

Financial Statements

Capital District Health Authority

(operating as Capital Health)

March 31, 2009

AUDITORS' REPORT

To the Board of Directors of the
Capital District Health Authority

We have audited the statement of financial position - operating and capital funds of the **Capital District Health Authority** ("Capital Health") as at March 31, 2009 and the statements of fund balances, revenues and expenditures and cash flows for the year then ended. These financial statements are the responsibility of Capital Health'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 Capital Health as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Halifax, Canada
May 25, 2009

Chartered Accountants

Capital District Health Authority
(operating as Capital Health)

STATEMENT OF FINANCIAL POSITION
OPERATING AND CAPITAL FUNDS

As at March 31
(in thousands)

	Operating Fund \$	Capital Fund \$	Total 2009 \$	Total 2008 \$
ASSETS				
Current				
Cash and short term investments	35,023	—	35,023	46,660
Accounts receivable	31,104	—	31,104	26,817
Due from Department of Health	24,295	—	24,295	28,054
Due from Provincial Drug Distribution Program	—	—	—	824
Due from Department of Finance	2,311	—	2,311	2,014
Due from Foundations	6,952	—	6,952	4,543
Due (to) from other fund	(7,349)	7,349	—	—
Restricted cash and short-term investments [note 6]	2,982	—	2,982	2,613
Inventories [note 3]	9,976	—	9,976	9,734
Prepaid expenses	2,694	—	2,694	3,146
	107,988	7,349	115,337	124,405
Due from Department of Health	5,477	—	5,477	5,477
Due from Foundations	4,011	—	4,011	4,289
Accounts receivable - other	1,371	—	1,371	1,579
Due from Department of Finance [note 7]	130,694	—	130,694	118,937
Restricted cash and investments [note 6]	21,908	—	21,908	23,030
Capital assets [note 4]	—	249,192	249,192	253,273
Construction in progress [note 4]	—	28,118	28,118	6,073
Parking garage [notes 4 and 11]	—	9,488	9,488	9,763
	271,449	294,147	565,596	546,826
LIABILITIES AND FUND BALANCE				
Current				
Accounts payable and accrued liabilities	86,285	—	86,285	89,541
Restricted liabilities [note 6]	2,982	—	2,982	2,613
Due to Provincial Drug Distribution Program	314	—	314	—
Deferred revenue [note 5]	29,080	5,776	34,856	40,377
Current portion of long-term debt [note 11]	—	1,339	1,339	2,068
	118,661	7,115	125,776	134,599
Restricted liabilities [note 6]	21,908	—	21,908	23,030
Long-term debt [note 11]	—	12,066	12,066	12,989
Employee future benefits [note 7]	130,694	—	130,694	118,937
	271,263	19,181	290,444	289,555
Fund Balance				
Operating surplus	186	—	186	82
Investment in capital assets	—	274,966	274,966	257,189
	186	274,966	275,152	257,271
	271,449	294,147	565,596	546,826

Commitments and contingencies [notes 8, 9, 10, 15]

See accompanying notes

On behalf of the Board: Director Director

Capital District Health Authority
(operating as Capital Health)

STATEMENT OF FUND BALANCES

Year ended March 31
(in thousands)

	2009	2008
	\$	\$
OPERATING FUND		
Balance, beginning of year	82	76
Net revenues over expenditures before amortization	631	540
Net amortization deficit	(527)	(534)
Balance, end of year	186	82
INVESTMENT IN CAPITAL ASSETS		
Capital funding, beginning of year	615,265	575,667
Capital funding for the year <i>[Schedule C]</i>	44,948	39,598
Capital funding, end of year	660,213	615,265
Accumulated amortization of capital fund, beginning of year	(358,076)	(332,413)
Amortization of capital fund	(27,071)	(25,663)
Retirement of capital assets	(100)	—
Accumulated amortization of capital fund, end of year	(385,247)	(358,076)
Balance, end of year	274,966	257,189

See accompanying notes

Capital District Health Authority
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STATEMENT OF REVENUES AND EXPENDITURES

Year ended March 31
(in thousands)

	2009	2008
	\$	\$
Operating		
Revenues <i>[Schedule A]</i>	753,183	721,627
Expenditures <i>[Schedule B]</i>	752,552	721,087
Results from operating activities	631	540
Capital		
Amortization of capital fund	27,071	25,663
Depreciation	(27,598)	(26,197)
Results from capital activities	(527)	(534)
Results from operating and capital activities	104	6
Research		
Revenues	15,360	21,455
Expenditures	16,689	19,782
	(1,329)	1,673
Opening balance	25,643	23,970
Funds available for research	24,314	25,643
Funds committed to future periods	24,314	25,643
Results from research activities	—	—
Net revenues over expenditures before deficit funding	104	6
Net revenues over expenditures	104	6

See accompanying notes

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STATEMENT OF CASH FLOW

Year ended March 31
(in thousands)

	2009 \$	2008 \$
OPERATING ACTIVITIES		
Net revenues over expenditures - operating fund	631	540
Items not requiring cash		
Results from capital activities	(527)	(534)
Depreciation	27,598	26,197
Amortization of capital fund	(27,071)	(25,663)
Employee future benefits	11,757	17,379
Changes in non-cash working capital items	(21,932)	(25,714)
Cash used in operating activities	(9,544)	(7,795)
FINANCING ACTIVITIES		
Capital funding [<i>Schedule C</i>]	44,948	39,598
Capital lease	440	(3)
Long term debt – parking garage/capital lease	(2,094)	2,296
Restricted funding	(752)	3,259
Cash provided by financing activities	42,542	45,150
INVESTING ACTIVITIES		
Capital assets acquired [<i>Schedule C</i>]	(44,948)	(39,598)
Capital asset – capital lease	(440)	3
Cash used in investing activities	(45,388)	(39,595)
Net decrease in cash during the year	(12,390)	(2,240)
Cash position, beginning of year	72,303	74,543
Cash position, end of year	59,913	72,303
Cash position, end of year is comprised as follows:		
Cash and short-term investments	35,023	46,660
Restricted cash and investments	24,890	25,643
	59,913	72,303

See accompanying notes

**Capital District Health Authority
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Draft NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2009
(in thousands)

1. Nature of the Organization

Effective January 1, 2001, Bill 34 of the Province of Nova Scotia created the Capital District Health Authority "Capital Health". Capital Health includes the QEII Health Sciences Centre ("QEII"), Nova Scotia Hospital ("NSH") and the former Central Regional Health Board ("CRHB"). Collectively, these organizations provide core health services to 43% of the population of Nova Scotia, and tertiary and quaternary acute services to residents of Atlantic Canada.

Capital Health is a non-profit entity and, as such, is exempt from income tax.

2. Significant Accounting Policies

Fund accounting

Capital Health maintains its financial statements on a fund accounting basis. Separate funds have been established to distinguish operating activities from capital activities.

The operating fund contains the non-capital operating assets, liabilities, revenues and expenditures of Capital Health related to the provision of hospital services.

The capital fund contains the capital assets, net of accumulated depreciation and related capital funding, net of accumulated amortization.

Fund transfers represent deferred capital contributions for use in future periods.

Inventories

Inventories are stated at cost, being the lower of cost and net realizable value.

Capital assets

Capital assets are recorded at cost and depreciated at the following annual rates:

Halifax Infirmary building	50 years straight-line
Dartmouth General Hospital and Hants building	40 years declining balance
Parking garage	40 years straight-line
Other buildings	20-50 years straight-line
Equipment	10 years straight-line
Leasehold improvements	10 years straight-line
Parking equipment	10 years straight-line
Information technology	5 years straight-line
Paving	5 years straight-line

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Draft NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2009
(in thousands)

2. Significant Accounting Policies (cont'd)

Restricted cash and investments and restricted liabilities

Restricted cash and investments are designated for restricted purposes by independent funders, by regulation, or by resolution of Capital Health's Board of Directors. Investments are stated at market value. The corresponding restricted liability represents the unexpended fund balance.

Revenue recognition

Capital Health uses the deferral method of accounting for contributions and revenue recognition. Restricted contributions related to expenses of future periods are deferred. Revenue is recognized in the period in which the related expenses are incurred.

Short-term investments

Short term investments are stated at market value. Transaction costs are recorded on a settlement / trade date basis and transaction costs are expensed as incurred.

Capital contributions

Capital contributions are recorded as capital funding and amortized to income using the same rates as depreciation expense related to the capital assets purchased. Capital contributions for non-depreciable capital assets are recorded as direct increases in the investment in capital.

Employee future benefits/Due from Department of Finance

Employee future benefits include retirement allowances/public service awards paid to employees upon retirement, health and life insurance, as well as three separate pension funds. A liability for employee future benefits has been included in the financial statements in the current year. The Province of Nova Scotia funds this liability so a receivable for the same amount has been recorded from the Department of Finance. [see notes 7 and 8]

Financial instruments

Financial instruments consist of cash, short-term investments, accounts receivable, long-term investments, accounts payable, accrued liabilities and research contributions payable. The book values of accounts receivable and accounts payable approximate fair values due to their short term nature. Capital Health places its cash and short term investments at a Canadian chartered bank, or in highly liquid investments that are readily convertible into known amounts of cash and are categorized as held for trading and valued at fair value. Transaction costs are recorded on a settlement / trade date basis and transaction costs are expensed as Capital Health has long term investments invested in a managed portfolio which are recorded at market value. Capital Health does not enter into any derivative financial instruments for hedging or speculative purposes.

Capital District Health Authority
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Draft NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2009
(in thousands)

2. Significant Accounting Policies (cont'd)

Change in accounting policy

Financial instruments

Effective April 1, 2008, Capital Health adopted the recommendations of CICA 3862, Financial Instruments – Disclosures, and CICA 3863, *Financial Instruments – Presentation*. These recommendations enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks. The adoption of these new recommendations required additional disclosures, which are provided in note 13.

Capital disclosures

Effective April 1, 2009, Capital Health adopted the recommendations of CICA 1535, *Capital Disclosures*, which require the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate the organization's objectives, policies and processes for managing capital. The adoption of these recommendations required additional disclosures, which are provided in note 13.

Future accounting policy changes

Financial statement presentation

The CICA has issued revisions to the 4400 series and certain other sections to amend or improve certain parts of the CICA Handbook that relate to not-for-profit organizations. With respect to presentation, these changes include making the disclosure of net assets invested in capital assets optional; making CICA 1540, *Cash Flow Statements*, applicable to not-for-profit organizations; and requiring the reporting of revenues and expenses on a gross basis in the statement of operations unless not required by other guidance. A new section, CICA 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*, was included in the revision which requires certain disclosures when fundraising and general support expenses are allocated to other functions. These changes in accounting policies must be adopted for years beginning on or after January 1, 2009, with earlier adoption permitted. Management is assessing the impact of these revisions and the timing for their adoption. However, the impact will be limited to reclassification of figures in the financial statements and additional disclosures.

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Draft NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2009
(in thousands)

2. Significant Accounting Policies (cont'd)

Future accounting policy changes (cont'd)

Financial statement concepts

In February 2008, the AcSB amended CICA 1000, *Financial Statement Concepts*, to clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the balance sheet.

The amendments are effective for financial statements for fiscal years beginning on or after October 1, 2008. Capital Health is examining its current approach to recognizing costs as assets and will implement these standards effective April 1, 2009 retroactively with restatement of the prior year. The impact of implementing these amendments on the Capital Health's financial statements is currently not known.

3. Inventories

<i>(in thousands)</i>	2009	2008
	\$	\$
Drugs	4,453	4,803
Linen	1,949	1,894
Medical and surgical	2,318	1,775
General supplies	1,256	1,262
	9,976	9,734

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Year ended March 31, 2009
(in thousands)

4. Capital Assets

<i>(in thousands)</i>	2009		2008	
	Cost	Accumulated	Cost	Accumulated
	\$	Depreciation	\$	Depreciation
		\$		\$
Land	324	—	324	—
Land improvements	846	156	846	156
Halifax Infirmary building	110,023	27,469	110,023	25,269
Other buildings	74,640	41,513	74,640	40,458
Equipment	276,586	192,140	257,166	179,644
Leasehold improvements	148,964	77,139	124,275	68,132
Information technology	47,028	44,901	46,375	42,752
Parking equipment	20	20	20	19
Paving	312	312	312	312
Capital lease	3,010	793	2,570	463
	661,753	384,443	616,551	357,205
Less: accumulated depreciation	384,443		357,205	
Total capital assets and construction in progress	277,310		259,346	

<i>(in thousands)</i>	2009		2008	
	Cost	Accumulated	Cost	Accumulated
	\$	Depreciation	\$	Depreciation
		\$		\$
Parking garage	11,000	1,512	11,000	1,237
Less: accumulated depreciation	1,512		1,237	
	9,488		9,763	

Construction in Progress

Construction in progress is included above in capital assets and represents costs associated with the Halifax Infirmary Expansion of \$18,474 Molecular Imaging (PET/CT) project of \$4,714, Infrastructure of \$4,880 and Mental Health project of \$50.

5. Deferred Revenue

Deferred revenue in the operating fund of \$29,080 (2008 - \$27,274) represents advance funding received in the current year from the Department of Health for the 2009/10 fiscal year and other program deferred funding. Deferred revenue in the capital fund of \$5,776 (2008 - \$13,103) represents advance funding for capital equipment to be purchased subsequent to March 31, 2009.

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Year ended March 31, 2009
(in thousands)

6. Restricted Cash and Investments and Restricted Liabilities

These assets and liabilities represent funds, the use of which is restricted by various conditions as described in note 2. For the fiscal year 2008/2009, research revenue totaled \$15,360 and research expenses totaled \$16,689 resulting in a net decrease of \$1,329.

<i>(in thousands)</i>	2009	2008
	\$	\$
Centre for Clinical Research	16,866	18,195
Other	8,024	7,448
	24,890	25,643

7. Employee Future Benefits

Retirement allowances

Retirement allowances paid to employees upon retirement are actuarially determined. The retirement allowance value is calculated by the Provincial Department of Finance for District Health Authorities. It is calculated using the projected benefit method prorated on services as required under section 3250 of the Public Sector Accounting Board ("PSAB") Handbook. Experience gains and losses and assumption charges are amortized on a linear basis over the expected average remaining service life of twelve years. Annually, results along with values to record the liability and expenses are provided by the Department of Finance. The Department of Finance fully funds this liability, thus an offsetting accounts receivable balance is recorded.

Per Union Collective agreements employees are entitled to a payment of one week's salary for every year of full time service (max. 26 weeks) that an employee has contributed to the organization. Annually, the Province of Nova Scotia contracts a third party to perform an actuarial valuation for all government departments, government agencies and boards.

Capital District Health Authority
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Draft NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2009
(in thousands)

7. Employee Future Benefits (cont'd)

Capital Health has provided for retirement allowances as follows:

<i>(in thousands)</i>	2009	2008
	\$	\$
Accrued benefit liability		
Beginning balance, retiring allowances	51,146	42,900
Current service cost for the year	3,854	3,672
Interest cost during the year	2,721	2,644
Plan amendment and adjustments	—	5,811
Amortization of experience loss	575	180
Estimated fiscal payments for employees	(6,062)	(4,061)
Ending balance, retiring allowances	52,234	51,146

<i>(in thousands)</i>	2009	2008
	\$	\$
Employee future benefits retirement expense		
Current service costs	3,854	3,672
Interest on accrued benefits	2,721	2,644
Plan amendment	—	5,811
Amortization of experience loss	575	180
	7,150	12,307

The significant actuarial assumptions adopted in measuring Capital Health's retirement allowances are as follows (weighted-average assumptions) as at March 31, 2009:

Retirement Allowance	
Discount rate	4.95%
Retirement % at age 65	75.0%
Average age of employees	44.7
Average age of services	10.5
Future mortality rate	(none assumed)
Rate of compensation increase	(based on average) 2.65%

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Draft NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2009
(in thousands)

7. Employee Future Benefits (cont'd)

Health and life insurance

Capital Health provides health and life insurance benefits to employees upon retirement. Per Union Collective agreements employees are entitled to receive this benefit upon retirement. The benefit is an optional choice for employees at retirement. Capital Health contributes to the cost of these premiums. The health and life insurance value is calculated by the Provincial Department of Finance for Capital Health. It is calculated using the projected benefit method prorated on services as required under section 3250 of the PSAB Handbook. Experience gains and losses and assumption changes are amortized on a linear basis over the expected average remaining service life of 10.5 years. Annually, results along with values to record the liability and expenses are provided by the Department of Finance. The Department of Finance fully funds this liability, thus an offsetting accounts receivable balance is recorded.

Capital Health has provided for health and life insurance as follows:

<i>(in thousands)</i>	2009	2008
	\$	\$

Accrued benefit liability

Beginning balance, health and life	67,791	57,279
Current service cost for the year	4,748	4,452
Interest cost during the year	4,766	4,312
Plan amendment and adjustments	—	1,283
Amortization of experience loss	2,165	1,284
Estimated fiscal payments for employees	(1,010)	(819)
Ending balance, health and life	78,460	67,791

<i>(in thousands)</i>	2009	2008
	\$	\$

Employee future benefits health and life expense

Current service costs	4,748	4,452
Interest on accrued benefits	4,766	4,312
Plan amendment and adjustments	—	1,283
Amortization of experience loss	2,165	1,284
	11,679	11,331

Capital District Health Authority
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(in thousands)

7. Employee Future Benefits (cont'd)

The significant actuarial assumptions adopted in measuring the company's health and life insurance are as follows (weighted-average assumptions) as at March 31, 2009:

	Health/Life
Discount rate	4.95%
Retirement % at age 65	25%
Participation Rate – Health	95%
Participation Rate – Life	75%
Future mortality rate	(UP94, Proj. to 2015, scale AA)
Rate of compensation increase	2.5% Plus Prom. Increase

<i>(in thousands)</i>	2009	2008
	\$	\$
Employee future benefit summary		
Ending balance, retiring allowance	52,234	51,146
Ending balance, health and life	78,460	67,791
Ending balance, employee future benefits	130,694	118,937

8. Pension Funds

Public Service Superannuation Fund

Most former employees of the Victoria General Hospital (“VGH”), Cancer Treatment and Research Foundation (“CTRF”), NSH, Public Health/Drug Dependency of the Central Regional Health Board belong to the Public Service Superannuation Fund (“the Plan”). The Plan is funded equally by employee and employer contributions. The employer’s contributions are included in Capital Health's operating expenses. The Nova Scotia Government Department of Finance administers the Plan. Capital Health is not responsible for any unfunded liability in this plan.

Nova Scotia Association of Health Organizations

Employees of the former Nova Scotia Rehabilitation Centre (“NSRC”), Camp Hill Medical Centre (“CHMC”) and the Central Regional Health Board (“CRHB”) participate in the multi-employer pension plan administered by the Nova Scotia Association of Health Organizations. The most recent actuarial valuation was conducted as at December 31, 2008 and showed funding deficit for the entire plan of \$123,300,000. Capital Health is not responsible for any unfunded liability in this plan.

**Capital District Health Authority
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Draft NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2009
(in thousands)

8. Pension Funds (cont'd)

Federal Superannuation Fund

A small group of employees of the former Camp Hill Medical Centre ("CHMC") who were on staff when Camp Hill Hospital transferred from Federal to Provincial jurisdiction on May 29, 1978 opted to continue in this pension plan. The Plan is funded by employee and employer contributions. The employer's contributions are included in Capital Health's operating expenses. The Public Works and Government Services Canada administer the pension plan. Capital Health is not responsible for any unfunded liability in this plan.

Total employer contributions to the above mentioned plans are as follows:

<i>(in thousands)</i>	2009	2008
	\$	\$
Employer contributions	30,012	27,826

9. Long-Term Disability Plan

Public Service Long Term Disability Plan Trust Fund

Employees of the former VGH, CTRF, NSH and Public Health/Drug Dependency from the Central Regional Health Board are members of this plan which is funded equally by employee and employer contributions. The employer's contributions are included in Capital Health's operating expenses. The Plan is currently administered by the Province of Nova Scotia and Nova Scotia Government Employees Union (NSGEU). The most recent actuarial valuation was conducted as at December 31, 2006 and disclosed a funding excess of approximately \$4,911,000. Capital Health is not responsible for any unfunded liability in this plan.

Nova Scotia Association of Health Organizations

Employees of the former CHMC, QEII and the former CRHB are members of this plan, which is funded equally by employee and employer contributions. The employer's contributions are included in Capital Health's operating expenses. The Nova Scotia Association of Health Organizations administers this long-term disability plan. The most recent actuarial valuation was completed as of August 31, 2007, this valuation indicates a funding excess of \$13,537,000. Capital Health is not responsible for any unfunded liability in this plan.

Canada Life Plan

Employees of the former NS Rehabilitation Centre are members of this plan, which is funded equally by employee and employer contributions. The employer's contributions are included in Capital Health's operating expenses. The plan is currently administered by Canada Life. Capital Health is not responsible for any unfunded liability in this plan.

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Draft NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2009
(in thousands)

9. Long-Term Disability Plan (cont'd)

Total employer contributions to the above mentioned plans are as follows:

<i>(in thousands)</i>	2009	2008
	\$	\$
Employer contributions	5,147	4,876

10. Operating Lease Commitments

Capital Health is committed to the following annual lease payments in each of the next five fiscal years ended March 31 *(in thousands)*:

2010	\$9,927
2011	9,947
2012	7,091
2013	2,887
2014	2,681

11. Long-Term Debt

Long-Term Debt	2009	2008
<i>(in thousands)</i>	\$	\$
Term loan	9,035	9,441
Department of Health loan (Cobequid Foundation)	2,850	4,000
Capital lease	1,520	1,616
	13,405	15,057
Less: current portion	1,339	2,068
	12,066	12,989

In 2003/2004 Capital Health received approval from its Board of Directors and the Department of Health to construct a new multi-level parking garage at its Halifax Infirmary site. The parking garage became fully operational in the 2004/2005 fiscal year, the final project cost amounting to \$11,000.

A debenture between Capital Health and the Nova Scotia Municipal Financing Corporation was signed on January 10, 2003 to finance this capital project. The Department of Health issued a letter dated December 10, 2002 confirming an intercept mechanism on its provincial grant payments to Capital Health in case of loan default.

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11. Long-Term Debt (cont'd)

The term loan bears interest at 5.913%, matures on January 9, 2023, and is repayable in semi-annual installments of principal and interest totaling \$479.

Principal repayments for each of the next five years are as follows:

<u>Fiscal</u>	<i>(in thousands)</i>
2010	747
2011	773
2012	800
2013	829
2014	860
Thereafter in aggregate	7,876

12. Related Parties

Within Capital Health there are seven foundations and one auxiliary. These organizations provide funding contributions for specific resources of Capital Health, through fundraising activities. The balances due to and due from related parties are non-interest bearing.

The following commitments were recognized from each foundation and auxiliary for the year ended March 31:

	2009	2008
	\$	\$
Related Parties		
Partners For Care	5,100	4,400
QEII Health Sciences Centre Foundation	7,685	7,715
Dartmouth General Hospital Foundation	1,057	597
Cobequid Multi-purpose Centre Foundation	63	1,681
Hants Hospital Foundation	52	476
Mental Health Foundation of Nova Scotia	143	5

13. Financial Instruments

Fair value

Capital Health's financial instruments consist of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities, research contributions payable and long-term debt. The difference between the carrying values and the fair market values is not material due to their short-term maturities. The fair value of long-term debt is based on amortized cost using the effective interest method.

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Draft NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2009
(in thousands)

13. Financial Instruments (cont'd)

Risk management

Capital Health is exposed to a number of risks as a result of the financial instruments on its statement of financial position that can affect its operating performance. These risks include interest rate risk, market risk credit risk, and liquidity risk. Capital Health's financial instruments are not subject to foreign exchange or other price risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Capital Health is subject to interest rate risk relating to the fixed-term investment portion of the portfolio, short-term borrowing and long-term debt. Interest rate risk is mitigated through diversification of the investment portfolio and the use of fixed-rate financing where applicable.

Capital Health has entered into fixed rate long term debt, and accordingly, the impact of interest rate fluctuations has no effect on interest payments until such time as this debt is to be refinanced. However, changes in prevailing benchmark interest rates and credit spreads may impact the fair value of this debt. Capital Health does not have any variable interest rate debt.

The future annual payment requirements of Capital Health's obligations under its long-term debt are described in note 11.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Capital Health authorizes BMO Nesbitt Burns Inc. to manage its short-term investment portfolio based on the established investment objectives to protect the purchasing power of the assets, while generating a stable stream of income. The debt must be a Canadian Corporation or Government and be rated 'A' or better by the Dominion Bond Rating Service ("DBRS") or similar accredited bond rating services. Equities shall be of investment grade, a typical portfolio may be invested 70% in large capitalization stocks, 20% mid-cap and no more than 10% in small cap stocks. Venture capital and speculative securities shall not be permitted. No more than 10% of the equity/debt portion of the portfolio may be invested in the equity of any one corporation, government or agency with the exception of the Government of Canada or guarantees of the Government of Canada.

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Year ended March 31, 2009
(in thousands)

13. Financial Instruments (cont'd)

Credit risk

Capital Health is exposed to credit risk with respect to accounts receivable. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an on-going basis. The allowance for doubtful accounts at March 31, 2009 was \$1,623 (2008 - \$1,645).

The aging of accounts receivable was as follows:

	2009	2008
	\$	\$
Current	14,942	11,255
61-90	1,315	834
90-120	685	1,294
Greater than 120 days	4,180	4,915

Liquidity risk

Capital Health has contractual obligations and financial liabilities and therefore is exposed to liquidity risk. Capital Health manages its liquidity risk by maintaining adequate cash and credit facilities, by updating and reviewing multi-year cash flow projections on a regular and as-needed basis, and by matching its long-term financing arrangements with its cash flow needs.

Capital management

In managing capital, the organization focuses on liquid resources available for operations. The organization's objective is to have sufficient liquid resources to continue operating despite adverse events with financial consequences and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2009, the organization has met its objective of having sufficient liquid resources to meet its current obligations.

The short-term investment policy of the Capital Health Board of Directors ensures that available cash flow is invested to earn the maximum interest income with minimum to low risk to the principal value of the assets invested.

**Capital District Health Authority
(operating as Capital Health)**

Draft NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2009
(in thousands)

13. Financial Instruments (cont'd)

Contributions to the Centre for Clinical Research (“CCR”) Fund represents money that is available for spending at any time to meet the needs of the CCR and individual research investigators, according to specific pre-approved terms of reference and must be invested accordingly.

14. Comparative Figures

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year financial statements.

15. Contingencies

Capital Health may, from time to time, be involved in Capital Health legal proceedings, claims and litigations that arise in the ordinary course of business which Capital Health believes would not reasonably be expected to have a material adverse effect on the financial condition of Capital Health.

Capital District Health Authority
(operating as Capital Health)

Schedule A

SCHEDULE OF REVENUES OPERATING FUND

Year ended March 31
(in thousands)

<i>(in thousands)</i>	2009	2008
	\$	\$
Department of Health	667,354	632,713
Federal government	24,581	23,881
Provincial grants	18,829	23,638
Non-resident billings	13,833	10,077
Lab and support services	7,135	6,457
Dietary	6,795	6,419
Preferred accommodation	6,490	6,742
Workers Compensation Board	3,974	4,088
Investment income	2,401	3,308
Other	1,791	4,304
Revenues	753,183	721,627

Capital District Health Authority
(operating as Capital Health)

Schedule B

SCHEDULE OF EXPENDITURES OPERATING FUND

Year ended March 31
(in thousands)

<i>(in thousands)</i>	2009	2008
	\$	\$
Compensation	523,169	497,364
Medical/surgical supplies	71,290	66,554
Plant maintenance/utilities	49,597	48,490
Drugs	26,067	25,285
Other	24,192	24,913
Purchased services	21,678	19,202
Retirement allowance expense	18,829	23,638
Lab/diagnostic supplies	17,158	15,069
Interest expense	572	572
Expenditures	752,552	721,087

Capital District Health Authority
(operating as Capital Health)

Schedule C

SCHEDULE OF CHANGES IN CAPITAL

Year ended March 31
(in thousands)

<i>(in thousands)</i>	2009	2008
	\$	\$
Capital Funding		
Department of Health (Other)	17,108	8,532
Other	13,222	12,494
Foundations	9,000	10,473
Department of Health (Capital Grant)	4,642	3,706
Clinical research	976	2,072
Federal government	—	2,321
	44,948	39,598
Capital Expenditures		
Leasehold improvements	24,690	13,040
Equipment	19,606	25,061
Information technology	652	1,497
	44,948	39,598