

Financial Statements of

**HÔPITAL RÉGIONAL DE
SUDBURY REGIONAL HOSPITAL**

Year ended March 31, 2006



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AUDITORS' REPORT TO THE MEMBERS

We have audited the statement of financial position of **Hôpital Régional de Sudbury Regional Hospital** as at March 31, 2006 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, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Sudbury, Canada

May 10, 2006

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Statement of Financial Position

March 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Current assets:		
Accounts receivable (note 2)	\$ 9,452,036	18,325,952
Inventories	3,072,932	3,141,840
Prepayments	3,083,793	2,279,388
	15,608,761	23,747,180
Grant receivable (note 3)	14,108,059	9,022,087
Long-term receivables (note 4)	738,344	738,344
Capital assets (note 5)	211,981,408	201,840,477
	\$ 242,436,572	235,348,088

Liabilities, Deferred Contributions and Deficiency in Net Assets

Current liabilities:		
Bank indebtedness (note 6)	\$ 13,355,599	7,347,172
Accounts payable and accrued liabilities (note 7)	60,026,528	64,723,046
Current portion of long-term obligations	401,148	405,507
	73,783,275	72,475,725
Deferred contributions (note 8)	1,947,002	1,986,571
Deferred capital contributions (note 9)	190,706,727	185,025,457
Long-term obligations (note 10)	7,181,952	7,339,805
Deficiency in net assets	(31,182,384)	(31,479,470)
Contingencies and commitments (note 15)		
	\$ 242,436,572	235,348,088

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, 2006, with comparative figures for 2005

	2006	2005
Revenue:		
Ministry of Health and Long-Term Care	\$ 216,943,942	208,464,124
Cancer Care Ontario	23,887,346	20,853,667
Other Vote programs	8,799,650	8,213,065
Patient services	23,004,131	21,159,841
Other	16,731,212	15,054,463
Amortization - deferred capital contributions for equipment (note 9)	4,524,095	3,726,039
	<u>293,890,376</u>	<u>277,471,199</u>
Expenses:		
Salaries and wages	142,450,274	137,179,635
Employee benefits	38,809,260	35,946,854
Medical staff remuneration	17,703,591	16,315,729
Medical and surgical	22,152,945	20,510,533
Drugs	15,210,144	13,119,818
Supplies and other	36,953,135	35,173,807
Other Vote programs	8,736,386	8,131,576
Depreciation - equipment	8,918,391	6,917,546
	<u>290,934,126</u>	<u>273,295,498</u>
	2,956,250	4,175,701
Transitional costs	(1,583,430)	(1,720,910)
Excess of revenue over expenses before the undernoted	1,372,820	2,454,791
Depreciation - buildings and site services	(2,704,423)	(2,673,332)
Amortization - deferred capital contributions for buildings and site services (note 9)	1,564,970	1,589,395
Share in earnings of related entity	63,719	123,219
Excess of revenue over expenses	\$ 297,086	1,494,073

See accompanying notes to financial statements.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Statement of Changes in Deficiency in Net Assets

Year ended March 31, 2006, with comparative figures for 2005

	Equity in Capital Assets	Unrestricted	2006 Total	2005 Total
Net assets (deficiency), beginning of year	\$ 15,194,335	(46,673,805)	(31,479,470)	(32,973,543)
Excess (deficiency) of revenue over expenses (note 11)	(5,528,835)	5,825,921	297,086	1,494,073
Invested in capital assets (note 11)	11,292,027	(11,292,027)	–	–
Net assets (deficiency), end of year	\$ 20,957,527	(52,139,911)	(31,182,384)	(31,479,470)

See accompanying notes to financial statements.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Statement of Cash Flows

Year ended March 31, 2006, with comparative figures for 2005

	2006	2005
Cash flows from operating activities:		
Excess of revenue over expenses	\$ 297,086	1,494,073
Adjustments for:		
Depreciation	11,617,900	9,590,878
Amortization of deferred capital contributions	(6,089,065)	(5,315,434)
Amortization of accrued benefits obligation	243,297	401,288
Gain on disposal of capital assets	(22,266)	(25,646)
	6,046,952	6,145,159
Change in non-cash working capital (note 14)	3,441,901	14,681,173
	9,488,853	20,826,332
Cash flows from investing and financing activities:		
Additions to capital assets:		
- capital expansion project-building	(6,202,079)	(4,917,284)
- capital expansion project-equipment	(1,625,931)	(9,500,373)
- other	(13,933,605)	(12,901,238)
Increase (decrease) in deferred contributions	(39,569)	469,522
Increase in deferred capital contributions	11,770,335	37,442,111
Decrease in long-term obligations	(405,508)	(496,192)
Proceeds on disposal of capital assets	25,049	25,646
Increase in grant receivable	(5,085,972)	(9,022,087)
	(15,497,280)	1,100,105
Net increase (decrease) in cash	(6,008,427)	21,926,437
Bank indebtedness, beginning of year	(7,347,172)	(29,273,609)
Bank indebtedness, end of year	\$ (13,355,599)	(7,347,172)

See accompanying notes to financial statements.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

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 stated at the lower of cost and net realizable value.

(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%
Information technology	20 - 33%

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.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

1. Significant accounting policies (continued):

(d) Related entities:

The notes to financial statements include information of the following entities (note 13):

Sudbury Regional Hospital Foundation
Northern Cancer Research Foundation
Association des bénévoles HRSRH Volunteer Association
Sudbury Hospital Services
Sudbury Vascular Laboratory Ltd.

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

(e) Employee future benefits:

The Hospital accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs.

Actuarial gains (losses) arise from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the accrued benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the employee benefit plan is 11 years (2005 - 11 years).

(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 date of the financial statements and the reported amounts of revenues and expenses during the periods specified. Actual results could differ from those estimates.

(g) Funding adjustments:

The Hospital receives grants from the Ministry of Health and Long-Term Care (MOHLTC) for specific services. Pursuant to the related agreements, if the Hospital does not meet specified levels of activity, the MOHLTC 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.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

1. Significant accounting policies (continued):

(h) Transitional costs:

During the transition period to the one site facility, the Hospital has incurred significant expenditures related to the operation of multiple sites. These costs are not part of the Hospital's normal operating costs and are therefore separately identified.

(i) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Given the difficulty of determining the fair market value, contributed services are not recognized in the financial statements.

2. Accounts receivable:

	2006	2005
Ministry of Health and Long-Term Care	\$ 2,419,615	10,809,722
Patients and clients	5,731,308	5,073,186
Cancer Care Ontario	253,131	556,484
Canada Revenue Agency (GST)	517,605	1,048,278
Other	1,439,377	1,402,282
	10,361,036	18,889,952
Less allowance for doubtful accounts	(909,000)	(564,000)
	\$ 9,452,036	18,325,952

3. Grant receivable:

The grant receivable is from the MOHLTC for work completed on Phase I and II of the capital expansion project. It is based on their 80% commitment of eligible capital expenditures.

4. Long-term receivables:

	2006	2005
Cancer Care Ontario	\$ 438,344	438,344
Sudbury and District Energy Corporation (SDEC)	300,000	300,000
	\$ 738,344	738,344

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

5. Capital assets:

	2006		2005	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Property	\$ 1,711,011	–	1,713,794	–
Site services	2,275,953	2,275,953	2,275,953	2,275,953
Buildings	76,995,644	40,877,236	75,371,007	38,417,657
Furniture and equipment	110,666,632	87,971,779	102,692,718	84,020,051
Information technology	20,410,424	12,646,584	16,883,780	10,102,739
Assets under capital leases	3,510,634	1,186,494	3,510,634	941,651
Capital project equipment	13,069,375	2,761,807	11,443,444	1,152,311
Projects in progress	131,061,588	–	124,859,509	–
	359,701,261	147,719,853	338,750,839	136,910,362
Less accumulated depreciation	147,719,853		136,910,362	
	\$ 211,981,408		201,840,477	

6. Bank indebtedness:

	2006	2005
Bridge loan	\$ 5,003,248	19,056,218
Demand operating line	8,370,387	–
Cash	(18,036)	(11,709,046)
	\$ 13,355,599	7,347,172

The Hospital has arranged for credit facilities which include a demand operating line to \$20 million and a bridge loan to \$35 million. The facilities bear interest at banker's prime rate less .75%. Subsequent to March 31, 2006, the bridge loan facility was fully paid and expired.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

7. Accounts payable and accrued liabilities:

	2006	2005
Accounts payable and accrued liabilities:		
- operating	\$ 23,369,642	19,506,150
- capital equipment	4,116,506	5,311,041
- MOHLTC	2,866,946	2,074,782
- St. Joseph's Health Centre	1,052,541	1,200,000
- capital expansion project - building	700,961	251,291
- capital expansion project - equipment	183,841	1,695,865
Payroll accruals:		
- salaries and wages	9,813,232	17,846,222
- vacation pay	9,727,899	8,627,626
- sick leave	1,231,087	1,378,032
Deferred revenue	6,963,873	6,832,037
	\$ 60,026,528	64,723,046

8. Deferred contributions:

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

	2006	2005
Balance, beginning of year	\$ 1,986,571	1,517,049
Contributions received	2,377,609	2,255,017
Amounts taken to revenue	(2,417,178)	(1,785,495)
Balance, end of year	\$ 1,947,002	1,986,571

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

9. Deferred capital contributions:

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

	2006	2005
Balance, beginning of year	\$ 185,025,457	152,898,780
Additional contributions		
Equipment and buildings:		
Ministry of Health and Long-Term Care	3,496,901	4,921,162
Ministry of Finance	600,581	-
Cancer Care Ontario	426,265	793,513
Sudbury Regional Hospital Foundation	67,508	392,476
Other	239,511	182,451
FedNor	-	1,091,500
	4,830,766	7,381,102
Capital expansion project:		
Ministry of Health and Long-Term Care - building	5,085,972	18,322,087
Ministry of Health and Long-Term Care - equipment	1,154,463	9,039,788
Sudbury Regional Hospital Foundation	-	2,000,000
City of Greater Sudbury	699,134	699,134
	6,939,569	30,061,009
	11,770,335	37,442,111
Less amounts amortized to revenue	(6,089,065)	(5,315,434)
Balance, end of year	\$ 190,706,727	185,025,457

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

	2006	2005
Unamortized	\$ 189,515,997	184,732,751
Unspent:		
Equipment	1,190,730	292,706
	\$ 190,706,727	185,025,457

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

10. Long-term obligations:

	2006	2005
YMCA Centre for Life - capital lease	\$ 458,208	639,538
SDEC - energy services agreement	1,049,675	1,273,852
Accrued benefits obligation	6,075,217	5,831,922
	7,583,100	7,745,312
Less current portion	401,148	405,507
	\$ 7,181,952	7,339,805

- (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, and amended August 7, 2003, 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. The effect of the amendment was to increase the monthly financing payments to \$25,000 from \$12,500 and decrease the amortization period from 20 to 10 years. The impact was an increase in the lease obligation by approximately \$471,000. 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) Employee future benefits:

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 most recent valuation of the employee future benefits was completed as at April 1, 2003. The next valuation of the plan will be effective April 1, 2006.

The accrued benefit obligation is recorded in the financial statements as follows:

	2006	2005
Balance, beginning of year	\$ 5,831,922	5,430,634
Add: Benefit costs	448,300	448,300
	6,280,222	5,878,934
Less: Benefit contributions	205,003	47,012
Balance, end of year	\$ 6,075,219	5,831,922

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

10. Long-term obligations (continued):

(c) Employee future benefits (continued):

The significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligations are as follows:

	2006	2005
Discount rate	6.0%	6.0%
General inflation	3.0%	3.0%
Dental cost trend rates	4.5%	4.5%
Extended health care trend rates	8.5%	9.5%

(d) Details of the future minimum payments by year end in aggregate, based on discount rates of 4.5% and 6% for the YMCA and SDEC agreements respectively, are as follows:

2007	\$ 506,400
2008	506,400
2009	370,852
2010	300,000
2011	300,000
2012	200,000
Total minimum payments	2,183,652
Less amounts representing interest	675,769
Present value of net minimum payments	1,507,883
Less current portion	401,148
Non-current portion	\$ 1,106,735

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

11. Equity in capital assets:

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

	2006	2005
Capital assets, net book value	\$ 211,981,408	201,840,477
Amounts financed by:		
- deferred capital contributions	(189,515,998)	(184,732,751)
- capital lease obligations	(1,507,883)	(1,913,391)
	\$ 20,957,527	15,194,335

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

Deficiency of revenue over expenses:		
Amortization of deferred capital contributions	\$ 6,089,065	5,315,434
Depreciation	(11,617,900)	(9,590,878)
	\$ (5,528,835)	(4,275,444)
Invested in capital assets:		
Amounts funded by deferred capital contributions	\$ (10,872,312)	(37,267,112)
Purchase of capital assets	21,761,614	27,318,895
Reduction of capital lease obligations	405,508	496,192
Proceeds on disposal of capital assets	(25,049)	(25,646)
Gain on disposal of capital assets	22,266	25,646
	\$ 11,292,027	(9,452,025)

12. 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 \$11,562,869 (2005 - \$10,504,827) and are included in employee benefits in the statement of operations. The most recent actuarial valuation of the Plan as at December 31, 2005 indicates that the Plan is fully funded on a solvency basis.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

13. Other entities:

This section addresses disclosure requirements regarding the Hospital's relationships with related entities. The relationship can be one of economic interest, significant influence, joint control or control.

(a) Foundations 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. During the year, the Hospital received donations amounting to \$934,612 (2005 - \$3,090,472) from the Sudbury Regional Hospital Foundation.

The Northern Cancer Research Foundation was created for the purpose of promoting and participating in fundraising activities throughout the northeastern Ontario region to support cancer research and cancer care programs of the Regional Cancer Program.

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.

The Hospital has economic interest in the Foundations and Volunteer Association. Pertinent financial information of the Foundations and Volunteer Association as at and for the year ended March 31 is as follows:

	Sudbury Regional Hospital Foundation		Northern Cancer Research Foundation		HRSRH Volunteer Association	
	2006	2005	2005	2004	2006	2005
Financial position:						
Total assets	\$ 9,733,529	8,898,815	2,957,570	2,916,807	386,091	304,933
Total liabilities	\$ 68,013	266,445	79,182	65,321	36,287	51,559
Net assets	9,665,516	8,632,370	2,878,388	2,851,486	349,804	253,374
	\$ 9,733,529	8,898,815	2,957,570	2,916,807	386,091	304,933
Results of operations:						
Total revenue	\$ 2,241,420	2,442,820	2,155,308	2,241,576	181,795	184,340
Total expenses	1,208,274	3,483,389	2,128,406	1,623,677	85,364	68,395
Net revenue (deficiency)	\$ 1,033,146	(1,040,569)	26,902	617,899	96,431	115,945

Financial information for Northern Cancer Research Foundation for 2006 was not available at the time of the audit report date.

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

13. 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 based on rates reflecting the costs, expenses and disbursements incurred by them in the normal course of business. The Hospital has significant influence in Sudbury Hospital Services. During the year, the Hospital purchased \$4,059,836 (2005 - \$3,680,915) in steam and laundry services from Sudbury Hospital Services.

Sudbury Vascular Laboratory Ltd. was created to operate a vascular laboratory. The Hospital controls Sudbury Vascular Laboratory Ltd. As at March 31, 2006, Sudbury Vascular Laboratory Ltd. had advances owing to the Hospital of \$407,141 (2005 - \$244,166).

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

	Sudbury Hospital Services		Sudbury Vascular Laboratory Ltd.	
	2006	2005	2006	2005
Financial position:				
Total assets	\$ 4,641,316	3,166,694	1,020,735	535,991
Total liabilities	\$ 1,784,853	312,809	965,552	544,527
Net assets (deficiency)	2,856,463	2,853,885	55,183	(8,536)
	\$ 4,641,316	3,166,694	1,020,735	535,991
Results of operations:				
Total revenue	\$ 4,135,501	3,625,283	971,082	832,120
Total expenses	4,132,923	3,596,556	891,218	680,377
Income taxes	—	—	16,145	28,524
Excess of revenue over expenses	\$ 2,578	28,727	63,719	123,219
Cash flows:				
Cash from operations	\$ 352,310	422,628	297,891	133,220
Cash from (used in) financing and investing activities	(451,287)	(146,938)	(189,411)	(146,438)
Increase (decrease) in cash	\$ (98,977)	275,690	108,480	(13,218)

HÔPITAL RÉGIONAL DE SUDBURY REGIONAL HOSPITAL

Notes to Financial Statements

Year ended March 31, 2006

14. Change in non-cash working capital:

	2006	2005
Accounts receivable	\$ 8,873,916	(3,255,887)
Inventories	68,908	(15,487)
Prepayments	(804,405)	(694,150)
Accounts payable and accrued liabilities	(4,696,518)	18,646,697
	\$ 3,441,901	14,681,173

15. Contingencies and commitments:

(a) 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.

(b) Capital expansion project:

On March 21, 2006, the MOHLTC announced its commitment to support the completion of the capital expansion project. The Request for Qualifications for General Contractors (RFQ) was released in April 2006, and will be followed by the Request for Proposal (RFP) in June 2006.

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.

(c) Transitional (restructuring) costs and recoveries:

Effective April 1, 2003, the MOHLTC is no longer funding eligible restructuring costs, as defined by the MOHLTC. These costs continue to be incurred and reported as transitional costs.

(d) 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, 2006

16. Other information:

(a) Operational review and recovery plan:

The MOHLTC completed the operational review of the Hospital and published a final report of recommendations. As a result of the operational review, the Hospital has developed a three-to-five year recovery plan that should:

- result in a balanced HRSRH operating budget
- allow for the completion of the capital project
- address the working capital deficiency

The MOHLTC has committed to flow \$15 million to the Hospital on a one time recurring basis subject to achieving the recovery plan targets. The Hospital has met the targets for the first three years post recovery plan (2002/2003, 2003/2004, and 2004/2005) thereby securing the \$15 million funding. Further recovery plan targets will be introduced and reviewed by the MOHLTC following the merging of the existing three sites onto a single site.

(b) Northeast Mental Health Centre Integration:

In April 2006, the Hospital and the Northeast Mental Health Centre (NEMHC) submitted to the MOHLTC an integration implementation plan detailing the transfer of the District Mental Health and Addictions Services (beds and community programs) to the Hospital. The integration is expected to occur in 2006/2007 following the Ministry approval.

17. Fair value of financial assets and 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 \$0.9 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.

18. Comparative figures:

Certain 2005 comparative figures have been reclassified to conform with the presentation adopted for 2006.