Financial Statements of

HAMILTON HEALTH SCIENCES CORPORATION

Year ended March 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Hamilton Health Sciences Corporation

We have audited the accompanying financial statements of Hamilton Health Sciences Corporation, which comprise the statement of financial position as at March 31, 2011 and the statements of operations, changes in net assets, and cash flows for the year then ended, and notes, comprising 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 an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained 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 Hamilton Health Sciences Corporation, 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.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Hamilton, Canada

June 23, 2011

Hamilton Health Sciences

Statement of Financial Position
(in thousands of dollars)

March 31, 2011, with comparative figures for 2010

		2011		2010
ASSETS				
Current				
Restricted cash and cash equivalents *[notes 3 and 10]*	$	42,615	$	121,277
Short-term investments *[note 3]*		36,054		13,914
Accounts receivable *[note 4]*		60,048		56,411
Inventories		11,875		19,029
Prepaid expenses and deposits		5,789		5,006
Total current assets		156,381		215,637
Long-term investments *[note 5]*		276,806		212,666
Capital assets, net *[note 6]*		680,076		475,137
Total assets		1,113,263		903,440
LIABILITIES AND NET ASSETS				
Current				
Bank indebtedness *[note 7]*	$	67,494	$	79,227
Capital financing *[note 8]*		-		25,000
Accounts payable and accrued liabilities		117,835		104,945
Current portion of obligations under capital leases *[note 9]*		10,080		4,992
Current portion of long-term debt *[note 10]*		6,435		1,719
Total current liabilities		201,844		215,883
Obligations under capital leases *[note 9]*		26,584		10,579
Long-term debt *[note 10]*		83,530		47,593
Accrued benefit liability *[note 11]*		42,849		40,571
Unrealized losses on revaluation of derivative hedges		6,625		6,769
Deferred capital contributions *[note 12]*		468,646		317,857
Deferred contributions *[note 13]*		113,549		155,375
Total liabilities		943,627		794,627
Net assets (deficit)				
Unrestricted	$	(242,466)	$	(253,182)
Invested in capital assets *[note 14 [a]]*		120,126		130,824
Board designated		291,976		231,171
Total net assets		169,636		108,813
Commitments and contingencies *[notes 9, 17, 18]*				
	$	1,113,263	$	903,440

See accompanying notes to financial statements.

On behalf of the Board:

J. Lavoilette ____________ Director   ____________ Director

Hamilton Health Sciences

Statement of Operations
(in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
REVENUE		
Ontario Ministry of Health and Long-Term Care	$ 874,327	$ 833,944
Ontario Health Insurance Plan	33,019	32,326
Ministry of Community and Social Services	26,670	25,242
Patient and third party payors	20,860	20,263
Amortization of deferred capital contributions *[note 12]*	16,282	15,610
Investment income	14,379	9,360
Ancillary and other recoveries	99,132	102,992
Research *[note 13]*	140,834	174,707
	1,225,503	1,214,444
EXPENSES		
Salaries and employee benefits *[notes 11 and 15]*	679,266	654,730
Medical staff remuneration	69,350	68,222
Medical and surgical supplies	61,187	57,137
Drugs	64,474	60,016
Facilities	25,404	26,570
Amortization of capital assets	35,307	32,144
Other expenses	139,951	138,897
Research	93,690	129,836
	1,168,629	1,167,552
Excess of revenue over expenses for the year	$ 56,874	$ 46,892

See accompanying notes to financial statements.

Hamilton Health Sciences

Statement of Changes in Net Assets
(in thousands of dollars)

Year ended March 31, 2011, with comparative figures for March 31, 2010

				2011	2010
	Unrestricted	Invested in capital assets *[note 14[a]]*	Board designated	Total	Total
Net assets (deficit), beginning of year	$ (253,182)	$ 130,824	$ 231,171	$ 108,813	$ 43,745
Excess of revenue over expenses for the year	56,874	-	-	56,874	46,892
Transfer to Board designated	(57,000)	-	57,000	-	-
Net change invested in capital assets *[note 14[b]]*	10,698	(10,698)	-	-	-
Net change in unrealized gains on available-for-sale investments	-	-	3,805	3,805	12,795
Net change in unrealized losses on revaluation of derivative hedges	144	-	-	144	5,381
Net assets (deficit), end of year	$ (242,466)	$ 120,126	$ 291,976	$ 169,636	$ 108,813

See accompanying notes to financial statements.

Hamilton Health Sciences

Statement of Cash Flows
(in thousands of dollars)

Year ended March 31, 2011, with comparative figures for March 31, 2010

	2011	2010
Cash provided by (used in):		
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	$ 56,874	$ 46,892
Add (deduct) non-cash items:		
Amortization of capital assets	35,307	32,144
Amortization of deferred capital contributions	(16,282)	(15,610)
Non-pension post-retirement benefits expense *[note 11[b]]*	5,292	5,511
	81,191	68,937
Net change in non-cash working capital balances related to operations *[note 16]*	14,849	(27,592)
Non-pension benefit contributions	(3,014)	(1,637)
Decrease in deferred contributions	(41,826)	(28,390)
Cash provided by operating activities	51,200	11,318
INVESTING ACTIVITIES		
Purchase of capital assets	(239,471)	(135,103)
Increase in investments, net	(82,475)	(8,878)
Decrease in restricted cash and cash equivalents	78,662	19,205
Cash used in investing activities	(243,284)	(124,776)
FINANCING ACTIVITIES		
Contributions received for capital purposes	167,071	86,152
Increase in long-term debt	40,653	39,991
Decrease in capital financing	(25,000)	(21,745)
Increase in obligations under capital leases	21,093	1,470
Cash provided by financing activities	203,817	105,868
(Decrease) increase in bank indebtedness during the year	(11,733)	7,590
Bank indebtedness, beginning of year	79,227	71,637
Bank indebtedness, end of year	$ 67,494	$ 79,227
Supplemental cash flow information		
Interest paid	$ 5,100	$ 3,977
Purchase of capital assets included in accounts payable and accrued liabilities	5,091	4,316

See accompanying notes to financial statements.

1. PURPOSE OF THE ORGANIZATION

Hamilton Health Sciences Corporation [the "Hospital"] is a regional provider of comprehensive health services for Central-West Ontario and a provider of community hospital services to the City of Hamilton. The Hospital is an academic health science organization which is incorporated without share capital under the Corporations Act (Ontario) and is a registered charity under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

These financial statements include the assets, liabilities and activities of the Hospital. The financial statements do not include the activities of Hamilton Health Sciences Foundation [the "Foundation"] and Hamilton Health Sciences Volunteer Association [the "Volunteer Association"] which are non-controlled not-for-profit entities *[note 18[a] and [b]]*.

The Bay Area Health Trust [the "Trust"], a commercial entity, is accounted for by the equity method *[note 18[c]]*.

A summary of the significant accounting policies is as follows:

(a) Revenue recognition

The Hospital is funded primarily by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care [“MOHLTC”]. Any excess of revenue over expenses earned during a fiscal year may be retained by the Hospital. Therefore, to the extent that deficits are incurred and not funded, future operations may be affected. The MOHLTC provides operating funding including base funding which is expected to be received on an annual basis, and special funding, which is non-recurring in nature, and consequently is unconfirmed for future years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Revenue recognition (continued)

The Hospital operates under a Hospital Service Accountability Agreement ["H-SAA"] with the MOHLTC. This agreement sets out the rights and obligations of the two parties in respect of funding provided to the Hospital by the MOHLTC. During 2008, the terms of the agreement were effectively transferred to the Hamilton Niagara Haldimand Brant Local Health Integration Network [the "LHIN"]. The H-SAA sets out the funding provided to the Hospital together with performance standards and obligations of the Hospital that establish acceptable results for the organization's performance. Effective April 1, 2008, the Hospital entered into a new agreement with the LHIN, operating under direction of the MOHLTC, for each of fiscal 2009, 2010 and 2011. Effective April 1, 2011, an amending agreement was entered into extending the H-SAA to fiscal 2012.

If the Hospital does not meet certain performance standards or obligations, the MOHLTC/LHIN has the right to adjust some funding streams received by the Hospital. Given that the MOHLTC/LHIN is not required to communicate funding adjustments until after the submission of year-end data, the amount of revenue recognized in these financial statements represents management's best estimates of amounts earned during the year.

The Hospital follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

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

(b) Inventories

Inventories are valued at the lower of average cost and net realizable value.

(c) Long-term investments

Long-term investments are recorded at fair value and are designated as available-for-sale financial assets. Accrued interest on long-term investments is recorded in accounts receivable. Changes in unrealized gains and losses designated for research are recorded through the statement of changes in net assets for board designated trust investments and deferred contributions for research.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Capital assets

Capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at fair market value at the date of donation. Amortization is provided on a straight-line basis over the estimated useful life of the related capital asset. The amortization periods are as follows:

Building improvements	20 – 40 years
Equipment	5 – 20 years

The Chedoke site operates in facilities owned by Chedoke Health Foundation. The McMaster University Medical Centre site operates in facilities owned by McMaster University.

Building renovations and alterations that restore original operating conditions are expensed in the year incurred. Building improvements that reduce original operating costs or increase original capacity are capitalized as building improvements.

(e) Equipment under capital leases

Equipment leases that effectively transfer substantially all of the risks and rewards of ownership to the Hospital as lessee are capitalized at the present value of the minimum payments under the lease with a corresponding liability for the related lease obligations. Charges to expenses are made for amortization on the equipment and interest on the lease obligations.

(f) Deferred capital contributions

Capital contributions received for the purpose of acquiring depreciable capital assets are deferred and amortized on the same basis and over the same period as the related capital assets.

(g) Deferred contributions

Grants for sponsored research and other externally restricted contributions are recorded as deferred contributions and recognized as revenue in the periods in which the related expenses are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Employee benefit plans

(i) Multi-employer plan

Defined contribution plan accounting is applied to the Healthcare of Ontario Pension Plan ["HOOPP"], a multi-employer plan, whereby contributions are expensed when due as the Hospital has insufficient information to apply defined benefit plan accounting.

(ii) Accrued post-retirement benefits

The Hospital accrues its obligations under non-pension employee benefit plans as employees render services. The Hospital has adopted the following policies:

- The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefits method prorated on service and management's best estimate assumptions.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.
- Liabilities are determined using discount rates that are consistent with market rates of high quality debt instruments.
- The excess of the cumulative unamortized balance of the net actuarial gain (loss) over 10% of the benefit obligations is amortized over the average remaining service period of active employees. The average remaining service period of active employees is 14 years.

(i) Board designated net assets

Board designated net assets include unrestricted donations and bequests as well as certain fund surpluses designated for specific purposes by the Board of Directors.

(j) Contributed services and materials

Volunteers contribute numerous hours to assist the Hospital in carrying out certain charitable aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and, as such, is not reflected in these financial statements. Contributed materials are also not recognized in these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments

(i) Recognition and measurement

Under the Canadian Institute of Chartered Accountants [“CICA”] Handbook Sections 3855 “Financial Instruments – Recognition and Measurement” and 3861 “Financial Instruments – Disclosure and Presentation”, all financial instruments are initially recorded on the statement of financial position at fair value. They are subsequently valued at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading", "held-to-maturity", "available-for-sale" or "loans and receivables" and financial liabilities are classified as either "held-for-trading" or "other liabilities".

Financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the statement of operations. Financial assets classified as held-to-maturity or loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest method. Available-for-sale financial assets that have a quoted price in an active market are measured at fair value with changes in fair value recorded in deferred contributions if the investment is externally restricted for research and in changes in board designated net assets if the investment is internally restricted. Such gains or losses are reclassified to the statement of operations when the related financial asset is disposed of or when the decline in value is considered to be other-than-temporary.

The Hospital has classified its financial instruments as follows:

- Restricted cash and cash equivalents and bank indebtedness are classified as held-for-trading.
- Short-term investments and long-term investments are classified as available-for-sale.
- Accounts receivable are classified as loans and receivables.
- Accounts payable and accrued liabilities, capital financing and current and long-term debt are classified as other liabilities.

(ii) Investments and investment income

Publicly traded securities are valued based on the latest bid prices and short-term fixed term securities are valued based on cost plus accrued income, which approximates fair value. The Hospital has elected to use settlement date accounting for regular-way purchases and sales of financial assets and transaction costs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

(iii) Derivatives

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes to notional contract amounts. The Hospital uses interest rate swaps ["IRS"] as an interest rate risk management solution. In effect, IRS are used to hedge interest rate exposure inherent in floating rate loan facilities. These instruments are used for hedging an on-balance sheet liability and have been designated as a hedge.

Hedges are documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued.

Derivative financial instruments are recorded at their fair value as an asset or liability based on quoted values determined by the counterparty to the interest rate swap contracts. Changes in fair value are recorded in the statement of changes in net assets.

No financial statement recognition is given to embedded derivatives or non-financial contracts with derivative characteristics.

3. RESTRICTED CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Restricted cash and cash equivalents in the amount of $42,615 [2010 - $121,277] consists of cash and fixed term securities with remaining maturities of less than three months at the date of acquisition and include Canadian, USD and Euro currencies. These funds are held for the Hospital's internally and externally designated trusts and research operations $40,490 [2010 - $110,490], construction facilities $2,073 [2010 - $10,750] and patient trusts $52 [2010 - $37].

The fixed term securities earn interest at an average rate of 0.33% [2010 - 1.09%] and have a carrying value that approximates market value. Cash in the Hospital's Canadian bank account earns interest at a rate of prime less 1.75%, if the combined balance in all Canadian bank accounts is equal to or greater than $5,000, otherwise the interest rate is prime less 1.85%, US bank accounts at the US BA rate less 4% which currently stands at the minimum rate of 0%, and Euro bank accounts earn no interest.

Short-term investments consist of Government and Corporate Bonds and other fixed term securities with remaining maturities of less than one year. These investments earn interest at an average of 3.24% [2010 - 5.00%] and are recorded at market value as at March 31, 2011, with a cost of $35,962 [2010 - $13,567]. All short term investments as at March 31, 2011 are restricted investments.

(in thousands of dollars, except where noted)

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2011	2010
Ontario Ministry of Health and Long-Term Care	$ 23,642	$ 15,271
Patient receivables	8,992	6,517
Bay Area Health Trust *[note 18[c]]*	3,686	3,982
Hamilton Health Sciences Foundation and Hamilton Health Sciences Volunteer Association *[notes 18[a] and [b]]*	1,491	1,812
Other	22,237	28,829
	$ 60,048	$ 56,411

5. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	2011		2010	
	Cost	Market value	Cost	Market value
Fixed income – Canadian	$ 143,965	$ 146,013	$ 156,353	$ 160,271
Fixed income – U.S.	24,212	25,628	18,417	19,055
Fixed income – Euro	5,481	5,411	-	-
Equities – Canadian	64,067	65,312	33,904	30,587
Equities – U.S.	34,467	34,442	3,027	2,753
	$ 272,192	$ 276,806	$ 211,701	$ 212,666

Fixed income investments have an average term of 9.67 years [2010 - 11.20 years] to maturity and have a weighted average yield of 4.22% [2010 - 4.61%] as at March 31, 2011.

(in thousands of dollars, except where noted)

6. CAPITAL ASSETS

Capital assets consist of the following:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 890	$ -	$ 890	$ 890
Building and building improvements	598,349	52,302	546,047	275,178
Equipment	317,568	254,539	63,029	59,844
Construction in progress	70,110	-	70,110	139,225
	$ 986,917	$ 306,841	$ 680,076	$ 475,137

Included in equipment are assets under capital leases at a cost of $36,081 [2010 - $27,475] and accumulated amortization of $16,961 [2010 - $11,286].

Fully depreciated capital assets with a cost of $3,204 [2010 - $526] were removed from the accounts in fiscal 2011.

7. BANK INDEBTEDNESS

As at March 31, 2011, the Hospital has available a $75,000 [2010 - $75,000] unsecured demand operating line of credit. The line of credit bears interest at prime rate less 0.20%. As at March 31, 2011, the Bank's prime interest rate is 3.00% [2010 - 2.25%]. As at March 31, 2011, the bank indebtedness is $15,522 [2010 - $27,089] of the facility and a short-term bridging facility of $42,000 [2010 - $42,000] at a BA rate of 1.24% plus stamping fee of 0.75%, which was repaid in April 2011.

(in thousands of dollars, except where noted)

8. CAPITAL FINANCING

Capital financing consists of the following:

		2011		2010
Energy enhancement interim construction loan	$	-	$	25,000

On September 26, 2007, the Hospital entered into an amended $25,000 financing agreement, for the purpose of financing construction costs related to energy retrofit contracts at the McMaster Hospital Site. In fiscal 2011, an additional $3,000 was drawn on the facility and the interim construction loan was then converted to a 20-year term loan *[note 10 [h]]*.

9. LEASE COMMITMENTS

The Hospital has entered into various arrangements for the leasing of computer and medical equipment. The weighted average effective interest rate of the capital leases is 4.09% [2010 – 4.50%].

The future minimum annual payments under capital and operating leases consist of the following:

		Capital leases		Operating leases
2012	$	11,374	$	935
2013		9,798		561
2014		8,355		306
2015		6,740		137
2016		3,467		-
Total minimum lease payments		39,734		1,939
Less interest included in lease payable		3,070		-
Obligations under capital leases		36,664		-
Less current portion		10,080		-
	$	26,584	$	-

The fair market value of the capital leases at March 31, 2011 is approximately $35,645 using a weighted average effective interest rate of 4.46%.

(in thousands of dollars, except where noted)

10. LONG-TERM DEBT

Long-term debt consists of the following:

		2011		2010
Capital loan payable by August 1, 2025 in monthly principal and interest installments of $58 at 4.65% per annum [a]	$	7,260	$	7,606
Capital loan payable by April 1, 2011 in monthly principal and interest installments of $24 at 5.36% per annum [b]		24		301
Capital loan payable by September 15, 2011 in monthly principal and interest installments of $29 at 5.21% per annum [c]		173		505
Capital loan payable by April 15, 2029 in quarterly principal and interest installments of $397 at 5.255% per annum [d]		18,516		19,092
Capital loan payable by September 17, 2029 in quarterly principal and interest installments of $150 at 4.33% per annum [e]		6,621		6,808
Restructuring loan payable by May 12, 2014 in monthly principal and interest installments of $432 starting in May 2011 at 2.29% per annum [f]		15,000		15,000
Holdback loan payable by May 15, 2013 renewed periodically at current Bankers' Acceptance rates, currently at 2.63% [g]		15,000		-
Capital loan payable by April 17, 2029 in quarterly principal and interest installments of $586 at 5.255% per annum [h]		27,371		-
		89,965		49,312
Less current portion		6,435		1,719
	$	83,530	$	47,593

10. LONG-TERM DEBT (continued)

[a] On July 15, 2005, the Hospital entered into a $9 million, 20-year financing arrangement for the purpose of financing the construction, acquisition and development costs of parking equipment and improvements of the parking facilities at the Hamilton General Hospital ["General"] and Juravinski Hospital ["Juravinski"] Sites. On a monthly basis, the Hospital is required to deposit the Net Profit, as defined, from the parking operations of the General and Juravinski sites into a Net Profit Account held at the bank. At all times, the Hospital must maintain a minimum balance in the Net Profit Account equal to the greater of $400 or the total of the next scheduled payment of principal and interest. At March 31, 2011, the balance in the Net Profit Account is greater than the minimum required balance and is included in restricted cash and cash equivalents on the statement of financial position.

As security, the bank has a first ranking specific assignment of all rights, title and interest in and to all Net Profit and any other revenue and income arising from the General and Juravinski parking improvements from time to time but expressly excluding payments for monthly parking permits of employees of the Hospital; and a first ranking security agreement in respect of the Net Profit Account. Under the terms of the financing the Hospital is required to comply with certain loan covenants and, at year-end, the Hospital was in compliance with all credit facility covenants.

The Hospital has in place an Interest Rate Swap Agreement [“Swap Agreement”], which will expire on August 1, 2025, that fixes the interest rate at 4.65%, plus stamping fee of 0.45%. This Swap Agreement has been designated as a hedge. The fair value of the Swap Agreement is based on amounts quoted by the Hospital's bank to realize favourable contracts or settle unfavourable contracts, taking into account interest rates at March 31, 2011. The Swap Agreement is in a net unfavourable position of $589 [2010 - $587].

[b] On March 31, 2006 the Hospital entered into a separate $1,256, 5-year loan for the purpose of purchasing diagnostic medical equipment. The equipment financed by the loan is pledged as collateral for the loan. The fair market value of the loan at March 31, 2011 is approximately $23 using an average effective interest rate of 4.46%.

[c] On September 15, 2006 the Hospital entered into a separate $1,541, 5-year loan for the purpose of purchasing diagnostic medical equipment. The equipment financed by the loan is pledged as collateral for the loan. The fair market value of the loan at March 31, 2011 is approximately $165 using an average effective interest rate of 4.46%.

[d] On September 26, 2007, the Hospital entered into a $19,500, 20-year financing arrangement for the purpose of financing construction costs related to energy retrofit contracts at the Chedoke, Juravinski, and General Hospital sites. The Hospital has in place a Swap Agreement that fixes the interest rate at 5.255%, plus stamping fee of 0.25%. This Swap Agreement has been designated as a hedge. The Swap Agreement is in a net unfavourable position of $2,294 [2010 - $2,397].

(in thousands of dollars, except where noted)

10. LONG-TERM DEBT (continued)

[e] On January 22, 2009, the Hospital entered into a $6,900, 20-year financial arrangement for the purpose of financing the related construction costs for the central utility plant upgrade at the Juravinski site. The Hospital has entered into a Swap Agreement that fixes the interest rate at 4.33%, plus stamping fee of 1.80%. This Swap Agreement has been designated as a hedge. The Swap Agreement is in a net unfavourable position of $251 [2010 - $231].

[f] On July 10, 2009, the Hospital entered into a $15,000, 5-year financing agreement for the purpose of financing the payment of severance costs and the costs incurred to implement cost efficiency strategies. The Hospital has in place a Swap Agreement that fixes the interest rate at 2.29%, plus stamping fee of 1.15%. This Swap Agreement has been designated as a hedge. The Swap Agreement is in a net unfavourable position of $102 [2010 - $50].

[g] On June 8, 2010, the Hospital entered into a $15,000, 3-year facility to temporarily bridge finance the MOHLTC construction holdback pending the final settlement of the Juravinski redevelopment construction project and ancillary project construction costs. The loan is repayable on or before March 15, 2013. Borrowing under this facility is by way of Bankers' Acceptance with a year end rate of 2.63%.

[h] On September 26, 2007, the Hospital entered into an amended $25,000 financing agreement for the purpose of financing construction costs related to energy retrofit contracts at the McMaster Hospital Site. In fiscal 2011, an additional $3,000 was drawn on the facility and the energy enhancement interim construction loan was then converted to a 20-year term loan. The Hospital has in place a Swap Agreement that fixes the interest rate at 5.255%, plus stamping fee of 0.25%. This Swap Agreement has been designated as a hedge. The Swap Agreement is in a net unfavourable position of $3,389 [2010 - $3,504].

The future minimum annual debt principal repayments over the next five years and thereafter are as follows:

2012	$ 6,435
2013	22,180
2014	7,302
2015	3,265
2016	2,564
Thereafter	48,219
	$ 89,965

(in thousands of dollars, except where noted)

11. EMPLOYEE BENEFIT PLANS

[a] Multi-employer plan

Substantially all of the employees of the Hospital are eligible to be members of HOOPP, which is a multi-employer, defined benefit, final average earnings, contributory pension plan. HOOPP is accounted for as a defined contribution plan. The Hospital's contributions to HOOPP during the year amounted to $43,021 [2010 - $42,064] and are included in salaries and employee benefits expense in the statement of operations. The most recent actuarial valuation of HOOPP as of December 31, 2010 indicates the Plan has a 0.5% surplus in disclosed actuarial assets and is fully funded on a solvency basis.

[b] Accrued post-retirement benefits

The Hospital's non-pension post-retirement benefit plans comprise medical, dental and life insurance coverage for certain groups of employees who have retired from the Hospital and are between the ages of 55 and 65. The accrued post-retirement benefit liability is calculated based on the latest actuarial valuation performed on April 1, 2010.

The sick leave benefit plan for employees was previously amended such that the future accumulation of sick leave credits was discontinued except for the St. Peters Hospital site; however, employees are entitled to cash payments on a portion of their accumulated sick bank entitlements upon termination of employment. As at March 31, 2011 the sick leave obligation amounted to $6,063 [2010 - $7,829].

As at March 31, 2011, the Hospital’s post-retirement accrued benefit liability is made up of the following:

	2011	2010
Accrued benefit obligation	$ 47,566	$ 46,436
Assets	-	-
Net unfunded accrued benefit obligation	47,566	46,436
Unamortized experience losses	(1,207)	(1,226)
Unamortized prior service costs	(3,510)	(4,639)
Accrued benefit liability	$ 42,849	$ 40,571

(in thousands of dollars, except where noted)

11. EMPLOYEE BENEFIT PLANS (continued)

[b] Accrued post-retirement benefits (continued)

The Hospital's non-pension post retirement benefits expense for the year is $5,292 [2010 - $5,511] and is comprised of the following:

	2011	2010
Accrual for services	$ 1,585	$ 1,621
Interest on accrued benefits	2,559	2,824
Actuarial losses during the year	-	5,374
Plan amendments during the year	-	104
Adjustment for prior service costs	1,129	1,110
Adjustment for experience losses (gains)	19	(5,522)
	$ 5,292	$ 5,511

The significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligations and expenses for the non-pension post-retirement benefit plans are as follows:

	2011 %	2010 %
Discount rate	5.50%	5.50%
Expected annual increase in dental care costs	4.00%	4.00%
Expected annual increase in health care costs*	5.00%	5.00%

* The current rate is 7.5%. The rate is presumed to decline by 0.5% increments per annum to an ultimate rate of 5.0%.

(in thousands of dollars, except where noted)

12. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The changes in the deferred capital contributions balance are as follows:

	2011	2010
Balance, beginning of year	$ 317,857	$ 247,315
Add contributions for capital purposes		
MOHLTC grant	154,348	54,007
Research grants	-	142
Superbuild interest	-	4
Hamilton Health Sciences Foundation and Hamilton Health Sciences Volunteer Association	3,141	3,024
Other	6,818	15,686
Canada Foundation for Innovation	2,764	13,289
Less amortization	(16,282)	(15,610)
Balance, end of year	$ 468,646	$ 317,857

Included in the above balance are contributions of $20,325 [2010 - $47,806] received but not yet used to purchase capital assets.

13. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants for research. The changes in the deferred contributions balance are as follows:

	2011	2010
Balance, beginning of year	$ 155,375	$ 183,765
Externally restricted contributions received	33,647	83,809
Less amount recognized as revenue during the year	(75,062)	(113,559)
Net change in unrealized gains on deferred research balances	(411)	1,360
Balance, end of year	$ 113,549	$ 155,375

Research revenue of $140,834 [2010 - $174,707] consists of externally restricted research grants and donations recognized in income during the year of $75,062 [2010 - $113,559] and $65,772 [2010 - $61,148] of revenue from research administered accounts, internally restricted by the Hospital's Board of Directors.

(in thousands of dollars, except where noted)

14. NET ASSETS INVESTED IN CAPITAL ASSETS

[a] Net assets invested in capital assets are calculated as follows:

		2011		2010
Capital assets, net	$	680,076	$	475,137
Less amounts funded by				
Capital financing *[note 8]*		-		(24,379)
Deferred capital contributions *[note 12]*		(448,321)		(270,051)
Obligations under capital leases *[note 9]*		(36,664)		(15,571)
Debt *[note 10]*		(74,965)		(34,312)
	$	120,126	$	130,824

[b] Net change in invested in capital assets is calculated as follows:

		2011		2010
Purchase of capital assets	$	240,246	$	133,182
Amounts funded by deferred capital contributions		(194,552)		(86,436)
Amortization of capital assets		(35,307)		(32,144)
Amortization of deferred capital contributions		16,282		15,610
Decrease in capital portion of capital financing		24,379		19,562
Increase in obligations under capital leases		(21,093)		(1,470)
Increase in long-term debt		(40,653)		(24,991)
	$	(10,698)	$	23,313

15. SEVERANCE AND TERMINATION BENEFITS

The Hospital's operational costs are expected to increase 4 to 5% in 2011/2012, while the funding increase will be approximately 1.5%. The Hospital has been mandated to balance its budget as per the H-SAA with the LHIN. In response to this challenge, the Hospital has conducted a comprehensive review aimed at identifying efficiencies that can be implemented. The Hospital has taken initiatives to minimize the impact on staff.

The Hospital has incurred $9,915 [2010 - $4,339] of severance and termination expenses in the statement of operations for the year ended March 31, 2011.

(in thousands of dollars, except where noted)

16. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

		2011		2010
Accounts receivable	$	(3,637)	$	(7,148)
Inventories		7,154		(3,995)
Prepaid expenses and deposits		(783)		(674)
Accounts payable and accrued liabilities		12,115		(15,775)
	$	14,849	$	(27,592)

17. COMMITMENTS AND CONTINGENCIES

[a] The nature of the Hospital's activities is such that there is usually litigation pending or in progress at any time. With respect to claims as at March 31, 2011, it is management's position that the Hospital has valid defenses and appropriate insurance coverage in place, such that there would be no material effect on the financial statements as a result of these claims. In the unlikely event any claims are successful, such claims are not expected to have a material effect on the Hospital's financial position.

[b] The Hospital participates in the Healthcare Insurance Reciprocal of Canada, a pooling of the public liability insurance risks of its hospital members. All members of the pool pay premiums that are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the year in which they were members. No assessments have been made for the year ended March 31, 2011.

[c] The Hospital has initiated various construction and renovation projects. A major initiative includes the McMaster University Medical Center/McMaster Children's Hospital Redevelopment which facilitates key principles of patient and family centered care. This project consists of two distinct phases. Phase One includes a Child and Adolescent Mental Health Unit and the expansion of Pediatric Ambulatory Clinics while Phase Two includes the development of a stand alone Pediatric Intensive Care Unit, Pediatric Emergency Department and Ambulatory Surgical Service Improvements.

17. COMMITMENTS AND CONTINGENCIES (continued)

[d] The Hospital has contracted for the Henderson Hospital Redevelopment Project [renamed the Juravinski Hospital]. This initiative will provide updated community hospital services and position the acute care service appropriately to support the Juravinski Cancer Centre that shares the site. The overall budget for the project including facilities is projected at $284,239 and will be cost-shared with the MOHLTC. The contractor will construct the facilities for a stipulated fixed price of $198,126 including their financing costs. Phase 1 was completed in July 2010 and the contractor has agreed to reach substantial completion of Phase 2 by March 2012, with total completion by July 2012. The Hospital made an interim payment for construction and financing costs in August 2010. A substantial completion payment will be made in March 2012 and a final payment in July 2012.

This project falls under Infrastructure Ontario's Alternative Financing and Procurement Model. Under this model, the contractor is required to finance project construction until substantial completion at which point the facilities will be transferred to the Hospital. Upon substantial completion, the Hospital will set up the required capital asset as related to construction, as well as any appropriate deferred capital contribution from the MOHLTC. The deferred portion will represent 90% of construction as per the MOHLTC’s funding formula [June 2006].

The total capital expenditure commitments for these and other projects outstanding at March 31, 2011 are estimated at $109,987 [2010 - $32,354].

[e] At March 31, 2011 the Hospital had outstanding letters of credit of $2,238 [2010 - $2,441] related to various construction and renovation projects.

[f] The Hospital is in the process of developing pay equity plans with certain employee groups. It is not possible at this time to make an estimate of the amount payable to labour groups that may result and accordingly, no provision has been made in the financial statements.

18. RELATED PARTY TRANSACTIONS

[a] The Foundation, an independent organization, raises funds and holds resources solely for the benefit of the Hospital. All amounts received from the Foundation are restricted in use by the Foundation and, accordingly, are accounted for by the Hospital as externally restricted contributions. The Foundation contributed $2,750 during fiscal 2011 [2010 - $2,612] for capital and $1,061 [2010 - $1,491] for research. As at December 31, 2010, the Foundation had net assets of $69,096 [2009 - $57,170]. Included in the Hospital's assets as at March 31, 2011 is $1,347 [2010 - $1,488] in accounts receivable from the Foundation.

(in thousands of dollars, except where noted)

18. RELATED PARTY TRANSACTIONS (continued)

[b] The Volunteer Association is an independent organization that raises funds and holds resources for the benefit of the Hospital. All amounts received from the Volunteer Association are restricted and, accordingly, are accounted for as externally restricted contributions. The Volunteer Association contributed $1,072 [2010 - $1,669] during the year for capital and non-capital expenses and has net assets of $350 [2010 - $275] as at March 31, 2011. Included in the Hospital's assets as at March 31, 2011 is $144 [2010 - $324] in accounts receivable from the Volunteer Association.

[c] The Bay Area Health Trust is a commercial entity dedicated to developing business opportunities harnessing private sector experience, energy and entrepreneurship to benefit the community by supporting profitable business development in the health care sector. The beneficiaries of the Trust are the Hospital, the Foundation and McMaster University.

At March 31, 2011, the Hospital has recorded an equity interest of $81 in the Trust [2010 - $121] which is included in accounts receivable.

Included in the Hospital’s results are the following related party transactions with the Trust:

	2011	2010
Statement of financial position		
Accounts receivable	$ 3,686	$ 3,982
Capital assets, net	8,741	9,184
Accounts payable and accrued liabilities	99	916
Statement of operations		
Investment income	544	393
Amortization of capital assets	464	461
Other non-salary expense	9,198	8,204

(in thousands of dollars, except where noted)

18. RELATED PARTY TRANSACTIONS (continued)

The following amounts represent the Trust's assets, liabilities, revenue and expenses as at and for the year ended December 31, 2010 and December 31, 2009:

	December 31, 2010	December 31, 2009
Assets	$ 63,538	$ 64,622
Liabilities and Trustees' Equity	63,538	64,622
Revenue	12,637	17,002
Expenses	12,227	16,769
Cash provided by operating activities	3,582	3,016
Cash used in investing activities	(235)	(136)
Cash used in financing activities	(2,109)	(2,268)

The Trust entered into a financing arrangement for $63,000, guaranteed by the Hospital, for the purpose of funding the construction of the cogeneration facilities. The financing arrangement consists of $45,000 at a fixed rate of 6.068% due January 1, 2031 and $18,000 at a weighted average rate of 5.597% due on January 1, 2013. At December 31, 2010 the Trust had $40,667 [2009 - $41,674] and $16,410 [2009 - $16,840] outstanding, respectively, with the current portion amounting to $1,525.

At March 31, 2011 the Trust has borrowed $2,269 [2010 - $3,811] from the Hospital's facility and are being charged a rate of prime less 0.20%.

The Hospital has entered into an operating lease agreement with the Trust, which includes the management of three cogeneration facilities, each located at hospital sites. The agreement states that the Hospital is responsible for all variable costs required to operate and maintain the equipment of each facility.

19. SHARED SERVICES

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, Employee Assistance Program and Mohawk Supply Chain Services to its members and participants in Hamilton and the surrounding districts. 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.

On April 1, 2010, the Hospital entered into an agreement with Mohawk to sell the Hospital inventory being stored in the Mohawk warehouse. The final value of the inventory sold was $5,072.

20. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of the Hospital's financial instruments is not significantly different from their carrying value at March 31, 2011 unless otherwise noted. The Hospital is subject to credit risk with respect to its accounts receivable and the investments are primarily exposed to foreign currency, interest rate, market and credit risks.

The Hospital is subject to interest rate cash flow risk with respect to its floating rate debt. The Hospital has addressed this risk by entering into interest rate swap agreements that fix the interest rates over the term of the associated debt.

21. CLINICAL EDUCATION

During the year the Clinical Education Program incurred expenses of $55,050 [2010 - $50,772] and received $52,302 [2010 - $52,362] from the MOHLTC. As applicable, the shortfall in funding is owed by the MOHLTC, and, as such, a receivable of $2,748 [2010 – $1,590 payable to MOHLTC] has been included in the statement of financial position.

22. CAPITAL MANAGEMENT

In managing capital, the Hospital focuses on maintaining a balanced operating position and the ability to generate sufficient cash from operations to fund existing debt service requirements and future debt requirements. The Hospital uses accumulated surpluses, capital contributions and the proceeds from specific Foundation fundraising campaigns leveraged with appropriate levels of debt to support 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.

23. COMPARATIVE FIGURES

Certain 2010 comparative figures have been reclassified to conform with the financial presentation adopted in the current period.