1,531,249**	1,484,606
Medical staff remuneration	**34,832,651**	35,173,312
Supplies and other expense	**49,317,164**	48,324,086
Medical and surgical supplies	**25,880,136**	25,651,313
Drugs and medical gases	**21,018,653**	19,966,761
Bad debts	**565,221**	563,289
Interest - short term borrowings	**1,672,307**	1,556,929
Amortization of equipment and software licenses	**10,369,756**	10,293,288
Equipment rentals and leases	**3,595,062**	3,651,463
	396,836,621	389,349,120
DEFICIT BEFORE OTHER VOTES	**(18,369,034)**	(17,855,608)
DEFICIT FROM OTHER VOTES (Note 15)	**(68,036)**	(80,932)
DEFICIT BEFORE OTHER ITEMS	**(18,437,070)**	(17,936,540)
OTHER ITEMS (Note 16)	**(835,006)**	(3,078,601)
DEFICIT FOR THE YEAR	**$ (19,272,076)**	$ (21,015,141)

NIAGARA HEALTH SYSTEM
STATEMENT OF CHANGES IN NET ASSETS
MARCH 31, 2009

	Investment in land, buildings and equipment (Note 12)	**Endowments and trusts** (Note 12)	**Externally restricted** (Note 12)	**Internally restricted** (Note 12)	**Unrestricted**	**2009**	2008
Balance, beginning of the year	$ 49,807,019	$ 3,981,290	$ 70,401	$ 390,432	$(127,981,933)	**$(73,732,791)**	$(52,791,577)
Deficit	(4,852,474)	-	-	-	(14,419,602)	**(19,272,076)**	(21,015,141)
Accumulated gains (losses)							
Opening reclassification adjustment	-	-	-	-	-	**-**	(40,385)
Unrealized gains on available-for-sale financial assets	-	-	-	-	48,118	**48,118**	114,312
Investment in capital assets	(2,985,944)	(111,904)	-	(14,479)	3,112,327	**-**	-
Interest income	-	111,904	2,112	22,432	(136,448)	**-**	-
Balance, end of the year	$ 41,968,601	$ 3,981,290	$ 72,513	$ 398,385	$(139,377,538)	**$(92,956,749)**	$(73,732,791)

NIAGARA HEALTH SYSTEM
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2009

	2009	2008
ASSETS		
Current		
Cash	**$ 41,397**	$ 13,829
Receivables	**23,016,245**	19,080,683
Inventories	**3,930,951**	3,428,795
Prepaids and other assets	**4,540,070**	2,461,412
Patient trust funds	**12,417**	11,940
	31,541,080	24,996,659
Land, buildings and equipment (Note 3)	**155,879,649**	160,050,469
Cash and investments restricted for capital (Note 4)	**70,186,030**	49,014,143
Endowments and trust funds (Note 5)	**3,981,290**	3,981,290
	$ 261,588,049	$ 238,042,561
LIABILITIES		
Current		
Short term bank borrowings (Note 6)	**$ 94,636,120**	$ 39,575,758
Short term internal borrowings (Notes 4 & 6)	**2,603,511**	39,396,295
Payables and accruals	**55,396,321**	54,828,667
Patient trust accounts	**12,417**	11,940
Unearned revenues	**1,903,177**	2,364,421
Current portion of obligations under capital leases	**3,373,869**	2,656,457
Current portion of long term debt	**1,001,830**	1,001,830
Current portion of mortgages payable	**-**	1,029,067
Current portion of employee future benefits	**1,167,800**	918,600
Current portion of deferred contributions	**7,083,914**	7,238,462
	167,178,959	149,021,497
Obligations under capital leases (Note 7)	**8,567,839**	10,754,051
Long term debt (Note 8)	**1,168,801**	2,170,631
Mortgages payable (Note 9)	**-**	857,555
Employee future benefits (Note 10)	**14,330,100**	14,107,400
Deferred contributions (Note 11)	**163,299,099**	134,864,218
Commitments and contingency (Notes 13 & 14)		
	354,544,798	311,775,352
NET ASSETS (Page 3)	**(92,956,749)**	(73,732,791)
	$ 261,588,049	$ 238,042,561

Approved by the Board of Trustees:

____________________________Trustee ____________________________Trustee

NIAGARA HEALTH SYSTEM

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Deficit	**$ (19,272,076)**	$ (21,015,141)
Items not affecting cash:		
Amortization of land, buildings and equipment (Note 12)	**15,766,155**	15,325,220
Amortization of deferred contributions (Note 12)	**(10,900,410)**	(7,847,859)
Accumulated gains, net (Page 3)	**48,118**	73,927
Gain on disposal of equipment (Note 12)	**(13,271)**	-
	(14,371,484)	(13,463,853)
Changes in non-cash operating activities:		
Receivables	**(3,935,562)**	(1,642,906)
Inventories	**(502,156)**	(107,067)
Prepaids and other current assets	**(2,078,658)**	(171,791)
Payables and accruals	**567,654**	1,966,314
Unearned revenues	**(461,244)**	(444,365)
	(20,781,450)	(13,863,668)
INVESTING ACTIVITIES		
Investments (including endowments and trust funds)	**(21,171,887)**	(25,451,602)
Additions to land, buildings and equipment	**(11,609,167)**	(29,892,466)
Proceeds from sale of equipment	**24,000**	-
	(32,757,054)	(55,344,068)
FINANCING ACTIVITIES		
Increase (decrease) in short term bank borrowings	**55,060,362**	(2,260,007)
(Decrease) increase in short term internal borrowings	**(36,792,784)**	24,062,275
(Decrease) increase in obligations under capital leases	**(1,468,800)**	4,192,013
Decrease in long-term debt	**(1,001,830)**	(1,001,831)
Increase in employee future benefits	**471,900**	496,400
Deferred contributions	**39,183,846**	44,682,731
Mortgage repayments	**(1,886,622)**	(1,029,067)
	53,566,072	69,142,514
NET INCREASE (DECREASE) IN CASH	**27,568**	(65,222)
CASH, BEGINNING OF THE YEAR	**13,829**	79,051
CASH, END OF THE YEAR	**$ 41,397**	$ 13,829

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

	2009	2008
Interest income received	**$ 283,063**	$ 465,182
Interest expense paid	**$ 1,961,101**	$ 1,947,043

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 six hospital sites and an ambulatory care centre serving 434,000 residents across the 12 municipalities making up the Regional Municipality of Niagara.

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

The NHS has 754 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 4,200 employees, approximately 470 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's operating revenue is not sufficient to cover the expenses associated with the delivery of services currently being provided by the Niagara Health System. The Niagara Health System has obtained approval of its Hospital Improvement Plan, as described in Note 19, from the Hamilton Niagara Haldimand Brant (HNHB) Local Health Integration Network (LHIN) which would deliver a balanced budget by 2012/13. However, until 2012/13, the Niagara Health System will continue to operate annual deficits which will necessitate further cash advances from the HNHB LHIN and bank financing in the absence of additional funding. The increased reliance on cash advances, the lack of positive cash flow and the ability to obtain additional bank financing to finance cash flow deficits from operations is in jeopardy without additional funding.

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 Tuesday, March 31, 2009.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 changes 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. The carrying value of the mortgage payable approximates fair value since this debt bears interest at a rate that fluctuates with market. Investments in marketable securities are recorded at their fair values based on quoted market prices.

Change in accounting policies

Effective April 1, 2008, the Niagara Health System adopted the following sections of the Handbook of the Canadian Institute of Chartered Accountants:

Inventories

CICA handbook Section 3031, Inventories, replaces corresponding Section 3030 and establishes new standards for the measurement and disclosure of inventories. This new section requires inventories to be measured at the lower of cost and net realizable value, provides guidance on the determination of cost and requires reversal of prior period write-downs when the net realizable value of impaired inventory subsequently recovers. The adoption of this section had no material impact on the audited financial statements.

Capital Disclosures

CICA Handbook section 1535, Capital Disclosures establishes standards for disclosing information about the Organization's capital and how it is managed. The required disclosure of information about the Organization's objectives, policies and processes for managing capital has been provided in Note 19.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future accounting standards

The CICA's Accounting Standards Board has announced that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board effective January 1, 2011. IFRS will require increased financial statement disclosures. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies will need to be addressed. During the year, 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 will be subject of an Invitation to Comment. Management will monitor the Accounting Standards Board direction in this matter.

As a result of the deliberations of the Accounting Standards Board with respect to accounting standards for Not-for-Profit Organizations, a number of amendments were made to the Section 4400 Series of the CICA Handbook. The following new standards were issued in September 2008 and effective for years beginning on after January 1, 2009:

Statement of Cash Flows - Section 1540
Net Assets Invested in Capital Assets - Section 4400
Presentation of Revenue and Expenses - Section 4400
Capital Assets held by Not-for-Profit Organizations - Section 4430

Management does not expect the effect of adopting these sections to be significant.

NIAGARA HEALTH SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009

3. LAND, BUILDINGS AND EQUIPMENT

	Cost	Accumulated amortization	Net book value 2009	Net book value 2008
Land	$ 3,262,362	$ -	**$ 3,262,362**	$ 3,262,362
Land improvements	826,237	403,850	**422,387**	446,556
Land under development (Note 9)	5,408,761	-	**5,408,761**	5,330,328
Buildings	173,705,124	85,282,530	**88,422,594**	69,839,959
Diagnostic Imaging Repository Project (a)	-	-	**-**	1,456,000
Equipment	115,341,561	94,127,584	**21,213,977**	24,449,131
Construction-in-progress	26,168,013	-	**26,168,013**	43,557,322
	324,712,058	179,813,964	**144,898,094**	148,341,658
Equipment under capital lease	18,348,670	7,367,115	**10,981,555**	11,708,811
	$343,060,728	$187,181,079	**$ 155,879,649**	$ 160,050,469

(a) The Hamilton, Niagara, Haldimand, Brant LHIN - 4 hospitals and the Waterloo and Wellington LHIN - 3 hospitals voluntarily agreed to enter into a joint venture for the purpose of planning, development, implementation and operation of a shared digital diagnostic imaging repository (DI-r). At March 31, 2008 this joint venture was an unincorporated association which was not a legal entity and therefore had no separate existence in law. Per a Letter of Understanding dated in December of 2006, the Niagara Health System has agreed to act as an agent on behalf of the participating hospitals for the purpose of entering into agreements and administering funds. All project costs incurred to date were reflected as an unamortized capital asset and all funding received to date was reflected under deferred contributions on the balance sheet of the Niagara Health System at March 31, 2008. As of December 2008 the participating hospitals formally partnered under Mohawk Shared Service Inc. to oversee the implementation and operation of this shared DI-r. All unamortized capital assets and deferred contributions as well as the balance of unspent funds were transferred to Mohawk Shared Service Inc. in March 2009.

NIAGARA HEALTH SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009

4. CASH AND INVESTMENTS RESTRICTED FOR CAPITAL

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

	2009		2008	
	Market value	**Cost**	Market value	Cost
GICs, 3.4% and 1.6%, maturing December 2009 and June 2010	**$ 386,840**	**$ 386,840**	$ 373,615	$ 373,615
Provincial bonds, 7.69%, maturing August 2008	**-**	**-**	41,062	40,755
GICs , 3.45%, maturing April 5, 2009	**29,722,524**	**29,722,524**	-	-
GICs, 1%, maturing February 2010	**30,133**	**30,133**	30,324	30,324
Term investment, 4.25%, maturing December 2008	**-**	**-**	859,031	859,031
Government bonds, 3.75%-6.25%, maturing from May 2009 to January 2015	**6,286,113**	**6,167,644**	5,962,701	5,893,173
Money market funds	**1,071,972**	**1,071,972**	2,031,503	2,031,503
	37,497,582	**37,379,113**	9,298,236	9,228,401
Add: Restricted cash	**30,203,406**	**30,203,406**	389,448	389,448
Less: Unrealized gain on available-for-sale assets	**(118,469)**	**-**	(69,836)	-
	67,582,519	**$ 67,582,519**	9,617,848	$ 9,617,849
Other investments:				
Short term internal borrowings (Note 6)	**2,603,511**		39,396,295	
	$ 70,186,030		$ 49,014,143	

Investments are tracked to support the following 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, with the acknowledgement from the MOHLTC, has authorized borrowing from the 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. In prior years the Niagara Health System had the ability to repay these loans by utilizing its authorized line of credit with the bank. However, given the current cash position there is uncertainty that these advances could be repaid should the funds be required to pay for the capital projects for which the funds were received even though the NHS has decreased its reliance on borrowings from restricted funds. Management has brought this issue to the attention of the MOHLTC.

NIAGARA HEALTH SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009

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	$ 4,152,814	$ 4,893,167	$ (6,525,261)	$ 217,427	**$ 2,738,147**
SuperBuild	11,127,126	-	(4,177,474)	385,559	**7,335,211**
MOHLTC Capital	33,734,203	-	25,266,011	1,112,458	**60,112,672**
	$ 49,014,143	$ 4,893,167	$ 14,563,276	$ 1,715,444	**$ 70,186,030**

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:

	2009 Market value	**2009** Cost	2008 Market value	2008 Cost
Mutual funds	**$ 273,477**	**$ 270,209**	$ 265,302	$ 261,211
Cash - treasury accounts	**3,707,813**	**3,711,081**	3,715,988	3,720,079
	$ 3,981,290	**$ 3,981,290**	$ 3,981,290	$ 3,981,290

NIAGARA HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009

6. SHORT TERM BORROWINGS

During the current year, the Niagara Health System received an advance of $90,000,000 from the HNHBLHIN. The principal financial institution was unable to provide bridge financing for the full $90,000,000 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 17, 2008 and was fully repaid on March 31, 2009 and $85,000,000 was drawn on the bridge financing facilities. On April 1, 2009 the Hospital was advanced $90,000,000 toward its 2009/10 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:

	2009	2008
Bank of Montreal, non-revolving credit facility, bearing interest at the option of prime or bankers acceptance/fixed rate operating loan plus 0.3%.	$ -	$ 60,000,000
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.	45,000,000	-
Toronto Dominion Bank, a demand loan facility of $15 million bearing interest at prime plus 1.5%, secured by a letter of comfort from HNHBLHIN.	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 the HNHBLHIN.	25,000,000	-
Bank of Montreal, positive bank balance (result of internal borrowing)	-	(20,424,242)
Bank of Montreal, operating line of credit of $18 million, bearing interest at bank prime plus 1%.	9,636,120	-
	$ 94,636,120	$ 39,575,758

The Niagara Health System in addition has borrowed from the restricted funds thereby reducing reliance on the line of credit use. Interest on borrowing from the restricted funds is calculated at the same rate as the Niagara Health System would have incurred on the operating line of credit and is allocated as an expense to operations.

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

	2009	2008
MOHLTC Capital Grant for the New Hospital Complex	**$ -**	$ 33,721,500
SuperBuild Grant	**221,793**	2,812,149
Other Restricted Funds	**2,381,718**	2,862,646
	$ 2,603,511	$ 39,396,295

The March 2008 borrowing against the MOHLTC Capital Grant for the New Hospital Complex was repaid on April 15, 2008 with the MOHLTC advance. The full grant with interest was subsequently invested in a short term GIC on May 2, 2008.

NIAGARA HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009

6. SHORT TERM BORROWINGS (continued)

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 100 basis points. No funds were advanced on the revolving credit facility at March 31, 2009. Funds advanced on the credit facility are payable in monthly or quarterly payments with a maximum term of 10 years at the borrowers option.

7. OBLIGATIONS UNDER CAPITAL LEASES

Future minimum payments under capital leases, by year and in aggregate, consist of the following at March 31, 2009:

	2009	2008
Fiscal year ending 2009	$ -	$ 3,145,651
Fiscal year ending 2010	4,053,241	3,636,065
Fiscal year ending 2011	3,681,357	3,466,593
Fiscal year ending 2012	3,024,673	2,773,970
Fiscal year ending 2013	1,729,422	1,686,545
Fiscal year ending 2014 and thereafter	486,852	-
Total minimum lease payments	12,975,545	14,708,824
Amounts representing interest	(1,033,837)	(1,298,316)
Balance of obligation	11,941,708	13,410,508
Current portion of obligations	3,373,869	2,656,457
Long term portion of obligations	$ 8,567,839	$ 10,754,051

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

NIAGARA HEALTH SYSTEM
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8. LONG TERM DEBT

	2009	2008
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	$ 2,170,631	$ 3,172,461
Less current portion	1,001,830	1,001,830
	$ 1,168,801	$ 2,170,631

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

2010	$ 1,001,830
2011	1,001,830
2012	166,971
	$ 2,170,631

	2009	2008
Bank of Montreal loan is broken down as follows:		
Funds used for operating activities	$ 1,545,820	$ 2,259,277
Funds used for investment in land, buildings and equipment	624,811	913,184
	$ 2,170,631	$ 3,172,461

9. MORTGAGES PAYABLE

	2009	2008
Mortgage payable - interest at 4% or prime rate, whichever is higher. Monthly principal payments of $85,756 plus interest due January 31, 2010	$ -	$ 1,886,622
Less current portion	-	1,029,067
	$ -	$ 857,555

The mortgage payable which was secured by the land held under development for the new St. Catharines Hospital facility, was fully paid on October 24, 2008 and lawfully discharged.

NIAGARA HEALTH SYSTEM

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10. 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 April 1, 2006. Information about the defined benefit plan is as follows:

	2009	2008
Accrued benefit obligation, beginning of the year	**$ 15,288,800**	$ 16,021,800
Adjustment for additional obligation due to new valuation	**99,100**	(1,143,400)
Accrual for service	**550,800**	572,800
Interest on accrued benefits	**880,700**	805,500
Benefits paid for the year	**(1,045,600)**	(967,900)
Expected accrued benefit obligation, end of the year	**15,773,800**	15,288,800
Actual accrued benefit obligation, end of the year	**15,773,800**	15,288,800
Experience gain (loss)	**$ -**	$ -
Accrued benefit obligation, end of the year	**$ 15,773,800**	$ 15,288,800
Less: Unamortized past service costs	**487,900**	573,900
Experience (gains)	**(212,000)**	(311,100)
Accrued benefit liability, end of the year	**$ 15,497,900**	$ 15,026,000
Current portion	**$ 1,167,800**	$ 918,600
Long term portion	**14,330,100**	14,107,400
	$ 15,497,900	$ 15,026,000

As at March 31, 2009, the unamortized past service cost is $487,900 (2008 - $573,900). The average remaining service period to full eligibility is 10 years (2008 - 10 years).

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

Interest (discount rate): The obligations as at March 31, 2009 of the present value of future liabilities was determined using a rate of 7.50% and the expense for the year then ended were determined using a discount rate of 5.75%.

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.

NIAGARA HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009

11. 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.

	2009	2008
Balance, beginning of the year	**$ 142,102,680**	$ 105,267,808
Contributions received and interest earned during the year	**39,183,846**	42,939,970
Diagnostic Imaging Repository Project contributions and interest	**-**	1,742,761
Disposals, net book value adjustment	**(3,103)**	-
Amortization	**(10,900,410)**	(7,847,859)
	170,383,013	142,102,680
Less: Current portion of deferred contributions	**(7,083,914)**	(7,238,462)
	$ 163,299,099	$ 134,864,218

12. 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 $72,513 (2008 - $70,401) 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

2009	2008
$ 398,385	$ 390,432

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.

12. NET ASSETS (continued)

Investment in land, buildings and equipment

	2009	2008
Investments in land, buildings and equipment is represented by:		
Investments	**$ 69,038,484**	$ 48,069,544
Land, buildings and equipment	**155,879,649**	160,050,469
Deferred contributions	**(170,383,013)**	(142,102,680)
Long term debt	**(624,811)**	(913,184)
Obligations under capital leases	**(11,941,708)**	(13,410,508)
Mortgages payable	**-**	(1,886,622)
	$ 41,968,601	$ 49,807,019

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

	2009	2008
Amortization of land, buildings and equipment	**$ (15,766,155)**	$ (15,325,220)
Amortization of deferred contributions	**10,900,410**	7,847,859
Gain on disposal of equipment	**13,271**	-
	(4,852,474)	(7,477,361)
Net land, buildings and equipment additions	**11,609,167**	29,892,466
Proceeds on sale of assets	**(24,000)**	-
Net increase in deferred contributions	**(39,183,846)**	(44,682,731)
Repayment of long term debt and obligations under capital leases	**1,757,173**	(3,903,638)
Repayment of mortgages payable	**1,886,622**	1,029,067
Increase in cash and investments	**20,968,940**	25,586,874
	(2,985,944)	7,922,038
	$ (7,838,418)	$ 444,677

13. 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 $2,986,754. Annual payments are as follows:

2010	$ 1,698,664
2011	873,112
2012	287,735
2013	127,243
	$ 2,986,754

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

The Niagara Health System is committed to payments under an architect agreement entered into on April 8, 1999 to pay 7.8% of the construction costs of new construction and renovations (expected total costs of $408,000) made to the St. Catharines General Hospital Site as prescribed in the Niagara Regional Health Services Restructuring Report, March 1999. The commitment is limited to construction relating to program transfers only. It will cease with the new hospital building.

Equipment Purchase

The Niagara Health System has entered into a commitment to purchase two CT Scanners for a commitment of $1,581,883, and is expected to enter into a lease agreement by summer 2009. This commitment will be fully funded by the St. Catharines and Welland Hospital Foundations.

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 31, 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 31, 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. Both the Niagara Health System and the purchaser have rights to either accelerate or extend the closing date.

13. 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. The new hospital project will be delivered using an alternate financing and procurement model. Plenary Health Niagara will receive annual payments from the Niagara Health System over a 30 year period. Payments cover construction, building maintenance, lifecycle repair and renewal and project financing. Construction of the new facility is on schedule to begin May 2009 and will be completed by the end of 2012. 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

14. CONTINGENT LIABILITY

As at March 31, 2009, there were a number of claims outstanding which, if successful, would 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.

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.

	2009	2008
Revenues	$ 7,823,992	$ 7,982,850
Expenses	(7,892,028)	(8,063,782)
	$ (68,036)	$ (80,932)

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16. OTHER ITEMS

	2009	2008
Amortization of building and land improvements	**$ (5,280,660)**	$ (4,905,732)
Amortization of deferred grants	**3,152,102**	2,663,859
Grant and donation revenue	**1,968,235**	-
Capital interest - net	**(178,784)**	(245,512)
Endowment and trust interest income	**135,660**	208,324
Loss on disposal of equipment	**(472)**	-
Extended Care Unit and Interim Long Term Care loss	**(631,087)**	(799,540)
	$ (835,006)	$ (3,078,601)

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 $46,300 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's 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 $16,106,632 (2008 - $15,672,392) 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. Also see Notes 1 and 6 with respect to cash flow issues.

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, 2009, the Niagara Health System had $37,497,582, (2008 - $9,298,236) 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, 2009, the Niagara Health System had $94,636,120,(2008 - $39,575,758) of short-term borrowings subject to variable interest rate. The risk is mitigated for part of the year as Provincial funding is advanced.

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 addition, the Niagara Health System has undergone the following significant reviews to ensure due diligence in the expenditure of tax payer dollars:

Third party efficiency review
In November 2007 the Niagara Health System engaged HCM Consulting in an operational benchmarking review to identify additional saving potential. The review identified $12.3 million in savings over a two year period and indicated that Niagara Health System was one of the most efficient in its peer group.

Dr. Jack Kitts review
Dr. Jack Kitts and his team from Ottawa were selected by the HNHBLHIN as expert advisors, to review in detail the elements of the Niagara Health System Hospital Improvement Plan as well as to elicit feedback from the community. The review supported that Niagara Health System is an efficient organization compared to our peer hospitals and that a funding adjustment is required.

Deloitte Special review engagement
The Niagara Health System engaged Deloitte Canada in February 2009 to provide an objective assessment of the current process and controls around expenditure, cash management and the budget and reporting process. The overall Deloitte report supports that the Niagara Health System has effective policies, procedures and management oversight with only minor control weaknesses and opportunities.

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 $7 million in savings were achieved during the 2008-2009 fiscal year.

20. COMPARATIVE FIGURES

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