

Financial Statements of



**Health Sciences North
Horizon Santé-Nord**

Year ended March 31, 2012



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INDEPENDENT AUDITORS' REPORT

To the Members

We have audited the accompanying financial statements of **Health Sciences North**, which comprise the statement of financial position as at March 31, 2012, the statements of operations, changes in deficiency 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider 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 Health Sciences North, as at March 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

June 12, 2012
Sudbury, Canada

HEALTH SCIENCES NORTH

Statement of Operations

Year ended March 31, 2012, with comparative figures for 2011
(In thousands of dollars)

	2012	2011
Revenue:		
NELHIN and MOHLTC	\$ 299,079	285,961
Cancer Care Ontario	32,815	31,035
Specifically funded programs	29,231	26,128
Patient services	29,822	28,880
Other	26,739	27,937
Amortization - deferred capital contributions for equipment	10,450	11,787
	<u>428,136</u>	<u>411,728</u>
Expenses:		
Salaries and wages	198,794	191,020
Employee benefits	56,742	53,121
Medical staff remuneration	25,860	23,978
Supplies and other	52,968	52,329
Medical and surgical	29,273	27,986
Drugs	17,311	16,805
Specifically funded programs	29,282	26,063
Amortization - equipment	21,361	23,308
	<u>431,591</u>	<u>414,610</u>
Deficiency of revenue over expenses before the undernoted	(3,455)	(2,882)
Amortization - buildings	(10,850)	(11,425)
Amortization - deferred capital contributions for buildings	9,137	9,229
Deficiency of revenue over expenses	\$ (5,168)	(5,078)

See accompanying notes to financial statements.

HEALTH SCIENCES NORTH

Statement of Financial Position

Year ended March 31, 2012, with comparative figures for 2011
(In thousands of dollars)

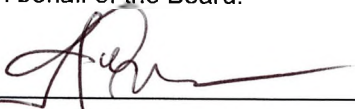
	2012	2011
Assets		
Current assets:		
Accounts receivable (note 2)	\$ 23,343	34,451
Inventories	3,845	3,456
Prepayments	7,335	5,871
	<u>34,523</u>	<u>43,778</u>
Restricted assets (note 3)	1,688	1,490
Long-term receivables (note 4)	8,005	8,647
Capital assets (note 5)	376,483	391,032
	<u>\$ 420,699</u>	<u>444,947</u>

Liabilities and Net Assets

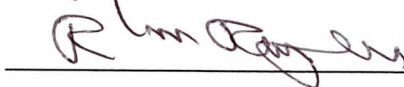
Current liabilities:		
Bank indebtedness (note 6)	\$ 38,197	48,377
Accounts payable and accrued liabilities (note 7)	92,029	88,000
Current portion of long-term obligations (note 10)	51	165
	<u>130,277</u>	<u>136,542</u>
Deferred contributions (note 8)	2,578	2,338
Deferred capital contributions (note 9)	327,524	342,418
Long-term obligations (note 10)	11,665	9,826
Deficiency in net assets	(51,345)	(46,177)
Contingencies (note 14)		
	<u>\$ 420,699</u>	<u>444,947</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

HEALTH SCIENCES NORTH

Statement of Changes in Deficiency in Net Assets

Year ended March 31, 2012, with comparative figures for 2011
(In thousands of dollars)

	2012	2011
Deficiency in net assets, beginning of year	\$ (46,177)	(41,099)
Deficiency of revenue over expenses	(5,168)	(5,078)
Deficiency in net assets, end of year	\$ (51,345)	(46,177)

See accompanying notes to financial statements.

HEALTH SCIENCES NORTH

Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011
(In thousands of dollars)

	2012	2011
Cash flows from operating activities:		
Deficiency of revenue over expenses	\$ (5,168)	(5,078)
Adjustments for:		
Amortization of capital assets	32,211	34,733
Amortization of deferred capital contributions	(19,587)	(21,016)
Amortization of accrued benefits obligation	1,890	967
Loss on disposal of capital assets	–	66
	9,346	9,672
Change in non-cash working capital (note 11)	13,285	(19,369)
	22,631	(9,697)
Cash flows from investing and financing activities:		
Additions to capital assets:		
- capital expansion project-building	(188)	(6,014)
- capital expansion project-equipment	(1,370)	(1,463)
- land	(1,777)	–
- equipment	(10,729)	(11,988)
- building	(3,559)	(3,906)
- medical learners project	(39)	(178)
Decrease in long-term receivables	642	569
Increase (decrease) in deferred contributions	240	(136)
Increase in deferred capital contributions	4,692	10,056
Increase in long-term obligations	(165)	(237)
Proceeds on disposal of capital assets	–	112
Decrease (increase) in restricted assets	(198)	3,467
	(12,451)	(9,718)
Net increase (decrease) in cash	10,180	(19,415)
Bank indebtedness, beginning of year	(48,377)	(28,962)
Bank indebtedness, end of year	\$ (38,197)	(48,377)

See accompanying notes to financial statements.

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012
(In thousands of dollars)

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 of the Income Tax Act. On November 1, 2011, the Hospital adopted the operating name Health Sciences North.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Revenue recognition:

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

Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in the subsequent period.

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.

Revenue from patient and other services is recognized when the service is provided.

(b) Inventories:

Inventories are stated at the lower of average cost and net realizable value. Cost comprises all costs to purchase, convert and any other costs in bringing the inventories to their present location and condition.

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012

(In thousands of dollars)

1. Significant accounting policies (continued):

(c) Capital assets:

Purchased capital assets are stated at cost. Assets acquired under capital leases are initially recorded at the present value of the future minimum lease payments and amortized over the useful life of the assets. Minor equipment replacements are expensed in the year of replacement.

Construction in progress is not amortized until construction is complete and the facilities come into use.

Amortization 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, amortization is provided at one-half of the rates otherwise charged.

Long-lived assets, including capital assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Hospital uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statement of financial position.

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012

(In thousands of dollars)

1. Significant accounting policies (continued):

(d) Related entities:

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

Health Sciences North Foundation
Northern Cancer Foundation
Health Sciences North 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 14 years.

The Hospital is an employer member of the Hospitals of Ontario Pension Plan (the "Plan"), which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. The Hospital records as pension expense the current service cost, amortization of past service costs and interest costs related to the future employer contributions to the Plan for past employee service.

(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. Significant items subject to such estimates and assumptions include the carrying amount of capital assets; valuation allowances for receivables, and inventories; valuation of financial instruments; and assets and obligations related to employee future benefits. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012

(In thousands of dollars)

1. Significant accounting policies (continued):

(g) Funding adjustments:

The Hospital receives grants from the North East Local Health Integration Network (“NELHIN”) and 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 or NELHIN are 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.

(h) 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.

(i) Financial instruments:

The Hospital accounts for its financial assets and liabilities in accordance with Canadian generally accepted accounting principles.

The financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the statement of financial position at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

In accordance with the generally accepted accounting principles of Canada the Hospital has undertaken the following:

- (i) Designated restricted cash and bank indebtedness as held-for-trading, being measured at fair value.
- (ii) Accounts receivable and long-term receivables are classified as loans and receivables, which are measured at amortized cost.
- (iii) Accounts payable and accrued liabilities and long-term obligations are classified as other financial liabilities, which are measured at amortized cost.
- (iv) The Hospital has elected to account for transactions at the trade date.

The Hospital continues to disclose under CICA Handbook Section 3861 - “Financial Instruments”.

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012
(In thousands of dollars)

2. Accounts receivable:

	2012	2011
NELHIN and MOHLTC	\$ 4,204	16,302
Patients	5,996	5,351
Hospitals and agencies	7,036	6,203
Cancer Care Ontario	2,545	1,398
Canada Revenue Agency (HST)	1,537	1,795
Current portion of long-term receivables	578	552
Other	4,034	5,438
	25,930	37,039
Less allowance for doubtful accounts	(2,587)	(2,588)
	\$ 23,343	34,451

3. Restricted assets:

	2012	2011
Cash	\$ 503	542
Short-term investments	681	446
MOHLTC receivable	504	502
	\$ 1,688	1,490

Restricted assets are restricted for the capital expansion project and medical learner project.

4. Long-term receivables:

	2012	2011
Cancer Care Ontario	\$ –	64
Northern Cancer Foundation	2,333	2,484
City of Greater Sudbury	6,251	6,651
	8,584	9,199
Less current portion	579	552
	\$ 8,005	8,647

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012

(In thousands of dollars)

5. Capital assets:

	2012		2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Property	\$ 3,464	–	1,711	–
Buildings	102,841	61,115	100,445	57,437
Furniture and equipment	88,295	54,914	72,928	44,266
Information technology	32,698	26,623	39,453	22,372
Assets under capital leases	3,800	2,532	3,800	2,393
Capital project - building	286,947	24,434	286,759	17,250
Capital project - equipment	48,615	25,189	47,246	18,878
Projects in progress	4,630	–	1,286	–
	571,290	194,807	553,628	162,596
Less accumulated amortization	194,807		162,596	
	\$ 376,483		391,032	

6. Bank indebtedness:

	2012	2011
Short-term borrowings	\$ 38,197	48,377

The Hospital has arranged for credit facilities which include a demand operating line to \$20 million and a bridge loan to \$40 million. The facilities bear interest at banker's prime rate (2011 - prime rate). Subsequent to March 31, 2012, the operating line and bridge loan were fully paid.

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012

(In thousands of dollars)

7. Accounts payable and accrued liabilities:

	2012	2011
Accounts payable and accrued liabilities:		
- operating	\$ 24,410	23,164
- capital	1,438	1,970
- NELHIN and MOHLTC	9,102	6,850
- capital expansion project	562	3,677
Payroll accruals:		
- salaries and wages	14,485	12,601
- vacation pay	14,887	14,211
- sick leave	615	697
Deferred revenue	26,530	24,830
	\$ 92,029	88,000

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:

	2012	2011
Balance, beginning of year	\$ 2,338	2,474
Contributions received	2,119	2,240
Amounts taken to revenue	(1,879)	(2,376)
Balance, end of year	\$ 2,578	2,338

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012
(In thousands of dollars)

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:

	2012	2011
Balance, beginning of year	\$ 342,418	353,379
Additional contributions		
Equipment and buildings:		
NELHIN and MOHLTC	753	2,433
Cancer Care Ontario	60	3,727
Canada Health Infoway	1,486	-
Northern Cancer Foundation	86	58
Health Sciences North Volunteer Association	-	52
Health Sciences North Foundation	256	6
Other	1,762	2,673
	4,403	8,949
Capital expansion projects:		
MOHLTC - medical learners	-	720
MOHLTC - building	-	80
City of Greater Sudbury	287	305
Other	2	2
	289	1,107
	4,692	10,056
Less: Amounts amortized to revenue	(19,586)	(21,017)
Balance, end of year	\$ 327,524	342,418

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

Unamortized	\$ 322,639	339,692
Unspent:		
Equipment	3,280	1,003
Capital Project	1,102	1,181
Medical Learners Capital project	503	542
	4,885	2,726
	\$ 327,524	342,418

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012

(In thousands of dollars)

10. Long-term obligations:

	2012	2011
Accrued benefits obligation	\$ 11,626	9,736
Other	90	255
	11,716	9,991
Less current portion	51	165
	\$ 11,665	9,826

Employee future benefits:

The Hospital sponsors a post-retirement defined benefit plan for medical, life insurance and dental benefits for substantially all unionized full time employees with various cost-sharing arrangements as determined by their collective agreements. The most recent valuation of the employee future benefits was completed as at April 1, 2009. The valuation was updated as of April 1, 2011. The next full valuation of the plan will be effective April 1, 2012.

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

	2012	2011
Balance, beginning of year	\$ 9,736	8,769
Add: Benefit costs	2,395	1,411
	12,131	10,180
Less: Benefit contributions	505	444
Balance, end of year	\$ 11,626	9,736

Similar to most post-employment benefit plans (other than pension) in Canada, the Hospital's plan is not pre-funded, resulting in plan deficit equal to the accrued benefit obligation.

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

	2012	2011
Discount rate	4.00%	5.25%
Dental cost trend rates	4.00%	4.00%
Extended health care trend rates	9.00%	9.00%

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012

(In thousands of dollars)

10. Long-term obligations (continued):

Health care sensitivity analysis:

Assumed health care and dental cost trend rates have a significant effect on the amounts reported for the health-care plans. A 1% change in assumed health care trend rates would have the following effects for 2012:

	Increase	Decrease
Net benefit cost	\$ 222,400	187,400
Accrued benefit obligation	2,168,100	1,873,500

11. Change in non-cash working capital:

	2012	2011
Accounts receivable	\$ 11,108	(13,931)
Inventories	(389)	216
Prepayments	(1,464)	(836)
Accounts payable and accrued liabilities	4,030	(4,818)
	\$ 13,285	(19,369)

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 \$17,474 (2011 - \$16,580) and are included in employee benefits in the statement of operations.

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012
(In thousands of dollars)

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 Health Sciences North 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 \$1,012 (2011 - \$748) from the Health Sciences North Foundation.

The Northern Cancer 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 Northeast Cancer Program.

The Health Sciences North 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:

	Health Sciences North Foundation		Northern Cancer Foundation		Health Sciences North Volunteer Association	
	2011	2010	2011	2010	2011	2010
Financial position:						
Total assets	\$ 6,831	5,977	4,244	3,834	1,232	850
Total liabilities	\$ 40	45	59	63	167	72
Net assets	6,791	5,932	4,185	3,771	1,065	778
	\$ 6,831	5,977	4,244	3,834	1,232	850
Results of operations:						
Total revenue	\$ 1,839	2,915	1,846	1,702	477	211
Total expenses	980	8,329	1,432	1,204	191	134
Net revenue (deficiency)	\$ 859	(5,414)	414	498	286	77

Financial information for Health Sciences North Foundation, Northern Cancer Foundation and Health Sciences North Volunteer Association for 2012 was not available at the time of the audit report date.

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012
(In thousands of dollars)

13. Other entities (continued):

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

Sudbury Hospital Services was created to provide laundry and steam 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 \$5,036 (2011 - \$5,308) in laundry, warewashing, transport and steam 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, 2012, Sudbury Vascular Laboratory Ltd. had total amounts owing to the Hospital of \$41 (2011 - \$491).

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.	
	2012	2011	2012	2011
Financial position:				
Total assets	\$ 5,835	4,736	1,442	1,644
Total liabilities	\$ 2,363	1,432	233	659
Net assets	3,472	3,304	1,209	985
	\$ 5,835	4,736	1,442	1,644
Results of operations:				
Total revenue	\$ 7,465	7,513	1,857	1,687
Total expenses	7,297	7,465	1,582	1,416
Income taxes	—	—	51	37
Excess of revenue over expenses	\$ 168	48	224	234
Cash flows:				
Cash from (used in) operations	\$ 978	319	538	484
Cash from (used in) financing and investing activities	218	(734)	(681)	(163)
Increase (decrease) in cash	\$ 760	(415)	(143)	321

HEALTH SCIENCES NORTH

Notes to Financial Statements

Year ended March 31, 2012
(In thousands of dollars)

14. Contingencies:

Legal matters and litigation:

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. Fair value of financial assets and liabilities:

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

16. Comparative figures:

Certain 2011 comparative figures have been reclassified to conform with the presentation adopted in 2012.