

**Four Counties Health Services**  
**Financial Statements**  
**For the year ended March 31, 2008**

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Financial Statements  
For the year ended March 31, 2008**

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**BDO Dunwoody LLP**  
Chartered Accountants  
and Advisors

28636 Centre Road, R.R. 5  
Strathroy Ontario Canada N7G 3H6  
Email: strathroy@bdo.ca  
Telephone: 519.245.1913  
Fax: 519.245.5987

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## Auditors' Report

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**To the Board of Directors of  
Four Counties Health Services**

We have audited the statement of financial position of Four Counties Health Services as at March 31, 2008 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the hospital'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 the hospital as at March 31, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*BDO Dunwoody LLP*

Chartered Accountants, Licensed Public Accountants

Strathroy, Ontario  
May 13, 2008

## Four Counties Health Services Statement of Financial Position

March 31 2008 2007

### Assets

#### Current

Cash	\$ 1,432,919	\$ 1,924,035
Short-term investments (Note 1)	1,168,960	1,123,332
Accounts receivable (Note 2)	361,606	239,648
Inventories	54,332	69,417
Prepaid expenses	57,679	87,719
Current portion of receivable from Villa (Note 8)	6,132	44,580

**3,081,628** **3,488,731**

#### Restricted

Cash	1,483	1,730
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#### Long-Term Receivable From Villa (Note 8)

509,274 1,203,360

#### Capital Assets (Note 3)

**6,526,906** **6,704,022**

**\$ 10,119,291** **\$ 11,397,843**

### Liabilities and Net Assets

#### Current

Accounts payable and accrued charges	\$ 841,049	\$ 1,155,476
Current portion of long-term debt (Note 6)	75,973	88,632

**917,022** **1,244,108**

#### Deferred Capital Contributions (Note 5)

4,223,947 4,342,380

#### Long-Term Debt (Note 6)

14,696 90,669

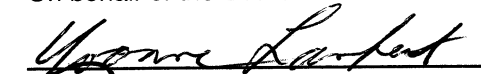
**5,155,665** **5,677,157**

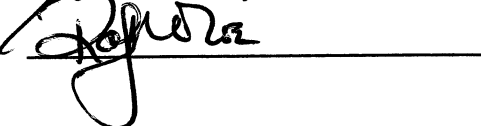
#### Net Assets

**4,963,626** **5,720,686**

**\$ 10,119,291** **\$ 11,397,843**

On behalf of the Board of Directors:

 Director

 Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**Four Counties Health Services  
Statement of Changes in Net Assets**

<b>For the year ended March 31</b>	<b>2008</b>				<b>2007</b>
	<b>Invested in capital assets</b>	<b>Restricted</b>	<b>Unrestricted</b>	<b>Total</b>	<b>Total</b>
Balance, beginning of year	\$ 2,361,642	\$ 1,730	\$ 3,357,314	\$ 5,720,686	\$ 5,632,565
Change in accounting policy (Note 12)	-	-	(726,842)	(726,842)	-
Excess (deficiency) of revenues over expenditures	(391,059)	(247)	361,088	(30,218)	88,121
Net change in investment in capital assets	332,376	-	(332,376)	-	-
<b>Balance, end of year</b>	<b>\$ 2,302,959</b>	<b>\$ 1,483</b>	<b>\$ 2,659,184</b>	<b>\$ 4,963,626</b>	<b>\$ 5,720,686</b>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Four Counties Health Services Statement of Operations

For the year ended March 31	2008	2007
<b>Revenue</b>		
Ministry of Health and Long-Term Care	\$ 7,827,945	\$ 7,300,215
Patient revenues	1,660,709	1,533,135
Differential and co-payment	48,189	21,466
Recoveries and miscellaneous	748,798	553,932
Amortization of deferred capital contributions, equipment	628,493	412,394
Other votes	183,054	156,910
Other funding sources	417,444	406,439
	<b>11,514,632</b>	<b>10,384,491</b>
<b>Expenses</b>		
Salaries and wages	4,423,871	4,316,648
Employee benefits (Note 7)	917,934	816,832
Medical staff remuneration	1,823,232	1,476,260
Supplies and other expenses	2,387,394	1,847,293
Medical and surgical supplies	130,782	112,963
Drugs	131,674	166,649
Amortization - equipment (Note 3)	894,839	806,658
Other votes	295,169	190,932
Other funding sources	417,472	408,438
	<b>11,422,367</b>	<b>10,142,673</b>
<b>Operating excess of revenue over expenditures</b>	<b>92,265</b>	<b>241,818</b>
<b>Other</b>		
Amortization of deferred capital contributions, building	84,587	120,361
Amortization of building and land improvements (Note 3)	(207,070)	(274,058)
	<b>122,483</b>	<b>153,697</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ (30,218)</b>	<b>\$ 88,121</b>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Four Counties Health Services Statement of Cash Flows

For the year ended March 31	2008	2007
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess (deficiency) of revenues over expenditures	\$ (30,218)	\$ 88,121
Items not involving cash		
Amortization of capital assets	1,104,139	1,083,570
Amortization of deferred capital contributions	(713,080)	(532,755)
Gain on disposal of capital assets	(4,000)	(1)
	<u>356,841</u>	<u>638,935</u>
Net changes in non-cash working capital balances:		
Accounts receivable	(121,958)	979,429
Inventory	15,085	(3,399)
Prepaid expenses	30,040	12,715
Accounts payable and accrued charges	(314,427)	137,790
	<u>(34,419)</u>	<u>1,765,470</u>
<b>Investing activities</b>		
Payment received on long-term receivable	5,691	44,580
Net acquisition of capital assets	(927,024)	(1,604,600)
	<u>(921,333)</u>	<u>(1,560,020)</u>
<b>Financing activities</b>		
Contributions received for capital assets	594,649	868,293
Proceeds from sale of capital assets	4,000	-
Repayment of long-term debt	(88,632)	(85,462)
	<u>510,017</u>	<u>782,831</u>
<b>Increase (decrease) in cash and equivalents during the year</b>	<b>(445,735)</b>	<b>988,281</b>
<b>Cash and equivalents, beginning of year</b>	<b>3,049,097</b>	<b>2,060,816</b>
<b>Cash and equivalents, end of year</b>	<b>\$ 2,603,362</b>	<b>\$ 3,049,097</b>
<b>Represented by</b>		
Cash	\$ 1,432,919	\$ 1,924,035
Restricted cash	1,483	1,730
Short term investments	1,168,960	1,123,332
	<u>\$ 2,603,362</u>	<u>\$ 3,049,097</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

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## Four Counties Health Services Summary of Significant Accounting Policies

**March 31, 2008**

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**Nature of Organization**

The hospital provides health care services to the residents of the Four Counties area. The hospital was incorporated on September 14, 1960 as a corporation without share capital. During 1998 the name was legally changed from Four Counties General Hospital.

**Basis of Accounting Presentations**

The financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenue is recorded when earned and expenses are recorded when incurred.

The financial statements do not include the assets, liabilities and activities of any organizations such as volunteer groups, which, although related to the hospital, are not operated by it.

**Inventories**

Inventories are stated at the lower of cost and replacement cost. Cost is generally determined on the first-in, first-out basis.

**Capital Assets**

Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives.

Land improvements	10 - 25 years
Buildings and related service equipment	5 - 40 years
Major equipment	3 - 20 years

Costs relating to the planning and implementation of major operational projects (construction in progress) are deferred and amortized on a straight-line basis over an appropriate number of years commencing in the year in which the respective projects become operational.

**Vacation Pay**

Vacation pay is accrued for all employees as entitlement is earned.

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## Four Counties Health Services Summary of Significant Accounting Policies

**March 31, 2008**

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### **Ministry of Health Funding**

Under the Health Insurance Act and the regulations thereto, the hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health. The financial statements reflect agreed funding arrangements approved by the Ministry with respect to the year ended March 31, 2008.

### **Financial Instruments**

The hospital utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the hospital is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

All transactions related to financial instruments are recorded on a settlement date basis.

The hospital classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The hospital's accounting policy for each category is as follows:

#### *Held-for-trading*

This category is comprised of cash, T-Bill fund, and restricted cash. It is carried in the balance sheet at fair value with changes in fair value recognized in the statement of operations. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

#### *Held-to-maturity*

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the hospital's management has the positive intention and ability to hold to maturity and comprises certain investments in debt securities. These assets are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to held-to-maturity investments are included in the amount initially recognized.

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## Four Counties Health Services Summary of Significant Accounting Policies

March 31, 2008

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### Financial Instruments - continued

#### *Loans and receivables*

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to patients (accounts receivable), but also incorporate other types of contractual, monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are included in the amount initially recognized.

#### *Other financial liabilities*

Other financial liabilities include all financial liabilities, and are comprised of trade payables and other short-term monetary liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are netted against the amount initially recognized.

#### *Fair values*

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

### Revenue Recognition

The hospital follows the deferral method of accounting for contributions which include donations and government grants.

Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

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## Four Counties Health Services Summary of Significant Accounting Policies

March 31, 2008

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**Revenue Recognition - continued**

Unrestricted contributions are recognized as revenue when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are 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 on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

**Use of Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

## Four Counties Health Services Notes to Financial Statements

March 31, 2008

### 1. Short-Term Investments

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
<i>Held-to-maturity:</i>				
Ontario Savings Bond, floating interest, matures June 2010	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Government of Canada T-Bills, maturing June to September 2008	611,304	611,304	578,815	578,815
Accrued interest	12,049	12,049	9,832	9,832
	<b>873,353</b>	<b>873,353</b>	838,647	838,647
<i>Held-for-trading:</i>				
Royal Bank of Canada T-Bill Fund	295,607	295,607	284,685	284,685
	<b>\$ 1,168,960</b>	<b>\$ 1,168,960</b>	\$ 1,123,332	\$ 1,123,332

The fair values of investments were determined by reference to published price quotations in an active market.

Income from investments has been included in Recoveries and Miscellaneous revenue on the Statement of Operations.

### 2. Accounts Receivable

	2008	2007
<i>Loans and receivables:</i>		
Inpatients	\$ 9,439	\$ 14,495
Outpatients	73,187	95,013
Ministry of Health	105,973	-
Miscellaneous	173,007	130,140
	<b>\$ 361,606</b>	\$ 239,648

## Four Counties Health Services Notes to Financial Statements

**March 31, 2008**

### 3. Capital Assets

	2008		2007	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 2,000	\$ -	\$ 2,000	\$ -
Land improvements	241,796	104,533	241,796	95,851
Building and related service equipment	15,966,371	9,691,236	14,602,851	8,595,778
Construction in progress	112,508	-	549,004	-
	<b>\$ 16,322,675</b>	<b>\$ 9,795,769</b>	<b>\$ 15,395,651</b>	<b>\$ 8,691,629</b>
 Net book value		<b>\$ 6,526,906</b>		<b>\$ 6,704,022</b>

The amortization charge for the year is as follows:

	2008	2007
Building	\$ 207,070	\$ 274,058
Other funding sources, equipment	2,230	2,854
Equipment	894,839	806,658
	<b>\$ 1,104,139</b>	<b>\$ 1,083,570</b>

### 4. Bank indebtedness

As at March 31, 2008, the hospital had \$400,000 in available credit (2007 - \$300,000).

## Four Counties Health Services Notes to Financial Statements

**March 31, 2008**

### 5. Deferred Contributions Relating to Capital Assets

Deferred capital contributions relating to capital assets represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2008	2007
Balance, beginning of year	\$ 4,342,380	\$ 4,006,842
Contributions received	594,647	868,293
Amortized to revenue	(713,080)	(532,755)
	<b>\$ 4,223,947</b>	<b>\$ 4,342,380</b>

### 6. Long-term Debt

	2008	2007
4.75% installment payment agreement, payable in quarterly payments of \$15,969 principal and interest, ending December 2008, secured by software license	\$ 46,785	\$ 106,635
0% installment payment agreement, payable in quarterly payments of approximately \$7,196, ending September 2009, secured by software license	43,884	72,666
	<b>90,669</b>	179,301
Less current portion	<b>75,973</b>	88,632
	<b>\$ 14,696</b>	<b>\$ 90,669</b>

Principal payments required on long-term debt for the next four years are as follows:

Year	Amount
2009	\$ 75,973
2010	14,696
	<b>\$ 90,669</b>

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## Four Counties Health Services Notes to Financial Statements

March 31, 2008

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### 7. Pension Plan

Substantially all of the full-time employees and some of the part-time employees are members of the Hospitals of Ontario Pension Plan. Contributions to the plan made during the year by the hospital on behalf of these employees amounted to \$341,872 (2007 - \$327,997) and are included in employee benefits in the statement of operations.

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### 8. Related Party Transactions

The hospital has an economic interest in Four Counties Health Services Foundation.

During the year, the Four Counties Health Services Foundation transferred \$734,662 (2007 - \$218,247) to the Four Counties Health Services.

The Foundation receives the following materials and services from Health Services at no cost to the Foundation: Office space, telephone service, and computer support.

The Hospital has an economic interest in Four Counties Community Villa (Non-Profit) Inc.

During the year, Four Counties Health Services received loan repayments of \$44,580 from Four Counties Community Villa (Non-Profit) Inc. Funds in the amount of \$1,560,000 were advanced in fiscal 2000 and 2001 to Four Counties Community Villa (Non-Profit) Inc., interest free, to finance the construction of a non-profit supportive housing facility on the Health Services' land. The loan is to be repaid over thirty-five years, in equal monthly instalments. The land lease is for a period of ninety-nine years and no rental payments are required for the first thirty-five years.

At April 1, 2007, the loan was classified as loans and receivables, and was discounted using an interest rate comparable to similar mortgages at the time of issue. It is subsequently being carried at amortized cost. Since the loan originated as a result of a related party transaction, fair value of the loan is not readily determinable, and as such, has not been presented. Interest income earned on the loan have been included in other funding sources on the statement of operations.

The Auxiliary to Four Counties Health Services is an ancillary volunteer organization that is a registered charity under the Income Tax Act (Canada). Under its constitution and by-laws the stated purpose of the Auxiliary is to assist the Hospital and the community.

The Hospital is related to Strathroy Middlesex General Hospital as they are governed by a common board of directors. Staff resources are shared by the hospital. During the year, the Hospital recovered remuneration of \$553,790 (2007 - \$494,806) from Strathroy Middlesex General Hospital, and reimbursed Strathroy Middlesex General Hospital \$725,502 (2007 - \$678,983) for remuneration paid by Strathroy Middlesex General Hospital. Joint purchases of supplies are expensed to each hospital at point of purchase.

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## Four Counties Health Services Notes to Financial Statements

**March 31, 2008**

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### 9. Economic Dependence

The hospital received 68% of its total revenue for the year ended March 31, 2008 (2008 - 70%) from the Ministry of Health.

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### 10. Contingencies

The Hospital has been named defendant in certain legal actions. The final liability, if any, of these claims is indeterminable as the hospital has established defence actions and further, in the opinion of legal counsel and the hospital's insurance adjustors, should any claim be successful, it would be subject to material coverage by the hospital's policies of insurance.

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### 11. Comparative Information

The comparative information presented in the financial statements has been restated to conform to the current year's presentation.

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### 12. Change in Accounting Policy

On April 1, 2007, the hospital retroactively adopted, without restatement of prior periods, CICA Handbook Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3861, "Financial Instruments - Disclosure and Presentation", and Section 3855, "Financial Instruments - Recognition and Measurement". These new Handbook sections provide comprehensive requirements for the recognition and measurement of financial instruments. Handbook Section 1530 also introduces a new component of equity referred to as accumulated other comprehensive income. Section 3251, "Equity", replaces Section 3250, "Surplus" and incorporates amendments resulting from the issuance of Section 1530.

Under these new standards, all financial instruments are included on the balance sheet and are measured either at fair market value or, in limited circumstances, at cost or amortized cost.

In accordance with the provisions of these new standards, the hospital reflected a decrease of \$726,842 to long-term receivables and unrestricted net assets, on April 1, 2007, related to restating the long-term receivable to amortized cost.

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## Four Counties Health Services Notes to Financial Statements

March 31, 2008

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### 13. New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the hospital, are as follows:

*Capital disclosures*

CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The impact of this change on the hospital's financial statements has yet to be determined.

*General standards on financial statement presentation*

CICA Handbook 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The hospital does not expect the adoption of these changes to have a material impact on its financial statements.

*Financial instruments - disclosure and presentation*

CICA Handbook Section 3862, Financial Instruments - Disclosure, increases the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. CICA Handbook Section 3863, Financial Instruments - Presentation, replaces the existing requirements on the presentation of financial instruments, which have been carried forward unchanged. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The impact of the change on the hospital's financial statements has yet to be determined.

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### 14. Joint Venture Agreement

The hospital has entered into an agreement with the Regional Shared Services ("RSS") which was initially formed by the Thames Valley Hospital Planning Partnership ("TVHPP") to develop and operate a shared electronic health information management system. An agreement was executed by all involved hospitals in order to outline the rights, obligations and duties of each joint venture partner. The hospital has an economic interest in RSS and pays to the RSS its share of capital, staffing and operating costs incurred by the RSS. The shared assets of the RSS reside on the financial statements of the London Health Sciences Centre ("LHSC"). The hospital accounts for the joint venture on an equity basis.

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## Four Counties Health Services Notes to Financial Statements

March 31, 2008

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### 15. Public Sector Salary Disclosure Act

The Public Sector Salary Disclosure Act requires that the Hospital disclose in its annual statement, the amount of salary and benefits paid in excess of \$100,000. In calendar year 2007, there were no employees paid a salary of \$100,000 or more as defined in the Act. Generally, the Act defines salary as the amount received by an employee required by the Income Tax Act (Canada) and defines benefits as amounts reported to Revenue Canada, Taxation, under the Income Tax Act (Canada).