

# **NIAGARA HEALTH SYSTEM**

Financial Statements  
for the Year Ended March 31, 2011  
and Independent Auditors' Report to the Board of Trustees

**NIAGARA HEALTH SYSTEM**  
FINANCIAL STATEMENTS  
MARCH 31, 2011

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# CHARTERED ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

**To the Board of Trustees of  
Niagara Health System:**

We have audited the accompanying financial statements of Niagara Health System, which comprise the balance sheet as at March 31, 2011, and the statements of operations, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for Financial Statements

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

### Auditors' responsibility

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

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

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Niagara Health System as at March 31, 2011, 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

June 21, 2011



**Big enough to know  
SMALL ENOUGH TO CARE**

# NIAGARA HEALTH SYSTEM

STATEMENT OF OPERATIONS  
YEAR ENDED MARCH 31, 2011

	2011	2010
<b>REVENUE</b>		
Ministry of Health and Long Term Care		
Base allocation	\$ 322,090,496	\$ 313,077,751
One-time funding, specialized programs	13,879,945	16,127,457
Other	8,407,258	8,364,102
	<b>344,377,699</b>	<b>337,569,310</b>
Cancer Care Ontario	9,728,362	8,111,642
Patient revenue from other payers	34,424,654	32,876,789
Differential and co-payments	4,775,439	6,125,526
Recoveries and miscellaneous	12,780,345	12,531,463
Amortization of grants and donations - equipment	4,747,779	5,422,185
	<b>410,834,278</b>	<b>402,636,915</b>
<b>EXPENSES</b>		
Compensation - salaries and wages	203,882,182	200,057,848
Benefit contributions for employees	58,319,235	55,916,063
Employee future benefits (Note 9)	1,772,718	1,894,584
Medical staff remuneration	37,987,749	35,962,410
Supplies and other expense	51,013,274	49,457,341
Medical and surgical supplies	27,056,683	26,984,621
Drugs and medical gases	21,906,401	20,614,684
Bad debts	590,865	564,714
Interest - short term borrowings	1,086,423	875,753
Interest on capital lease obligations	506,835	544,901
Amortization of equipment and software licenses	9,153,467	10,081,229
Equipment rentals and leases	2,604,700	3,104,479
	<b>415,880,532</b>	<b>406,058,627</b>
<b>DEFICIT FROM OPERATIONS BEFORE OTHER VOTES</b>	<b>(5,046,254)</b>	<b>(3,421,712)</b>
<b>DEFICIT FROM OTHER VOTES (Note 12)</b>	<b>(76,928)</b>	<b>(77,695)</b>
<b>DEFICIT BEFORE OTHER ITEMS</b>	<b>(5,123,182)</b>	<b>(3,499,407)</b>
<b>OTHER ITEMS (Note 13)</b>	<b>(2,980,767)</b>	<b>(2,366,673)</b>
<b>DEFICIT BEFORE ONE TIME PAYMENTS</b>	<b>(8,103,949)</b>	<b>(5,866,080)</b>
<b>ONE TIME FUNDING, PREVIOUS YEARS' RESTRUCTURING ACTIVITIES (Note 14)</b>	<b>-</b>	<b>25,000,000</b>
<b>(DEFICIT) SURPLUS FOR THE YEAR AFTER ONE TIME FUNDING</b>	<b>\$ (8,103,949)</b>	<b>\$ 19,133,920</b>

**NIAGARA HEALTH SYSTEM**  
STATEMENT OF CHANGES IN NET ASSETS  
MARCH 31, 2011

	Investment in land, buildings and equipment (Note 11)	Endowments and trusts (Note 11)	Externally restricted (Note 11)	Internally restricted (Note 11)	Unrestricted	2011	2010
Balance, beginning of the year	\$ 36,557,407	\$ 3,981,290	\$ 71,417	\$ 323,873	\$(114,859,508)	<b>\$(73,925,521)</b>	<b>\$(92,956,749)</b>
(Deficit) surplus	(6,759,329)	-	-	-	(1,344,620)	<b>(8,103,949)</b>	19,133,920
Accumulated losses							
Unrealized losses on available-for-sale financial assets	-	-	-	-	(94,137)	<b>(94,137)</b>	(102,692)
Investment in capital assets	8,600,778	(50,286)	-	(95,460)	(8,455,032)	-	-
Interest income	-	50,286	115	10,461	(60,862)	-	-
Balance, end of the year	<b>\$ 38,398,856</b>	<b>\$ 3,981,290</b>	<b>\$ 71,532</b>	<b>\$ 238,874</b>	<b>\$(124,814,159)</b>	<b>\$(82,123,607)</b>	<b>\$(73,925,521)</b>

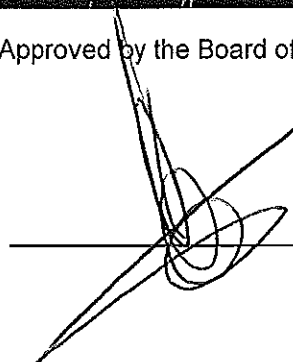
# NIAGARA HEALTH SYSTEM

## STATEMENT OF FINANCIAL POSITION


MARCH 31, 2011

	2011	2010
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 10,262	\$ 12,998
Receivables	27,332,007	26,174,381
Inventories	4,506,242	4,020,727
Prepays and other current assets	6,114,957	6,079,883
Advance deposit - new hospital construction progress payment	22,504,010	-
Patient trust funds	11,842	11,185
	<u>60,479,320</u>	<u>36,299,174</u>
Land, buildings and equipment (Note 3)	156,533,352	156,833,368
Cash and investments restricted for capital (Note 4)	247,560,654	67,768,719
Endowments and trust funds (Note 5)	<u>3,981,290</u>	<u>3,981,290</u>
	<u>\$ 468,554,616</u>	<u>\$ 264,882,551</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Short term bank borrowings (Note 6)	\$ 89,017,263	\$ 75,128,378
Short term internal borrowings (Notes 4)	1,693,583	3,188,235
Payables and accruals	74,463,889	52,350,541
Patient trust accounts	11,842	11,185
Unearned revenues	3,950,045	4,250,322
Current portion of obligations under capital leases	3,685,786	3,977,809
Current portion of long term debt	166,971	1,001,830
Current portion of employee future benefits	1,314,900	1,240,900
Current portion of deferred contributions	<u>7,525,623</u>	<u>7,719,167</u>
	<u>181,829,902</u>	<u>148,868,367</u>
Obligations under capital leases (Note 7)	5,041,789	7,950,910
Long term debt (Note 8)	-	166,971
Employee future benefits (Note 9)	15,448,800	14,851,300
Deferred contributions (Note 10)	<u>348,357,732</u>	<u>166,970,524</u>
Commitments and contingency (Notes 15 & 16)		
	<u>550,678,223</u>	<u>338,808,072</u>
<b>NET ASSETS (Page 3)</b>	<u>(82,123,607)</u>	<u>(73,925,521)</u>
	<u>\$ 468,554,616</u>	<u>\$ 264,882,551</u>

Approved by the Board of Trustees:



Trustee



Trustee

# NIAGARA HEALTH SYSTEM

## STATEMENT OF CASH FLOWS YEAR ENDED MARCH 31, 2011

	<u>2011</u>	<u>2010</u>
<b>OPERATING ACTIVITIES</b>		
(Deficit) surplus	\$ (8,103,949)	\$ 19,133,920
Items not affecting cash:		
Amortization of land improvements, buildings and equipment (Note 11)	14,803,876	15,712,503
Amortization of deferred contributions (Note 11)	(8,034,297)	(8,827,313)
Accumulated losses, net (Page 3)	(94,137)	(102,692)
Gain on disposal of equipment (Note 11)	(10,250)	(284,743)
	(1,438,757)	25,631,675
Changes in non-cash operating activities:		
Receivables	(1,157,626)	(3,158,136)
Inventories	(485,515)	(89,776)
Prepays and other current assets	(35,074)	(1,539,813)
Advance deposit - new hospital construction progress payment	(22,504,010)	-
Payables and accruals	22,113,348	(3,045,780)
Unearned revenues	(300,277)	2,347,145
	(3,807,911)	20,145,315
<b>INVESTING ACTIVITIES</b>		
Investments (including endowments and trust funds)	(179,791,935)	2,417,311
Additions to land, buildings and equipment	(14,517,752)	(16,675,406)
Proceeds from sale of equipment	10,603	287,264
	(194,299,084)	(13,970,831)
<b>FINANCING ACTIVITIES</b>		
Increase (decrease) in short term bank borrowings	13,888,885	(19,507,742)
(Decrease) increase in short term internal borrowings	(1,494,652)	584,724
Decrease in obligations under capital leases	(3,201,144)	(12,989)
Decrease in long-term debt	(1,001,830)	(1,001,830)
Increase in employee future benefits	671,500	594,300
Deferred contributions	189,241,500	13,140,654
	198,104,259	(6,202,883)
<b>NET DECREASE IN CASH</b>	(2,736)	(28,399)
<b>CASH, BEGINNING OF THE YEAR</b>	12,998	41,397
<b>CASH, END OF THE YEAR</b>	\$ 10,262	\$ 12,998

### SUPPLEMENTAL INFORMATION TO THE STATEMENT OF CASH FLOWS

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

Interest income received	\$ 234,244	\$ 181,227
Interest expense paid	\$ 1,797,641	\$ 1,653,539

# NIAGARA HEALTH SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

### MARCH 31, 2011

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#### 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 Hospital 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 709 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.

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# NIAGARA HEALTH SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

### MARCH 31, 2011

## 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 Thursday, March 31, 2011.

### *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.

**NIAGARA HEALTH SYSTEM**  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2011

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**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.

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**NIAGARA HEALTH SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2011**

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**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, advance deposit, 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 released new accounting standards for not-for-profit organizations which are effective for years beginning on or after January 1, 2012. Alternatively, not-for-profit organizations may choose International Financial Reporting Standards. Management is currently evaluating the impact of the adoption of these new standards on its financial statements.

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# NIAGARA HEALTH SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

### MARCH 31, 2011

### 3. LAND, BUILDINGS AND EQUIPMENT

	Cost	Accumulated amortization	Net book value 2011	Net book value 2010
Land	\$ 3,262,362	\$ -	\$ 3,262,362	\$ 3,262,362
Land improvements	837,242	453,562	383,680	398,219
Land under development	5,420,643	-	5,420,643	5,415,750
Buildings	185,833,498	96,446,156	89,387,342	91,759,249
Equipment	124,048,836	104,893,090	19,155,746	20,454,367
Construction-in-progress - New Hospital	23,658,069	-	23,658,069	17,717,861
Construction-in-progress - Other Sites	6,971,121	-	6,971,121	6,256,665
	350,031,771	201,792,808	148,238,963	145,264,473
Equipment under capital lease	22,771,828	14,477,439	8,294,389	11,568,895
	<b>\$372,803,599</b>	<b>\$216,270,247</b>	<b>\$ 156,533,352</b>	<b>\$ 156,833,368</b>

### 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, for payment of expenses one month in arrears totaling \$208,683,469 (includes HST)
- Substantial Completion Payment of \$276,000,000 expected on November 26, 2012
- Annual contract payments over a 30 year period after substantial completion totaling \$729,864,219
- Life Cycle Payments over a 30 year period after substantial completion totaling \$84,277,000

During the year, the NHS received \$187,000,000 from the MOHLTC towards their share of the project and to assist with cash for the construction progress payments required to pay Plenary Health Niagara. This grant is included in deferred contributions received during the year as disclosed in Note 10.

# NIAGARA HEALTH SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

### MARCH 31, 2011

#### 4. CASH AND INVESTMENTS RESTRICTED FOR CAPITAL

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

	<u>2011</u>		<u>2010</u>	
	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>
GICs, 1.73%-2.06%, maturing May, 2011	\$ 397,828	\$ 397,828	\$ 223,069	\$ 223,069
GICs, 1.05%%, maturing June 2011	22,788,825	22,788,825	29,958,364	29,958,364
GICs, 1%, maturing February 2012	30,133	30,133	30,133	30,133
Government bonds, 1.75%-6.25%, maturing from May 2011 to June 2017	6,443,813	6,525,614	6,346,052	6,333,475
Money market funds	13,669,069	13,669,069	6,402,327	6,402,327
	<b>43,329,668</b>	<b>43,411,469</b>	<b>42,959,945</b>	<b>42,947,368</b>
Add: Restricted construction payment treasury account, interest prime less 1.75% (1.25% interest rate at March 31, 2011)	187,737,258	187,737,258	-	-
Add: Restricted cash	14,718,344	14,718,344	21,633,116	21,633,116
Add: Unrealized loss (gain) on available-for-sale assets	81,801	-	(12,577)	-
	<b>245,867,071</b>	<b>\$ 245,867,071</b>	<b>64,580,484</b>	<b>\$ 64,580,484</b>
Other investments:				
Short term internal borrowings	<u>1,693,583</u>		<u>3,188,235</u>	
	<b>\$ 247,560,654</b>		<b>\$ 67,768,719</b>	

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, 2011

**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	\$ 3,247,075	\$ -	\$ (1,461,021)	\$ 60,862	\$ 1,846,916
SuperBuild	7,255,472	-	-	185,848	7,441,320
MOHLTC Capital	57,266,172	-	179,858,019	1,148,227	238,272,418
	\$ 67,768,719	\$ -	\$ 178,396,998	\$ 1,394,937	\$ 247,560,654

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:

	<u>2011</u>		<u>2010</u>	
	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>
Mutual funds	\$ 297,590	\$ 287,603	\$ 286,954	\$ 280,487
Cash - treasury accounts	3,683,700	3,693,687	3,694,336	3,700,803
	\$ 3,981,290	\$ 3,981,290	\$ 3,981,290	\$ 3,981,290

# NIAGARA HEALTH SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

### MARCH 31, 2011

#### 6. SHORT TERM BANK BORROWINGS

As at March 31, 2011, the Niagara Health System has a \$22,000,000, unsecured demand operating line of credit (2010 - \$18,000,000). The line of credit bears interest at prime plus 1%. As at March 31, 2011 the short term borrowings are \$14,017,263 (2010 - \$5,128,378) of the facility and a short term bridge facility of \$75,000,000 at prime plus 1% (2010 - \$70,000,000 at prime plus 2%). On April 15, 2011 the Niagara Health System was advanced \$75,000,000 toward its 2011/12 funding by the HNHBLHIN and subsequently all bridge financing was repaid within two business days.

The Niagara Health System has a revolving credit facility for major expenditures and/or construction related to NHS hospital redevelopment projects, subject to specified conditions, of \$15,000,000 bearing interest at prime plus 0.5%. No funds were advanced on the revolving credit facility at March 31, 2011. 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, 2011:

	<u>2011</u>	<u>2010</u>
Fiscal year ending 2011	\$ -	\$ 4,481,559
Fiscal year ending 2012	4,055,569	4,042,855
Fiscal year ending 2013	2,746,962	2,533,793
Fiscal year ending 2014	1,420,691	1,186,632
Fiscal year ending 2015	1,027,016	802,996
Fiscal year ending 2016	174,124	3,872
Fiscal year ending 2017	46,447	-
Total minimum lease payments	9,470,809	13,051,707
Less amounts representing interest at rates of 1.55%- 7.28%	(743,234)	(1,122,988)
Balance of obligation	8,727,575	11,928,719
Current portion of obligations	3,685,786	3,977,809
Long term portion of obligations	\$ 5,041,789	\$ 7,950,910

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

**NIAGARA HEALTH SYSTEM**  
NOTES TO THE FINANCIAL STATEMENTS  
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**8. LONG TERM DEBT**

	<u>2011</u>	<u>2010</u>
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	\$ 166,971	\$ 1,168,801
Less current portion	<u>166,971</u>	<u>1,001,830</u>
	<u>\$ -</u>	<u>\$ 166,971</u>
Bank of Montreal loan is broken down as follows:		
Funds used for operating activities	\$ 118,909	\$ 832,370
Funds used for investment in land, buildings and equipment	<u>48,062</u>	<u>336,431</u>
	<u>\$ 166,971</u>	<u>\$ 1,168,801</u>



**NIAGARA HEALTH SYSTEM**  
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**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:

	<u>2011</u>	<u>2010</u>
Accrued benefit obligation, beginning of the year	\$ 19,000,900	\$ 15,773,800
Adjustment for additional obligation due to new valuation	1,358,700	2,718,800
Accrual for service	679,800	499,400
Interest on accrued benefits	1,096,000	1,176,700
Benefits paid for the year	<u>(1,240,900)</u>	<u>(1,167,800)</u>
Expected accrued benefit obligation, end of the year	20,894,500	19,000,900
Actual accrued benefit obligation, end of the year	<u>20,894,500</u>	<u>19,000,900</u>
Experience gain (loss)	<u>\$ -</u>	<u>\$ -</u>
Accrued benefit obligation, end of the year	\$ 20,894,500	\$ 19,000,900
Less: Unamortized past service costs	315,900	401,900
Experience losses	<u>3,814,900</u>	<u>2,506,800</u>
Accrued benefit liability, end of the year	<u>\$ 16,763,700</u>	<u>\$ 16,092,200</u>
Current portion	\$ 1,314,900	\$ 1,240,900
Long term portion	<u>15,448,800</u>	<u>14,851,300</u>
	<u>\$ 16,763,700</u>	<u>\$ 16,092,200</u>

As at March 31, 2011, the unamortized past service cost is \$315,900 (2010 - \$401,900). The average remaining service period to full eligibility is 10 years (2010 - 10 years).

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

**Interest (discount rate):** The obligations as at March 31, 2011 of the present value of future liabilities was determined using a rate of 5.0% 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 to 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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**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.

	<u>2011</u>	<u>2010</u>
Balance, beginning of the year	\$ 174,689,691	\$ 170,383,013
Contributions received and interest earned during the year	189,241,500	13,140,654
Disposals, net book value adjustment	(13,539)	(6,663)
Amortization	<u>(8,034,297)</u>	<u>(8,827,313)</u>
	355,883,355	174,689,691
Less: Current portion of deferred contributions	<u>(7,525,623)</u>	<u>(7,719,167)</u>
	<u>\$ 348,357,732</u>	<u>\$ 166,970,524</u>

**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 \$71,532 (2010 - \$71,417) 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***

	<u>2011</u>	<u>2010</u>
	<u>\$ 238,874</u>	<u>\$ 323,873</u>

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**  
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**11. NET ASSETS (continued)**

*Investment in land, buildings and equipment*

	<u>2011</u>	<u>2010</u>
Investments in land, buildings and equipment is represented by:		
Investments	\$ 246,524,496	\$ 66,678,880
Land, buildings and equipment	156,533,352	156,833,368
Deferred contributions	(355,883,355)	(174,689,691)
Long term debt	(48,062)	(336,431)
Obligations under capital leases	(8,727,575)	(11,928,719)
	<u>\$ 38,398,856</u>	<u>\$ 36,557,407</u>

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

Amortization of land improvements, buildings and equipment	\$ (14,803,876)	\$ (15,712,503)
Amortization of deferred contributions	8,034,297	8,827,313
Gain on disposal of equipment	10,250	284,743
	<u>(6,759,329)</u>	<u>(6,600,447)</u>
Net land, buildings and equipment additions	14,517,752	16,675,406
Proceeds on sale of assets	(10,603)	(287,264)
Net increase in deferred contributions	(189,241,500)	(13,140,654)
Repayment of long term debt and obligations under capital leases	3,489,513	301,369
Increase (decrease) in cash and investments	179,845,616	(2,359,604)
	<u>8,600,778</u>	<u>1,189,253</u>
	<u>\$ 1,841,449</u>	<u>\$ (5,411,194)</u>

**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.

	<u>2011</u>	<u>2010</u>
Revenues	\$ 7,647,201	\$ 7,605,872
Expenses	(7,724,129)	(7,683,567)
	<u>\$ (76,928)</u>	<u>\$ (77,695)</u>

**NIAGARA HEALTH SYSTEM**  
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**13. OTHER ITEMS**

	<u>2011</u>	<u>2010</u>
Amortization of building and land improvements	\$ (5,534,917)	\$ (5,516,033)
Amortization of deferred grants	3,555,382	3,703,327
Loss on disposal of asset	(134,150)	-
Capital interest - net	(46,806)	(112,762)
Endowment and trust interest income	60,862	42,085
Extended Care Unit and Interim Long Term Care loss	(881,138)	(483,290)
	<u>\$ (2,980,767)</u>	<u>\$ (2,366,673)</u>

**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 2016 in the total amount of \$2,535,814. Annual payments are as follows:

2012	\$ 1,110,574
2013	595,702
2014	490,466
2015	242,218
2016	96,854
	<u>\$ 2,535,814</u>

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.

# NIAGARA HEALTH SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

### MARCH 31, 2011

#### 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, for payment of expense one month in arrears totaling	\$ 208,683,469
Substantial Completion Payment expected November 26, 2012	276,000,000
Annual payments from 2013 to 2043 totaling	<u>814,141,219</u>
	<u>\$1,298,824,688</u>

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

#### 16. CONTINGENT LIABILITY

As at March 31, 2011, there were a number of claims outstanding, only one of which exceeded the insurance coverage of the Niagara Health System. The nature of Niagara Health System activities is such that there is usually litigation pending or in prospect at any time. With respect to claims and possible claims, management believes Niagara Health System has valid 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 \$48,300 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' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. Contributions to the Plan made during the year by the Niagara Health System on behalf of its employees amounted to \$17,252,703 (2010 - \$15,978,866) and are included in the statement of operations.

**NIAGARA HEALTH SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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 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.

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**NIAGARA HEALTH SYSTEM**  
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**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, 2011, the Niagara Health System had \$43,329,668, (2010 - \$42,959,945) 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, 2011, the Niagara Health System had \$89,017,263,(2010 - \$75,128,378) 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.

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# NIAGARA HEALTH SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2011

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### 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 2008-2012 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.

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