

Financial Statements of

**HÔPITAL RÉGIONAL DE  
SUDBURY REGIONAL HOSPITAL**

Year ended March 31, 2002



## AUDITORS' REPORT TO THE MEMBERS

We have audited the statement of financial position of **Hôpital Régional de Sudbury Regional Hospital** as at March 31, 2002 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2002 and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

*Colin Barrow / Maheu Noiseux LLP*

Chartered Accountants

Chartered Accountants

Sudbury, Canada  
May 15, 2002

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Statement of Financial Position

March 31, 2002, with comparative figures for 2001

	2002	2001
<b>Assets</b>		
Current assets:		
Short-term investments (note 2)	\$ -	31,595,219
Accounts receivable (note 3)	7,064,744	23,963,326
Inventories	2,955,882	2,541,560
Prepayments	982,231	809,608
	<u>11,002,857</u>	<u>58,909,713</u>
Grant receivable (note 4)	15,627,726	-
Capital assets (note 5)	180,937,940	131,946,428
	<u>\$ 207,568,523</u>	<u>190,856,141</u>

## Liabilities, Deferred Contributions and Deficiency in Net Assets

Current liabilities:		
Bank indebtedness (note 6)	\$ 33,017,996	26,326,461
Accounts payable and accrued liabilities (note 7)	47,729,656	35,999,696
Current portion of long-term obligations (note 9)	264,317	151,583
	<u>81,011,969</u>	<u>62,477,740</u>
Deferred capital contributions (note 8)	152,366,274	129,641,944
Long-term obligations (note 9)	3,933,869	1,842,306
Deficiency in net assets	(29,743,589)	(3,105,849)
Contingencies and commitments (note 14)		
	<u>\$ 207,568,523</u>	<u>190,856,141</u>

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

## Statement of Operations

Year ended March 31, 2002, with comparative figures for 2001

	2002	2001
<b>Revenue:</b>		
Ministry of Health and Long Term Care	\$ 156,103,434	164,159,592
Other Vote programs	7,964,282	6,614,040
Patient services	19,762,556	19,361,244
Other	9,764,649	10,136,400
Amortization - deferred capital contributions for equipment (note 8)	2,621,174	2,361,713
	<u>196,216,095</u>	<u>202,632,989</u>
<b>Expenses:</b>		
Salaries and wages	112,122,920	108,485,975
Employee benefits	24,042,366	21,532,182
Medical staff remuneration	14,482,916	14,353,567
Medical and surgical	16,753,253	15,552,250
Drugs	9,654,195	9,679,408
Supplies and other	28,127,437	26,443,911
Other Vote programs	8,053,573	6,800,438
Depreciation - equipment	6,505,371	6,540,884
	<u>219,742,031</u>	<u>209,388,615</u>
	(23,525,936)	(6,755,626)
<b>Restructuring (note 14(d)):</b>		
Costs	(4,134,466)	(6,969,762)
Net recoveries	1,983,048	1,053,524
	<u>(2,151,418)</u>	<u>(5,916,238)</u>
<b>Deficiency of revenue over expenses before other items</b>		
	(25,677,354)	(12,671,864)
Depreciation - buildings and site services	(2,516,893)	(2,486,834)
Amortization - deferred capital contributions for buildings and site services (note 8)	1,600,135	1,432,821
Share in loss of related entity	(43,628)	(166,116)
<b>Deficiency of revenue over expenses</b>	<u>\$ (26,637,740)</u>	<u>(13,891,993)</u>

See accompanying notes to financial statements.

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Statement of Changes in Deficiency in Net Assets

Year ended March 31, 2002, with comparative figures for 2001

	Equity in Capital Assets	Restricted for Capital Acquisitions	Unrestricted	2002 Total	2001 Total
Net assets (deficiency), beginning of year	\$ 28,054,159	7,298,916	(38,458,924)	(3,105,849)	10,786,144
Deficiency of revenue over expenses (note 10)	(4,800,955)	-	(21,836,785)	(26,637,740)	(13,891,993)
Invested in capital assets (note 10)	20,190,078	(7,298,916)	(12,891,162)	-	-
<b>Net assets (deficiency), end of year</b>	<b>\$ 43,443,282</b>	<b>-</b>	<b>(73,186,871)</b>	<b>(29,743,589)</b>	<b>(3,105,849)</b>

See accompanying notes to financial statements.

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

## Statement of Cash Flows

Year ended March 31, 2002, with comparative figures for 2001

	2002	2001
Cash flows from operating activities:		
Deficiency of revenue over expenses	\$ (26,637,740)	(13,891,993)
Adjustments for:		
Depreciation	9,022,264	9,027,718
Amortization of deferred capital contributions	(4,221,309)	(3,794,534)
Amortization of accrued benefits obligation	716,695	702,500
Loss (gain) on disposal of capital assets	(32,984)	2,473
	(21,153,074)	(7,953,836)
Change in non-cash working capital (note 13)	28,041,598	3,713,694
	6,888,524	(4,240,142)
Cash flows from investing and financing activities:		
Additions to capital assets:		
- capital expansion	(48,867,807)	(43,145,505)
- other	(9,149,159)	(10,354,472)
Increase in deferred capital contributions	26,945,639	52,829,305
Grant receivable	(15,627,726)	-
Increase in long-term obligations	1,487,601	1,291,385
Proceeds on disposal of capital assets	36,174	8,954
Investment in related entity	-	166,116
	(45,175,278)	795,783
<b>Net decrease in cash resources</b>	(38,286,754)	(3,444,359)
Cash resources, beginning of year	5,268,758	8,713,117
<b>Cash resources, end of year</b>	\$ (33,017,996)	5,268,758
Cash resources consist of:		
Short-term investments	\$ -	31,595,219
Bank indebtedness	(33,017,996)	(26,326,461)
	\$ (33,017,996)	5,268,758

See accompanying notes to financial statements.

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2002

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The Hôpital Régional de Sudbury Regional Hospital (the "Hospital") was incorporated under the laws of Ontario on June 30, 1997 and is exempt from income taxes under Section 149.1 of the Income Tax Act.

## 1. Significant accounting policies:

### (a) Revenue recognition:

The Hospital accounts for contributions, which include donations and government grants, under the deferral method of accounting as follows:

Operating grants are recorded as revenue in the period to which they relate.

Grants and donations relating to future periods are deferred and recognized in the subsequent period when the related activity occurs.

Grants and donations approved but not received are accrued.

Unrestricted contributions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the period in which the related expenses are recognized.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the straight-line basis at rates corresponding to those of the related capital assets.

### (b) Inventories:

Inventories are recorded at cost.

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2002

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## 1. Significant accounting policies (continued):

### (c) Capital assets:

Capital assets are stated at cost. Depreciation is provided on the straight-line basis at the following range of annual rates:

Buildings and site services	2 - 10%
Furniture and equipment	5 - 20%

In the year of acquisition, depreciation is provided at one-half of the rates otherwise charged.

The assets under capital lease and the energy services agreement are being amortized on the straight-line basis over the agreement terms of 10 and 20 years.

Depreciation of projects in progress is provided as and when the facilities come into use.

Certain renovation costs to adapt the facilities to changed operating conditions or to maintain normal operating efficiency are expensed as incurred.

### (d) Internally restricted net assets:

Internally restricted net assets consist of internal funds, restricted as to their use within the Hospital for certain capital acquisitions.

### (e) Related entities:

#### (i) Sudbury Vascular Laboratory:

The investment in the wholly-owned related entity, Sudbury Vascular Laboratory is accounted for by the equity method.

#### (ii) Other entities:

The notes to financial statements include a combined summary of the financial position, operations and cash flows of the following entities (note 12):

Sudbury Regional Hospital Foundation  
Association des bénévoles HRSRH Volunteer Association  
Sudbury Hospital Services



# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2002

## 1. Significant accounting policies (continued):

### (f) Employee future benefits:

The Hospital has adopted the transitional method of recognizing the accrued benefits obligation, the original balance of which amounted to \$4.035 million. The obligation is being amortized over an eleven year period at a discount rate of 6.5%.

### (g) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

## 2. Short-term investments:

Short-term investments in 2001 were restricted for the sole purpose of construction costs relating to the capital expansion project.

## 3. Accounts receivable:

	2002	2001
Ministry of Health and Long Term Care:	\$ 890,000	17,206,097
Patients and clients	3,923,467	4,043,925
Canada Customs and Revenue Agency (GST)	546,708	1,514,282
Sudbury Regional Hospital Foundation	271,526	221,549
Sudbury and District Energy Corporation (SDEC)	1,288,178	373,390
Other	934,865	1,582,083
	7,854,744	24,941,326
Less allowance for doubtful accounts	(790,000)	(978,000)
	\$ 7,064,744	23,963,326

The amount receivable from SDEC is pursuant to an Energy Services Agreement whereby the SDEC has agreed to purchase a certain portion of the Hospital's energy assets in the amount of \$3.0 million (note 9 (c)).

## 4. Grant receivable:

In April, 2002 the Hospital received a capital contribution amounting to \$16,081,000, of which \$15,627,726 is restricted for the funding of Phase II of the capital expansion project (note 14(c)).

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2002

## 5. Capital assets:

	2002		2001	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Property	\$ 1,713,793	–	1,713,793	–
Site services	2,275,953	2,130,346	2,275,953	2,009,496
Buildings	74,676,169	31,350,898	73,369,350	29,093,449
Furniture and equipment	102,059,176	76,665,187	96,349,586	70,633,812
Assets under capital leases	3,041,494	230,593	1,385,930	92,000
Projects in progress	107,548,379	–	58,680,573	–
	291,314,964	110,377,024	233,775,185	101,828,757
Less accumulated depreciation	(110,377,024)		(101,828,757)	
	\$ 180,937,940		131,946,428	

## 6. Bank indebtedness:

The Hospital has arranged for certain credit facilities which include a demand operating line to \$22.5 million and a bridge loan to \$40 million. The facilities bear interest as follows:

\$7.5 million	Banker's prime rate less .5%
\$15 million	Banker's prime rate less .65%.
\$40 million	Banker's prime rate less .65%.

## 7. Accounts payable and accrued liabilities:

	2002	2001
Accounts payable and accrued liabilities:		
- operating	\$ 14,501,974	13,044,125
- capital	15,971,506	8,855,961
Payroll accruals:		
- salaries and wages	7,292,510	4,429,241
- vacation pay	7,763,638	7,272,462
- sick leave	2,200,028	2,397,907
	\$ 47,729,656	35,999,696

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2002

## 8. Deferred capital contributions:

Deferred capital contributions represent the unamortized and unspent balances of donations and grants received for capital asset acquisitions. Details of the continuity of these funds are as follows:

	2002	2001
Balance, beginning of year	\$ 129,641,944	80,607,173
Additional contributions received		
Equipment:		
Ministry of Health and Long Term Care	997,655	2,851,119
Sudbury Regional Hospital Foundation	1,577,325	155,934
Other	243,499	13,000
	<u>2,818,479</u>	<u>3,020,053</u>
Capital expansion project:		
Ministry of Health and Long Term Care	16,081,000	47,204,092
City of Greater Sudbury	4,478,782	-
Sudbury Regional Hospital Foundation	3,000,000	-
Interest earned	567,378	2,605,160
	<u>24,127,160</u>	<u>49,809,252</u>
	<u>26,945,639</u>	<u>52,829,305</u>
Less amounts amortized to revenue	(4,221,309)	(3,794,534)
	<u>\$ 152,366,274</u>	<u>129,641,944</u>

The balance of unamortized and unspent funds consist of the following:

	2002	2001
Unamortized	\$ 134,715,668	102,600,881
Unspent:		
Equipment	132,487	67,052
Capital expansion project	17,518,119	26,974,011
	<u>17,650,606</u>	<u>27,041,063</u>
	<u>\$ 152,366,274</u>	<u>129,641,944</u>

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2002

## 9. Long term obligations:

	2002	2001
YMCA Centre for Life – capital lease	\$ 1,170,597	1,291,389
Accrued benefits obligation	1,419,195	702,500
SDEC – energy services agreement	1,608,394	–
	4,198,186	1,993,889
Less current portion	264,317	151,583
	\$ 3,933,869	1,842,306

- a) Pursuant to a lease agreement dated July 14, 2000, the Hospital leases space for rehabilitation and treatment at the YMCA Centre for Life. The lease, which has a term of ten years, requires a basic rent and additional rent for the Hospital's share for facility operating costs and common area charges. There is an option for accelerated payments on the obligation. At the end of the term, the annual basic rental is \$1. The additional rent amounts to a maximum annual charge of \$66,000 plus a 4% escalator for years two to ten inclusive.
- b) The Hospital sponsors a post retirement defined benefit plan for medical, life insurance and dental benefits for substantially all employees excepting those subject to the Ontario Nurses Association contract. The expense for the current year, net of contributions made to the Plan, and the remaining unamortized transitional obligation amounted to \$716,695 and \$3,301,400 respectively. Contributions made to the plan in the year amounted to approximately \$101,500.
- c) Pursuant to an Energy Services Agreement dated October 25, 2000 with the Sudbury District Energy Corporation ("SDEC"), the Hospital has acquired the rights for use of certain energy assets located at the Laurentian site over a 20 year term (note 3). In addition to energy charges, the agreement requires monthly financing payments of \$12,500. Since the Hospital has the option to purchase a portion of the energy assets for \$1 on expiration of the agreement, the financing payments have been capitalized.
- d) Details of the future minimum payments by year end in aggregate, based on discount rates of 8% and 6% for the YMCA and SDEC agreements respectively, are as follows:

2003	\$ 356,400
2004	356,400
2005	356,400
2006	218,800
2007	237,200
Thereafter to 2010	2,766,800
Total minimum payments	4,292,000
Less amounts representing interest	1,513,009
Present value of net minimum payments	2,778,991
Less current portion	264,317
Non current portion	\$ 2,514,674

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2002

## 10. Equity in Capital Assets:

(a) The equity in capital assets is calculated as follows:

	2002	2001
Capital assets, net book value	\$ 180,937,940	131,946,428
Amounts financed by:		
- deferred capital contributions	(134,715,668)	(102,600,880)
- capital lease obligations	(2,778,990)	(1,291,389)
	<b>\$ 43,443,282</b>	<b>28,054,159</b>

(b) The changes in equity in capital assets are calculated as follows:

Deficiency of revenue over expenses:		
Amortization of deferred capital contributions	\$ 4,221,309	3,794,534
Depreciation and amortization	(9,022,264)	(9,027,718)
	<b>\$ (4,800,955)</b>	<b>(5,233,184)</b>
Invested in capital assets:		
Purchase of capital assets	\$ 58,016,966	53,499,977
Amounts funded by deferred capital contributions	(36,336,096)	(34,653,818)
Amounts financed by capital lease obligations	(1,655,564)	(1,385,930)
Reduction of capital lease obligations	167,962	94,545
Proceeds on disposal of capital assets	(36,174)	(8,954)
Gain (loss) on disposal of capital assets	32,984	(2,473)
	<b>\$ 20,190,078</b>	<b>17,543,347</b>

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2002

## 11. Pension plan:

Substantially all of the employees of the Hospital are members of the Hospitals of Ontario Pension Plan (the "Plan") which is a multi-employer defined benefit plan. Contributions to the Plan made during the year on behalf of employees amounted to \$3,399,956 (2001 - \$2,682,945) and are included in employee benefits in the statement of operations. The most recent actuarial valuation of the Plan as at December 31, 2000 indicates that the Plan is fully funded.

## 12. Other entities:

### (a) Foundation and Volunteer Association

The Sudbury Regional Hospital Foundation was created for the purpose of promoting and participating in fund raising programs in order to raise money for capital projects and to assist in undertaking all phases of medical research.

The Association des bénévoles HRSRH Volunteer Association was created for the purpose of promoting and participating in fund raising activities in order to raise money for capital equipment, health related community projects and volunteer activities.

Pertinent financial information of the Foundation and Volunteer Association as at and for the year ended March 31 are as follows:

	Foundation		Volunteer Association	
	2002	2001	2002	2001
Financial position:				
Total assets	\$ 8,606,805	10,475,865	187,446	235,493
Total liabilities	\$ 254,656	179,144	43,977	63,791
Net assets	8,352,149	10,296,721	143,469	171,702
	\$ 8,606,805	10,475,865	187,446	235,493
Results of operations:				
Total revenue	\$ 8,156,386	3,718,822	284,633	199,075
Total expenses	10,100,958	208,151	263,123	46,211
Net revenue (deficiency)	\$ (1,944,572)	3,510,671	21,510	152,864

During the year, the Hospital received capital donations amounting to \$4,577,325 (2001 - \$168,934) from the Foundation and Volunteer Association.

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2002

## 12. Other information (continued):

### (b) Sudbury Hospital Services:

Sudbury Hospital Services was created to provide steam and laundry services to the Hospital.

Pertinent summary financial information of Sudbury Hospital Services as at and for the year ended March 31 are as follows:

	2002	2001
Financial position:		
Total assets	\$ 3,015,229	2,941,662
Total liabilities	\$ 276,496	219,293
Net assets	2,738,733	2,722,369
	\$ 3,015,229	2,941,662
Results of operations:		
Total revenue	\$ 3,425,276	3,429,965
Total expenses	3,408,912	3,432,265
Net earnings (loss)	\$ 16,364	(2,300)
Cash flows:		
Cash from operations	\$ 649,181	32,785
Cash used in financing and investing activities	(238,258)	(159,094)
Increase (decrease) in cash	\$ 410,923	(126,309)

# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2002

## 13. Change in non-cash working capital:

	2002	2001
Accounts receivable	\$ 16,898,582	(2,533,199)
Inventories	(414,322)	91,175
Prepayments	(172,623)	(205,606)
Accounts payable and accrued liabilities	11,729,961	6,361,324
	<b>\$ 28,041,598</b>	<b>3,713,694</b>

## 14. Contingencies and commitments:

### (a) Ministry of Health and Long Term Care grants:

The Hospital receives grants from the Ministry for specific services. Pursuant to the related agreements, if the Hospital does not meet specified levels of activity, the Ministry is entitled to seek refunds. Should any amounts become refundable, the refunds would be charged to operations in the period in which the refund is determined to be payable. Should programs and activities incur a deficit, the Hospital records any recoveries thereon in the period in which collection is received.

### (b) Capital assets:

The Hospital assets currently held may be disposed of or may become redundant to the ongoing operations as and when the single site amalgamation of operations occurs.

Any resulting gains or losses on the disposition or write-down of the Hospital's assets and any adjustments to deferred capital contributions will be accounted for as an adjustment to equity and capital assets in the period in which the site amalgamation plans are finalized.

### (c) Capital expansion project:

The Hospital is in progress of completing the expansion of its facilities at the Laurentian site. The approved capital expenditure commitment to 2001 amounted to approximately \$143 million of which the Ministry had approved funding in the amount of approximately \$92 million. Effective April, 2002, the Ministry announced the approval of an additional \$20 million in funding. The aggregate expenditures incurred and Ministry funding received to March 31, 2002 amounted to approximately \$115 million and \$80 million respectively.

In view of possible revisions, delays in the construction schedule and findings of the operational review (note 15), the Hospital is in process of obtaining updated cost and funding estimates and a revised expected completion date.



# HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2002

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## 14. Contingencies and commitments (continued):

### (d) Restructuring costs and recoveries:

During the transition period to the one site facility, the Hospital has incurred significant restructuring expenditures, some of which are eligible for recoveries from the Ministry. Subject to its discretion, review and interpretation of the guidelines for making recovery claims, the Ministry provides recoveries of up to 85% of eligible expenditures.

The Hospital has made provision for its estimate of eligible recoveries based on its interpretation of the guidelines. Differences between the estimated recovery provided and the actual funding approved, if any, are accounted for in the period in which approval is received from the Ministry.

### (e) Legal suits and claims:

The Hospital is involved in certain legal matters and litigation, the outcomes of which are not presently determinable. The loss, if any, from these contingencies will be accounted for in the periods in which the matters are resolved. Management is of the opinion that these matters are mitigated by adequate insurance coverage.

## 15. Other information:

At the request of the Hospital, the Ministry of Health and Long Term Care, has initiated an operational review, the specific objectives of which include:

- An assessment of the Hospital's financial, clinical, and operating performance
- An assessment of the costing and management of the capital project
- An assessment of the governance, management and decision making structures
- The development of a recovery plan that supports the implementation of any recommendations

It is expected that the results of the operational review will be reported in the fall of 2002.

## 16. Comparative amounts:

Certain 2001 comparative amounts have been reclassified to conform to the presentation adopted in 2002.