

**Strathroy Middlesex General Hospital**  
**Financial Statements**  
For the year ended March 31, 2011

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**Financial Statements**  
For the year ended March 31, 2011

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## Independent Auditors' Report

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To the Board of Directors  
Strathroy Middlesex General Hospital

We have audited the accompanying financial statements of Strathroy Middlesex General Hospital which comprise the statement of financial position as at March 31, 2011 and the statements of changes in net assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Strathroy Middlesex General Hospital as at March 31, 2011 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants

Strathroy, Ontario  
May 25, 2011

**Strathroy Middlesex General Hospital**  
**Statement of Financial Position**

March 31 2011 2010

**Assets**

**Current**

Cash	\$ 2,555,762	\$ 892,273
Short-term investments (Note 1)	-	754,077
Accounts receivable (Note 2)	993,358	1,055,238
Inventories (Note 3)	77,769	109,333
Prepaid expenses	151,970	203,185
	3,778,859	3,014,106

**Capital assets (Note 4)**

	18,426,149	20,202,611
	\$ 22,205,008	\$ 23,216,717

**Liabilities and Net Assets**

**Current**

Accounts payable and accrued liabilities	\$ 2,866,765	\$ 2,668,519
Current portion of long-term debt (Note 7)	-	688,000
	2,866,765	3,356,519

**Deferred contributions relating to capital assets (Note 6)**  
**Employee future benefits (Note 8)**


	16,416,581	17,531,594
	108,730	130,988
	19,392,076	21,019,101

**Net assets**

Internally restricted	600,000	-
Unrestricted	2,212,932	2,197,616
	2,812,932	2,197,616
	\$ 22,205,008	\$ 23,216,717

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.

**Strathroy Middlesex General Hospital**  
**Statement of Changes in Net Assets**

For the year ended March 31	2011		2010	
	Restricted (Note 15)	Unrestricted	Total	Total
Balance, beginning of year	\$ -	\$ 2,197,616	\$ 2,197,616	\$ 1,378,455
Excess of revenues over expenditures	-	615,316	615,316	819,161
Transfer	600,000	(600,000)	-	-
Balance, end of year	\$ 600,000	\$ 2,212,932	\$ 2,812,932	\$ 2,197,616

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

## Strathroy Middlesex General Hospital

### Statement of Operations

For the year ended March 31	2011	2010
<b>Revenue</b>		
Ministry of Health and Long-Term Care	\$ 29,013,476	\$ 28,979,465
Patient revenues	2,418,915	2,319,136
Differential and co-payment	347,836	525,188
Recoveries and miscellaneous	1,376,453	1,213,585
Amortization of deferred capital contributions, equipment	1,415,990	1,658,861
Other votes	653,634	638,764
	<u>35,226,304</u>	<u>35,334,999</u>
<b>Expenses</b>		
Salaries and wages	15,199,193	15,098,106
Employee benefits (Note 8)	3,517,377	3,994,492
Employee future benefits (Note 8)	-	121,866
Medical staff remuneration	5,160,096	5,047,362
Supplies and other expenses	5,092,985	4,775,522
Medical and surgical supplies	2,348,811	1,847,140
Drugs	566,839	569,592
Amortization - equipment (Note 4)	1,452,556	1,747,684
Other votes	770,108	750,279
	<u>34,107,965</u>	<u>33,952,043</u>
<b>Operating excess of revenue over expenses</b>	<u>1,118,339</u>	<u>1,382,956</u>
<b>Other</b>		
Amortization of deferred capital contributions, building	584,919	546,925
Amortization of buildings and land improvements (Note 4)	(1,087,942)	(1,110,720)
	<u>(503,023)</u>	<u>(563,795)</u>
<b>Excess of revenue over expenses</b>	<u>\$ 615,316</u>	<u>\$ 819,161</u>

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

## Strathroy Middlesex General Hospital Statement of Cash Flows

For the year ended March 31	2011	2010
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenues over expenses	\$ 615,316	\$ 819,161
Items not involving cash		
Amortization	2,540,498	2,858,404
Gain on disposal of capital assets	(18,585)	(1,695)
Amortization of deferred contributions relating to capital assets	(2,000,890)	(2,205,787)
	<u>1,136,339</u>	<u>1,470,083</u>
Net changes in non-cash working capital balances:		
Accounts receivable	61,880	(474,094)
Inventory	31,564	19,228
Prepaid expenses	51,215	59,760
Accounts payable and accrued liabilities	198,246	(86,170)
Employee future benefits	(22,258)	99,105
	<u>1,456,986</u>	<u>1,087,912</u>
<b>Investing activities</b>		
Purchase of capital assets	(764,036)	(670,101)
Proceeds on disposal of capital assets	18,585	-
	<u>(745,451)</u>	<u>(670,101)</u>
<b>Financing activities</b>		
Contributions received for capital assets	885,877	1,187,981
Repayment of long-term debt	(688,000)	(722,292)
	<u>197,877</u>	<u>465,689</u>
Increase in cash and equivalents during the year	909,412	883,500
Cash and equivalents, beginning of year	<u>1,646,350</u>	<u>762,850</u>
<b>Cash and equivalents, end of year</b>	<b><u>\$ 2,555,762</u></b>	<b><u>\$ 1,646,350</u></b>
<b>Represented by</b>		
Cash	\$ 2,555,762	\$ 892,273
Short term investments	-	754,077
	<u>\$ 2,555,762</u>	<u>\$ 1,646,350</u>

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

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## Strathroy Middlesex General Hospital Summary of Significant Accounting Policies

March 31, 2011

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<b>Nature of Organization</b>	The Hospital provides health care services to the residents of Strathroy and surrounding areas. The Hospital, incorporated without share capital under the Corporations Act of Ontario, is a charitable organization within the meaning of the Income Tax Act (Canada).						
<b>Basis of Accounting Presentations</b>	<p>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.</p> <p>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.</p>						
<b>Inventories</b>	Inventories are stated at the lower of cost and net realizable value. Cost is generally determined on the first-in, first-out basis. Reversals of previous write-downs to net realizable value are permitted when there is a subsequent increase in the value of inventories.						
<b>Capital Assets</b>	<p>Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives once they are ready for use.</p> <table><tr><td>Building and related service equipment</td><td>5 - 40 years</td></tr><tr><td>Major equipment</td><td>3 - 20 years</td></tr><tr><td>Properties for future expansion</td><td>20 years</td></tr></table>	Building and related service equipment	5 - 40 years	Major equipment	3 - 20 years	Properties for future expansion	20 years
Building and related service equipment	5 - 40 years						
Major equipment	3 - 20 years						
Properties for future expansion	20 years						
<b>Vacation Pay</b>	Vacation pay is accrued for all employees as entitlement is earned.						
<b>Ministry of Health and Long-Term Care Funding</b>	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 and Long-Term Care. The financial statements reflect agreed funding arrangements approved by the Ministry with respect to the year ended March 31, 2011.						

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

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## Strathroy Middlesex General Hospital Summary of Significant Accounting Policies

March 31, 2011

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### Financial Instruments

The Hospital utilizes various financial instruments.

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 and short-term investments. 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.

#### *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.

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

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## Strathroy Middlesex General Hospital Summary of Significant Accounting Policies

March 31, 2011

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### Financial Instruments - continued

#### *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.

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.

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

## Strathroy Middlesex General Hospital Notes to Financial Statements

March 31, 2011

### 1. Short-Term Investments

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
<i>Held-to-maturity:</i>				
CIBC Bank GIC, 0.95% interest, matures May 2010	\$ -	\$ -	\$ 250,000	\$ 250,000
Accrued interest	-	-	2,043	2,043
Total held-to-maturity	-	-	252,043	252,043
 <i>Held-for-trading:</i>				
Manulife Bank Investment	-	-	251,503	251,503
RBC Premium Money Market Fund	-	-	250,531	250,531
Total held-for trading	-	-	502,034	502,034
Total investments	\$ -	\$ -	\$ 754,077	\$ 754,077

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

	2011	2010
<i>Loans and receivables:</i>		
Inpatients	\$ 70,131	\$ 97,532
Outpatients	320,793	308,693
Ministry of Health and Long-Term Care	39,889	188,123
Miscellaneous	582,545	480,890
	1,013,358	1,075,238
Deduct: Allowance for doubtful accounts	(20,000)	(20,000)
	\$ 993,358	\$ 1,055,238

**Strathroy Middlesex General Hospital**  
**Notes to Financial Statements**

March 31, 2011

**3. Inventories**

	2011	2010
Pharmacy inventory	\$ 77,769	\$ 97,806
Dietary inventory	-	11,527
	\$ 77,769	\$ 109,333

Inventory is carried at cost, which exceeds net realizable value.

**4. Capital Assets**

	2011		2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 92,528	\$ -	\$ 92,528	\$ -
Building and related service equipment	29,516,411	14,076,208	29,224,743	12,988,279
Major equipment	22,750,574	19,858,379	22,185,715	18,405,810
Construction in progress	1,223	-	93,714	-
	\$ 52,360,736	\$ 33,934,587	\$ 51,596,700	\$ 31,394,089
Net book value		\$ 18,426,149		\$ 20,202,611

The amortization charge for the year is as follows:

	2011	2010
Building	\$ 1,087,942	\$ 1,110,720
Equipment	1,452,556	1,747,684
	\$ 2,540,498	\$ 2,858,404

**5. Bank indebtedness**

As at March 31, 2011, the Hospital had \$2,500,000 in available credit (2010 - \$3,000,000), consisting of a \$1,500,000 operating line and \$1,000,000 in available transfers from Four Counties Health Services. At year end, neither facility was drawn upon.

## Strathroy Middlesex General Hospital Notes to Financial Statements

March 31, 2011

### 6. 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.

	2011	2010
Balance, beginning of year	\$ 17,531,594	\$ 18,549,401
Contributions received	885,877	1,187,980
Amortized to revenue	(2,000,890)	(2,205,787)
Balance, end of year	\$ 16,416,581	\$ 17,531,594

### 7. Long-term Debt

	2011	2010
Prime demand loan, interest payable monthly, annual principal payments of \$344,000 ending March 2013, secured by a \$4,000,000 guarantee from the Strathroy Middlesex General Hospital Foundation and Credit Agreement executed by authorized signing officers	\$ -	\$ 688,000
Less current portion	-	688,000
	\$ -	\$ -

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## Strathroy Middlesex General Hospital Notes to Financial Statements

March 31, 2011

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### 8. Employee Future Benefits

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 \$1,324,208 (2010 - \$1,392,360) and are included in employee benefits in the statement of operations. The Hospital had a liability of \$nil (2010 - \$nil), associated with the pension plan.

Due to restructuring and staff reductions in previous years, early retirement packages were made available to eligible Hospital employees. Eligible full-time employees who opted for early retirement received a continuation of their current health care benefits plan, up to the age of 65. As at March 31, 2011, the Hospital had a long-term liability of \$108,730 (2010 - \$130,988) and a current liability of \$22,258 (2010 - \$21,227), associated with retirement benefit packages.

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### 9. Related Entities

#### a) Strathroy Middlesex General Hospital Foundation

Strathroy Middlesex General Hospital exercises significant influence over Strathroy Middlesex General Hospital Foundation (the Foundation) by virtue of its ability to appoint some of the Foundation's directors of the board. The Foundation raises funds for capital acquisition and other related purposes of the Hospital. The Foundation is incorporated under the Corporations Act of Ontario and is a registered charity under the Income Tax Act (Canada).

During the year, the Foundation transferred \$875,300 (2010- \$798,335) to the Hospital to be used for the purchase of capital assets and \$79,828 (2010 - \$79,418) for operations (education and parking).

#### b) Strathroy Middlesex General Hospital Auxiliary

The Auxiliary 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.

#### c) Four Counties Health Services

Strathroy Middlesex General Hospital is related to Four Counties Health Services as they are controlled by the same board of directors. Staff resources are shared by the hospital. During the year, Strathroy Middlesex General Hospital recovered remuneration of \$678,209 (2010 - \$702,801) from Four Counties Health Services, and reimbursed Four Counties Health Services \$378,942 (2010 - \$361,051) for remuneration paid by Four Counties Health Services. Joint purchases of supplies are expensed to each Hospital at point of purchase.

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### 10. Economic Dependence

The Hospital received 82% of its total revenue for the year ended March 31, 2011 (2010 - 84%) from the Southwest LHIN and Ministry of Health and Long-Term Care.

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## Strathroy Middlesex General Hospital

### Notes to Financial Statements

March 31, 2011

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#### 11. 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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#### 12. 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 2010, Michael Mazza, Chief Executive Officer of the Middlesex Hospital Alliance received salary of \$177,494 and taxable benefits of \$4,607; Nancy Maltby-Webster, Chief Operating Officer of the Middlesex Hospital Alliance received salary of \$140,427 and taxable benefits of \$7,742; Mary Robertson, Director of Patient Care received salary of \$102,751 and taxable benefits of \$433; Gina Taylor, Director of Patient Care received salary of \$118,453 and taxable benefits of \$464; and Theadora Turpin, Technical Director of Laboratory Services received salary of \$115,583 and taxable benefits of \$110. 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).

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#### 13. Capital Requirements

The Hospital's primary objective when managing capital is to safeguard the entity's ability to deliver comprehensive family-centred patient care in a rural and community-focused health service setting in collaboration and integration with our healthcare partners. The Hospital defines its capital as its cash and net assets, both restricted and unrestricted.

The Hospital monitors its cash position on a weekly basis and reviews the current ratio and working capital position on a monthly basis. Investments are reviewed monthly in accordance with the Hospital's investment policy.

The Hospital manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Strathroy Middlesex General Hospital Foundation provides the annual capital equipment support, which is paid on a predetermined basis during the fiscal year. In order to adjust the capital structure the Hospital may sell or purchase investments, utilize the approved operating line of credit, or any advances from the Southwest Local Health Integration Network (LHIN). Longer term borrowing arrangements with financial institutions are also in place.

There have been no changes in what the Hospital defines as capital, or the objectives, policies and procedures for managing capital, in the year.

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## Strathroy Middlesex General Hospital Notes to Financial Statements

March 31, 2011

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### 14. 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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### 15. Internally restricted net assets

... \$600,000 of net surplus has been internally restricted for future capital asset purchases.