

Financial Statements

Capital District Health Authority

(operating as Capital Health)

March 31, 2007

AUDITORS' REPORT

To the Board of Directors of
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, 2007 and the statements of fund balances, revenues and expenditures, and cash flow 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, 2007 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 23, 2007

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 2007 \$	Total 2006 \$
ASSETS				
Current				
Cash and short term investments	52,160	—	52,160	43,370
Accounts receivable	23,787	—	23,787	21,967
Due from Department of Health	19,709	—	19,709	21,525
Due from Provincial Drug Distribution Program	154	—	154	178
Due from Department of Finance	1,873	—	1,873	370
Due from Foundations	988	—	988	1,620
Due (to) from other fund	(20,288)	20,288	—	—
Restricted cash and investments [notes 2 and 6]	1,988	—	1,988	1,404
Inventories [note 3]	5,822	—	5,822	5,701
Prepaid expenses	1,679	—	1,679	2,429
	87,872	20,288	108,160	98,564
Due from Department of Health	5,477	—	5,477	5,477
Due from Foundations	3,167	—	3,167	3,167
Accounts receivable	1,752	—	1,752	1,981
Due from Department of Finance [notes 2 and 7]	100,179	—	100,179	92,221
Restricted cash and investments [notes 2 and 6]	20,395	—	20,395	20,793
Capital assets [note 4]	—	245,673	245,673	245,311
Parking garage [notes 4 and 11]	—	10,038	10,038	10,313
	218,842	275,999	494,841	477,827
LIABILITIES AND FUND BALANCE				
Current				
Accounts payable and accrued liabilities	68,028	—	68,028	68,679
Restricted liabilities [notes 2 and 6]	1,988	—	1,988	1,404
Deferred revenue [note 5]	28,176	20,814	48,990	39,184
Current portion of long-term debt [note 11]	—	872	872	361
	98,192	21,686	119,878	109,628
Restricted liabilities [notes 2 and 6]	20,395	—	20,395	20,793
Long-term debt [note 11]	—	11,059	11,059	9,823
Employee future benefits [notes 2 and 7]	100,179	—	100,179	92,221
	218,766	32,745	251,511	232,465
Fund Balance				
Operating surplus	76	—	76	51
Investment in capital assets	—	243,254	243,254	245,311
	76	243,254	243,330	245,362
	218,842	275,999	494,841	477,827

Commitments and contingencies [notes 8, 9, 10]

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)

	2007	2006
	\$	\$
OPERATING FUND		
Balance, beginning of year	51	25
Net revenues over expenditures before amortization	428	301
Net amortization deficit	(403)	(275)
Balance, end of year	76	51
INVESTMENT IN CAPITAL ASSETS		
Capital funding, beginning of year	551,843	518,947
Capital funding for the year <i>[Schedule C]</i>	23,824	32,896
	575,667	551,843
Accumulated amortization of capital fund, beginning of year	(306,532)	(280,568)
Amortization of capital fund	(25,881)	(25,964)
Accumulated amortization of capital fund, end of year	(332,413)	(306,532)
Balance, end of year	243,254	245,311

See accompanying notes

Capital District Health Authority
(operating as Capital Health)

STATEMENT OF REVENUES AND EXPENDITURES

Year ended March 31
(in thousands)

	2007	2006
	\$	\$
Operating		
Revenues <i>[Schedule A]</i>	667,722	643,135
Expenditures <i>[Schedule B]</i>	667,294	642,834
Results from operating activities	428	301
Capital		
Amortization of capital fund	25,881	25,964
Depreciation	(26,284)	(26,239)
Results from capital activities	(403)	(275)
Results from operating and capital activities	25	26
Research		
Revenues	17,131	16,904
Expenditures	16,944	16,993
	187	(89)
Opening balance	22,197	22,286
Funds available for research	22,384	22,197
Funds committed to future periods	22,384	22,197
Results from research activities	—	—
Net revenues over expenditures	25	26

See accompanying notes

Capital District Health Authority
(operating as Capital Health)

STATEMENT OF CASH FLOW

Year ended March 31
(in thousands)

	2007 \$	2006 \$
OPERATING ACTIVITIES		
Net revenues over expenditures - operating fund	428	301
Items not requiring cash		
Results from capital activities	(403)	(275)
Depreciation	26,284	26,239
Amortization of capital fund	(25,881)	(25,964)
Changes in non-cash working capital items	1,229	5,147
Cash provided by operating activities	1,657	5,448
FINANCING ACTIVITIES		
Transfer of equity to operating fund	—	—
Capital funding [<i>Schedule C</i>]	23,824	32,896
Capital lease	2,572	—
Employee future benefits	7,958	7,314
Long term debt – parking garage/capital lease	(826)	(341)
Restricted funding	187	(89)
Cash provided by financing activities	33,715	39,780
INVESTING ACTIVITIES		
Capital assets acquired [<i>Schedule C</i>]	(23,824)	(32,896)
Capital asset – capital lease	(2,572)	—
Cash used in investing activities	(26,396)	(32,896)
Net increase in cash during the year	8,976	12,332
Cash position, beginning of year	65,567	53,235
Cash position, end of year	74,543	65,567
Cash position, end of year is comprised as follows:		
Cash and short-term investments	52,160	43,370
Restricted cash and investments	22,383	22,197
	74,543	65,567

See accompanying notes

Capital District Health Authority
(operating as Capital Health)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007
(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, Nova Scotia Hospital and the former Central Regional Health Board. Collectively, these organizations provide core health services to 40% 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 replacement cost.

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007
(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 the lower of cost and market. 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 recorded at market value at the balance sheet date.

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

The organization's primary financial instruments consist of receivables, payables and long-term debt. The difference between the carrying values and the fair market values of the primary financial instruments are not material due to the short term maturities and the credit terms of those instruments with the exception of certain debt instruments.

Capital District Health Authority
(operating as Capital Health)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007
(in thousands)

3. Inventories

<i>(in thousands)</i>	2007	2006
	\$	\$
Drugs	4,172	4,112
General supplies	924	853
Medical and surgical	726	736
	5,822	5,701

4. Capital Assets

<i>(in thousands)</i>	2007		2006	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
	\$	\$	\$	\$
Land	324	—	324	—
Land improvements	846	156	846	156
Halifax Infirmary building	110,023	23,068	110,023	20,868
Other Buildings	74,640	39,281	74,640	38,093
Equipment	232,104	168,322	217,410	157,274
Leasehold improvements	111,234	59,289	103,545	50,052
Information technology	44,879	40,682	43,440	38,479
Parking equipment	20	17	20	15
Paving	312	312	312	312
Capital Lease	2,572	154	—	—
	576,954	331,281		550,560
305,249				
Less: accumulated depreciation	331,281		305,249	
Total capital assets	245,673		245,311	

Capital District Health Authority
(operating as Capital Health)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007
(in thousands)

4. Capital Assets (cont'd)

<i>(in thousands)</i>	2007		2006	
	Cost \$	Accumulated Depreciation \$	Cost \$	Accumulated Depreciation \$
Parking Garage	11,000	962	11,000	687
Less: accumulated depreciation	962		687	
	10,038		10,313	

5. Deferred Revenue

Deferred revenue in the operating fund of \$28,176 (2006 - \$25,200) represents advance funding received from the Department of Health for the 2006/07 fiscal year and other program deferred funding. Deferred revenue in the capital fund of \$20,814 (2006 - \$13,984) represents advance funding for capital equipment to be purchased subsequent to March 31, 2007.

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 2006/2007, research revenue totaled \$17,131 and research expenses totaled \$16,944 resulting in a net increase of \$187.

<i>(in thousands)</i>	2007 \$	2006 \$
Centre for Clinical Research	16,593	16,169
Other	5,790	6,028
	22,383	22,197

Capital District Health Authority
(operating as Capital Health)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007
(in thousands)

7. Employee Future Benefits

Retirement allowance

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 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 weeks 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:

<i>(in thousands)</i>	2007	2006
	\$	\$
Accrued benefit liability		
Beginning balance, retiring allowances	40,422	38,425
Current service cost for the year	2,748	2,519
Interest cost during the year	2,293	2,375
Plan amendment and adjustments	—	(1,167)
Amortization of experience gain (loss)	204	270
Estimated fiscal payments for employees	(2,767)	(2,000)
Ending balance, retiring allowances	42,900	40,422

Capital District Health Authority
(operating as Capital Health)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007
(in thousands)

7. Employee Future Benefits (cont'd)

<i>(in thousands)</i>	2007	2006
	\$	\$
Employee future benefits retirement expense		
Current service costs	2,748	2,519
Interest on accrued benefits	2,293	2,375
Plan Amendment	—	(1,167)
Amortization of experience loss	204	270
	5,245	3,997

The significant actuarial assumptions adopted in measuring the company's retirements allowance are as follows (weighted-average assumptions) as at March 31, 2007:

	Retirement Allowance
Discount rate	5.7%
Retirement % at age 65	50.0%
Average age of employees	43.9
Average age of services	12.7
Future mortality rate	(none assumed)
Rate of compensation increase	(based on average) 3.65%

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 fifteen 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 District Health Authority
(operating as Capital Health)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007
(in thousands)

7. Employee Future Benefits (cont'd)

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

<i>(in thousands)</i>	2007	2006
	\$	\$
Accrued benefit liability		
Beginning balance, health and life	51,799	46,482
Current service cost for the year	2,790	2,698
Interest cost during the year	3,073	2,952
Amortization of experience gain (loss)	153	67
Estimated fiscal payments for employees	(536)	(400)
Ending balance, health and life	57,279	51,799
<hr/>		
<i>(in thousands)</i>	2007	2006
	\$	\$
Employee future benefits health and life expense		
Current service costs	2,790	2,698
Interest on accrued benefits	3,073	2,952
Amortization of experience loss	153	67
	6,016	5,717

The significant actuarial assumptions adopted in measuring the company's health and life insurance are as follows (weighted-average assumptions) as at March 31, 2007:

	Health/Life
Discount rate	5.7%
Retirement % at age 65	50%
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

Capital District Health Authority
(operating as Capital Health)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007
(in thousands)

8. Pension Funds

Public Service Superannuation Fund

Most former employees of the Victoria General Hospital (“VGH”), Cancer Treatment and Research Foundation (“CTRF”), Nova Scotia Hospital (“NSH”), Public Health and 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, 2005 and showed funding excess for the entire plan of over \$44,230,000. Capital Health is not responsible for any unfunded liability in this plan.

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>	2007	2006
	\$	\$
Employer contributions	23,794	20,757

Capital District Health Authority
(operating as Capital Health)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007
(in thousands)

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 NSGEU. The most recent actuarial valuation was conducted as at December 31, 2003 and disclosed an unfunded liability of approximately \$35,274. 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, 2005, this valuation indicates a funding excess of \$8,139. 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.

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)*:

2008	\$6,024
2009	5,992
2010	5,943
2011	5,943
2012	5,943

Capital District Health Authority
(operating as Capital Health)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007
(in thousands)

11. Long-Term Debt

Long-Term Debt <i>(in thousands)</i>	2007 \$	2006 \$
Term loan	9,823	10,184
Capital lease	2,108	—
	11,931	10,184
Less: current portion	872	361
	11,059	9,823

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 amounted 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.

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:

Fiscal	<i>(in thousands)</i>
2008	\$ 383
2009	406
2010	430
2011	456
2012	483
Thereafter in aggregate	7,666

Capital District Health Authority
(operating as Capital Health)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007
(in thousands)

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:

	2007	2006
	\$	\$
Related Parties		
Partners For Care	4,500	4,300
QEII Health Sciences Centre Foundation	4,141	3,404
Dartmouth General Hospital Foundation	556	2,262
Cobequid Multi-purpose Centre Foundation	541	2,111
Hants Hospital Foundation	27	130
Mental Health Foundation Of Nova Scotia	37	30

13. Comparative Figures

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

14. Contingencies

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

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>	Operating \$	Provincial Funded Programs \$	Total 2007 \$	Total 2006 \$
Department of Health	505,142	87,661	592,803	568,290
Federal government	11,302	12,047	23,349	22,299
Other	7,189	—	7,189	9,680
Preferred accommodation	6,549	—	6,549	6,613
Non-resident billings	10,074	—	10,074	10,260
Dietary	6,137	—	6,137	6,122
Lab and support services	6,496	—	6,496	6,337
Provincial grants	11,261	—	11,261	9,714
Workers Compensation Board	3,864	—	3,864	3,820
Revenues	568,014	99,708	667,722	643,135

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>	Operating \$	Provincial Funded Programs \$	Total 2007 \$	Total 2006 \$
Compensation	378,714	85,088	463,802	450,280
Medical/surgical supplies	62,078	729	62,807	59,448
Plant maintenance/utilities	42,593	2,822	45,415	43,029
Drugs	24,660	2,322	26,982	27,042
Other	21,837	4,164	26,001	25,671
Purchased services	12,122	4,380	16,502	13,703
Lab/diagnostic supplies	13,732	200	13,932	13,335
Retirement allowance expense	11,261	—	11,261	9,714
Interest expense	592	—	592	612
Expenditures	567,589	99,705	667,294	642,834

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>	2007	2006
	\$	\$
Capital Funding		
Department of Health (Capital Grant)	4,643	4,365
Department of Health (Other)	4,482	13,195
Foundations	5,803	7,801
Clinical Research	617	905
Other	3,725	2,516
Federal government	4,554	4,114
	23,824	32,896
Capital Expenditures		
Equipment	14,695	17,294
Leasehold improvements	7,690	12,939
Information technology	1,439	2,663
	23,824	32,896