

The Ross Memorial Hospital

Financial Statements

For the year ended March 31, 2007

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Auditors' Report

To the Members of
The Ross Memorial Hospital

We have audited the balance sheet of The Ross Memorial Hospital as at March 31, 2007 and the statements of revenue and expenditures, 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, 2007 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants
Lindsay, Ontario

May 15, 2007

The Ross Memorial Hospital Balance Sheet

March 31

2007

2006

Assets

Current assets

Cash and short-term deposits	\$ 1,339,850	\$ 2,893,263
Accounts receivable (Note 1)	1,234,886	1,446,386
Inventories	740,948	735,725
Prepaid expenses	608,222	449,025
	3,923,906	5,524,399
	61,477,854	62,605,859

Capital assets (Note 2)

	3,923,906	5,524,399
	61,477,854	62,605,859

	\$ 65,401,760	\$ 68,130,258
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Liabilities, Deferred Contribution and Net Assets

Current liabilities

Accounts payable and accrued liabilities	\$ 7,479,946	\$ 8,308,969
Due to Ministry of Health (Note 10)	1,600,000	1,000,000
Current portion of long-term debt (Note 9)	102,417	118,726
Deferred income	877,162	856,566
	10,059,525	10,284,261

Employee future benefits (Note 6)

	2,196,700	2,084,800
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Deferred capital contributions (Note 3)

	42,878,715	44,138,725
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Long-term debt (Note 9)

	207,677	310,094
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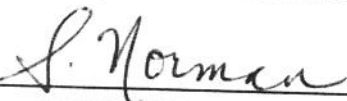
	55,342,617	56,817,880
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Net assets

Invested in capital assets (Note 4)	18,599,139	18,467,134
Remaining net assets	(8,539,996)	(7,154,756)
	10,059,143	11,312,378

	\$ 65,401,760	\$ 68,130,258
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Approved by the Board of Governors



Chairperson



Vice Chairperson

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

The Ross Memorial Hospital Statement of Changes in Net Assets

For the year ended March 31

			2007	2006
	Invested in Capital Assets	Remaining Net Assets	Total	Total
Balance, beginning of year	\$ 18,467,134	\$ (7,154,756)	\$ 11,312,378	\$ 7,914,823
Excess of revenue over expenditures (Note 4)	(1,617,371)	364,136	(1,253,235)	3,397,555
Net change in investment in capital assets (Note 4)	1,749,376	(1,749,376)	-	-
Balance, end of year	\$ 18,599,139	\$ (8,539,996)	\$ 10,059,143	\$ 11,312,378

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

The Ross Memorial Hospital Statement of Revenue and Expenditures

For the year ended March 31

2007

2006

Revenue

Ministry of Health	\$ 56,660,507	\$ 53,599,600
Patient revenues	6,600,935	6,550,436
Differential preferred accommodation	1,537,824	1,243,521
Chronic care co-payment	341,216	136,901
Other operating revenue	2,253,639	1,779,492
Amortization of deferred contributions related to capital assets	<u>2,278,084</u>	<u>2,546,978</u>
	69,672,205	65,856,928

Expenditures

Salary, wages and other remuneration	43,714,413	40,751,679
Employee benefits	8,850,276	8,395,731
Supplies and other expenses	9,684,039	9,676,846
Medical and surgical supplies	2,043,970	1,724,574
Drugs	2,044,929	1,711,751
Bad debts	92,358	11,628
Equipment amortization	2,422,823	1,880,273
Building amortization	<u>1,472,632</u>	<u>1,550,797</u>
	70,325,440	65,703,279

Excess of revenue over expenditures for the current year

	(653,235)	153,649
Ministry of Health PCOP funding (Note 10)		
Recoverable by Ministry	(1,600,000)	(1,000,000)
Forgiven by Ministry	<u>1,000,000</u>	<u>4,243,906</u>
Net excess of revenue over expenditures	\$ (1,253,235)	\$ 3,397,555

The Ross Memorial Hospital Statement of Cash Flows

For the year ended March 31

2007

2006

Cash provided by (used in)

Operating activities

Excess of revenue over expenditures	\$ (1,253,235)	\$ 3,397,555
Items not involving cash		
Equipment amortization	2,422,823	1,880,273
Building amortization	1,472,632	1,550,797
Amortization of deferred contributions related to capital assets	(2,278,084)	(2,546,978)
Employee future benefits	111,900	96,200
	476,036	4,377,847
Changes in non-cash working capital balances		
Accounts receivable	211,500	2,144,923
Inventory	(5,223)	31,643
Prepaid expenses	(159,197)	69,084
Accounts payable and accrued liabilities	(229,023)	(5,628,675)
Deferred income	20,596	584,930
	314,689	1,579,752

Investing activities

Net additions to capital assets	(2,767,450)	(7,489,332)
Net proceeds from grants & donations	1,018,074	3,520,017
	(1,749,376)	(3,969,315)

Financing activities

Repayment of long-term debt	(118,726)	(133,146)
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Increase (decrease) in cash

Cash, beginning of year	(1,553,413)	(2,522,709)
	2,893,263	5,415,972
	\$ 1,339,850	\$ 2,893,263

The Ross Memorial Hospital

Summary of Significant Accounting Policies

March 31, 2007

Nature of Business	<p>The Hospital is engaged in the provision of various health care services in the City of Kawartha Lakes, Brock Township and parts of Haliburton County. The Hospital is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.</p>
Cash and Short-term Deposits	<p>Cash and short-term deposits consist of cash on hand, bank balances and investments in money market instruments with maturities of three months or less.</p>
Presentation	<p>The financial statements have been prepared by management in accordance with generally accepted accounting principles.</p>
Revenue Recognition	<p>The Hospital follows the deferral method of accounting for contributions which include donations and government grants.</p> <p>Under the Health Insurance Act and Regulations thereto, the Facility is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health. 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. Where grant revenues are subject to subsequent adjustment or reconciliation, such adjustments are estimated and recorded as due to/from the Ministry of Health at the end of the fiscal year. These financial statements reflect agreed arrangements approved by the Ministry with respect to the year ended March 31, 2007.</p> <p>Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.</p> <p>Externally restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenditures are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.</p> <p>Endowment contributions are recognized as direct increases in endowment net assets as detailed in the Notes to these statements.</p> <p>Restricted investment income is recognized as revenue in the year in which the related expenditures are recognized. Unrestricted investment income is recognized as revenue when earned.</p> <p>Revenue from the Provincial Insurance Plan, preferred accommodation, and marketed services is recognized when the goods are sold or the service is provided.</p>
Contributed Services	<p>A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.</p>

The Ross Memorial Hospital

Summary of Significant Accounting Policies

March 31, 2007

Investments	Investments are recorded at cost. Should the market value of investments become lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.								
Inventories	Inventories are valued at the lower of average cost and replacement value.								
Capital Assets	<p>Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Facility's ability to provide services, its carrying amount is written down to its residual value. Any gains or losses on disposal are charged to amortization expense.</p> <p>Capital assets are amortized on a straight-line basis using the following annual rates:</p> <table border="0" style="margin-left: 40px;"> <tr> <td>Buildings</td> <td style="text-align: right;">2% - 6.67%</td> </tr> <tr> <td>Building service equipment</td> <td style="text-align: right;">5% - 10%</td> </tr> <tr> <td>Major equipment</td> <td style="text-align: right;">5% - 20%</td> </tr> <tr> <td>Computers</td> <td style="text-align: right;">20% - 33%</td> </tr> </table>	Buildings	2% - 6.67%	Building service equipment	5% - 10%	Major equipment	5% - 20%	Computers	20% - 33%
Buildings	2% - 6.67%								
Building service equipment	5% - 10%								
Major equipment	5% - 20%								
Computers	20% - 33%								
Compensated Absences	Compensation expense is accrued for all employees as entitlement to these payments is earned, in accordance with the Hospital's benefit plans for vacation, sick leave and retirement allowances.								
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 and the carrying amounts approximate fair values.								
Employee Benefit Plans	The Hospital accrues its obligations under employee benefit plans and the related costs, net of plan assets (Note 6). The costs of pensions and other future benefits have been actuarially determined. The Hospital applies defined contribution accounting to its multi-employer defined benefit plan for which the Hospital has insufficient information to apply defined benefit plan accounting.								
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 Ross Memorial Hospital Notes to Financial Statements

March 31, 2007

1. Accounts Receivable

	2007	2006
Self-pay and other agencies	\$ 1,309,585	\$ 1,490,947
Less: Allowance for doubtful accounts	74,699	44,561
	\$ 1,234,886	\$ 1,446,386

2. Capital Assets

	2007		2006	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 1,583,115	\$ -	\$ 1,583,115	\$ 1,483,115
Buildings	62,081,732	12,507,523	49,574,209	50,334,330
Equipment	28,536,895	20,591,440	7,945,455	9,306,355
Projects under construction	1,500,853	-	1,500,853	526,759
Parking Lot	1,233,520	359,298	874,222	955,300
	\$ 94,936,115	\$ 33,458,261	\$ 61,477,854	\$ 62,605,859

3. Deferred Capital Contributions

Deferred capital contributions related 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.

	2007	2006
Balance, beginning of year	\$ 44,138,725	\$ 43,165,686
Additional funding received	1,018,074	3,520,017
Less: Amounts amortized to revenue	(2,278,084)	(2,546,978)
	\$ 42,878,715	\$ 44,138,725

The Ross Memorial Hospital Notes to Financial Statements

March 31, 2007

4. Investment in Capital Assets

a. Investment in capital assets is calculated as follows:

	2007	2006
Capital assets	\$ 61,477,854	\$ 62,605,859
Amounts financed by - deferred contributions	(42,878,715)	(44,138,725)
	\$ 18,599,139	\$ 18,467,134

b. Change in net assets invested in capital assets is calculated as follows:

	2007	2006
Excess of expenditures over revenues:		
Amortization of deferred contributions related to capital assets (Note 3)	\$ 2,278,084	\$ 2,546,978
Amortization of capital assets	(3,895,455)	(3,431,070)
	\$ (1,617,371)	\$ (884,092)
Net change in investment in capital assets:		
Purchase of capital assets	\$ 2,767,450	\$ 7,489,332
Amounts funded by deferred contributions (Note 3)	(1,018,074)	(3,520,017)
	\$ 1,749,376	\$ 3,969,315

5. Endowments

The hospital has received endowments for which the use of funds are restricted for named purposes. Details are as follows:

	2007	2006
Balance, March 31, 2006	\$ 58,755	\$ 56,361
Investment income earned in the year	2,028	2,394
Balance, March 31, 2007	\$ 60,783	\$ 58,755

The Ross Memorial Hospital Notes to Financial Statements

March 31, 2007

6. Employee Future Benefits

The Hospital sponsors both defined benefit and defined contribution employee future benefit plans covering substantially all employees. The costs of employee future benefits are accrued over the periods in which employees earn the benefits. The plan provides extended health and dental as well as life insurance to employees.

Actuarial valuations for accounting purposes are performed triennially using the projected benefit method prorated on services. The most recent actuarial report was prepared at April 1, 2004. The accrued benefit obligation of \$2,204,500 shown for 2007 is based on an extrapolation of that April 1, 2004 valuation.

	2007	2006
Accrued Benefit Obligation		
Balance, beginning of year	\$ 2,065,000	\$ 1,889,700
Actuarial adjustment	51,400	97,900
Current service expense	120,300	107,200
Interest cost	111,000	110,800
Benefits paid during year	(143,200)	(140,600)
	\$ 2,204,500	\$ 2,065,000
Post-employment benefit liability		
	2007	2006
Accrued benefit obligation	\$ 2,204,500	\$ 2,065,000
Unamortized past service cost	(102,900)	(126,700)
Actuarial gain (loss)	95,100	146,500
	\$ 2,196,700	\$ 2,084,800

The unamortized past service cost of \$102,900 is to be amortized on a straight-line basis over the average remaining period to the full eligibility date (9.0 years). Additional past service costs of \$94,000 have been recognized for benefit improvements and the addition of OPSEU employees. The amortization commenced April 2002.

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, interest rates, medical inflation rates, wage and salary increases, and employee turnover and mortality. The assumptions used reflect the hospital's best estimates. The discount rate used to determine the accrued benefit obligation is 5.25%, the dental cost increase is 4.5%, and Extended Health Care increase is 7.5%. The % rate for Extended Health Care is decreasing by 1% increments per annum to an ultimate rate of 4.5%.

Substantially all of the employees of the Hospital are members of the Hospitals of Ontario Pension Plan and the costs of this pension is actuarially determined. The post-employment benefit expense is reported as a component of current expenditures on the statement of financial activities. Composition of the amount is as follows:

	2007	2006
Current service costs	\$ 120,300	\$ 107,200
Interest on post-employment benefit liability	111,000	110,800
Amortization of past service costs	23,800	23,800
Net actuarial gain amortized in the year	-	(5,000)
	\$ 255,100	\$ 236,800
Total expense related to post-employment benefits	\$ 255,100	\$ 236,800
Total pension plan premiums paid by hospital	\$ 2,562,364	\$ 2,517,884

The Ross Memorial Hospital Notes to Financial Statements

March 31, 2007

7. Related Party Transactions

The Hospital has the ability to appoint two of the Ross Memorial Hospital Foundation (the "Foundation") Board of Directors. The Foundation was established to raise and manage funds for the benefit of the Hospital. The Foundation is incorporated as a public foundation under the Canada Corporations Act and is a registered charity under the Income Tax Act. Net resources of the Foundation amount to approximately \$5,500,000, of which \$694,000 represents contributions externally restricted, with the balance being available to the hospital for uses consistent with the intent of the donors and the objects of the foundation at the discretion of the Foundation's Board of Directors.

The net assets and results from operations of the Foundation are not included in the statements of the Hospital. Separate financial statements of the Foundation are available upon request.

The Ross Memorial Hospital Auxiliary (the "Auxiliary") provides periodic capital funding to the Hospital through the Hospital Foundation. The Hospital uses these contributions as designated by the Auxiliary.

Related party transactions during the year not separately disclosed in the financial statements include the following:

- a. an amount of \$699,500 (2006 - \$3,309,624) has been received from the Foundation and recorded as deferred contributions related to capital assets.
- b. an amount of \$36,500 (2006 - \$7,500) has been received from the Foundation and netted against the related expenditure for which the money was provided.
- c. an amount of \$4,000 (2006 - \$4,000) representing rental charges has been received from the Foundation and recorded with marketed services.

8. Contingencies

The nature of the Hospital's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2007 management believes the hospital has valid defences and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Hospital's financial position.

The Ross Memorial Hospital Notes to Financial Statements

March 31, 2007

9. Long-term Debt

	2007	2006
Obligation payable to City of Kawartha Lakes, due March 2012	\$ 310,094	\$ 428,820
Less current portion	<u>102,417</u>	<u>118,726</u>
	<u>\$ 207,677</u>	<u>\$ 310,094</u>

The long-term debt has the following principal repayments:

2008	\$ 102,417
2009	84,192
2010	63,866
2011	41,793
2012	17,826

The hospital has access to bank credit facilities to a maximum of \$3,000,000.

10. Ministry of Health PCOP Funding

During the Hospital Expansion Phase from March 2004 to March 2006, the Ministry of Health advanced funds under their Post Construction Operating Plan (PCOP) that were to be used to finance anticipated service volume targets. The target volumes were not met and the Hospital reported these funds as a liability which had accumulated to \$4,243,000 at March 31, 2005.

In March 2006, the Ministry of Health forgave the recovery of PCOP funding for all fiscal years to and including 2006. As a result of this action by the Ministry of Health, the hospital eliminated the accumulated liability and recognized \$4,243,906 as revenue in fiscal 2006. Due to uncertainty regarding the fiscal 2006 funding, a liability of \$1,000,000 was set up as a potential loss of funding for fiscal 2006. The Hospital has been advised by the Ministry of Health that the 2006 service funding shortfall was forgiven and therefore this liability has been reversed resulting in \$1,000,000 being recognized as revenue of the current year.

The Hospital did not meet the required target service volumes for some programs in 2007 and was informed by the Ministry of Health that these 2007 PCOP funds would be subject to recovery by the Ministry. A liability of \$1,600,000 has been accrued representing the potential recovery of these 2007 funds.