

Financial statements of

# **Niagara Health System**

March 31, 2012

# Niagara Health System

March 31, 2012

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## Independent Auditor's Report

To the Supervisor of  
Niagara Health System

We have audited the accompanying financial statements of Niagara Health System, which comprise the statement of financial position as at March 31, 2012, and the statements of operations, changes in net debt and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

## **Other Matters**

The financial statements of the Niagara Health System for the year ended March 31, 2011, were audited by another auditor who expressed an unmodified opinion on those statements on June 21, 2011.

*Deloitte & Touche LLP*

Chartered Accountants  
Licensed Public Accountants  
June 14, 2012

# Niagara Health System

## Statement of operations year ended March 31, 2012

	2012	2011
	\$	\$
<b>Revenue</b>		
Ministry of Health and Long-Term Care		
Base allocation	327,249,404	322,090,496
One-time funding, specialized programs	13,543,735	13,879,945
Other	8,369,483	8,407,258
Cancer Care Ontario	10,175,980	9,728,362
Patient revenue from other payers	34,689,037	34,424,654
Differential and co-payments	3,517,683	4,775,439
Recoveries and miscellaneous	11,999,473	12,780,345
Amortization of grants and donations - equipment	4,763,898	4,747,779
	<b>414,308,693</b>	<b>410,834,278</b>
<b>Expenses</b>		
Compensation - salaries and wages	205,764,938	203,882,182
Benefit contributions for employees	60,816,587	58,319,235
Employee future benefits (Note 11)	2,680,918	1,772,718
Medical staff remuneration	38,282,415	37,987,749
Supplies and other expenses	54,993,303	51,013,274
Medical and surgical supplies	28,613,679	27,056,683
Drugs and medical gases	22,281,293	21,906,401
Bad debts	597,394	590,865
Interest on short-term borrowings	1,447,338	1,086,423
Interest on capital lease obligations	359,275	506,835
Amortization of equipment and software licenses	8,517,848	9,153,467
Equipment rentals and leases	2,258,913	2,604,700
	<b>426,613,901</b>	<b>415,880,532</b>
Deficit from operations before other votes	<b>(12,305,208)</b>	<b>(5,046,254)</b>
Deficit from other votes (Note 14)	<b>(93,673)</b>	<b>(76,928)</b>
Deficit before other items	<b>(12,398,881)</b>	<b>(5,123,182)</b>
Other items (Note 15)	<b>(2,725,143)</b>	<b>(2,980,767)</b>
<b>Deficit</b>	<b>(15,124,024)</b>	<b>(8,103,949)</b>

# Niagara Health System

## Statement of changes in net debt year ended March 31, 2012

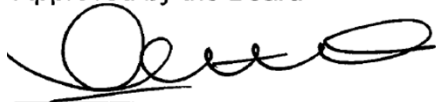
	Investment in land, buildings and equipment	Endowments and trusts	Externally restricted	Internally restricted	Unrestricted	2012	2011
	\$	\$	\$	\$	\$	\$	\$
<b>Balance, beginning of the year</b>	<b>38,398,856</b>	<b>3,981,290</b>	<b>71,532</b>	<b>238,874</b>	<b>(124,814,159)</b>	<b>(82,123,607)</b>	<b>(73,925,521)</b>
Deficit	(6,085,175)	-	-	-	(9,038,849)	(15,124,024)	(8,103,949)
Transfer of funds	-	(43,160)	-	-	43,160	-	-
Accumulated losses							
Unrealized gains (losses) on available-for-sale financial assets	-	-	-	-	38,638	38,638	(94,137)
Investment in capital assets	4,755,557	(63,888)	-	(132,344)	(4,559,325)	-	-
Interest income	-	63,888	332	7,316	(71,536)	-	-
<b>Balance, end of year</b>	<b>37,069,238</b>	<b>3,938,130</b>	<b>71,864</b>	<b>113,846</b>	<b>(138,402,071)</b>	<b>(97,208,993)</b>	<b>(82,123,607)</b>

# Niagara Health System

## Statement of financial position as at March 31, 2012

	2012	2011
	\$	\$
<b>Assets</b>		
Current assets		
Cash	10,725	10,262
Cash - restricted for capital (Note 6)	-	22,504,010
Receivables	15,904,698	27,332,007
Inventories	4,753,520	4,506,242
Prepaid and other current assets	9,393,918	6,114,957
Patient trust funds	8,741	11,842
	<b>30,071,602</b>	60,479,320
Land, buildings and equipment (Note 5)	160,676,860	156,533,352
Advance deposit - building construction (Note 4)	191,437,891	22,504,010
Cash and investments restricted for capital (Note 6)	68,813,246	225,056,644
Endowments and trust funds (Note 7)	3,938,130	3,981,290
	<b>454,937,729</b>	468,554,616
<b>Liabilities</b>		
Current liabilities		
Short-term bank borrowings (Note 8)	90,971,964	89,017,263
Short-term internal borrowings (Note 6)	3,019,017	1,693,583
Payables and accruals	52,992,518	74,463,889
Patient trust accounts	8,741	11,842
Unearned revenues	3,772,755	3,950,045
Current portion of obligations under capital leases (Note 9)	2,538,996	3,685,786
Current portion of long-term debt	-	166,971
Current portion of employee future benefits (Note 11)	1,314,900	1,314,900
Current portion of deferred contributions (Note 12)	24,065,814	7,525,623
	<b>178,684,705</b>	181,829,902
Obligations under capital leases (Note 9)	2,502,793	5,041,789
Long-term debt (Note 10)	8,167,759	-
Employee future benefits (Note 11)	17,154,200	15,448,800
Deferred contributions (Note 12)	345,637,265	348,357,732
	<b>552,146,722</b>	550,678,223
Commitments and contingencies (Notes 16 and 17)		
<b>Net debt</b>	<b>(97,208,993)</b>	<b>(82,123,607)</b>
	<b>454,937,729</b>	<b>468,554,616</b>

Approved by the Board



Supervisor

# Niagara Health System

## Statement of cash flows year ended March 31, 2012

	2012	2011
	\$	\$
<b>Operating activities</b>		
Deficit	(15,124,024)	(8,103,949)
Items not involving cash		
Amortization of land improvements, buildings and equipment (Note 13)	14,126,516	14,803,876
Amortization of deferred contributions (Notes 12 and 13)	(8,031,490)	(8,034,297)
Accumulated loss (gain), net	38,638	(94,137)
Gain on disposal of equipment (Note 13)	(9,850)	(10,250)
Change in non-cash working capital items		
Receivables	11,427,308	(1,157,626)
Inventories	(247,278)	(485,515)
Prepaid and other current assets	(3,278,961)	(35,074)
Payables and accruals	(21,471,371)	22,113,348
Employee future benefits	1,705,400	671,500
Unearned revenues	(177,290)	(300,277)
	<b>(21,042,402)</b>	<b>19,367,599</b>
<b>Investing activities</b>		
Investments (including endowments and trust funds)	178,790,568	(179,791,935)
Additions to land, buildings and equipment	(18,272,714)	(14,517,752)
Advance deposit - building construction	(168,933,881)	(22,504,010)
Proceeds from sale of equipment	12,540	10,603
	<b>(8,403,487)</b>	<b>(216,803,094)</b>
<b>Financing activities</b>		
Increase in short-term bank borrowings	1,954,701	13,888,885
Increase (decrease) in short-term internal borrowings	1,325,435	(1,494,652)
Decrease in obligations under capital leases	(3,685,786)	(3,201,144)
Increase (decrease) in long-term debt	8,000,788	(1,001,830)
Increase in deferred contributions (Note 12)	21,851,214	189,241,500
	<b>29,446,352</b>	<b>197,432,759</b>
Net decrease in cash	463	(2,736)
Cash, beginning of year	10,262	12,998
<b>Cash, end of year</b>	<b>10,725</b>	<b>10,262</b>
<b>Supplemental cash flow information</b>		
Interest income received	299,654	234,244
Interest expense paid	2,010,754	1,797,641



# Niagara Health System

## Notes to the financial statements

March 31, 2012

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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" or the "Hospital") 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 Sciences Hospital, Niagara).

The NHS operates 700 acute care, complex continuing care, and mental health beds as well as 115 long term care beds and 78 addiction treatment beds. A wide range of inpatient and outpatient clinics and services are provided at the seven sites. The NHS has 4,200 employees, approximately 635 physicians and over 1,100 volunteers.

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

The provincial Government appointed Dr. Kevin Smith as Supervisor for the Niagara Health System on August 31, 2012 to restore public confidence in the hospital system.

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

### 2. Accounting policies

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

#### *Revenue recognition*

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

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

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

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

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

# Niagara Health System

## Notes to the financial statements

March 31, 2012

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### 2. Accounting policies (continued)

#### *Funding*

Under the *Health Insurance Act* and the regulations thereto, the Niagara Health System is funded primarily by the Province of Ontario in accordance with budget arrangements established by the MOHLTC and HNHBLHIN. These financial statements reflect agreed funding arrangements approved by the HNHBLHIN and MOHLTC with respect to the year ended March 31, 2012.

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

#### *Inventories*

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

#### *Land, buildings and equipment*

Land, buildings and equipment are stated at cost. 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. In 2012, \$3,146,440 was capitalized (2011 - \$3,061,780).

#### *Impairment of long-lived assets*

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

#### *Leased equipment*

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

#### *Pension plan*

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

# Niagara Health System

## Notes to the financial statements

March 31, 2012

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### 2. Accounting policies (continued)

#### *Employee future benefits*

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

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

Experience gains or losses in a year are combined with the unamortized balance of gains or losses from prior years. The Niagara Health System amortizes 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 and valuation of capital assets, estimates of accounts receivable collectability and allowance for doubtful accounts, revenue recognition, deferred revenue and the estimation of future employee benefits. Actual results could differ from management's best estimates as additional information becomes available in the future. These estimates and assumptions are reviewed periodically and as adjustments become necessary they are reported in earnings in the periods in which they are known.

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

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

# Niagara Health System

## Notes to the financial statements

March 31, 2012

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### 2. Accounting policies (continued)

#### *Financial instruments*

The Hospital has classified its financial instruments into the following accounting categories:

- Cash as “held-for-trading”. Held-for-trading items are carried at fair value, with changes in their fair value recognized in the Statement of operations in the current period.
- Investments in debentures, bonds and marketable securities as “available for sale”. Available for sale items are carried at fair value, with changes in their fair value recognized in the Statement of changes in net assets until realized.
- All accounts receivable as “loans and receivables”. Loans and receivables are carried at amortized cost, using the effective interest method.
- All financial liabilities as “Other liabilities”. Other liabilities are carried at amortized cost, using the effective interest method.

Fair value for investments are determined directly from published price quotations in an active market.

#### *Financial instruments (continued)*

The fair value of cash equivalents and short-term investments are based on quoted bid prices.

Transaction costs are expensed as incurred.

As allowed under Section 3855 “Financial Instruments - Recognition and Measurement”, the Organization has elected not to account for non-financial contracts as derivatives, and not to account for embedded derivatives in non-financial contracts, leases and insurance contracts as embedded derivatives.

The Organization has elected to follow the disclosure requirements of Section 3861 “Financial Instruments - Disclosure and Presentation” of the CICA Handbook and has not adopted Sections 3862 “Financial Instruments - Disclosure” and 3863 “Financial Instruments - Presentation”.

### 3. Future accounting changes

In December 2010, the Public Sector Accounting Board changed the accounting framework required to be followed by Government Not-for-Profit Organizations. Effective for fiscal years beginning on or after January 1, 2012, Government Not-for-Profit Organizations will be required to select from either (a) the CICA Public Sector Accounting Handbook, including Sections PS 4200 to PS 4270 or, alternatively, (b) the CICA Public Sector Accounting Handbook without Sections PS 4200 to PS 4270. Early adoption of these new standards is permitted. Hospitals have been directed by the Ministry of Health and Long-Term Care to adopt PSAS including the PS 4200 sections. The Hospital will adopt the new accounting standards for Government Not-for-Profit Organizations for its fiscal year beginning on April 1, 2012. The impact of transitioning to this new accounting framework has not been determined at this time.

Under PSAS, hospitals are now required to change the discount rate used to calculate Retirement and Post-retirement benefits from the high quality corporate borrowing rate used previously to either the plan asset earnings or the cost of borrowing rate. To achieve consistency and comparability across the hospital sector, the MOHLTC confirms that hospitals use the following provincial cost of borrowing rates to calculate post-retirement benefits obligations: April 1 2011 5.63% and December 1, 2011 4.52%. The MOHLTC confirms that the new discount rate should be adopted at the date of transition, April 1, 2011, and that any cumulative actuarial gains/losses be recognized directly into net assets also at the date of transition, April 1, 2011.

# Niagara Health System

## Notes to the financial statements

March 31, 2012

#### 4. Advance deposit - building construction

	2012	2011
	\$	\$
Advance deposit - building construction	<b>191,437,891</b>	22,504,010

The Niagara Health System entered into financial arrangements with Plenary Health Niagara to design, build, finance and maintain the new health-care complex in St. Catharines on March 27, 2009.

According to the agreement, the Hospital has made construction progress payments from April 2011 to February 2012 in advance of the substantial completion payment due November 26, 2012.

See Note 5 for further details regarding the new health-care complex.

#### 5. Land, buildings and equipment

			2012	2011
	Cost	Accumulated depreciation	Net book value	Net book value
	\$	\$	\$	\$
Land	3,262,362	-	3,262,362	3,262,362
Land improvements	926,905	490,313	436,592	383,680
Land under development	5,425,543	-	5,425,543	5,420,643
Buildings	188,534,728	101,985,187	86,549,541	89,387,342
Equipment	128,284,688	110,216,711	18,067,977	19,155,746
Construction-in-progress				
- new hospital	28,084,295	-	28,084,295	23,658,069
Construction-in-progress				
- other sites	13,074,069	-	13,074,069	6,971,121
	<b>367,592,590</b>	<b>212,692,211</b>	<b>154,900,379</b>	148,238,963
Equipment under capital lease	22,771,828	16,995,347	5,776,481	8,294,389
	<b>390,364,418</b>	<b>229,687,558</b>	<b>160,676,860</b>	156,533,352

##### *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.

In the prior 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 13.

# Niagara Health System

## Notes to the financial statements

March 31, 2012

### 6. Cash and investments restricted for capital

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

	2012		2011	
	Market value	Cost	Market value	Cost
	\$	\$	\$	\$
G.I.C.s, 1.73%-2.06%, maturing May, 2011	-	-	397,828	397,828
Government and other Bonds, 1.75% to 5.2%, maturing from May 2012 to June 2017	6,984,124	7,037,997	6,443,813	6,525,614
G.I.C.s, 1.3%, maturing May, 2012	15,169,356	15,169,356	22,788,825	22,788,825
Money Market Fund	21,712,929	21,712,929	13,669,069	13,669,069
G.I.C.s, 1.5%, maturing Feb 2013	30,133	30,133	30,133	30,133
Total investment vehicles	43,896,542	43,950,415	43,329,668	43,411,469
Add: Restricted construction payment treasury account, interest prime less 1.75% (1.25% interest rate)	2,234	2,234	187,737,258	187,737,258
Add: Restricted cash in restricted bank accounts	21,841,580	21,841,580	14,718,344	14,718,344
Add: Unrealized gain on available-for-sale assets	53,873	-	81,801	-
Total investment vehicles for capital purposes	65,794,229	65,794,229	245,867,071	245,867,071
Other investments				
Short-term internal borrowings	3,019,017	3,019,017	1,693,583	1,693,583
Total cash and investments for capital	68,813,246	68,813,246	247,560,654	247,560,654
Current portion	-	-	22,504,010	22,504,010
Long term portion of cash and investments for capital	68,813,246	68,813,246	225,056,644	225,056,644

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, 2012

## 6. Cash and investments restricted for capital (continued)

	Balance, beginning of the year	Addition (transfer) during year	Interest	Balance, end of year
	\$	\$	\$	\$
Restricted investment				
NHS	1,846,916	2,075,962	71,536	3,994,414
SuperBuild	7,441,320	(300,356)	141,848	7,282,812
MOHLTC Capital	238,272,418	(182,075,368)	1,338,970	57,536,020
	<b>247,560,654</b>	<b>(180,299,762)</b>	<b>1,552,354</b>	<b>68,813,246</b>

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

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

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

## 7. Endowments and trust funds

Endowments and trust funds are represented by the following:

	2012		2011	
	Cost	Fair market value	Cost	Fair market value
	\$	\$	\$	\$
Mutual funds	296,738	296,738	287,603	287,603
Cash - treasury accounts	3,641,392	3,641,392	3,693,687	3,693,687
Total cash and investments for endowments and trusts	<b>3,938,130</b>	<b>3,938,130</b>	3,981,290	3,981,290

# Niagara Health System

## Notes to the financial statements

March 31, 2012

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### 8. Short-term bank borrowings

As at March 31, 2012, the Niagara Health System has a \$30,000,000, unsecured demand operating line of credit (2011 - \$22,000,000). The line of credit bears interest at prime plus 1%. As at March 31, 2012 the short term borrowings are \$13,986,238 (2011 - \$14,017,263) of the facility and a short term bridge facility of \$75,000,000 at prime plus 1% (2011 - \$75,000,000 at prime plus 1%). On April 16, 2012 the Niagara Health System was advanced \$75,000,000 toward its 2012/13 funding by the HNHBLHIN and subsequently all bridge financing was repaid.

### 9. Obligations under capital leases

Future minimum payments under capital leases, by year end in aggregate, consist of the following at March 31, 2012:

	2012	2011
	\$	\$
2012	-	4,055,569
2013	<b>2,746,962</b>	2,746,962
2014	<b>1,420,691</b>	1,420,691
2015	<b>1,027,016</b>	1,027,016
2016	<b>174,124</b>	174,124
2017 and thereafter	<b>46,447</b>	46,447
Total minimum lease payments	<b>5,415,240</b>	9,470,809
Less: Amount representing interest at rates 1.51% - 6.1%	<b>(373,451)</b>	(743,234)
Balance of obligation	<b>5,041,789</b>	8,727,575
Current portion of obligations	<b>2,538,996</b>	3,685,786
Long-term portion of obligations	<b>2,502,793</b>	5,041,789

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



# Niagara Health System

## Notes to the financial statements

March 31, 2012

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### 10. Long-term debt

	2012	2011
	\$	\$
Bank of Montreal - borrowings at a fixed interest rate 6.59% (as at March 31, 2006) with monthly principal payments of \$83,486 plus interest, due May 31, 2011		
- Funds used for operating activities		118,909
- Funds used for investment in land, buildings and equipment		48,062
<b>Energy Retrofit Construction Facility</b>	<b>8,167,759</b>	-
	<b>8,167,759</b>	166,971
Less current portion	-	166,971
	<b>8,167,759</b>	-

The Niagara Health System has a revolving credit facility for major expenditures for equipment and construction related to NHS hospital redevelopment projects, subject to specified conditions, of \$15,000,000 bearing interest at prime plus .5%. Funds advanced on the credit facility are payable in monthly or quarterly payments with a maximum term of 10 years at the borrower's option

On July 20, 2011 the Hospital entered into a financing agreement for up to \$11,900,000 against this facility, for the purposes of financing construction costs related to an energy retrofit project at 6 sites of the Niagara Health System. As at March 31, 2012, \$8,000,000 plus accrued interest was drawn.

There are two components to this credit arrangement. The first is an unsecured interim construction loan maturing January 31, 2013, where interest at prime plus 0.5% is capitalized against the loan during this period.

For the second component, the Hospital has in place a swap facility effective February 1, 2013 repaid over a 10 year period utilizing operating savings achieved under a performance contract. Funds advanced on the credit facility are payable in monthly payments. Under the terms of the swap agreement, the Hospital agrees with the counterparty to exchange its floating interest rate for a fixed interest rate of 3.53%. The use of the swap effectively enables the Hospital to convert floating rate interest obligations into fixed rate obligations and thus manage its exposure to interest rate risk. This swap agreement will be designated as a hedge when executed.

# Niagara Health System

## Notes to the financial statements

March 31, 2012

### 11. Employee future benefits

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

The Niagara Health System measures its accrued benefits obligations for accounting purposes at December 31 each year. The most recent actuarial valuation of the benefit plans was March 31, 2009. Information about the defined benefit plan is as follows:

	2012	2011
	\$	\$
Accrued benefit obligation, beginning of the year	20,894,500	19,000,900
Adjustment for additional obligation due to new valuation	2,866,200	1,358,700
Accrual for service	1,091,700	679,800
Interest on accrued benefits	1,367,300	1,096,000
ONA/OPSEU Award at April 1, 2011	6,132,000	-
Benefits paid for the year	<u>(1,545,500)</u>	<u>(1,240,900)</u>
Expected accrued benefit obligation, end of year	30,806,200	20,894,500
Actual accrued benefit obligation, end of year	<u>30,806,200</u>	<u>20,894,500</u>
Experience gain	-	-
Accrued benefit obligation, end of the year	30,806,200	20,894,500
Less: Unamortized past service costs	5,748,700	315,900
Experience losses	6,588,400	3,814,900
Accrued benefit liability, end of the year	<u>18,469,100</u>	<u>16,763,700</u>
Current portion	1,314,900	1,314,900
Long-term portion	<u>17,154,200</u>	<u>15,448,800</u>
	<u>18,469,100</u>	<u>16,763,700</u>
<b>Plan expense</b>		
Current service cost	1,091,700	679,800
Interest cost	1,367,300	1,096,000
Acturial loss	2,866,200	1,358,700
Adjustment for experience gain	(2,773,500)	(1,308,100)
Amortization of past service costs	(5,432,800)	86,000
ONA /OPSEU Award	6,132,000	-
	<u>3,250,900</u>	<u>1,912,400</u>
Benefits paid	<u>(569,982)</u>	<u>(139,682)</u>
<b>Net benefit expense</b>	<u>2,680,918</u>	<u>1,772,718</u>

As at March 31, 2012, the unamortized past service cost is \$5,748,700 (2011 - \$315,900). The average remaining service period to full eligibility is 10 years (2011 - 10 years).

# Niagara Health System

## Notes to the financial statements

March 31, 2012

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### 11. Employee future benefits (continued)

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

#### *Interest (discount rate)*

The obligations as at March 31, 2012 of the present value of future liabilities was determined using a rate of 4.0% and the expense for the year then ended were determined using a discount rate of 5.0%.

#### *Medical costs*

Medical costs were assumed to increase to a rate of 9% in 2012, decreasing by 0.5% increments per annum to an ultimate rate of 5% in 2019 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.

### 12. Deferred contributions

	2012	2011
	\$	\$
Balance, beginning of year	355,883,355	174,689,691
Contributions received and interest earned during the year	21,851,214	189,241,500
Disposals, net book value adjustment	-	(13,539)
Amortization	(8,031,490)	(8,034,297)
	<b>369,703,079</b>	355,883,355
Less: current portion of deferred contributions	(24,065,814)	(7,525,623)
Balance, end of year	<b>345,637,265</b>	348,357,732

### 13. Net debt

#### *Endowments and trust funds*

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

#### *Externally restricted funds*

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

#### *Internally restricted funds*

	2012	2011
	\$	\$
	<b>113,846</b>	238,874

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

# Niagara Health System

## Notes to the financial statements

March 31, 2012

### 13. Net debt (continued)

*Investment in land, buildings, equipment and investments*

	2012	2011
	\$	\$
Investments	67,867,114	224,020,486
Land, buildings and equipment	160,676,860	156,533,352
Advance deposit - building construction (Note 4)	191,437,891	22,504,010
Deferred contributions (Note 12)	(369,703,079)	(355,883,355)
Long-term debt (Note 10)	(8,167,759)	(48,062)
Obligations under capital lease (Note 9)	(5,041,789)	(8,727,575)
	<b>37,069,238</b>	<b>38,398,856</b>

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

	2012	2011
	\$	\$
Amortization of land improvements, buildings and equipment	(14,126,516)	(14,803,876)
Amortization of deferred contributions	8,031,490	8,034,297
Gain on disposal of equipment	9,850	10,250
	<b>(6,085,176)</b>	<b>(6,759,329)</b>
Net land, buildings and equipment additions	18,272,714	14,517,752
Proceeds on sale on assets	(12,540)	(10,603)
Net increase in deferred contributions	(21,851,214)	(189,241,500)
Advance deposit - building	168,933,881	-
Repayment of long-term debt and obligations under capital lease	(4,433,911)	3,489,513
(Decrease) increase in cash and investments	(156,153,372)	179,845,616
	<b>4,755,558</b>	<b>8,600,778</b>
	<b>(1,329,618)</b>	<b>1,841,449</b>

### 14. 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.

	2012	2011
	\$	\$
Revenue	8,252,987	7,647,201
Expenses	8,346,660	7,724,129
	<b>(93,673)</b>	<b>(76,928)</b>

# Niagara Health System

## Notes to the financial statements

March 31, 2012

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### 15. Other items

	2012	2011
	\$	\$
Amortization of building and land improvements	<b>(5,511,786)</b>	(5,534,917)
Amortization of deferred grants	<b>3,254,022</b>	3,254,076
Donation and grant revenue	<b>300,356</b>	301,306
Loss on disposal of asset	-	(134,150)
Capital interest - net	<b>(1,357)</b>	(46,806)
Endowment and trust interest income	<b>17,517</b>	60,862
Extended care unit and interim long-term care loss	<b>(783,895)</b>	(881,138)
	<b>(2,725,143)</b>	(2,980,767)

### 16. 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 2017 in the total amount of \$4,766,164. Annual payments are as follows:

	\$
2013	2,702,863
2014	866,423
2015	618,176
2016	357,310
2017	221,392
	<b>4,766,164</b>

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 Hotel Dieu Hospital 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

#### *Sale of St Catharines General Site properties*

The St. Catharines General Site properties (Queenston, Prince and Valleyview Streets), have been sold to Butera Group Inc. with the expected final closing date of sale to be May 30, 2013. The Niagara Health System has the right to extend the closing date with credit adjustments to the Purchaser.

# Niagara Health System

## Notes to the financial statements

March 31, 2012

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### 16. 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:

Substantial completion payment expected November 26, 2012	276,000,000
Annual payments from 2013 to 2043 totaling	814,141,219
	<hr/>
	1,090,141,219

See Note 4 for further details regarding the new health-care complex.

### 17. Contingent liabilities

As at March 31, 2012, there were a number of claims outstanding, none of which exceeded the insurance coverage of the Niagara Health System. The nature of Niagara Health System activities is such that there is usually litigation pending or in prospect at any time. With respect to claims and possible claims, management believes Niagara Health System has valid defenses and/or appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have material adverse effect on Niagara Health System's financial position and results of operations.

The Hospital participates in the Healthcare Insurance Reciprocal of Canada ("HIROC"), a registered Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces of Ontario, Manitoba, Saskatchewan and Newfoundland. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No such assessments have been made to March 31, 2012.

### 18. Pension plan

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

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

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with contributions by employees of 6.9% of the first \$50,100 of salary and 9.2% thereafter, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for the employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. Contributions to the Plan made during the year by the Niagara Health System on behalf of its employees amounted to \$17,337,795 (2011 - \$17,252,703) and are included in the statement of operations.

# Niagara Health System

## Notes to the financial statements

March 31, 2012

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### 19. 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 2 and 6.

# Niagara Health System

## Notes to the financial statements

March 31, 2012

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### 19. 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, 2012, the Niagara Health System had \$43,896,542 (2011 - \$43,329,668) 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 Hospital's borrowing costs. Floating rate debt exposes the Niagara Health System to fluctuations in short-term interest rates. At March 31, 2012, the Niagara Health System had \$90,971,964, (2011 - \$89,017,263) of short-term borrowings subject to variable interest rate. The risk is mitigated for part of the year as Provincial funding is advanced.

#### *Currency risk*

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

### 20. Related parties and shared services

#### *Related parties*

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

The foundations and auxiliaries are independent organizations that raise funds for capital renovations and equipment and holds resources for the benefit of the Hospital and its sites. All amounts received from the foundations and auxiliaries are restricted in use by the organizations and, accordingly, are accounted for by the Hospital as externally restricted contributions. The foundations and auxiliaries contributed \$6,356,304 during 2012 (2011 - \$2,221,802). Included in the Hospital's assets as at March 31, 2012 is \$1,246,689 (2011 - \$6,031,610) in accounts receivable from the Foundations and Auxiliaries.

#### *Shared service*

The Hospital is a member of Mohawk Shared Services Inc. ("Mohawk"). Mohawk is a not-for-profit organization which provides centralized Laundry Services, Diagnostic Imaging Repository Services, and Mohawk Supply Chain Services to its members and participants in the Hamilton-Niagara and surrounding areas. Mohawk is incorporated without share capital under the laws of the Province of Ontario and is exempt from income taxes under the Income Tax Act. Member hospitals share in paying the operating costs for the corporation. The Hospital's share of operating costs in 2012 were \$1,221,668 (2011 \$1,106,315) reflected in expenses on the Statement of Operations. There were no accounts payable to Mohawk for operating costs included in the Hospital's liabilities at March 31, 2012 (2011 - \$94,300).



# Niagara Health System

Notes to the financial statements

March 31, 2012

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## 21. Capital management

The Hospital considers its capital to be the balance retained in net assets, which includes unrestricted net assets and net assets invested in capital assets, as well as deferred capital contributions and long-term obligations. The Hospital receives funding from the Provincial government for the delivery of its programs. These funds are maintained and disbursed under the terms of the funding agreements and management is responsible for adhering to the provisions of these agreements.

The Hospital uses capital contributions and the proceeds from specific Foundation fundraising campaigns leveraged with appropriate levels of debt to support capital equipment and infrastructure renewal. In addition, the Hospital has available a short-term bridging facility to meet current obligations including debt service and to allow the Hospital to respond to unexpected operating pressures that may occur over the course of the year.

The Hospital is in compliance with all financial and non-financial covenants.

## 22. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.