

Grant Thornton

Financial Statements

The Izaak Walton Killam Health Centre

March 31, 2011

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Grant Thornton

Independent auditor's report

To the board of
The Izaak Walton Killam Health Centre

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We have audited the accompanying financial statements of the Izaak Walton Killam Health Centre (the "Health Centre"), which comprise the balance sheet as at March 31, 2011, and the statements of operations and operating fund balances and cash flows for the year then ended, and 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.

Auditor's 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 the auditor's 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, the auditor considers internal control relevant to the Health Centre'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 Health Centre'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 the Health Centre as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Canada
June 13, 2011

Chartered Accountants

The Izaak Walton Killam Health Centre

Statement of operations and operating fund balance

Year ended March 31 (expressed in \$,000's) 2011 2010

	2011	2010
Revenue		
Grants from IWK Health Centre Charitable Foundation	\$ 250	\$ 250
Inpatient, outpatient and clinics	198,497	195,656
Mental health and addictions	26,098	26,043
Rentals, recoveries and sales	<u>9,962</u>	<u>8,936</u>
	<u>234,807</u>	<u>230,885</u>
Expenses		
Children's health	59,480	59,124
Women's and newborn health	47,339	46,632
Mental health and addictions	26,177	26,303
Medical services	6,395	5,753
Clinic lab services	14,022	14,156
Diagnostic imaging	4,868	5,050
Professional practice	1,336	1,431
Operations and support	31,621	32,965
Executive offices and public relations	1,581	1,741
Pharmacy	3,767	3,409
Primary health	1,376	1,102
Strategy and organizational performance	12,363	12,337
Human resources	2,745	2,568
Reproductive care program	1,502	1,418
HITS-NS	<u>17,740</u>	<u>15,223</u>
Total expenses	<u>232,312</u>	<u>229,212</u>
Net income from operations	<u>\$ 2,495</u>	<u>\$ 1,673</u>

Operating fund balance

Balance, beginning of year	\$ (19)	\$ -
Net income from operations	2,495	1,673
Transfer to capital fund (page 4)	<u>(2,476)</u>	<u>(1,692)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ (19)</u>

See accompanying notes to the financial statements.

The Izaak Walton Killam Health Centre

Balance sheet

March 31 (expressed in \$,000's) 2011 2010

Assets

Current

Cash and cash equivalents	\$ 21,591	\$ 18,088
Receivables (note 3)	18,176	18,714
Receivable from IWK Health Centre Charitable Foundation	3,850	1,830
Inventories	1,969	2,179
Prepays	<u>1,595</u>	<u>1,123</u>
	47,181	41,934
Employee receivables	2,350	2,304
Retirement allowance and benefits (note 8)	26,230	23,699
Property and equipment (note 4)	<u>179,742</u>	<u>173,438</u>
	\$ <u>255,503</u>	\$ <u>241,375</u>

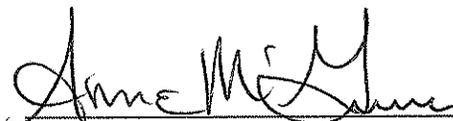
Liabilities

Current

Payables and accruals (note 5)	\$ 38,886	\$ 32,455
Current portion of facilities loan payable (note 7)	<u>667</u>	<u>630</u>
	39,553	33,085
Retirement allowance and benefits (note 9)	26,230	23,699
Facilities loan payable (note 7)	11,489	12,156
Appropriations and reserves (note 8)	<u>10,645</u>	<u>11,802</u>
	<u>87,917</u>	<u>80,742</u>
Fund balance		
Operating fund	-	(19)
Capital fund (page 4)	<u>167,586</u>	<u>160,652</u>
	<u>167,586</u>	<u>160,663</u>
	\$ <u>255,503</u>	\$ <u>241,375</u>

Contingency (note 13)

On behalf of the Board

 Director

 Director

See accompanying notes to the financial statements.

The Izaak Walton Killam Health Centre Statement of capital fund balance

Year ended March 31 (expressed in \$,000's) 2011 2010

Capital fund balance

Balance, beginning of year	\$ <u>160,652</u>	\$ <u>151,311</u>
Funding for capital additions		
Specified donations for equipment and renovations	1,816	2,064
Transfers from operations	2,476	1,692
Transfers from appropriations and reserves (note 8)	<u>12,475</u>	<u>14,944</u>
	<u>16,767</u>	<u>18,700</u>
Depreciation	<u>(9,833)</u>	<u>(9,359)</u>
Balance, end of year	\$ <u>167,586</u>	\$ <u>160,652</u>

See accompanying notes to the financial statements.

The Izaak Walton Killam Health Centre

Statement of cash flows

Year ended March 31 (expressed in \$,000's) 2011 2010

Increase (decrease) in cash and cash equivalents		
Operating		
Net income from operations	\$ 2,495	\$ 1,673
Change in non-cash operating working capital (note 11)	<u>3,530</u>	<u>(11,909)</u>
	<u>6,025</u>	<u>(10,236)</u>
Financing		
Principal repayments on facilities loan payable	(630)	(595)
Specified donations for equipment and renovations	1,816	2,064
Transfers from appropriations and reserves	<u>12,475</u>	<u>14,944</u>
	<u>13,661</u>	<u>16,413</u>
Investing		
Purchase of property and equipment	(16,137)	(17,891)
Employee advances and receivables	<u>(46)</u>	<u>369</u>
	<u>(16,183)</u>	<u>(17,522)</u>
Net increase (decrease) in cash and cash equivalents	3,503	(11,345)
Cash and cash equivalents		
Beginning of year	<u>18,088</u>	<u>29,433</u>
End of year	<u>\$ 21,591</u>	<u>\$ 18,088</u>

See accompanying notes to the financial statements.

The Izaak Walton Killam Health Centre

Notes to the financial statements

March 31, 2011 (expressed in \$,000's)

1. Purpose of organization

The IWK Health Centre (the "Health Centre") provides quality care for children, women and families in the three Maritime Provinces and beyond. It is a tertiary care health centre dedicated to family-centred care, education, research and health promotion. The Health Centre offers a broad range of health services to women, children, and their families. The Health Centre is committed to making a difference in the well being of women, children, youth and families, by bringing together care, research, teaching and advocacy for best results. The Health Centre is also committed to being global leaders in research and knowledge transfer.

The Health Centre is a charitable organization under the Income Tax Act.

2. Summary of significant accounting policies

Fund accounting

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

The Operating Fund reports the non-capital operating assets, liabilities, revenues and expenses of the Health Centre related to the provision of health care services.

The Capital Fund reports the assets, liabilities, capital funding and depreciation related to the Health Centre's capital assets.

Revenue recognition

The Health Centre follows the deferral method of accounting for non-capital contributions. Restricted contributions are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred. Unrestricted contributions are recognized when received or receivable, if the amount to be received can be estimated and collection is reasonably assured.

Capital contributions are treated as additions to the Capital Fund in the period in which the asset is acquired.

Use of estimates

In preparing the Health Centre's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Certain estimates, such as those related to allowance for doubtful accounts, amortization of capital assets, compensation accruals, and retirement allowance and benefits depend on subjective or complex judgements about matters that may be uncertain. Actual results may differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks with original maturities of three months or less. Bank borrowings are considered to be financing activities. The categories of cash include:

Research	\$	9,178
Trust funds		8,353
Uncommitted		<u>4,060</u>
	\$	<u>21,591</u>

The Izaak Walton Killam Health Centre

Notes to the financial statements

March 31, 2011 (expressed in \$,000's)

2. Summary of significant accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and replacement cost. The Health Centre uses the weighted average cost method to determine cost of stores inventory and the first-in, first-out method to determine cost of pharmacy inventory.

Compensation accruals

The Health Centre follows the policy of recording in accrued salaries and benefits a liability for vacation pay, accumulated overtime, smoothing banks and statutory holiday.

Property and equipment

Property and equipment assets are stated at cost. Amortization is provided on the straight-line basis over the expected useful life of the asset:

Buildings and service equipment	2% to 5%
Major equipment	5% to 20%
Group home	5%

Amortization on equipment purchased commences in the year after acquisition. Amortization on capital projects and renovations commences in the year after the asset is ready for use.

Appropriations and reserves

Appropriations and reserves represent the balance of unexpended funds allocated for approved research, capital equipment and special purposes.

Grants

Annual grants from the IWK Health Centre Charitable Foundation are included in the respective funds to which they relate.

Specified donations transferred from the IWK Health Centre Charitable Foundations are recorded as direct additions either to appropriations and reserves or funds held in trust, depending on the source or specified purpose thereof.

Employee benefits

The Health Centre accrues the estimated liability for its retirement plan, which is payable to its employees in subsequent years in accordance with its policy. The retirement allowance is actuarially determined using the projected benefit method prorated on service.

Financial instruments

The Health Centre classifies all financial assets and liabilities as either held for trading, receivables or liabilities. Financial instruments classified as held for trading are measured at fair value with changes in fair value recognized in net income in the period in which they arise.

The Health Centre's financial instruments consist of cash, receivables, payables and accruals, and facilities loan payable. Unless otherwise noted, it is management's opinion that the Health Centre is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying value unless otherwise noted.

The Izaak Walton Killam Health Centre

Notes to the financial statements

March 31, 2011 (expressed in \$,000's)

3. Receivables	<u>2011</u>	<u>2010</u>
Patients and other receivables, net of allowance for doubtful accounts of \$253 (2010 - \$249)	\$ 9,224	\$ 8,798
Nova Scotia Department of Health & Wellness year end adjustments	<u>8,952</u>	<u>9,916</u>
	<u>\$ 18,176</u>	<u>\$ 18,714</u>
Year end adjustments are comprised of:		
Department of Health & Wellness IT projects	\$ 242	\$ 3,716
Capital grants	5,843	2,587
Accumulated deficit 1998/99	908	908
Contract increases	158	711
Mental health funding	475	532
Benefit bank funding	781	484
H1N1 funding	-	376
SAP Project	34	174
Community Occupational Therapy	24	149
NS Nursing Strategy	209	130
Obstetric & Gynecology on Call	119	119
Family Medicine on Call	30	30
Scanning and archiving	112	-
Midwifery	<u>17</u>	<u>-</u>
	<u>\$ 8,952</u>	<u>\$ 9,916</u>

Of the total receivable from the NS Department of Health & Wellness, as of May 31, 2011, \$6,399 has been received.

4. Property and equipment			<u>2011</u>	<u>2010</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land and land improvements	\$ 4,285	\$ -	\$ 4,285	\$ 4,285
Building and service equipment	206,886	51,845	155,041	153,617
Major equipment	31,638	11,284	20,354	15,463
Group home	<u>206</u>	<u>144</u>	<u>62</u>	<u>73</u>
	<u>\$ 243,015</u>	<u>\$ 63,273</u>	<u>\$ 179,742</u>	<u>\$ 173,438</u>

Included in major equipment is equipment acquired during the year under a capital lease for a total cost of \$322 (2010 - \$Nil). No depreciation was recorded on this asset in the current year.

The Izaak Walton Killam Health Centre Notes to the financial statements

March 31, 2011 (expressed in \$,000's)

5. Payables and accruals	<u>2011</u>	<u>2010</u>
Trade payables	\$ 14,671	\$ 9,144
Deferred revenue	415	595
Accrued salaries and benefits	15,365	14,709
Department of Health & Wellness payables	82	125
Funds held on behalf of others	<u>8,353</u>	<u>7,882</u>
	<u>\$ 38,886</u>	<u>\$ 32,455</u>

6. Credit facility

The Health Centre has been approved for a line of credit of \$2,000. At year end, no amount has been advanced on the line of credit from the Royal Bank (2010 - \$Nil). Any outstanding amount is repayable on demand and bears interest at prime plus ¾%.

7. Facilities loan payable	<u>2011</u>	<u>2010</u>
Nova Scotia Department of Finance loan repayable in equal quarterly instalments of \$338 at an interest rate of 5.76% per annum calculated semi-annually. First instalment paid on March 1, 2004, with the final instalment due December 1, 2023.	\$ 12,156	\$ 12,786
Less principal amounts payable within one year	<u>(667)</u>	<u>(630)</u>
	<u>\$ 11,489</u>	<u>\$ 12,156</u>

Principal amounts repayable within the next five years are as follows:

2012	\$ 667
2013	706
2014	747
2015	791
2016	838

The fair value of the facilities loan payable is not determinable as there are no comparable financial instruments available on the open market.

Interest on facilities loan payable in the amount of \$755 (2010 - \$722) is included in operating fund expenses.

The Izaak Walton Killam Health Centre

Notes to the financial statements

March 31, 2011 (expressed in \$.000's)

8. Appropriations and reserves

2011

2010

The following is a summary of the amounts in appropriations and reserves:

Capital		
Equipment	\$ 1,165	\$ 1,801
Renovations	230	-
Capital campaigns	72	653
Paediatric site	-	709
	<u>1,467</u>	<u>3,163</u>
Research funds	<u>9,178</u>	<u>8,639</u>
	<u>\$ 10,645</u>	<u>\$ 11,802</u>

Included in equipment is obligations under capital lease of \$276 (2010 - \$Nil) payable to the Capital District Health Authority. The lease bears interest at 6.29%, is secured by specific equipment and is repayable in seven blended annual instalments of \$55 ending December 2016.

The following is a summary of the continuity of appropriations and reserves:

Balance, beginning of year	\$ <u>11,802</u>	\$ <u>19,067</u>
Grants	4,397	3,050
Department of Health & Wellness funding	5,847	3,076
Research funding	14,554	14,941
Capital campaign fund	72	26
Other funding	464	224
	<u>25,334</u>	<u>21,317</u>
Transfers to capital fund for purchases	(12,475)	(14,944)
Disbursements		
Research	(14,016)	(12,860)
Other	-	(778)
	<u>(26,491)</u>	<u>(28,582)</u>
Balance, end of year	<u>\$ 10,645</u>	<u>\$ 11,802</u>

The Izaak Walton Killam Health Centre

Notes to the financial statements

March 31, 2011 (expressed in \$,000's)

9. Retirement allowance and benefits

Retirement allowances paid to employees upon retirement are actuarially determined. The retirement allowance value is calculated by the Department of Finance for the Health Centre. It is calculated using the projected benefit method prorated on services as required under Section 3250 of the Public Sector Accounting Handbook. Experience gains and losses and assumption changes are amortized on a linear basis over the expected average remaining service life of 12 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.

The Province of Nova Scotia contracts a third party to perform an actuarial valuation for all government departments, agencies and boards. The last actuarial valuation was conducted as at September 30, 2010. Actuarial liabilities as at March 31, 2011, were extrapolated from the results of the September 30, 2010, actuarial valuation.

Information about the retirement allowance is as follows:

	<u>2011</u>	<u>2010</u>
Accrued benefit obligation		
Balance, beginning of year	\$ 23,699	\$ 20,909
Current service cost	1,898	1,768
Interest cost	1,435	1,311
Amortization of experience gains/losses	627	482
Estimated benefits paid	<u>(1,429)</u>	<u>(771)</u>
Balance, end of year	\$ <u>26,230</u>	\$ <u>23,699</u>
Funded status	\$ (30,131)	\$ (29,958)
Unamortized net actuarial loss	<u>3,901</u>	<u>6,259</u>
Accrued benefit liability recognized	\$ <u>(26,230)</u>	\$ <u>(23,699)</u>

The Health Centre's expense for the retirement allowance is as follows:

Retirement allowance	\$ <u>3,960</u>	\$ <u>3,560</u>
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The following actuarial assumptions have been used in the determination of the accrued benefit obligation as at March 31, 2011:

	<u>Allowances</u>	<u>Benefits</u>
Discount rate	4.75%	4.75%
Rate of compensation increase	2.65-5.15%	-
Rate of coverage increases	-	6.45-10%
Termination rates	1.2-20%	0-20%

The Izaak Walton Killam Health Centre

Notes to the financial statements

March 31, 2011 (expressed in \$,000's)

9. Retirement allowance and benefits (continued)

- (i) The actuary for the pension manager assumed that 75% of employees will retire on the date they are first eligible for an unreduced retirement pension, and the remainder will retire on their normal retirement date, which is their 65th birthday.
- (ii) The actuary for the health benefits plan manager assumed 75% would retire on the date they are first eligible for an unreduced retirement pension and the remainder will retire at the rate of 5% each at ages 52, 57, 60, 62 and 65. In calculating the post-retirement health benefits liability, it was further assumed that 70% of members will elect family coverage and that 95% of eligible employees will elect to participate.

A retirement allowance is paid in respect of employees who die prior to retirement and, therefore, the mortality rate in accordance with the Group Annuity Mortality table for 1994 (projected to 2015) was utilized.

10. Pension plan

The Health Centre contributes to the following pension plans on behalf of its employees:

- (i) a multi-employer defined benefit plan, as administered by the Health Association of Nova Scotia, formerly the Nova Scotia Association of Health Organizations (NSAHO), providing pension benefits to most of its employees. The most recent actuarial valuation was conducted as at October 31, 2010 and indicates a funding surplus.
- (ii) the second plan is administered by the Province of Nova Scotia. The most recent actuarial valuation was September 30, 2010 and indicates an unfunded liability. The Health Centre bears no direct financial responsibility for the unfunded liability of the plan.

The Health Centre's pension expense for the year amounted to \$12,818 (2010 - \$12,266).

11. Supplemental cash flow information	<u>2011</u>	<u>2010</u>
Change in non-cash operating working capital:		
Receivables	\$ 538	\$ (5,603)
Receivable from IWK Health Centre Foundation	(2,020)	(1,880)
Inventories	210	(833)
Prepays	(472)	257
Payables and accruals	6,431	3,415
Appropriations and reserves, net	<u>(1,157)</u>	<u>(7,265)</u>
	<u>\$ 3,530</u>	<u>\$ (11,909)</u>
Interest paid	<u>\$ 723</u>	<u>\$ 758</u>

The Izaak Walton Killam Health Centre

Notes to the financial statements

March 31, 2011 (expressed in \$,000's)

12. Related party transactions

The Health Centre relies upon the IWK Health Centre Foundation to raise monies to assist them with the funding of research, capital renovations, capital equipment and specific programs not funded by the Department of Health & Wellness. Funding received was allocated as follows:

	<u>2011</u>	<u>2010</u>
Capital equipment	\$ 1,850	\$ 1,850
Research	1,400	1,400
Fellowships	500	500
Operating programs	<u>250</u>	<u>250</u>
Total grant from Foundations	4,000	4,000
Specified and restricted fund allocations	<u>6,659</u>	<u>5,646</u>
Total funds received	\$ <u>10,659</u>	\$ <u>9,646</u>

13. Contingency

The Health Centre has been named as a defendant in legal actions relating to malpractice. Counsel is unable to form an opinion regarding the merit of these claims, if any. However, it is expected that any payments that may arise from these claims would be funded entirely by the liability insurance carrier as we have not been made aware by the insurer that any outstanding claims in aggregate would exceed coverage.

14. Comparative figures

Certain of the 2010 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2011.