

YUKON HOSPITAL CORPORATION

FINANCIAL STATEMENTS

March 31, 2006

(audited)

MacKay LLP

Auditors' Report

**To the Directors of
Yukon Hospital Corporation**

We have audited the consolidated statement of financial position of the Yukon Hospital Corporation as at March 31, 2006 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Whitehorse, Yukon

May 19, 2006

Mackay LLP

Chartered Accountants

Yukon Hospital Corporation

Consolidated Statement of Financial Position

As at March 31

2006

2005

Assets

Current

Cash	\$ 1,517,485	\$ 1,148,971
Accounts receivable	1,185,124	1,557,905
Inventory	929,595	712,525
Prepaid expenses	232,494	258,876

3,864,698 **3,678,277**

Restricted funds (note 8)	483,734	451,992
Trust funds - First Nations Health Program (note 9) (schedule 2)	2,588,398	2,506,921
Capital assets - net (note 3)	6,025,930	5,546,934
Intangible assets - net (note 3)	384,375	996,875

\$13,347,135 **\$12,680,999**

Liabilities

Current

Accounts payable and accrued liabilities	\$ 1,456,535	\$ 1,479,743
Accrued payroll and benefits	1,586,863	1,294,045
Deferred revenue	35,000	3,125

3,078,398 **2,776,913**

Accrued payroll benefits (note 4)	1,431,366	1,353,611
Deferred capital contributions (note 6)	3,797,088	3,664,927
Trust funds - First Nations Health Program (note 9) (schedule 2)	2,588,398	2,052,350
Long-term debt (note 5)	395,898	395,898

11,291,148 **10,243,699**

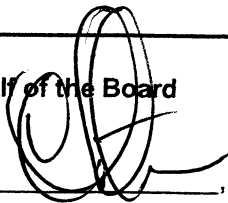
Net Assets

Invested in capital assets (note 10)	3,455,453	3,563,157
Contributed surplus (note 7)	383,794	383,794
Restricted for capital purchases, external (note 8)	510,059	451,992
Restricted for capital purchases, internal	257,287	---
Unrestricted	(2,550,606)	(1,961,643)

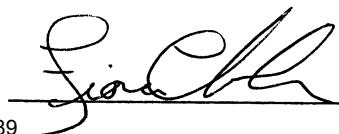
2,055,987 **2,437,300**

\$13,347,135 **\$12,680,999**

On behalf of the Board



Director



Director

Yukon Hospital Corporation**Consolidated Statement of Operations**

For the year ended March 31,	2006	2005
Revenue		
Government of Yukon – basic	\$24,812,225	\$23,194,526
Government of Yukon - other	403,125	477,075
Patients	1,938,322	2,000,520
Amortization of deferred capital contributions	845,603	694,633
Amortization of deferred capital contribution- Thomson Centre	157,765	---
Cafeteria	180,855	150,943
Interest	398,922	284,784
Other	269,100	275,412
Fundraising revenue	506,015	---
	29,511,932	27,077,893
Expenditures		
Compensation and benefits	18,262,232	17,080,331
Supplies	5,005,009	4,542,487
Equipment and building services	1,424,170	1,386,420
Improvements-Thomson Centre	157,765	---
Referred out/Contracted services	1,941,224	1,379,657
Sundry	1,498,661	1,602,086
Amortization of capital assets	1,366,866	1,182,403
Amortization of intangible assets	112,500	112,500
Fundraising expenses	182,885	---
	29,951,312	27,285,884
Excess (deficiency) of revenue over expenditures	\$ (439,380)	\$ (207,991)

Yukon Hospital Corporation

Consolidated Statement of Changes in Net Assets

For the year ended March 31,

	Invested in Capital Assets (note 10)	Contributed Surplus	Restricted For Capital Purchases External (note 8)	Restricted For Capital Purchases Internal (note 8)	Unrestricted	Total	Total
Balance, beginning of year	\$ 3,563,157	\$ 383,794	\$ 451,992	\$ —	(\$1,961,643)	\$2,437,300	\$2,666,077
Excess (deficiency) Of revenue over expenditures	(475,998)	—	—	257,287	(220,669)	(439,380)	(207,991)
Net changes in invested in capital and intangible assets (note 10)	368,294	—	—	—	(368,294)	—	—
Contributions	—	—	130,804	—	—	130,804	296,605
Purchase of Capital Assets	—	—	(72,737)	—	—	(72,737)	(317,391)
Balance, end of year	\$3,455,453	\$ 383,794	\$ 510,059	\$257,287	(2,550,606)	\$ 2,055,987	\$ 2,437,300

Yukon Hospital Corporation**Consolidated Statement of Cash Flows**

For the year ended March 31,	2006	2005
Cash provided by (used in)		
Operating activities		
From operations		
Excess (deficiency) of revenue over expenditures	\$ (439,380)	\$ (207,991)
Add (deduct) items not involving cash:		
Amortization of capital assets	1,366,866	1,182,403
Amortization of intangible assets	112,500	112,500
Amortization of deferred capital contributions	(845,603)	(694,633)
	194,383	392,279
Changes to non-cash operating accounts	884,400	(929,520)
	1,078,783	(537,241)
Financing activities		
Increase in deferred capital contributions	1,135,592	2,333,666
	1,135,592	2,333,666
Investing activities		
Purchase of capital assets net of proceeds on disposal	(1,845,861)	(1,794,920)
	(1,845,861)	(1,794,920)
Increase in cash	368,514	1,505
Cash, beginning of year	1,148,971	1,147,466
Cash, end of year	\$1,517,485	\$1,148,971

Yukon Hospital Corporation

Notes to Financial Statements

March 31, 2006

1. Purpose

These consolidated financial statements consists of:

a) The Yukon Hospital Corporation is a charitable organization established under the powers of the Hospital Act of the Yukon Territory. The objects of the Corporation are to provide hospital and medical services to meet the needs of people in the Yukon. The Corporation is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

b) The Yukon Hospital Foundation is a society incorporated under the Societies Act of Yukon. The purpose of the society is to promote health of people in the Yukon, to raise money for hospital and medical care and services, supervised residential care and continuing care, and rehabilitative care and services. The Foundation also grants funds and provides equipment, services and facilities to health facilities in the Yukon, and in particular to the Yukon Hospital Corporation.

2. Significant Accounting Policies

(a) **Basis of presentation**

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Yukon Hospital Corporation and Yukon Hospital Foundation. All significant inter-company transactions and balances have been eliminated on consolidation.

(b) **Inventory**

Inventory is valued at the lower of cost, determined on the first-in, first-out basis, and net realizable value.

(c) **Capital and Intangible assets**

Capital and intangible assets are recorded at cost. Amortization is calculated by the straight-line method at the annual rates set out in note 3.

(d) **Revenue recognition**

The corporation follows the deferral method of accounting for contributions. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. The foundation follows the restricted fund method of accounting for contributions. Externally restricted contributions are credited to the fund and then recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted investment income is recognized in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

(e) **Donated services**

The corporation and foundation benefit from substantial services in the form of volunteer time. These invaluable services are not in these financial statements.

(f) **Financial instruments**

All significant financial assets, financial liabilities and equity instruments of the corporation are either recognized or disclosed in the financial statements together with available information for a reasonable assessment of future cash flows, interest rate risk and credit risk.

Yukon Hospital Corporation**Notes to Financial Statements**

March 31, 2006

(g) Pension

Employees of the Corporation participate in the Yukon Hospital Corporation Employees Defined Benefit Pension Plan, administered by the Corporation's Board of Trustees. Contributions to the plan are required from both the employees and the Corporation. Contributions to the plan made during the year by the Corporation on behalf of its employees are included in the statement of operations. The Actuarial market-related value of plan assets at December 31, 2005 was \$27,442,000. The Actuarial liabilities, including the contingency reserve, at December 31, 2005 were \$29,903,200. The last formal Actuarial valuation date was on December 31, 2004. Further details with respect to the pension are contained in note 13.

(h) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reporting period. Significant areas requiring the use of management estimates relate to the determination of the defined benefit pension plan surplus and the liabilities for accrued termination, requirement and sick leave benefits. Financial results as determined by actual events could differ from these estimates.

3. Capital and Intangible Assets

Capital assets	Rate	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Land					
- transferred	0%	\$ 2	\$ ---	\$ 2	\$ 2
Equipment and fixtures					
- transferred	0%	689,262	---	689,262	689,262
Building improvements	5%	1,618,675	538,825	1,079,850	1,160,974
Equipment and fixtures	10%	162,691	143,740	18,951	35,524
Medical equipment	15%	7,283,657	4,029,308	3,254,349	2,763,476
Information systems	20%	3,708,807	2,725,291	983,516	897,696
New hospital costs	20%	779,142	779,142	---	---
Small equipment	100%	12,220	12,220	---	---
		\$ 14,254,456	\$ 8,228,526	\$ 6,025,930	\$ 5,546,934

The land on which the hospital building sits is owned by the corporation. The hospital building itself is owned by the Government of Yukon. The corporation is responsible for the maintenance and upkeep of the building and grounds. The Yukon Government paid a grant in lieu of taxes directly to the City of Whitehorse in the amount of \$609,603.

Intangible assets	Rate	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Picture Archiving Communication System (PACS)	15%	\$ 750,000	\$365,625	\$384,375	\$ 496,875
		\$ 750,000	\$365,625	\$384,375	\$ 496,875

4. Accrued Payroll Benefits

The portion of accrued payroll benefits relating to termination, retirement and sick leave have been classified as a long-term liability in the accompanying financial statements as the probability of pay out within the next fiscal year is considered low.¹⁹⁴

Yukon Hospital Corporation**Notes to Financial Statements**

March 31, 2006

5. Long-term debt

	2006	2005
Yukon Development Corporation		
\$595,898 flexible term note bearing interest at 7.5% repayable in annual instalments, based on the annual energy savings realized, secured by a general security agreement on building improvements with a net book value of \$566,103.	\$ 395,898	\$ 395,898
Less current portion	---	---
	\$ 395,898	\$ 395,898

Scheduled repayments for all long-term debt are as follows:

2007	\$ ---
2008	38,730
2009	38,730
2010	38,730
2011	38,730
2012 and thereafter	240,978

\$ 395,898

6. Deferred Capital Contributions

Deferred capital contributions represent restricted contributions received to purchase capital assets. The changes in the deferred contribution balance for the year are as follows:

	2006	2005
Balance, beginning of year	\$ 3,664,927	\$ 2,026,894
Restricted government contribution	1,060,000	2,015,275
Restricted capital contribution (non-government)	75,529	317,391
Amount amortized to revenue	(845,603)	(694,633)
Amount credited to expense	(157,765)	---
Balance, end of year	\$ 3,797,088	\$ 3,664,927

7. Contributed Surplus

Certain assets were transferred from the Government of Canada and the Government of Yukon to the control of the Yukon Hospital Corporation on April 1, 1993 and January 19, 1994.

Yukon Hospital Corporation**Notes to Financial Statements**

March 31, 2006

8. Restricted for Capital Purchases, External

The Corporation has control over funds which have been donated for specific capital purchases. These funds are set up on the balance sheet as an asset with an offsetting net asset restricted for capital purchases.

	2006	2005
Balance, beginning of year	\$ 451,992	\$ 472,778
Contributions during year	130,804	296,605
Expenditures during year	(72,737)	(317,391)
Balance, end of year	\$ 510,059	\$ 451,992

\$483,734 is held in separate bank accounts.

9. First Nations Health Program

The Corporation receives funds from the Government of Yukon for the purpose of operating the First Nations Health program at the Whitehorse General Hospital. This program is accounted for separately as set out in schedules 1 and 2, attached.

10. Invested in Capital and Intangible Assets

(a) Net assets invested in capital and intangible assets is calculated as follows:

	2006	2005
Capital assets	\$ 6,025,930	\$ 5,546,934
Intangible assets	384,375	496,875
Amounts financed by deferred contributions	(2,954,852)	(2,480,652)
	\$ 3,455,453	\$ 3,563,157

Change in net assets invested in capital and intangible assets is calculated as follows:

(b) Excess (deficiency) of revenue over expenditures

Amortization of deferred contributions relating to capital assets	\$ 845,603	\$ 694,633
relating to Thomson Centre	157,765	---
Amortization of capital assets	(1,366,866)	(1,182,403)
Amortization of intangible assets	(112,500)	(112,500)
	\$ (475,998)	\$ (600,270)

(c) Net change in invested capital and intangible assets:

Purchase of capital assets	\$ 1,845,862	\$1,794,918
Amounts funded by deferred contributions	(1,477,568)	(1,148,391)
	\$ (368,294)	\$ 646,527

Yukon Hospital Corporation

Notes to Financial Statements

March 31, 2006

11. Economic Dependence

The Corporation receives a majority of its funding from the Yukon Territorial Government.

12. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

The previous year comparative figures are presented on a non-consolidated basis and reflect the operations of Yukon Hospital Corporation only.

13. Pension Costs and Obligations

Yukon Hospital Corporation sponsors a contributory defined benefit pension plan, which provides pensions based on length of service and final average earnings. Cost of living increases are provided annually to pensioners, as well as upon retirement for deferred pensioners. In 2006, employees will contribute to the plan as follows:

- 4.00% of earnings up to the Year's Maximum Pensionable Earnings.
- 7.50% of earnings in excess of the Year's Maximum Pensionable Earnings.

The Corporation contributes amounts as prescribed by an independent actuary.

A separate pension fund is maintained to hold plan assets. Yukon Hospital Corporation has contracted with external organizations to provide trustee and investment management services for the fund. Pension fund assets are invested in balanced-pooled funds of the investment manager. The market value of plan assets was \$28,139,772 as at December 31, 2005.

An actuarial valuation for accounting purposes was performed as of December 31, 2004 by Mercer Human Resource Consulting, using the projected benefits method prorated on services. The actuarial valuation included services rendered by members under the Yukon Hospital Corporation Employees' Pension Plan since the inception of the plan in 1993, as well as service credits in respect of pre-1993 service transferred to the Yukon Hospital Corporation Employees' Pension Plan from the Federal Public Service Superannuation Plan under the Special Reciprocal Transfer Agreement dated June of 1995. The results of the December 31, 2004 valuation have been projected to December 31, 2005 for accounting purposes.

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases and employee turnover and mortality. The assumptions used reflect management's best estimate of these future events. Key assumptions are summarized below:

- | | |
|---|---------------|
| ▪ Expected rate of inflation: | 2.5% per year |
| ▪ Discount rate/expected return on plan assets: | 7.0% per year |
| ▪ Assumed rate of salary escalation | 4.0% per year |

Adjustments resulting from plan enhancements are recognized immediately. Experience gains and losses and changes in assumptions are amortized on a straight-line basis over the expected average remaining service life of employees (currently 9.7 years). Pension costs include the current benefit cost, the cost of past service benefits and plan enhancements, and amortization of experience gains and losses.

Yukon Hospital Corporation**Notes to Financial Statements**

March 31, 2006

13. Pension Costs and Obligations (continued)

	2006
Change in benefit obligation	
▪ Benefit obligation – end of prior year	\$23,494,200
▪ Employer current service cost	1,421,900
▪ Interest cost	1,694,500
▪ Employee contributions	602,400
▪ Benefits paid	(597,400)
▪ Actuarial loss (gain)	3,287,600
▪ Benefit obligation – end of year	<u>\$29,903,200</u>
Change in market-related value of plan assets	
▪ Market-related value of plan assets – end of prior year	\$25,510,300
▪ Actual return on plan assets	1,275,000
▪ Employer contributions	833,100
▪ Employee contributions	602,400
▪ Benefits paid	(597,400)
▪ Actual plan expenses	(181,400)
▪ Market-related value of plan assets – end of year	<u>\$27,442,000</u>
Reconciliation of Funded Status	
▪ Market-related value of plan assets	\$27,442,000
▪ Benefit obligation- end of year	29,903,200
▪ Funded status – surplus (deficit)	<u>(2,461,200)</u>
▪ Employer contributions made after measurement date	216,700
▪ Unamortized net actuarial loss (gain)	4,358,800
Accrued benefit asset (liability)	<u>\$2,114,300</u>
Components of Pension Expense (Income)	
▪ Current service cost, including provision for plan expenses	\$1,527,400
▪ Interest cost	1,694,500
▪ Expected return on plan assets	(1,811,400)
▪ Amortization of transitional obligation	-
▪ Amortization of net actuarial loss (gain)	47,500
Net pension expense (income)	<u>(\$1,458,000)</u>
Reconciliation of Accrued Benefit Asset (Liability)	
▪ Accrued benefit asset (liability) – end of prior year	2,522,500
▪ Employer contributions	888,100
▪ Adjustment for employer contributions made after measurement date from prior year	161,700
▪ Net pension (expense) income	(1,458,000)
▪ Accrued benefit asset (liability) – end of year	<u>\$2,114,300</u>

Yukon Hospital Corporation

Notes to Financial Statements

March 31, 2006

13. Pension Costs and Obligations (continued)

Within the Pension fund, assets are valued at market-related value, with investment returns above and below the expected return on plan assets amortized over five years. No adjustment is made for benefits payable and contributions receivable.

The Yukon Hospital Corporation adopted a measurement date of December 31 in respect of its pension obligations. Consequently, both benefit obligations and plan assets are measured as of December 31 for presentation in the financial statements as of March 31.

The funded status of the pension plan (a deficit of \$2,461,200 as at December 31, 2005) presented in these financial statements has been determined on the basis that the pension plan remains a going-concern. As at December 31, 2005 the pension plan had a deficit of \$9.3 million if valued on the basis that the pension plan were terminated/wound up as at December 31, 2005.

In the event that a pension plan has a deficit on a plan termination/wind-up basis, the Federal Pension Benefits Standards Act and Regulations requires that the pension plan sponsor contribute an amount necessary to fund both the current service cost of the pension plan, and the amortization of any deficit over a period not exceeding five years.

In the case of the Yukon Hospital Corporation pension plan, the deficit of approximately \$9.3 million as at December 31, 2005, measured on a plan termination/wind-up basis, means that the accrued benefit asset of \$2,114,300 as at March 31, 2006, measured on a going-concern basis, may be considered to be "impaired".

Yukon Hospital Corporation**Schedule 1 - First Nations Health Program
- Statement of Operations and Unrestricted Net Assets**

For the year ended March 31,	2006	2005
Revenue		
Government of Yukon - Transfer agreement	\$ 663,000	\$ 663,000
Interest	66,837	65,243
Government of Yukon Contributions Health Partnership and Secondments	117,276	110,981
	847,143	839,224
Expenditures		
Payroll	577,711	546,906
Material and supplies	7,968	7,397
Travel	13,516	14,498
Honoraria	13,350	8,062
Sundry	38,962	53,209
Scholarships	10,693	14,500
Donations- Yukon Hospital Foundation	30,000	30,000
Contribution- Council of Yukon First Nations- Health Commission	30,000	30,000
	722,200	704,572
	124,913	134,652
Less contribution- Council of Yukon First Nations Health Partnerships and secondments	43,436	39,463
Excess of revenue over expenditures	81,477	95,189
Unrestricted, beginning of year	2,506,921	2,411,732
Unrestricted, end of year	\$ 2,588,398	\$ 2,506,921

Yukon Hospital Corporation

Schedule 2 - First Nations Health Program
- Statement of Financial Position

As at March 31,	2006	2005
Assets		
Current		
Cash and short-term investments	\$ 2,625,712	\$ 2,942,928
Property and equipment	52,088	53,717
	\$2,677,800	\$ 2,996,645
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 54,980	455,302
Deferred revenue- Health Partnerships and Secondments	34,422	34,422
	89,402	489,724
Unrestricted Net Assets	2,588,398	2,506,921
	\$ 2,677,800	\$ 2,996,645