

**Strathroy Middlesex General Hospital**  
**Financial Statements**  
**For the year ended March 31, 2008**

**Strathroy Middlesex General Hospital**  
**Financial Statements**  
**For the year ended March 31, 2008**

---

**Contents**

<b>Auditors' Report</b>	2
<b>Financial Statements</b>	
Statement of Financial Position	3
Statement of Changes in Net Assets	4
Statement of Operations	5
Statement of Cash Flows	6
Summary of Significant Accounting Policies	7
Notes to Financial Statements	10



**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

---

## Auditors' Report

---

**To the Board of Directors  
Strathroy Middlesex General Hospital**

We have audited the statement of financial position of Strathroy Middlesex General Hospital 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

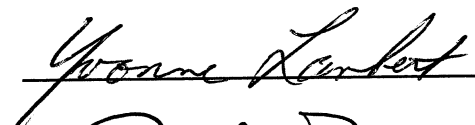
**Strathroy Middlesex General Hospital  
Statement of Financial Position**


March 31	2008	2007
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 1,623,211	\$ 3,113,371
Accounts receivable (Note 1)	1,201,180	1,872,017
Inventories	207,444	174,534
Prepaid expenses	272,433	245,027
	3,304,268	5,404,949
<b>Capital assets (Note 2)</b>	<b>24,573,393</b>	<b>25,379,919</b>
	<b>\$ 27,877,661</b>	<b>\$ 30,784,868</b>

**Liabilities and Net Assets**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 3,373,779	\$ 4,435,188
Current portion of long-term debt (Note 4)	2,351,493	3,147,213
	5,725,272	7,582,401
<b>Deferred contributions relating to capital assets (Note 5)</b>	<b>19,520,705</b>	<b>18,462,235</b>
<b>Employee future benefits</b>	<b>327</b>	<b>1,935</b>
<b>Long-term debt (Note 4)</b>	<b>34,292</b>	<b>149,184</b>
	<b>25,280,596</b>	<b>26,195,755</b>
<b>Net assets</b>	<b>2,597,065</b>	<b>4,589,113</b>
	<b>\$ 27,877,661</b>	<b>\$ 30,784,868</b>

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**

<b>For the year ended March 31</b>	<b>2008</b>			<b>2007</b>
	<b>Invested in capital assets</b>	<b>Unrestricted</b>	<b>Total</b>	<b>Total</b>
Balance, beginning of year	\$ 6,917,684	\$ (2,328,571)	\$ 4,589,113	\$ 5,477,192
(Deficiency) excess of revenue over expenses	(541,528)	(1,450,520)	(1,992,048)	(888,079)
Net change in investment in capital assets	(1,323,468)	1,323,468	-	-
Balance, end of year	\$ 5,052,688	\$ (2,455,623)	\$ 2,597,065	\$ 4,589,113

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	2008	2007
<b>Revenue</b>		
Ministry of Health and Long-Term Care	\$ 27,309,440	\$ 24,597,105
Patient revenues	4,060,536	3,147,859
Differential and co-payment	459,165	448,665
Recoveries and miscellaneous	890,596	649,408
Amortization of deferred capital contributions, equipment (Note 5)	1,833,993	1,465,413
Other votes	546,720	357,537
	<u>35,100,450</u>	<u>30,665,987</u>
<b>Expenses</b>		
Salaries and wages	16,710,349	15,034,885
Employee benefits (Note 7)	3,939,783	3,288,044
Medical staff remuneration	4,825,159	3,302,431
Supplies and other expenses	5,543,863	4,809,299
Medical and surgical supplies	2,394,636	1,697,052
Drugs	648,149	654,055
Amortization - equipment (Note 2)	1,792,911	1,522,685
Other votes	655,038	434,662
	<u>36,509,888</u>	<u>30,743,113</u>
<b>Operating (deficiency) excess of revenue over expenses</b>	<u>(1,409,438)</u>	<u>(77,126)</u>
<b>Other</b>		
Amortization of deferred capital contributions, building (Note 5)	512,412	623,975
Amortization of buildings and land improvements (Note 2)	(1,095,022)	(1,265,332)
Interest on long-term debt	-	(169,596)
	<u>(582,610)</u>	<u>(810,953)</u>
<b>Deficiency of revenue over expenses</b>	<u>\$ (1,992,048)</u>	<u>\$ (888,079)</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

2008

2007

**Cash provided by (used in)**

**Operating activities**

Deficiency of revenues over expenses	\$ (1,992,048)	\$ (888,079)
Items not involving cash		
Amortization	2,887,933	2,788,017
Amortization of deferred contributions relating to capital assets	<u>(2,346,405)</u>	<u>(2,089,388)</u>
	(1,450,520)	(189,450)
Net changes in non-cash working capital balances:		
Accounts receivable	670,837	1,342,638
Inventory	(32,910)	(45,509)
Prepaid expenses	(27,406)	(7,848)
Accounts payable and accrued liabilities	(1,061,409)	6,485
Employee future benefits	<u>(1,608)</u>	<u>(6,545)</u>
	<u>(1,903,016)</u>	<u>1,099,771</u>

**Investing activities**

Purchase of capital assets	<u>(2,081,406)</u>	<u>(2,493,668)</u>
	<u>(2,081,406)</u>	<u>(2,493,668)</u>

**Financing activities**

Contributions received for capital assets	3,404,875	2,057,169
Proceeds from long-term debt	-	1,532,000
Repayment of long-term debt	<u>(910,613)</u>	<u>(635,100)</u>
	2,494,262	2,954,069

**Increase (decrease) in cash and equivalents during the year**      (1,490,160)      1,560,172

**Cash and equivalents, beginning of year**      3,113,371      1,553,199

**Cash and equivalents, end of year**      \$ 1,623,211      \$ 3,113,371

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

---

## Strathroy Middlesex General Hospital Summary of Significant Accounting Policies

**March 31, 2008**

---

<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 replacement value. Cost is generally determined on the first-in, first-out basis.						
<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>20 - 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	20 - 40 years	Major equipment	3 - 20 years	Properties for future expansion	20 years
Building and related service equipment	20 - 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 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. The financial statements reflect agreed funding arrangements approved by the Ministry with respect to the year ended March 31, 2008.						

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

---

# Strathroy Middlesex General Hospital

## Summary of Significant Accounting Policies

**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. 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.

---

# Strathroy Middlesex General Hospital

## Summary of Significant Accounting Policies

**March 31, 2008**

---

### **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, 2008**

### 1. Accounts Receivable

	2008	2007
<i>Loans and receivables:</i>		
Inpatients	\$ 80,709	\$ 117,435
Outpatients	317,214	240,910
Ministry of Health	588,461	1,250,000
Miscellaneous	237,796	286,672
	1,224,180	1,895,017
Deduct: Allowance for doubtful accounts	(23,000)	(23,000)
	<b>\$ 1,201,180</b>	<b>\$ 1,872,017</b>

### 2. Capital Assets

	2008		2007	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 92,528	\$ -	\$ 24,041	\$ -
Building and related service equipment	28,657,827	10,776,566	28,754,010	9,681,544
Major equipment	21,303,508	14,847,628	18,731,937	13,054,717
Construction in progress	143,724	-	606,192	-
	<b>\$ 50,197,587</b>	<b>\$ 25,624,194</b>	<b>\$ 48,116,180</b>	<b>\$ 22,736,261</b>
Net book value		<b>\$ 24,573,393</b>		<b>\$ 25,379,919</b>

The amortization charge for the year is as follows:

	2008	2007
Building	\$ 1,095,022	\$ 1,265,332
Equipment	1,792,911	1,522,685
	<b>\$ 2,887,933</b>	<b>\$ 2,788,017</b>

## Strathroy Middlesex General Hospital Notes to Financial Statements

**March 31, 2008**

### 3. Bank indebtedness

As at March 31, 2008, the hospital had \$500,000 in available credit (2007 - \$500,000).

Subsequent to year end, a new banking agreement was signed which increased the available credit to \$2,000,000.

### 4. 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 \$16,721, ending September 2009, secured by software license	102,398	169,558
0% installment payment agreement, payable in monthly payments of \$4,000 ending September 2007, secured by equipment	-	20,204
Prime minus 0.9% demand loan, interest payable monthly, annual principal payments of \$300,000 ending March 2011, secured by a \$4,000,000 guarantee from the Strathroy Middlesex General Hospital Foundation and Credit Agreement executed by authorized signing officers	500,000	1,000,000
Prime minus 0.9% demand loan, interest payable monthly, annual principal payments of \$400,000 ending December 2011, secured by a \$4,000,000 guarantee from the Strathroy Middlesex General Hospital Foundation and Credit Agreement executed by authorized signing officers	1,736,602	2,000,000
	2,385,785	3,296,397
Less current portion	2,351,493	3,147,213
	\$ 34,292	\$ 149,184

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

Year	Amount
2009	\$ 2,351,493
2010	34,292
	\$ 2,385,785

---

## Strathroy Middlesex General Hospital 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	\$ 18,462,235	\$ 18,494,454
Contributions received	3,404,875	2,057,169
Amortized to revenue	(2,346,405)	(2,089,388)
Balance, end of year	\$ 19,520,705	\$ 18,462,235

---

### 5. 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.

---

### 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 \$1,344,360 (2007 - \$1,213,200) and are included in employee benefits in the statement of operations.

---

### 8. 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 \$2,620,375 (2007- \$1,233,833) to the hospital to be used for the purchase of capital assets and \$45,500 (2007 - \$30,000) for operations.

---

# Strathroy Middlesex General Hospital

## Notes to Financial Statements

March 31, 2008

---

### 8. Related Entities (Continued)

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 \$725,502 (2007 - \$678,983) from Four Counties Health Services, and reimbursed Four Counties Health Services \$553,790 (2007 - \$494,806) for remuneration paid by Four Counties Health Services. Joint purchases of supplies are expensed to each hospital at point of purchase.

---

### 9. Economic Dependence

The hospital received 78% of its total revenue for the year ended March 31, 2008 (2007 - 80%) from the Ministry of Health and Long-Term Care.

---

### 10. 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, Mr. Michael Mazza, Chief Executive Officer of the Middlesex Hospital Alliance received salary of \$155,891 and taxable benefits of \$16,360. 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).

---

### 11. Comparative Information

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

---

# Strathroy Middlesex General Hospital

## Notes to Financial Statements

March 31, 2008

---

### 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.

---

### 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.

---

## Strathroy Middlesex General Hospital Notes to Financial Statements

March 31, 2008

---

### 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.