

Financial Statements

**Capital District Health Authority**

[Operating as Capital Health]

March 31, 2011

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of the  
**Capital District Health Authority**

We have audited the accompanying statement of financial position – operating and capital funds of the **Capital District Health Authority** [“Capital Health”] as at March 31, 2011 and the statements of fund balances, revenues and expenses 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.

### **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 the auditors' 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 auditors 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 in our audit 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 **Capital District Health Authority** 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.

*Ernst + Young LLP*

Halifax, Canada  
June 8, 2011

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 2011 \$	Total 2010 \$
<b>ASSETS</b>				
<b>Current</b>				
Cash and short-term investments	21,003	—	21,003	28,121
Accounts receivable	31,457	—	31,457	29,141
Due from Department of Health	29,397	—	29,397	40,087
Due from Provincial Drug Distribution Program	1,613	—	1,613	1,280
Due from Department of Finance	922	—	922	1,554
Due from Foundations	6,591	—	6,591	4,524
Due (to) from other fund	(5,214)	5,214	—	—
Restricted cash and short-term investments [note 6]	6,641	—	6,641	4,260
Inventories [note 3]	12,031	—	12,031	12,149
Prepaid expenses	2,716	—	2,716	3,188
	<b>107,157</b>	<b>5,214</b>	<b>112,371</b>	<b>124,304</b>
Due from Department of Health	5,477	—	5,477	5,477
Due from Foundations	4,145	—	4,145	2,881
Accounts receivable – other	1,218	—	1,218	1,227
Due from Department of Finance [note 7]	152,126	—	152,126	140,802
Restricted cash and investments [note 6]	25,256	—	25,256	23,295
Capital assets [note 4]	—	270,319	270,319	279,474
Construction in progress [note 4]	—	10,056	10,056	7,653
Parking garage [notes 4 and 11]	—	8,938	8,938	9,213
	<b>295,379</b>	<b>294,527</b>	<b>589,906</b>	<b>594,326</b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	82,891	—	82,891	95,410
Restricted liabilities [note 6]	6,641	—	6,641	4,260
Deferred revenue [note 5]	28,443	4,212	32,655	33,150
Current portion of long-term debt [note 11]	—	1,001	1,001	1,395
	<b>117,975</b>	<b>5,213</b>	<b>123,188</b>	<b>134,215</b>
Restricted liabilities [note 6]	25,256	—	25,256	23,295
Long-term debt [note 11]	—	10,672	10,672	10,671
Employee future benefits [note 7]	152,126	—	152,126	140,802
	<b>295,357</b>	<b>15,885</b>	<b>311,242</b>	<b>308,983</b>
<b>Fund Balance</b>				
Operating surplus	22	—	22	316
Investment in capital assets	—	278,642	278,642	285,027
	<b>22</b>	<b>278,642</b>	<b>278,664</b>	<b>285,343</b>
	<b>295,379</b>	<b>294,527</b>	<b>589,906</b>	<b>594,326</b>

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]*

	2011	2010
	\$	\$
<b>OPERATING FUND</b>		
<b>Balance, beginning of year</b>	<b>316</b>	186
Net revenues over expenditures before amortization	<b>278</b>	663
Net amortization deficit	<b>(572)</b>	(533)
<b>Balance, end of year</b>	<b>22</b>	316
<b>INVESTMENT IN CAPITAL ASSETS</b>		
<b>Capital funding, beginning of year</b>	<b>700,139</b>	660,213
Capital funding for the year <i>[Schedule C]</i>	<b>26,123</b>	38,719
Donated asset	—	1,207
<b>Capital funding, end of year</b>	<b>726,262</b>	700,139
Accumulated amortization of capital fund, beginning of year	<b>415,112</b>	385,247
Amortization of capital fund	<b>32,508</b>	29,865
Accumulated amortization of capital fund, end of year	<b>447,620</b>	415,112
<b>Balance, end of year</b>	<b>278,642</b>	285,027

*See accompanying notes*

**Capital District Health Authority**  
 [Operating as Capital Health]

**STATEMENT OF REVENUES AND EXPENSES**

Year ended March 31  
 [in thousands]

	2011	2010
	\$	\$
<b>Operating Fund</b>		
Revenues [Schedule A]	804,230	796,920
Expenses [Schedule B]	803,952	796,257
Results from operating activities	278	663
<b>Capital Fund</b>		
Amortization of capital fund	32,508	29,865
Depreciation	(33,080)	(30,398)
Results from capital activities	(572)	(533)
<b>Results from operating and capital activities</b>	<b>(294)</b>	<b>130</b>
<b>Research</b>		
Revenues	19,045	19,595
Expenditures	14,703	16,930
	4,342	2,665
Opening balance	27,555	24,890
Funds available for research	31,897	27,555
Funds committed to future periods	31,897	27,555
<b>Results from research activities</b>	<b>—</b>	<b>—</b>
Net revenues over expenditures before deficit funding	(294)	130
<b>Net revenues over expenditures</b>	<b>(294)</b>	<b>130</b>

See accompanying notes

**Capital District Health Authority**  
[Operating as Capital Health]

**STATEMENT OF CASH FLOWS**

Year ended March 31  
[in thousands]

	2011	2010
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net revenues over expenditures – operating fund	278	663
Items not affecting cash		
Results from capital activities	(572)	(533)
Depreciation	33,080	30,398
Amortization of capital fund	(32,508)	(29,865)
Employee future benefits	11,324	10,108
Changes in non-cash working capital items	(17,115)	(16,334)
<b>Cash used in operating activities</b>	<b>(5,513)</b>	<b>(5,563)</b>
<b>FINANCING ACTIVITIES</b>		
Capital funding [Schedule C]	26,123	38,719
Capital lease	1,212	—
Long-term debt [note 11]	(1,605)	(1,339)
Restricted funding	4,342	2,665
<b>Cash provided by financing activities</b>	<b>30,072</b>	<b>40,045</b>
<b>INVESTING ACTIVITIES</b>		
Capital assets acquired [Schedule C]	(26,123)	(38,719)
Capital asset – capital lease	(1,212)	—
<b>Cash used in investing activities</b>	<b>(27,335)</b>	<b>(38,719)</b>
<b>Net change in cash during the year</b>	<b>(2,776)</b>	<b>(4,237)</b>
Cash position, beginning of year	55,676	59,913
<b>Cash position, end of year</b>	<b>52,900</b>	<b>55,676</b>
<b>Cash position, end of year is comprised of the following:</b>		
Cash and short-term investments	21,003	28,121
Restricted cash and investments	31,897	27,555
	<b>52,900</b>	<b>55,676</b>

See accompanying notes

## NOTES TO FINANCIAL STATEMENTS

March 31, 2011  
*[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 taxes.

### 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 expenses 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 on the straight-line basis at the following annual rates:

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

## NOTES TO FINANCIAL STATEMENTS

March 31, 2011  
*[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 during 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 and short-term investments, accounts receivable, accounts payable and accrued liabilities. The book values of accounts receivable and accounts payable approximate their 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. Capital Health has long-term investments 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**  
[Operating as Capital Health]

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2011  
[in thousands]

**3. Inventories**

	<b>2011</b>	<b>2010</b>
	\$	\$
Drugs	4,509	3,986
Linen	1,988	1,949
Medical and surgical	4,050	4,198
General supplies	1,484	2,016
	<b>12,031</b>	<b>12,149</b>

**4. Capital Assets**

	<b>2011</b>		<b>2010</b>	
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Cost</b>	<b>Accumulated depreciation</b>
	\$	\$	\$	\$
Land and land improvements	1,170	156	1,170	156
Halifax Infirmary building	110,023	31,870	110,023	29,670
Buildings and leaseholds	238,169	139,062	229,196	125,367
Equipment	307,468	222,527	296,068	207,710
Assets under capital lease	4,415	1,602	3,010	1,146
Information technology	51,624	47,333	49,753	45,697
Parking equipment	20	20	20	20
Paving	312	312	312	312
Assets under construction	10,056	—	7,653	—
	<b>723,257</b>	<b>442,882</b>	<b>697,205</b>	<b>410,078</b>
Less: accumulated depreciation	<b>442,882</b>		<b>410,078</b>	
Total capital assets and construction in progress	<b>280,375</b>		<b>287,127</b>	

	<b>2011</b>		<b>2010</b>	
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Cost</b>	<b>Accumulated depreciation</b>
	\$	\$	\$	\$
Parking garage	11,000	2,062	11,000	1,787
Less: accumulated depreciation	<b>2,062</b>		<b>1,787</b>	
	<b>8,938</b>		<b>9,213</b>	

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2011  
*[in thousands]*

**4. Capital Assets (cont'd)**

**Construction in Progress**

Construction in progress is included above in capital assets and represents costs associated with the Heritage Gas project for \$6,237, Bungalows for \$2,856, Radiation Wait Times for \$716, and Cancer Care Registry for \$141, Resource Centre at Cancer Care NS for \$53, VMB Kitchen for \$34, and EP Lab #2 for \$19.

**5. Deferred Revenue**

Deferred revenue in the operating fund of \$28,443 [2010 – \$30,068] represents advance funding received in the current year from the Department of Health for the 2011/12 fiscal year and other program deferred funding. Deferred revenue in the capital fund of \$4,212 [2010 – \$3,082] represents the advance funding for capital equipment that was to be purchased subsequent to March 31, 2011.

**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 2010/2011, research and restricted revenue totaled \$19,045 and research expenses totaled \$14,703, resulting in a net increase of \$4,342.

<b>Long-Term Restricted Liabilities</b>	2011	2010
	\$	\$
Centre for Clinical Research	<b>23,654</b>	20,332
Other	<b>8,243</b>	7,223
	<b>31,897</b>	27,555
Less: current restricted liabilities	<b>6,641</b>	4,260
	<b>25,256</b>	23,295

**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 10 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; therefore, a corresponding accounts receivable amount is recorded.

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2011  
*[in thousands]*

**7. Employee Future Benefits (cont'd)**

Under 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 Health has provided for retirement allowances as follows:

	2011	2010
	\$	\$
<b>Accrued benefit liability</b>		
<b>Beginning balance, retiring allowances</b>	<b>54,251</b>	52,234
Current service cost for the year	<b>3,898</b>	3,784
Interest cost during the year	<b>2,836</b>	2,770
Amortization of experience loss	<b>891</b>	575
Estimated fiscal payments for employees	<b>(5,318)</b>	(5,112)
<b>Ending balance, retiring allowances</b>	<b>56,558</b>	54,251

	2011	2010
	\$	\$
<b>Employee future benefits retirement expense</b>		
Current service costs	<b>3,898</b>	3,784
Interest on accrued benefits	<b>2,836</b>	2,770
Amortization of experience loss	<b>891</b>	575
	<b>7,625</b>	7,129

The significant actuarial assumptions adopted in measuring Capital Health's retirement allowances are as follows [weighted average assumptions] as at March 31, 2011:

	<b>Retirement Allowance</b>
Discount rate	4.75%
Retirement % at age 65	25.0%
Average age of employees	45.2
Average age of service	10.4
Future mortality rate	[none assumed]
Rate of compensation increase [based on average]	2.65%

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2011  
*[in thousands]*

**7. Employee Future Benefits (cont'd)**

**Health and life insurance**

Capital Health provides health and life insurance benefits to employees upon retirement. Under 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 Public Sector Accounting Board ["PSAB"] 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, therefore a corresponding accounts receivable balance is recorded.

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

	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Accrued benefit liability</b>		
<b>Beginning balance, health and life</b>	<b>86,551</b>	78,460
Current service cost for the year	<b>4,837</b>	4,562
Interest cost during the year	<b>4,605</b>	4,207
Amortization of experience loss	<b>1,130</b>	698
Estimated fiscal payments for employees	<b>(1,555)</b>	(1,376)
<b>Ending balance, health and life</b>	<b>95,568</b>	86,551

	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Employee future benefits health and life expense</b>		
Current service costs	<b>4,837</b>	4,562
Interest on accrued benefits	<b>4,605</b>	4,207
Amortization of experience loss	<b>1,130</b>	698
	<b>10,572</b>	9,467

**Capital District Health Authority**  
 [Operating as Capital Health]

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2011  
*[in thousands]*

**7. Employee Future Benefits (cont'd)**

The significant actuarial assumptions adopted in measuring Capital Health's health and life insurance are as follows [weighted-average assumptions] as at March 31, 2011:

	<b>Health/Life</b>	
Discount rate		4.75%
Retirement rate at age 65		25%
Participation rate – Health		80%
Participation rate – Life		80%
Future mortality rate	[UP94, Proj. to 2020, scale AA]	
Rate of compensation increase		2.5% Plus Prom. Increase
	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Employee future benefit summary</b>		
Ending balance, retiring allowance	<b>56,558</b>	54,251
Ending balance, health and life	<b>95,568</b>	86,551
<b>Ending balance, employee future benefits</b>	<b>152,126</b>	140,802

**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 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 October 31, 2010 and showed funding surplus for the entire plan of \$100,424. Capital Health is not responsible for any unfunded liability in this plan.

## NOTES TO FINANCIAL STATEMENTS

March 31, 2011  
*[in thousands]*

### 8. Pension Funds (cont'd)

#### **Federal Superannuation Fund**

A small group of employees of the former 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. Public Works and Government Services Canada administers 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:

	<b>2011</b>	<b>2010</b>
	\$	\$
Employer contributions	<b>37,584</b>	35,504

### 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. The most recent actuarial valuation was conducted as at December 31, 2008 and disclosed a funding excess of approximately \$16,600. 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, 2009, this valuation indicates a funding excess of \$4,531. Capital Health is not responsible for any unfunded liability in this plan.

#### **Canada Life Plan**

Employees of the former NSRC 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.

**Capital District Health Authority**  
 [Operating as Capital Health]

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2011  
*[in thousands]*

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

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

	<b>2011</b>	<b>2010</b>
	\$	\$
Employer contributions	<b>5,381</b>	4,962

**10. Operating Lease Commitments**

Capital Health is committed to the following annual lease payments in each of the next five fiscal years ending March 31:

	\$
2012	5,723
2013	3,845
2014	3,861
2015	3,834
2016	3,351

**11. Long-Term Debt**

**Long-Term Debt**

	<b>2011</b>	<b>2010</b>
	\$	\$
Term loan – parking garage	<b>8,149</b>	8,605
Department of Health loan [Cobequid Foundation]	<b>2,217</b>	2,534
Capital lease	<b>1,307</b>	927
	<b>11,673</b>	12,066
Less: current portion	<b>1,001</b>	1,395
	<b>10,672</b>	10,671

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.

**Capital District Health Authority**  
 [Operating as Capital Health]

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2011  
*[in thousands]*

**11. Long-Term Debt (cont'd)**

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.

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 \$479,000.

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

	\$
2012	1,001
2013	1,043
2014	1,087
2015	1,134
2016	1,152
Thereafter in aggregate	6,256

**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:

	2011	2010
	\$	\$
<b>Related Parties</b>		
Partners For Care	<b>4,900</b>	5,100
QEII Health Sciences Centre Foundation	<b>3,252</b>	2,226
Dartmouth General Hospital Foundation	<b>636</b>	407
Hants Hospital Foundation	<b>126</b>	73
Mental Health Foundation of Nova Scotia	<b>99</b>	125
Twin Oaks / Birches Healthcare Charitable Foundation	<b>44</b>	—
Cobequid Multi-purpose Centre Foundation	<b>11</b>	116
Musquodoboit Valley Foundation	<b>—</b>	14

## NOTES TO FINANCIAL STATEMENTS

March 31, 2011  
*[in thousands]*

### 13. Financial Instruments

#### **Fair value**

Capital Health's financial instruments consist of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities 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 rate method.

#### **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 risk 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 borrowings 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.

## NOTES TO FINANCIAL STATEMENTS

March 31, 2011  
[in thousands]

### 13. Financial Instruments (cont'd)

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 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.

#### Credit risk

Capital Health is exposed to credit risk with respect to accounts receivable. Capital Health 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 ongoing basis. The allowance for doubtful accounts at March 31, 2011 amounts to \$959 [2010 – \$1,145].

The aging of trade accounts receivable was as follows:

	2011	2010
	\$	\$
Current	<b>11,963</b>	11,265
61-90 days	<b>997</b>	1,573
90-120 days	<b>522</b>	546
Greater than 120 days	<b>5,713</b>	5,026

#### 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.

## NOTES TO FINANCIAL STATEMENTS

March 31, 2011  
*[in thousands]*

### 13. Financial Instruments (cont'd)

#### Capital management

In managing capital, Capital Health focuses on liquid resources available for operations. Its objective is to have sufficient liquid resources to continue operating despite events with adverse 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, 2011, Capital Health 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 flows are invested to earn the maximum interest income with minimum to low risk to the principal value of the assets invested.

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 adopted for the current year.

### 15. Contingencies

- (a) Capital Health may, from time to time, be involved in 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 its financial position.
- (b) During the year ended March 31, 2011, Capital Health experienced an oil leak at its Halifax Infirmary site. As at March 31, 2011, Capital Health has accrued a current liability of approximately \$368 which represents the minimum amount it expects to expend to remediate the site. However, based on preliminary assessments, estimated total remediation costs will exceed the current liability recorded. Amounts recorded by Capital Health will be adjusted as remediation efforts continue and further information develops or if circumstances change. Recoveries of remediation costs from other parties are recorded as assets when receipt is deemed probable.

**SCHEDULE OF REVENUES  
OPERATING FUND**

Year ended March 31  
*[in thousands]*

	2011	2010
	\$	\$
Department of Health	711,234	708,321
Federal government	27,116	25,969
Provincial grants	18,196	16,596
Non-resident billings	17,071	13,707
Lab and support services	8,200	7,863
Dietary	6,406	6,475
Preferred accommodation	6,106	6,510
Other	4,777	6,817
Workers' Compensation Board	3,655	3,878
Investment income	1,469	784
<b>Total revenues</b>	<b>804,230</b>	<b>796,920</b>

*See accompanying notes*

**SCHEDULE OF EXPENSES  
OPERATING FUND**

Year ended March 31  
*[in thousands]*

	<b>2011</b>	<b>2010</b>
	\$	\$
Compensation	<b>568,405</b>	565,081
Medical/surgical supplies	<b>72,396</b>	73,560
Plant maintenance/utilities	<b>52,719</b>	47,707
Purchased services	<b>25,926</b>	26,912
Drugs	<b>24,223</b>	23,322
Other	<b>21,804</b>	24,018
Lab/diagnostic supplies	<b>19,857</b>	18,457
Retirement allowance	<b>18,197</b>	16,596
Interest	<b>425</b>	604
<b>Total expenses</b>	<b>803,952</b>	<b>796,257</b>

*See accompanying notes*

**SCHEDULE OF CHANGES IN CAPITAL**

Year ended March 31  
*[in thousands]*

	2011	2010
	\$	\$
<b>Capital Funding</b>		
Department of Health	14,276	22,170
Operating Transfers for Capital	4,526	4,096
Foundations	4,124	2,962
Partners for Care	2,500	2,550
Other	697	6,941
<b>Total capital funding</b>	<b>26,123</b>	<b>38,719</b>
<b>Capital Expenses</b>		
Equipment	12,904	23,588
Leasehold improvements	10,182	12,794
Information technology	3,037	2,337
<b>Total capital expenses</b>	<b>26,123</b>	<b>38,719</b>

*See accompanying notes*