

Financial Statements of

**HÔPITAL RÉGIONAL DE
SUDBURY REGIONAL HOSPITAL**

Year ended March 31, 2003

AUDITORS' REPORT TO THE MEMBERS

We have audited the statement of financial position of **Hôpital Régional de Sudbury Regional Hospital** as at March 31, 2003 and the statements of operations, changes in deficiency 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, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Chartered Accountants

Sudbury, Canada

May 14, 2003

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Statement of Financial Position

March 31, 2003, with comparative figures for 2002

	2003	2002
Assets		
Current assets:		
Accounts receivable (note 2)	\$ 32,569,664	7,064,744
Inventories	3,157,253	2,955,882
Prepayments	1,321,488	982,231
	<u>37,048,405</u>	<u>11,002,857</u>
Grant receivable	–	15,627,726
Capital assets (note 3)	181,183,325	180,937,940
	<u>\$ 218,231,730</u>	<u>207,568,523</u>

Liabilities, Deferred Contributions and Deficiency in Net Assets

Current liabilities:		
Bank indebtedness (note 4)	\$ 52,018,598	33,017,996
Accounts payable and accrued liabilities (note 5)	37,429,954	47,729,656
Current portion of long-term obligations	266,676	264,317
	<u>89,715,228</u>	<u>81,011,969</u>
Deferred capital contributions (note 6)	154,378,709	152,366,274
Long-term obligations (note 7)	4,477,042	3,933,869
Deficiency in net assets	(30,339,249)	(29,743,589)
Contingencies and commitments (note 12)		
	<u>\$ 218,231,730</u>	<u>207,568,523</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, 2003, with comparative figures for 2002

	2003	2002
Revenue:		
Ministry of Health and Long Term Care	\$ 188,421,220	156,103,434
Other Vote programs	9,090,343	7,964,282
Patient services	21,015,323	19,762,556
Other	10,363,579	9,764,649
Amortization - deferred capital contributions for equipment (note 6)	2,905,511	2,621,174
	<u>231,795,976</u>	<u>196,216,095</u>
Expenses:		
Salaries and wages	116,895,500	112,122,920
Employee benefits	26,930,787	24,042,366
Medical staff remuneration	13,792,455	14,482,916
Medical and surgical	17,654,010	16,753,253
Drugs	10,281,076	9,654,195
Supplies and other	29,134,068	28,127,437
Other Vote programs	9,447,348	8,053,573
Depreciation - equipment	6,630,926	6,505,371
	<u>230,766,170</u>	<u>219,742,031</u>
	1,029,806	(23,525,936)
Restructuring (note 12(d)):		
Costs	(2,057,012)	(4,134,466)
Net recoveries	1,500,000	1,983,048
	<u>(557,012)</u>	<u>(2,151,418)</u>
Excess (deficiency) of revenue over expenses before other items		
	472,794	(25,677,354)
Depreciation - buildings and site services	(2,663,813)	(2,516,893)
Amortization - deferred capital contributions for buildings and site services (note 6)	1,588,020	1,600,135
Share in net earnings (loss) of related entity	7,339	(43,628)
Deficiency of revenue over expenses	<u>\$ (595,660)</u>	<u>(26,637,740)</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, 2003, with comparative figures for 2002

	Equity in Capital Assets	Unrestricted	2003 Total	2002 Total
Net assets (deficiency), beginning of year	\$ 43,443,282	(73,186,871)	(29,743,589)	(3,105,849)
Deficiency of revenue over expenses (note 8)	(4,801,208)	4,205,548	(595,660)	(26,637,740)
Invested in capital assets (note 8)	(14,304,834)	14,304,834	–	–
Net assets (deficiency), end of year	\$ 24,337,240	(54,676,489)	(30,339,249)	(29,743,589)

See accompanying notes to financial statements.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Statement of Cash Flows

Year ended March 31, 2003, with comparative figures for 2002

	2003	2002
Cash flows from operating activities:		
Deficiency of revenue over expenses	\$ (595,660)	(26,637,740)
Adjustments for:		
Depreciation	9,294,739	9,022,264
Amortization of deferred capital contributions	(4,493,531)	(4,221,309)
Amortization of accrued benefits obligation	739,440	716,695
Gain on disposal of capital assets	-	(32,984)
	4,944,988	(21,153,074)
Change in non-cash working capital (note 11)	(36,345,252)	28,041,598
	(31,400,264)	6,888,524
Cash flows from investing and financing activities:		
Grant receivable	15,627,726	(15,627,726)
Additions to capital assets:		
- capital expansion	(7,457,130)	(48,867,807)
- other	(2,082,992)	(9,149,159)
Increase in deferred capital contributions	6,505,967	26,945,639
Increase (decrease) in long-term obligations	(193,909)	1,487,601
Proceeds on disposal of capital assets	-	36,174
	12,399,662	(45,175,278)
Net decrease in cash	(19,000,602)	(38,286,754)
Cash (bank indebtedness), beginning of year	(33,017,996)	5,268,758
Bank indebtedness, end of year (note 4)	\$ (52,018,598)	(33,017,996)

See accompanying notes to financial statements.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

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.

(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 change operating conditions or to maintain normal operating efficiency are expensed as incurred.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

1. Significant accounting policies (continued):

(d) Related entities:

The notes to financial statements include a combined summary of the financial position, operations and cash flows of the following entities (note 10):

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

The investment in the wholly-owned entity, Sudbury Vascular Laboratory is accounted for by the equity method. The other entities are not consolidated.

(e) 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%.

(f) 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.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

2. Accounts receivable:

	2003	2002
Ministry of Health and Long Term Care:	\$ 25,942,190	1,169,073
Patients and clients	3,818,172	3,923,467
Canada Customs and Revenue Agency (GST)	473,343	546,708
Sudbury Regional Hospital Foundation	54,417	271,526
Sudbury and District Energy Corporation (SDEC)	1,478,273	1,288,178
Other	1,433,269	655,792
	33,199,664	7,854,744
Less allowance for doubtful accounts	(630,000)	(790,000)
	\$ 32,569,664	7,064,744

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 7 (b)).

3. Capital assets:

	2003		2002	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Property	\$ 1,713,793	–	1,713,793	–
Site services	2,275,953	2,248,961	2,275,953	2,130,346
Buildings	74,902,867	33,674,724	74,676,169	31,350,898
Furniture and equipment	103,915,470	83,296,113	102,059,176	76,665,187
Assets under capital leases	3,041,494	451,964	3,041,494	230,593
Projects in progress	115,005,510	–	107,548,379	–
	300,855,087	119,671,762	291,314,964	110,377,024
Less accumulated depreciation	(119,671,762)		(110,377,024)	
	\$ 181,183,325		180,937,940	

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

4. Bank indebtedness:

	2003	2002
Bridge loan	\$ 49,500,000	33,628,444
Demand operating line (cash)	2,518,598	(610,448)
	\$ 52,018,598	33,017,996

The Hospital has arranged for credit facilities which include a demand operating line to \$15 million and a bridge loan to \$65 million. The facilities bear interest at banker's prime rate less .75%. Subsequent to March 31, 2003, the balances were fully paid and the bridge loan facility expired.

5. Accounts payable and accrued liabilities:

	2003	2002
Accounts payable and accrued liabilities:		
- operating	\$ 13,859,144	14,501,974
- capital	3,775,813	15,971,506
Payroll accruals:		
- salaries and wages	10,191,533	7,292,510
- vacation pay	7,573,842	7,763,638
- sick leave	2,029,622	2,200,028
	\$ 37,429,954	47,729,656

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

6. 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:

	2003	2002
Balance, beginning of year	\$ 152,366,274	129,641,944
Additional contributions received		
Equipment:		
Ministry of Health and Long Term Care	—	997,655
Sudbury Regional Hospital Foundation	387,643	1,577,325
Other	193,475	243,499
	581,118	2,818,479
Capital expansion project:		
Ministry of Health and Long Term Care	3,000,000	16,081,000
City of Greater Sudbury	700,000	4,478,782
Sudbury Regional Hospital Foundation	2,000,000	3,000,000
Interest earned	224,848	567,378
	5,924,848	24,127,160
	6,505,966	26,945,639
Less amounts amortized to revenue	(4,493,531)	(4,221,309)
	\$ 154,378,709	152,366,274

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

	2003	2002
Unamortized	\$ 154,261,002	134,715,668
Unspent:		
Equipment	117,707	132,487
Capital expansion project (note 8)	—	17,518,119
	117,707	17,650,606
	\$ 154,378,709	152,366,274

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

7. Long term obligations:

	2003	2002
YMCA Centre for Life - capital lease	\$ 1,039,778	1,170,597
SDEC - energy services agreement	1,545,305	1,608,394
Accrued benefits obligation	2,158,635	1,419,195
	4,743,718	4,198,186
Less current portion	266,676	264,317
	\$ 4,477,042	3,933,869

- 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) 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 2). 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
- c) 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 \$739,430 (2002 - \$716,695) and \$2,934,600 (2002- \$3,301,400) respectively. Contributions made to the plan in the year amounted to approximately \$101,500 (2002 - \$101,500).
- 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:

2004	\$ 356,400
2005	356,400
2006	330,300
2007	321,600
2008	321,600
Thereafter to 2020	2,512,737
Total minimum payments	4,199,037
Less amounts representing interest	1,613,954
Present value of net minimum payments	2,585,083
Less current portion	266,676
Non current portion	\$ 2,318,407

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

8. Equity in Capital Assets:

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

	2003	2002
Capital assets, net book value	\$ 181,183,325	180,937,940
Amounts financed by:		
- deferred capital contributions	(154,261,002)	(134,715,668)
- capital lease obligations	(2,585,083)	(2,778,990)
	\$ 24,337,240	43,443,282

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

Deficiency of revenue over expenses:		
Amortization of deferred capital contributions	\$ 4,493,531	4,221,309
Depreciation and amortization	(9,294,739)	(9,022,264)
	\$ (4,801,208)	(4,800,955)
Invested in capital assets:		
Amounts funded by deferred capital contributions	\$ (24,038,865)	(36,336,096)
Purchase of capital assets	9,540,122	58,016,966
Reduction of capital lease obligations	193,909	167,962
Amounts financed by capital lease obligations	-	(1,655,564)
Proceeds on disposal of capital assets	-	(36,174)
Gain on disposal of capital assets	-	32,984
	\$ (14,304,834)	20,190,078

Pursuant to Ministry direction, funds previously restricted for future capital expansion - Phase II were applied to Phase I of the project, portions of which had been funded by unrestricted net assets. Accordingly, unrestricted net assets were increased and equity in capital assets decreased by \$17,518,119.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

9. 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 \$5,724,628 (2002 - \$3,399,956) and are included in employee benefits in the statement of operations. The most recent actuarial valuation of the Plan as at December 31, 2001 indicates that the Plan is fully funded.

10. Other entities:

(a) Foundation and Volunteer Association

The Sudbury Regional Hospital Foundation was created for the purpose of promoting and participating in fundraising 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 fundraising 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 is as follows:

	Foundation		Volunteer Association	
	2003	2002	2003	2002
Financial position:				
Total assets	\$ 7,810,800	8,576,906	191,274	187,446
Total liabilities	\$ 14,177	367,728	43,652	43,977
Net assets	7,796,623	8,209,178	147,622	143,469
	\$ 7,810,800	8,576,906	191,274	187,446
Results of operations:				
Total revenue	\$ 2,704,693	8,126,487	257,473	284,633
Total expenses	3,117,248	10,214,030	253,319	263,123
Net revenue (deficiency)	\$ (412,555)	(2,087,543)	4,154	21,510

During the year, the Hospital received capital donations amounting to \$2,390,365 (2002 - \$4,577,325) from the Foundation.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

10. Other entities (continued):

(b) Sudbury Hospital Services and Sudbury Vascular Laboratory Ltd:

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

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

	Sudbury Hospital Services		Sudbury Vascular Lab	
	2003	2002	2003	2002
Financial position:				
Total assets	\$ 3,010,629	3,015,229	230,075	196,840
Total liabilities	\$ 193,940	276,496	449,975	424,079
Net assets (Shareholders' deficit)	2,816,689	2,738,733	(219,900)	(227,239)
	\$ 3,010,629	3,015,229	230,075	196,840
Results of operations:				
Total revenue	\$ 3,465,634	3,425,276	655,419	540,287
Total expenses	3,387,677	3,408,912	656,106	584,976
Income tax recoverable	—	—	(8,026)	(1,061)
Net revenue (deficiency)	\$ 77,957	16,364	7,339	(43,628)
Cash flows:				
Cash from (used in) operations	\$ 374,530	649,181	24,891	(35,456)
Cash from (used in) financing and investing activities	(262,827)	(238,258)	15,571	(36,127)
Increase (decrease) in cash	\$ 111,703	410,923	40,462	(71,583)

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

11. Change in non-cash working capital:

	2003	2002
Accounts receivable	\$ (25,504,920)	16,898,582
Inventories	(201,371)	(414,322)
Prepayments	(339,257)	(172,623)
Accounts payable and accrued liabilities	(10,299,704)	11,729,961
	<u>\$ (36,345,252)</u>	<u>28,041,598</u>

12. 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.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

12. Contingencies and commitments (continued):

(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 for Phase I is \$140.5 million, in which the Ministry has approved funding in the amount of approximately \$89 million. Phase I of the project is estimated to be completed in the fall of 2003.

Costs associated with the capital expansion project are capitalized as incurred. The project funding and eligibility of costs is subject to a process involving project approval, submission of a final estimate of cost and a closing capital cost audit at which time, the eligibility of all costs for capital asset recognition and funding would be determined.

The Ministry initiated an operational review (note 13(a)) which among other objectives included a review of the capital project and revised costing estimates for Phase I and II under various assumptions and alternatives. As at May 29, 2003, the Hospital is not committed to any alternative for the project's completion and accordingly, revised costing and financing estimates for completion are uncertain. Phase II capital expenditures and the respective alternatives are currently under review by the Ministry.

(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.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2003

13. Other information:

(a) Operational Review and Recovery Plan:

The Ministry of Health and Long Term Care completed the operational review of the Hospital and published a final report of recommendations. As a result of the operational review, the MOHLTC appointed a Supervisor to assist the Hospital in developing a three-to-five year recovery plan that would:

- result in a balanced HRSRH operating budget
- allow for the completion of the capital project
- address the working capital deficiency
- position HRSRH for effective governance and management

(b) Cancer Care Integration:

Cancer Care Ontario has developed an integration proposal between Northeastern Regional Ontario Cancer Centre and the Hospital. The integration of operations is expected to occur in the 2003/2004 operating year.

14. Fair value of financial assets and financial liabilities:

The carrying values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

The fair value of the Hospital's long-term obligations which includes a capital lease and an energy services agreement approximate the carrying values of approximately \$1.04 million and \$1.5 million respectively. Fair values of such instruments are calculated using the future cash flows (principal and interest) of the actual outstanding debt instruments, discounted at current market rates available to the Hospital for the same or similar instruments.