

FINANCIAL STATEMENTS

for the year ended March 31, 2001

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MANAGEMENT REPORT

The financial statements of HÉMA-QUÉBEC were prepared by management, which is responsible for their preparation and presentation, including some amounts that are based on best estimates and judgments of management. This responsibility includes the choice of appropriate accounting policies in conformity with Canadian generally accepted accounting principles. The financial information presented elsewhere in this annual activity report is consistent with that in the financial statements.

In order to discharge its responsibilities, management maintains a system of internal accounting controls that will allow it to produce reliable financial statements and that are designed to provide reasonable assurance that assets are protected and that transactions are duly approved and accounted for correctly and in the delays required.

HÉMA-QUÉBEC recognizes that it is responsible for managing its affairs in conformity with the laws and regulations governing it.

Actuaries from the firm of Morneau Sobeco have been appointed as consultants to HÉMA-QUÉBEC employees' private pension plan.

The Board of Directors must monitor the manner in which management carries out its responsibilities in relation to financial information and it has approved these financial statements.

The Vérificateur général du Québec has audited the financial statements of HÉMA-QUÉBEC in accordance with Canadian generally accepted auditing standards, and the auditor's report reveals the nature and extent of the audit and the statement of the auditor's opinion. The Vérificateur général can, without any restriction whatsoever, meet with the Board of Directors to discuss any aspect of the audit.



Guy Lafrenière
Senior Director,
Administration & Finance



Dr. Francine Décaré
Executive Director

Montréal, June 14, 2001

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of HÉMA-QUÉBEC as of March 31, 2001, and the statements of operating results and surplus, as well as the statement of cash flows for the financial year ended on that date. These financial statements are the responsibility of the management of HÉMA-QUÉBEC. My responsibility is to express an opinion on these financial statements based on my audit.

My audit has been conducted in accordance with Canadian generally accepted auditing standards. Those standards require that the audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of HÉMA-QUÉBEC as of March 31, 2001, and the results of its operations and its cash flows for the financial year ended on that date, in accordance with Canadian generally accepted accounting principles. In compliance with the requirements of the Loi sur le vérificateur général (R.S.Q., Chapter V-5.01), I declare, that in my opinion, with the exception of the change made to the recognition of employees' future benefits, explained in Note 3, these principles have been applied in the same manner as during the preceding financial year.



Vérificateur général du Québec,
Guy Breton, FCA
Québec, June 14, 2001

OPERATING RESULTS AND SURPLUS

FOR THE YEAR ENDED MARCH 31, 2001

Revenue

	2001	2000
Grant from the Government of Québec	\$ 173,778,863	\$ 150,232,500
Blood products sold outside Québec	106,339	1,875,135
Interest on bank deposits and other	261,446	307,869
Other income	311,004	92,542
	\$ 174,457,652	\$ 152,508,046

Expenses (Note 4)	\$ 174,457,652	\$ 150,792,538
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Surplus of Revenue over Expenses	—	\$ 1,715,508
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Surplus (Deficit) at the Beginning	845,204	(870,304)
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Surplus at the End	\$ 845,204	\$ 845,204
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BALANCE SHEETS

AS OF MARCH 31, 2001

Assets

	2001	2000
SHORT-TERM		
Term deposits (4.375%)	\$ 519,486	\$ 906,336
Receivables (Note 5)	1,898,042	3,291,541
Grant forthcoming from the Government of Québec	12,058,363	5,500,000
Inventory (Note 6)	7,105,503	5,530,521
Prepaid expenses (Note 7)	1,373,775	1,177,588
	22,955,169	16,405,986
FIXED ASSETS (NOTE 8)	27,486,723	26,142,918
	\$ 50,441,892	\$ 42,548,904

Liabilities

SHORT-TERM		
Bank overdraft (Note 9)	\$ 8,540,434	\$ 6,767,818
Accounts payable and accrued expenses (Note 10)	13,344,649	13,262,554
Payment on long-term debt (Note 11)	3,806,290	2,653,971
	25,691,373	22,684,343
LONG-TERM DEBT (NOTE 11)	22,213,071	19,019,357
LIABILITIES UNDER THE PROVISIONS OF ACCRUED BENEFITS (NOTE 12)	1,692,244	—
Surplus	845,204	845,204
	\$ 50,441,892	\$ 42,548,904

Commitments (Note 13)

For the Board of Directors

Gaude Pallette

Director

Cory Campbell

Director

CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2001

Operating Activities

	2001	2000
Cash inflows – Grant from the Government of Québec	\$ 167,220,500	\$ 148,981,465
Cash inflows – Blood products sold outside Québec	1,875,135	1,106,103
Cash inflows – Other income	206,934	93,818
Cash payments – Suppliers and salaries	(170,666,033)	(146,449,533)
Interest received	258,855	307,869
Interest paid	(1,560,445)	(1,163,701)
CASH FLOW FROM (USED FOR) OPERATING ACTIVITIES	(2,665,054)	2,876,021

Investing Activities

Cash flow used for investing activities: Capital acquisitions	(3,840,445)	(8,485,274)
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Financial Activities

Long-term debt	7,410,773	6,085,300
Settlement of long-term debt	(3,064,740)	(2,197,920)
CASH FLOW FROM FINANCING ACTIVITIES	4,346,033	3,887,380

Reduction in Cash and Cash Equivalents

	(2,159,466)	(1,721,873)
Cash and Cash Equivalents at the Beginning	(5,861,482)	(4,139,609)

Cash and Cash Equivalents at the End

	\$ (8,020,948)	\$ (5,861,482)
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Cash and cash equivalents are made up of the following items:

Fixed-term deposits	519,486	906,336
Bank overdraft	(8,540,434)	(6,767,818)
	\$ (8,020,948)	\$ (5,861,482)

C O M P L E M E N T A R Y N O T E S

MARCH 31, 2001

1. INCORPORATION AND FUNCTIONS

HÉMA-QUÉBEC, created on March 26, 1998 by letters patent issued by virtue of Part III of the Companies Act (R.S.Q., Chapter C-38), has continued its existence by virtue of the Loi sur HÉMA-QUÉBEC et sur le Comité d'hémovigilance (L.Q. 1998, Chapter 41). HÉMA-QUÉBEC is a non-profit legal entity whose mission is to provide Québeckers and their health and social services establishments with an adequate supply of blood and blood products and constituents.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of HÉMA-QUÉBEC have been prepared by management in conformity with Canadian generally accepted accounting principles. These statements include some amounts that are based on best estimates and judgments of management.

INVENTORY

The inventory of fractionation products and collection and laboratory equipment are evaluated at the lesser of cost or replacement value, the cost being determined according to the first-in first-out method.

FIXED ASSETS

Fixed assets are recorded at cost. Depreciation is calculated in terms of the economic life of those fixed assets, according to the straight-line depreciation method and at the following rates:

Building	4%
Physical improvements	5%
Leasehold improvements	length of lease
Automotive equipment	33 1/3%
Machinery and equipment	10% and 20%
Office furniture and equipment	33 1/3%
Computer equipment	33 1/3%
Computer software	20%
Intangible assets	10%

EMPLOYEE BENEFIT PLANS

HÉMA-QUÉBEC accounts for the obligations stemming from its employee benefit plans, as well as related costs, after deducting plan assets. To this end, HÉMA-QUÉBEC has adopted the following agreements:

Pension costs and other retirement benefits earned by employees are actuarially determined using the projected benefit method pro-rated on service and based on management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and anticipated health care costs.

For purposes of calculating the anticipated yield of benefit plan assets, such assets are evaluated at their fair value.

The provisional obligation is amortized over the expected average remaining service period of an employee group. The average remaining service period of employees covered by the pension plan is 17 years. The average remaining service period of active employees covered by the supplementary retirement benefit plan is 13 years.

CASH AND CASH EQUIVALENTS

HÉMA-QUÉBEC's policy is to present bank balances, including bank overdrafts whose balances often fluctuate between the overdraft, the available investments and the temporary investments whose maturity dates do not exceed three months from their acquisition dates, in cash and cash equivalents.

3. CHANGES IN ACCOUNTING POLICIES

HÉMA-QUÉBEC has adopted prospectively the new recommendations of the Canadian Institute of Chartered Accountants relating to the accounting of pensions and other types of future service benefits. Under the new recommendations, the costs of supplementary retirement benefits are accounted for in accordance with the accrual method. Previously, these costs were charged to earnings when such amounts were paid. The new recommendations also require a change to the discount rate used to evaluate obligations related to retirement benefits and current service costs. Such a rate will now be established according to market, rather than estimated long-term, interest rates.

The prospective adoption of these new recommendations has the effect of increasing (decreasing) the following items in the financial statements:

	2001
Accounts payable and accrued expenses – Salaries and fringe benefits	\$ (901,944)
Liabilities in terms of accrued benefits	1,692,244
Surplus	(790,300)
Fringe benefits	790,300
Surplus of revenue over expenses	\$ (790,300)

4. EXPENSES BY RESPONSIBILITY CENTRE

	Recruitment, marketing and promotion	Procurement	Production	Distribution	Medical services	Medical affairs
Wages	\$ 715,528	\$ 15,786,722	\$ 5,697,047	\$ 3,478,907	\$ 2,046,071	\$ 1,729,552
Fringe benefits	125,274	2,941,253	1,036,277	641,159	375,286	310,573
Travel expenses	81,015	1,504,179	43,546	1,311,182	3,661	75,766
Medical and laboratory supplies	5,636	11,986,598	6,994,789	210,409	73,309	376,903
Blood products purchased outside Québec	—	—	240,806	—	—	—
Bought-in services	296,167	192,497	388,055	41,200	7,393	136,098
Communications	2,736,715	507,485	30,567	42,905	6,327	10,506
Automotive equipment expenses	112	28,128	12,256	997,727	10,500	21,885
Equipment rentals	8,907	92,787	70,458	693,277	870	15,581
Rent	—	—	—	—	—	53,680
Taxes	—	—	—	—	—	—
Office expenses	198,561	464,765	443,770	262,180	186,202	109,644
Professional liability insurances	—	—	—	—	—	—
Property, director and senior management insurance	—	—	—	—	—	—
Fixed assets depreciation	56,972	390,848	417,495	172,435	84,199	64,153
Interest on advances and bank charges	—	—	—	—	—	—
Interest on long-term debt	—	—	—	—	—	—
SUBTOTAL	\$ 4,224,887	\$ 33,895,262	\$ 15,375,066	\$ 7,851,381	\$ 3,543,818	\$ 2,904,341
Plasma for fractionation*	—	—	—	—	—	—
TOTAL						

* HÉMA-QUÉBEC has two major areas of activity: labile products and fractionation products. Some expenses relating to collecting plasma for fractionation are accrued at the labile product level and reallocated to fractionation products on the following basis: the number of units transferred is measured at the market price of fractionation plasma in effect during the financial year. During the financial year ended March 31, 2001, an amount of \$7,456,200 was reallocated from labile products to fractionation, or 172,000 units at \$43.35.

							2001	2000
Quality and Standards	Research and development	Information technology	Administration	Operation of the physical plant	Labile subtotal	Fractionation	Total	Total
\$ 652,707	\$ 1,469,521	\$ 1,141,810	\$ 4,512,630	\$ 221,375	\$ 37,451,870	—	\$ 37,451,870	\$ 30,409,177
103,302	253,735	192,783	422,831	41,549	6,444,022	(390)	6,443,632	5,250,828
50,589	68,594	95,544	337,892	8,721	3,607,689	—	3,607,689	3,207,764
360	361,558	11,777	3,192	216,957	20,900,488	80,491,756	101,392,244	90,065,508
—	—	—	—	—	240,806	—	240,806	313,307
41,374	45,130	653,847	2,243,401	845,276	4,954,438	1,699,058	6,653,496	5,959,336
2,211	1,712	481,867	22,023	9,644	3,851,962	552	3,852,514	3,982,183
—	350	1,012	58	318	1,072,346	31,189	1,103,535	901,896
6,223	8,140	36,187	63,885	37,775	1,034,090	—	1,034,090	652,633
—	—	—	37,100	1,607,511	1,698,291	—	1,698,291	1,232,688
—	—	—	—	(43,642)	(43,642)	—	(43,642)	58,795
32,852	83,902	457,624	224,386	802,403	3,266,289	8	3,266,297	2,747,987
—	—	—	1,912,506	—	1,912,506	—	1,912,506	1,880,141
—	—	—	76,618	—	76,618	—	76,618	61,522
37,270	128,460	1,309,915	1,087,226	410,397	4,159,370	—	4,159,370	2,905,072
—	—	—	155,606	—	155,606	—	155,606	38,370
—	—	—	1,452,730	—	1,452,730	—	1,452,730	1,125,331
\$ 926,888	\$ 2,421,102	\$ 4,382,366	\$ 12,552,084	\$ 4,158,284	\$ 92,235,479	\$ 82,222,173	\$ 174,457,652	\$ 150,792,538
—	—	—	—	—	(7,456,200)	7,456,200	—	—
					\$ 84,779,279	\$ 89,678,373	\$ 174,457,652	\$ 150,792,538

5. RECEIVABLES

	2001	2000
Customers	\$ 916,639	\$ 1,683,648
Sales taxes	\$ 981,403	\$ 1,607,893
	\$ 1,898,042	\$ 3,291,541

6. INVENTORY

	2001	2000
Fractionation products	\$ 4,612,452	\$ 2,868,575
Collection equipment	2,195,019	2,207,916
Laboratory equipment	298,032	454,030
	\$ 7,105,503	\$ 5,530,521

7. PREPAID EXPENSES

	2001	2000
Insurance	\$ 411,188	\$ 966,881
Taxes and other	962,587	210,707
	\$ 1,373,775	\$ 1,177,588

8. FIXED ASSETS

	2001		2000	
	Cost	Accumulated Depreciation	Net Value	Net Valeur
Land	\$ 2,139,500	—	\$ 2,139,500	\$ 2,139,500
Building*	6,753,918	340,000	6,413,918	3,196,006
Physical improvements	3,456,909	148,333	3,308,576	2,818,382
Leasehold improvements	665,279	334,036	331,243	474,054
Automotive equipment	384,306	293,635	90,671	179,795
Machinery and equipment	4,922,158	1,203,832	3,718,326	3,851,764
Office furniture and equipment	1,542,366	863,600	678,766	872,070
Computer equipment	3,518,090	1,643,586	1,874,504	2,253,364
Computer software	3,104,624	923,405	2,181,219	2,707,983
Intangible assets**	9,000,000	2,250,000	6,750,000	7,650,000
	\$35,487,150	\$ 8,000,427	\$ 27,486,723	\$26,142,918

* On May 11, 2000, the Government of Québec authorized the construction of new laboratories at 4045 Cote-Vertu Boulevard in Ville Saint-Laurent, for the purpose of transferring operations presently located at 3131 Sherbrooke Street East in Montréal. The total cost for this construction project will be \$17,189,103 including taxes. Anticipated completion date for the project is May 2002. Costs to date total \$3,353,918 and are included under Building. Amortization of this capital asset will begin when the project has been completed.

** Intangible assets include databases for blood-product management, royalties, trademarks, the unrelated bone marrow donor registry, fees linked to blood drive programs, transfer of operational and prescribed processes as well as blood-product and tissular samples. All of these assets were acquired for a lump-sum amount of \$9,000,000 from the Canadian Red Cross Society on September 28, 1998.

9. BANK OVERDRAFT

On March 31, 2001, HÉMA-QUÉBEC had a revolving line of credit of \$9,500,000 at prime plus 0.75%.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2001	2000
Suppliers	\$ 10,395,348	\$ 9,999,845
Salaries and fringe benefits	2,949,301	3,262,709
	\$ 13,344,649	\$ 13,262,554

11. LONG-TERM DEBT

	2001	2000
Loan, guaranteed by the land and building for a net book value of \$5,199,500 repayable by monthly instalments of \$36,337, including capital and interest at a fixed rate of 6.19% renewable in 2008, falling due in 2023	\$ 5,305,586	\$ 5,405,927
Loans, repayable by monthly instalments totalling \$405,052 including capital and interest at fixed rates varying from 5.16% to 6.82%, falling due between 2001 and 2008	19,181,760	16,267,401
Loan for interim financing, at a rate of 5.45%, convertible into a term loan at a matching rate in May 2002	1,532,015	—
	26,019,361	21,673,328
Payments falling due within one year	(3,806,290)	(2,653,971)
	\$ 22,213,071	\$ 19,019,357

Repayments of capital on long-term debt to be made during the next five financial years are the following:

2002	\$ 3,806,290
2003	5,439,095
2004	3,940,627
2005	3,290,811
2006	1,917,191

12. FUTURE FRINGE BENEFITS

HÉMA-QUÉBEC has several defined benefit and money purchase plans that guarantee pensions, post-retirement benefits other than pensions and post-employment benefits to most employees.

HÉMA-QUÉBEC's total expenditure for the financial year for the money-purchase pension plan is \$455,200.

HÉMA-QUÉBEC's net expenditure for the financial year for the defined benefit plans is as follows:

	Pension Plan	Other plans	Total
Net expenditures	\$ 748,600	\$ 1,160,944	\$ 1,909,544

Information related to collective money-purchase pension plans, as of March 31, 2001, is as follows:

	Pension Plan	Other plans	Total
Obligations for accrued pension benefits	\$ 3,370,900	\$ 5,252,944	\$ 8,623,844
Fair value of assets at the end of the financial year	3,238,100	—	3,238,100
Funding situation – deficit	132,800	5,252,944	5,385,744
Outstanding provisional obligation	60,500	3,633,000	3,693,500
Liabilities for accrued pension benefits	\$ 72,300	\$ 1,619,944	\$ 1,692,244

Significant actuarial assumptions adopted by HÉMA-QUÉBEC to evaluate its obligations for accrued pension benefits are as follows:

	Pension Plan	Other plans
Discount rate	7.00%	7.00%
Anticipated long-term rate of return for plan assets	7.75%	—
Rate of salary increase	4.00%	4.00%

For evaluation purposes, the hypothetical rate of annual increase in health-care costs covered for each participant has been fixed at 10% for the year 2000. According to the hypothesis chosen, this rate should gradually decrease, reaching 5% in 2010.

Other information for the financial year concerning HÉMA-QUÉBEC's defined benefit plans are as follows:

	Pension Plan	Other plans	Total
Contributions made by HÉMA-QUÉBEC during the financial year	\$ 676,300	\$ —	\$ 676,300
Contributions made by employees during the financial year	\$ 733,600	\$ —	\$ 733,600
Benefits	\$ 10,060	\$ 376,012	\$ 386,072

Following an agreement reached and ratified by the Court during the year 2000, the HÉMA-QUÉBEC employees' private pension plan will receive a sum of approximately \$4,500,000 from the Red Cross. This sum will be used in accordance with the terms of the agreement ratified by the Court and will be used, among other things, for improving retirement benefits, as well as correcting a deficiency noted during the transfer of Red Cross employees to HÉMA-QUÉBEC. This sum has been deposited in a trust account and will be paid to the Pension Plan as soon as the latter receives approval from tax authorities.

13. COMMITMENTS

HÉMA-QUÉBEC is committed to long-term leases, expiring at various dates up until December 31, 2005, for its business and administrative premises and for automotive and other equipment. Leases for premises include, in some cases, an option to renew for five years. HÉMA-QUÉBEC has also committed itself contractually for the construction of laboratories.

Rental expenditures for the financial year ended on March 31, 2001 were \$1,698,291 (\$1,232,688 in 2000) for premises and \$1,034,090 (\$652,633 in 2000) for automotive and other equipment. Future payments related to the construction of laboratories are in the order of \$603,367 for 2002. Minimum future payments with respect to long-term leases are as follows:

2002	\$ 1,452,794
2003	1,097,962
2004	59,387
2005	37,627
2006	5,949
	\$ 2,653,719

14. TRANSACTIONS AMONG AFFILIATES

In addition to operations among affiliates already disclosed in the financial statements, HÉMA-QUÉBEC is affiliated with all government departments and special funds, as well as all organizations and enterprises controlled directly or indirectly by the Government of Québec or subjected, either to joint control or to significant common influence on the part of the Government of Québec. HÉMA-QUÉBEC has not concluded any business transactions with these affiliates other than in the normal course of its activities and according to usual business terms. These operations are not disclosed separately in the financial statements.

15. COMPARATIVE FIGURES

Certain figures for 2000 have been reclassified in order to conform to the presentation adopted in 2001.