

Financial Statements of

ST. JOSEPH'S HEALTH CARE LONDON

Years ended March 31, 2013 and 2012



MANAGEMENT'S REPORT

The accompanying financial statements of St. Joseph's Health Care London have been prepared by Management, and approved by St. Joseph's Health Care Society at their meeting of June 13, 2013.

Management works with the Board of Directors to carry out its responsibility for the financial statements principally through the Resource Planning and Audit Committee. Voting membership of this Committee is comprised solely of independent volunteers possessing a high degree of financial literacy. The Resource Planning and Audit Committee meets with management and the internal and external auditors to review audit plans, and any significant accounting and auditing matters and discuss the results of audit examinations. The Resource Planning and Audit Committee also reviews the financial statements and the external auditors' report and submits its findings to the Board of Directors for their consideration in approving the financial statements.

St. Joseph's Health Care London maintains a system of internal controls over financial reporting that is continually reviewed and improved to provide assurance that financial information is relevant and reliable, and that assets are properly accounted for and safe-guarded.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

original signed

Gillian Kernaghan, MD, CCFP, FCFP
President and Chief Executive Officer

original signed

Lori Higgs, CA
Vice President Corporate Services and
Chief Financial Officer

June 13, 2013



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of St. Joseph's Health Care London,

We have audited the accompanying financial statements of St. Joseph's Health Care London, which comprise the statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the statements of operations, changes in net assets and cash flows for the years ended March 31, 2013 and 2012, the statement of rereasurement gains and losses for the year ended March 31, 2013, and notes, comprising 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 public sector accounting standards, 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 audits. We conducted our audits 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 our 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, we consider 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 in our audits 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 St. Joseph's Health Care London as at March 31, 2013, March 31, 2012 and April 1, 2011, its results from operations and cash flows for the years ended March 31, 2013 and March 31, 2012 and its rereasurement gains and losses for the year ended March 31, 2013 in accordance with Canadian public sector accounting standards.

Chartered Accountants, Licensed Public Accountants

May 27, 2013

London, Canada

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ST. JOSEPH'S HEALTH CARE LONDON

Statement of Financial Position

As at March 31, 2013, March 31, 2012 and April 1, 2011
(In thousands of dollars)

	March 31, 2013	March 31, 2012	April 1, 2011
Assets			
Current assets:			
Cash and investments (note 3)	\$ 63,631	\$ 54,140	\$ 44,879
Accounts receivable (note 4)	14,401	19,233	23,224
Loan receivable from Lawson Research Institute (note 16(b))	14,500	-	-
Prepaid expenses and other assets	3,309	3,675	2,880
	95,841	77,048	70,983
Restricted investments (note 3 and note 10)	177,146	184,588	186,461
Loan receivable from Lawson Research Institute (note 16(b))	-	15,000	15,000
Investment in joint ventures (note 16(c) and note 16(d))	1,094	1,092	1,003
Capital assets (note 5)	349,895	320,499	327,928
	\$ 623,976	\$ 598,227	\$ 601,375
Liabilities, Deferred Contributions and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 57,362	\$ 58,939	\$ 58,222
Current portion of long-term liabilities (note 7)	150	150	200
Current portion of obligation under capital lease (note 13)	838	1,030	2,490
	58,350	60,119	60,912
Long-term liabilities:			
Long-term liabilities (note 7)	9,246	9,273	8,486
Provision for demolition (note 12)	-	-	6,483
Obligations under capital lease (note 13)	1,062	539	1,114
	10,308	9,812	16,083
Deferred contributions: (note 8)			
Unamortized capital contributions used to purchase assets	218,780	199,474	202,213
Unspent capital contributions	66,159	68,547	68,925
Expenses of future periods	389	428	610
	285,328	268,449	271,748
Net assets:			
Invested in capital assets (note 9)	129,939	120,716	122,802
Restricted (note 10)	110,598	115,614	116,926
Unrestricted	22,896	23,517	12,904
	263,433	259,847	252,632
Accumulated remeasurement gains	6,557	-	-
	269,990	259,847	252,632
Commitments and contingencies (notes 11 and 16(b))			
Subsequent event (note 16(b))			
	\$ 623,976	\$ 598,227	\$ 601,375

See accompanying notes to financial statements.

On behalf of the Board:

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Marcella Grail
Chair, Board of Directors

original signed

Scott Player
Treasurer, Board of Directors

ST. JOSEPH'S HEALTH CARE LONDON

Statements of Changes in Net Assets

Years ended March 31, 2013 and 2012
(In thousands of dollars)

	Invested in capital assets		Restricted	Unrestricted	Total
Balance, at April 1, 2011	\$	122,802	\$ 116,926	\$ 12,904	\$ 252,632
Excess (deficiency) of revenues over expenses		(12,992)	-	20,207	7,215
Net change in invested in capital assets		10,906	(15,685)	4,779	-
Transfers to restricted		-	14,373	(14,373)	-
Balance, at March 31, 2012	\$	120,716	\$ 115,614	\$ 23,517	\$ 259,847
Excess (deficiency) of revenues over expenses		(12,757)	-	16,335	3,586
Net change in invested in capital assets		21,980	(22,166)	193	-
Transfers to restricted		-	17,150	(17,150)	-
Balance, at March 31, 2013	\$	129,939	\$ 110,598	\$ 22,896	\$ 263,433

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Operations

Years ended March 31, 2013 and 2012
(In thousands of dollars)

	2013	2012
Revenues:		
Ministry of Health and Long-Term Care and Local Health Integration Network	\$ 302,781	\$ 320,765
Veterans Affairs Canada	21,705	23,255
Patient services	26,954	29,096
Other revenue	37,193	35,819
Amortization of deferred contributions (note 8(a))	12,463	12,522
	<u>401,096</u>	<u>421,457</u>
Expenses:		
Salaries and benefits	282,113	297,013
Supplies	91,641	88,825
Amortization of capital assets	25,220	25,514
	<u>398,974</u>	<u>411,352</u>
Excess of revenues over expenses	2,122	10,105
Restructuring expenditures (note 18)	(2,472)	(7,322)
Unrealized investment loss	-	(814)
Realized investment income	3,936	5,246
	<u>3,586</u>	<u>7,215</u>
Excess of revenues over expenses	\$ 3,586	\$ 7,215

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Remeasurement Gains and Losses

Year ended March 31, 2013

(In thousands of dollars)

	2013
Opening balance, April 1, 2012	\$ -
Unrealized gains attributable to portfolio investments	\$ 6,581
Realized gains, reclassified to the statement of operations:	
Portfolio investments	(24)
Net remeasurement gains for the year	\$ 6,557
Accumulated remeasurement gains, end of the year	\$ 6,557

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Cash Flows

Years ended March 31, 2013 and 2012
(In thousands of dollars)

	2013	2012
Cash provided by (applied to):		
Operating activities:		
Excess of revenues over expenses	\$ 3,586	\$ 7,215
Items not involving cash:		
Amortization of capital assets	25,220	25,514
Amortization of deferred contributions	(12,463)	(12,522)
Provision for demolition	-	(6,483)
Unrealized investment losses	-	814
Loss (gain) on disposal of capital assets	(833)	1,408
Change in non-cash operating working capital (note 17)	3,429	2,403
Deferred contributions related to expenses of future periods	(39)	(182)
	18,900	18,167
Capital Activities		
Purchases of capital assets	(54,664)	(20,026)
Proceeds on sale of capital assets	881	533
Deferred contributions related to capital assets net of unspent	29,381	9,405
	(24,402)	(10,088)
Investing activities:		
Net change in restricted investments	13,999	1,059
Write-down of loan receivable from Lawson Research Institute	500	-
Net change in investment in joint ventures	(2)	(89)
	14,497	970
Financing activities:		
Obligations under capital lease	523	(575)
Long-term liabilities	(27)	787
	496	212
Net increase in cash	9,491	9,261
Cash and investments, beginning of year	54,140	44,879
Cash and investments, end of year	\$ 63,631	\$ 54,140

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Years ended March 31, 2013 and 2012
(In thousands of dollars)

The financial statements of St. Joseph's Health Care London include: St. Joseph's Hospital; Mount Hope Centre for Long-Term Care; Parkwood Hospital; Western Counties Wing; Regional Mental Health Care, London and St. Thomas; and various joint ventures as described in the notes to the financial statements.

St. Joseph's Health Care London (the "Hospital") is funded primarily by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care ("Ministry" and "MOHLTC") and the Local Health Integration Network ("LHIN"). Any excess of revenue over expenses earned during a fiscal year may be retained by the Hospital. The Ministry's stated policy is that deficits incurred by the Hospital will not be funded, and this policy has been consistently followed. Therefore, to the extent that deficits are incurred and not funded, future operations may be affected. The LHIN provides operating funding including base funding, which is expected to be received on an annual basis, and special funding, which is non-recurring in nature, and consequently is unconfirmed for future years.

The Hospital operates under a Hospital Service Accountability Agreement ("H-SAA") with the LHIN. This agreement sets out the rights and obligations of the two parties in respect of funding provided to the Hospital. The H-SAA sets out the funding provided to the Hospital together with performance standards and obligations of the Hospital that establish acceptable performance results for the Hospital.

If the Hospital does not meet certain performance standards or obligations, the Ministry has the right to adjust some funding streams received by the Hospital. Given that the Ministry is not required to communicate funding adjustments until after the submission of year-end data, the amount of revenue recognized in these financial statements represents management's best estimates of amounts earned during the year.

On April 1, 2012, the Hospital adopted Canadian Public Sector Accounting Standards ("PSAS"). The Hospital has also elected to apply PS 4200 *Standards for Government Not-For-Profit Organizations*. These are the first financial statements prepared in accordance with these public sector accounting standards.

In accordance with the transitional provisions in the PSAS, the Hospital has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying the PSAS.

A summary of transitional adjustments recorded to net assets and the excess of revenue over expenditures is provided in note 21.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards including the PS 4200 *Standards for Government Not-For-Profit Organizations*.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Years ended March 31, 2013 and 2012
(In thousands of dollars)

1. Significant accounting policies (continued):

(a) Revenue recognition:

The deferral method of accounting for contributions is followed.

Unrestricted contributions are recognized as revenue if the amount to be received can be estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Patient and other revenues are recognized as services are provided.

(b) Investments:

Investments in joint ventures over which the Hospital has significant influence or joint control, are accounted for using the equity method. These investments include Healthcare Materials Management Services and London Laboratory Services Group.

Investments in marketable securities, government bonds, debentures and equities are recorded at market value. The investments consist of pooled equity instruments, government and corporate bonds, in accordance with the Hospital's investment policy.

Investment income on unspent deferred capital contributions, if externally restricted for future use, is deferred as a component of such contributions. All other investment income is recognized as revenue when earned.

(c) Related entities:

Related entities include St. Joseph's Health Care Foundation, The Lawson Research Institute, London Laboratory Services Group, and Healthcare Materials Management Services. The Hospital's relationship with each of these entities and the method by which they are accounted for is more fully described in note 16.

(d) Capital assets:

Capital assets are recorded at cost. Amortization of original cost and any corresponding deferred contributions are calculated on a straight-line basis using the following annual rates over the estimated useful lives of the assets:

Asset	Rate
Land improvements	4 – 20%
Buildings and building service equipment	2.5 – 25%
Equipment	6.7 – 33%

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Years ended March 31, 2013 and 2012
(In thousands of dollars)

1. Significant accounting policies (continued):

Construction in progress comprises construction and development costs and capitalized interest. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

(e) Impairment of long-lived assets:

Long-lived assets, including capital assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flow, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the Statement of Financial Position.

(f) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment and obligations related to employee future benefits. Actual results could differ from those estimates.

(g) Employee future benefits:

The Hospital provides defined retirement and other future benefits for some groups of its retirees and employees. These future benefits include life insurance and health care benefits, retirement gratuity, sick leave and workers compensation, as well as vested non-accumulating sick benefits for certain groups.

The Hospital accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the retirement and other future benefits. The actuarial determination of the accrued benefit obligations for retirement and other future benefits uses the projected benefit method prorated on service which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2012, and the next required valuation will be as of March 31, 2015.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Years ended March 31, 2013 and 2012
(In thousands of dollars)

1. Significant accounting policies (continued):

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. These actuarial gains (losses) are amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 11 years (March 31, 2012 - 11 years).

Past service costs arising from plan amendments are recognized immediately in the period the plan amendments occur.

For those self-insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers' compensation, life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to these benefits are recognized immediately in the period they arise.

The costs of multi-employer defined contribution pension plan benefits, such as the Healthcare of Ontario Pension Plan ("HOOPP") pensions, are the employer's contributions due to the plan in the period. As this plan is a multi-employer plan, no liability has been recorded in the Hospital's financial statements.

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value are recognized in the Statement of Remeasurement Gains and Losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the Statement of Operations and any unrealized gain is adjusted through the Statement of Remeasurement Gains and Losses.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Years ended March 31, 2013 and 2012
(In thousands of dollars)

1. Significant accounting policies (continued):

When the asset is sold, the unrealized gains and losses previously recognized in the Statement of Remeasurement Gains and Losses are reversed and recognized in the Statement of Operations.

PSAS requires the Hospital to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

(i) Foreign currency:

Foreign currency transactions are recorded at the exchange rate at the time of the transaction.

Assets and liabilities denominated in foreign currencies are recorded at fair value using the exchange rate at the financial statement date. Unrealized foreign exchange gains and losses are recognized in the Statement of Remeasurement Gains and Losses. In the period of settlement, the realized foreign exchange gains and losses are recognized in the Statement of Operations and the unrealized balances are reversed from the Statement of Remeasurement Gains and Losses.

At the present time the Hospital does not have any foreign currency transactions to report.

2. Change in accounting policy:

On April 1, 2012, the Hospital adopted Public Sector Accounting Standards *PS 3450 - Financial Instruments* and *PS 2601 - Foreign Currency Translation*. The standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions.

Under PS 3450, all financial instruments, including derivatives, are included in the Statement of Financial Position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the Hospital's accounting policy choices (see Note 1 – Significant Accounting Policies).

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Years ended March 31, 2013 and 2012
(In thousands of dollars)

2. Change in accounting policy (continued):

The Hospital has recorded all of its investments at fair value using "bid pricing" since 2008. Therefore, no adjustment was required to comply with this change in accounting policy as at April 1, 2012.

3. Cash and investments:

	Level	March 31, 2013	March 31, 2012	April 1, 2011
Cash and cash equivalents	1	\$ 93,190	\$ 84,565	\$ 95,552
Government bonds	1	52,053	76,080	74,258
Debentures and other fixed income securities	1	26,776	24,468	24,521
Equities	1	68,758	53,615	37,009
		240,777	238,728	231,340
Less: Restricted Investments		(177,146)	(184,588)	(186,461)
Cash and Investments		\$ 63,631	\$ 54,140	\$ 44,879

Restricted investments represent the investment of unspent deferred contributions for expenses of future periods and capital assets, including the Unconditional Grant Initiative (note 11(a)) and other grants provided by the Ministry, as well as amounts designated by the Board for future costs contained in restricted net assets, including capital projects to support restructuring, and investments in joint ventures.

4. Accounts receivable:

	March 31, 2013	March 31, 2012	April 1, 2011
Ministry / LHIN	\$ 3,606	\$ 6,973	\$ 8,401
Veterans Affairs Canada	1,128	785	1,169
Patient and other	9,667	11,475	13,654
	\$ 14,401	\$ 19,233	\$ 23,224

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Years ended March 31, 2013 and 2012
(In thousands of dollars)

5. Capital assets:

March 31, 2013	Cost	Accumulated Amortization	Net Book Value
Land	\$ 11,066	-	\$ 11,066
Land improvements	14,452	5,045	9,407
Buildings and building service equipment	469,380	174,241	295,139
Equipment	132,916	98,633	34,283
	\$ 627,814	\$ 277,919	\$ 349,895

March 31, 2012	Cost	Accumulated Amortization	Net Book Value
Land	\$ 11,066	-	\$ 11,066
Land improvements	13,510	4,077	9,433
Buildings and building service equipment	431,545	162,680	268,865
Equipment	122,194	91,059	31,135
	\$ 578,315	\$ 257,816	\$ 320,499

April 1, 2011	Cost	Accumulated Amortization	Net Book Value
Land	\$ 11,066	-	\$ 11,066
Land improvements	10,942	3,373	7,569
Buildings and building service equipment	432,102	156,226	275,876
Equipment	201,169	167,752	33,417
	\$ 655,279	\$ 327,351	\$ 327,928

As at March 31, 2013, construction in progress totaled \$57,141 (March 31, 2012 - \$22,206, April 1, 2011 - \$39,483), the majority of which is included in Building and building service equipment.

6. Credit facilities:

The credit facilities established for the Hospital consists of an operating line of \$20,000 and revolving capital expenditure credit of \$10,000. At March 31, 2012, no amounts were drawn on these facilities (March 31, 2012 – nil, April 1, 2011 – nil).

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Years ended March 31, 2013 and 2012
(In thousands of dollars)

7. Long-term liabilities:

(a) Long-term liabilities are as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
Employee future benefits (note 14(b))	\$ 9,104	\$ 9,107	\$ 8,200
Accumulated sick leave entitlement (note 7(b))	292	316	486
	9,396	9,423	8,686
Less: Current portion	(150)	(150)	(200)
	\$ 9,246	\$ 9,273	\$ 8,486

(b) The accumulated sick leave entitlement reflects the remaining liability from a former plan, with changes during the year representing changes in wage rates and payouts to employees upon retirement or departure.

8. Deferred contributions:

(a) The balance of unamortized capital contributions used to purchase capital assets consists of the following:

	March 31, 2013	March 31, 2012
Balance beginning of year	\$ 199,474	\$ 202,213
Add: Net contributions used to purchase capital assets	31,769	9,783
	231,243	211,996
Less: Amounts amortized to revenue	(12,463)	(12,522)
	\$ 218,780	\$ 199,474

Unamortized capital contributions, represents 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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Years ended March 31, 2013 and 2012
(In thousands of dollars)

8. Deferred contributions (continued):

(b) The balance of unspent capital contribution consists of the following:

	March 31, 2013	March 31, 2012	April 1, 2011
Ministry of Health restructuring grants	\$ 58,812	\$ 61,091	\$ 58,992
Other Ministry of Health grants	3,354	3,714	4,155
Foundation donations	3,522	3,193	5,009
Other donations and grants	471	549	769
	\$ 66,159	\$ 68,547	\$ 68,925

9. Invested in capital assets:

Invested in capital assets is calculated as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
Capital assets	\$ 349,895	\$ 320,499	\$ 327,928
Amounts financed by:			
Deferred contributions	(218,780)	(199,474)	(202,213)
Deferred contributions receivable	724	1,260	691
Obligation under capital lease	(1,900)	(1,569)	(3,604)
	\$ 129,939	\$ 120,716	\$ 122,802

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Years ended March 31, 2013 and 2012
(In thousands of dollars)

10. Restrictions on net assets:

The Board of Directors of the Hospital has placed certain restrictions on funds to reflect the wishes of donors or to meet future needs as identified by the Board.

	March 31, 2013	March 31, 2012	April, 2011
Restricted net assets:			
Research	\$ 9,000	\$ 1,000	\$ 1,000
Accumulated sick leave entitlement	292	316	486
Employee future benefits	9,104	6,150	6,127
Provision for demolition	1,303	2,844	6,483
Mental Health Care	11,661	15,869	18,350
Equipment and capital redevelopment	79,238	89,435	84,480
	\$ 110,598	\$ 115,614	\$ 116,926
Deferred contributions:			
Unspent contributions	66,159	68,547	68,925
Expenses of future periods	389	428	610
Restricted investments	\$ 177,146	\$ 184,588	\$ 186,461

11. Commitments and contingencies:

- (a) Pursuant to the directives of the Ontario Health Services Restructuring Commission ("HSRC"), the Hospital has participated in the Unconditional Grant Initiative offered by the Ministry for the redevelopment of St. Joseph's Hospital and Mental Health Care. The Ministry advanced a portion of the committed funds in fiscal 2001 for St. Joseph's Hospital and Mental Health Care of \$11,800 and \$21,800, respectively. These advances were discounted to reflect the Hospital's ability to earn investment income on the funds prior to their expenditure. As at March 31, 2013, the accumulated interest is \$4,764 and \$11,280 for St. Joseph's Hospital and Mental Health Care, respectively.
- (b) The HSRC directives call for the majority of acute in-patient services to be transferred to London Health Sciences Centre, such that St. Joseph's Health Care London will become the focal point in London and region for certain ambulatory care, day surgery, rehabilitation, complex care, long-term and veterans care, and tertiary and specialized mental health services. This restructuring process will continue to be implemented in phases over a number of years, with expected completion in 2015.

The Hospital has finalized a Project Agreement for the final phase of St. Joseph's Hospital's redevelopment. The agreement will proceed as an Alternative Financing and Procurement (AFP) project under Infrastructure Ontario, with the Hospital and the Ministry sharing in the total project cost. The Hospital's total share of the project is \$10,107 and the estimated remaining costs of \$5,333 are included in Restricted Investments.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Years ended March 31, 2013 and 2012

(In thousands of dollars)

11. Commitments and contingencies (continued):

- (c) The Hospital has finalized a Project Agreement for the construction and operation of new Mental Health Hospitals in London and St. Thomas. The agreement will proceed as a Design, Build, Finance, and Maintain (DBFM) Alternative Financing and Procurement (AFP) project under Infrastructure Ontario, with the Hospital and the Ministry sharing in the total project cost. The Hospital's total and remaining share of costs is estimated to be \$15,641 and is included in Restricted Investments.
- (d) The Hospital is subject to certain actual and potential legal claims, which have arisen in the normal course of operations. In management's opinion, insurance coverage is sufficient to offset the cost of unfavourable settlements, if any, which may result from such claims.
- (e) In the normal course of operations, the Hospital is subject to various human resource matters, including grievances filed by employees or groups of employees under Provincial legislation. Currently, no significant matters are before an arbitrator or pending resolution.
- (f) The Hospital had letters of guarantee outstanding at March 31, 2013 of \$652 (March 31, 2012 - \$652, April 1, 2011 - \$632).

12. Provision for demolition:

The former St. Mary's Hospital has been vacant since 1997 and is fully depreciated. A provision for demolition of this property was recorded in 2002, as it was determined by the Board of Directors that this building would no longer be used and would be torn down. This estimate was updated annually by management to account for changes in expected costs. The demolition project is ongoing, and the remaining liability of \$1,303 is included in accounts payable and accrued liabilities, as the project will be completed in fiscal 2013/14.

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13. Obligations under capital lease:

The Hospital has entered into the following capital lease obligations for equipment:

	March 31, 2013	March 31, 2012	April 1, 2011
Year ended March 31:			
2012	\$ -	\$ -	2,490
2013	-	1,030	839
2014	838	421	275
2015	531	100	-
2016	396	-	-
2017	135	18	-
Total minimum lease payments	1,900	1,569	3,604
Present value of net minimum lease payments	1,900	1,569	3,604
Less: Current portion of obligation under capital lease	(838)	(1,030)	(2,490)
Long-term portion of obligation under capital lease	\$ 1,062	\$ 539	\$ 1,114

14. Employee future benefits:

(a) Pension plan:

Substantially all full time employees of the Hospital are members of the Healthcare of Ontario Pension Plan ("HOOPP"). This Plan is a multi-employer, defined benefit pension plan. As this is a multi-employer plan, no liability has been recorded on the Hospital's financial statements.

Employer contributions to the Plan on behalf of employees amounted to \$17,244 during March 31, 2013 (March 31, 2012 - \$18,102). The most recent actuarial valuation for accounting purposes was completed by the HOOPP as at December 31, 2012. The December 31, 2012 audited financial statements disclosed net assets available for benefits in the amount of \$47,414,000 with pension obligations of \$39,919,000, resulting in a going concern surplus of \$7,495,000.

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14. Employee future benefits (continued):

(b) Other employee future benefits:

The non-pension post retirement benefit plan is a defined benefit plan funded on a cash basis by contributions from the Hospital.

The net expense for the Hospital's benefit plan, which is included in salaries and benefits expenses in the Statement of Operations for the year ended March 31, is as follows:

	March 31, 2013	March 31, 2012
Current service costs	\$ 2,202	\$ 1,127
Interest cost	327	345
Amortization of net actuarial loss	56	-
Net benefit plan expense	\$ 2,585	\$ 1,472

Information about the Hospital's accrued, non-pension benefits liability as at March 31 is as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
Accrued benefit obligation	\$ 10,146	\$ 9,727	\$ 8,200
Less: Unamortized net actuarial loss	(1,042)	(620)	-
	\$ 9,104	\$ 9,107	\$ 8,200

The significant actuarial assumptions adopted in measuring the Hospital's accrued non-pension benefit obligations are as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
Discount rate	3.75%	4.25%	5.00%
Health cost trends:			
Initial rate	7.00%	7.00%	8.00%
Ultimate rate	5.00%	5.00%	5.00%
Year ultimate rate reached	2017	2016	2016

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14. Employee future benefits (continued):

During the year ended March 31, 2013, the Hospital made employer contributions to the non-pension defined plans of \$2,589 (March 31, 2012 - \$2,766).

The Hospital has adopted a practice of tri-annual valuations, with extrapolation of results in the interim years. The most recent actuarial valuation was completed as at March 31, 2012.

(c) Employee benefit continuance:

During the year ended March 31, 2013, certain employees subject to layoff have been granted future benefits for a pre-determined period and of a pre-determined nature, subject to the provisions of the relevant collective agreements. These benefits include salary plus benefits continuance, and education support.

15. Financial risks and concentration of credit risk:**(a) Credit risk:**

Credit risk refers to the risk that a counter party may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to the accounts receivable, cash and long-term investments.

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2013 is the carrying value of these assets.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the Statement of Operations. Subsequent recoveries of impairment losses related to accounts receivable are recognized in the Statement of Operations. The balance of the allowance for doubtful accounts at March 31, 2013 is \$200, (March 31, 2012 - \$223, April 1, 2011 - \$261).

As at March 31, 2013, \$1,128, (March 31, 2012 - \$1,165, April 1, 2011 - \$1,699) of patient accounts receivable were past due, but not impaired.

The maximum exposure to credit risk, relating to investments, is outlined in Note 3.

There have been no significant changes to the credit risk exposure from 2012.

(b) Liquidity risk:

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Hospital manages its liquidity risk by monitoring its operating requirements. The Hospital prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

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Years ended March 31, 2013 and 2012
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15. Financial risks and concentration of credit risk (continued):

Accounts payable and accrued liabilities are generally due within 60 days of receipt of an invoice.

The contractual maturities of capital leases are disclosed in note 13.

There have been no significant changes to the liquidity risk exposure from 2012.

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates will affect the Hospital's Excess of revenues over expenses or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing return on investment.

(i) Foreign exchange risk:

The Hospital is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Hospital makes purchases denominated in U.S. dollars. The Hospital does not currently enter into forward contracts to mitigate this risk. The Hospital does not have any material transactions during the year or financial instruments denominated in foreign currencies at year end.

There have been no significant changes to the foreign exchange risk exposure from 2012.

(ii) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets with variable interest rates expose the Hospital to cash flow interest rate risk.

The Hospital's investments, including bonds and debentures, are disclosed in note 3. As at March 31, 2013, the Hospital is not exposed to interest rate risk on financial liabilities. There has been no change to the interest risk exposure from 2012.

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16. Related entities:

(a) St. Joseph's Health Care Foundation

St. Joseph's Health Care Foundation of London ("Foundation") is incorporated under the laws of Ontario as a corporation without share capital. The Foundation was established on April 1, 2005 as the result of the amalgamation of the former St. Joseph's Health Care Foundation of London and Parkwood Hospital Foundation of London, Ontario. The Foundation uses its resources to support research and education initiatives, to pilot new and innovative programs, and for the purchase of specialized equipment at all sites of St. Joseph's Health Care London. The Foundation also subsidizes the growth of community outreach programs. During the year ended March 31, 2013, the Foundation provided St. Joseph's Health Care London with donations totaling \$2,065 (March 31, 2012 - \$2,411).

The net assets and results of operations of the Foundation are not included in these financial statements.

(b) Lawson Research Institute

On June 26, 2000, the Lawson Research Institute ("LRI") entered into an agreement with St. Joseph's Health Care London, London Health Sciences Centre, and the London Health Sciences Centre Research Inc., to form an alliance to conduct all research activities as the Lawson Health Research Institute. Each organization continues to account for their costs independently. LRI is not consolidated in the Hospital's financial statements.

The Hospital made payments of \$708 (March 31, 2012 - \$741) to LRI in support of direct research and administrative expenses.

LRI operates in space owned and supported by the Hospital and the Hospital is responsible for maintenance and utility costs. During the year, LRI made payments to the Hospital in the amount of \$249 (March 31, 2012 - \$253) to partially support these infrastructure costs.

LRI transfers funds to the Hospital on an annual basis to cover the reimbursement of construction costs, and purchases of equipment. Transfers during the current year were \$137 (March 31, 2012 - \$1,954).

In 2009, the Hospital entered into a long-term loan agreement with LRI for \$15,000 repayable March 31, 2014. The loan is non-interest bearing with no principle payments required until maturity. The Hospital has reclassified this loan to current assets as at March 31, 2013 and has recorded a write-down related to the loan in the amount of \$500 in the Statement of Operations. Subsequent to March 31, 2013 the loan was repaid by LRI.

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Notes to Financial Statements

Years ended March 31, 2013 and 2012
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16. Related entities (continued):

(c) Healthcare Materials Management Services

St. Joseph's Health Care London and London Health Sciences Centre are partners in an unincorporated joint venture, Healthcare Materials Management Services ("HMMS"). HMMS consolidates purchasing, warehousing, distribution and payment processing functions and provides similar services to other healthcare institutions. The Hospital accounts for its interest in the joint venture using the equity method of accounting.

The Hospital's share in HMMS is as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
Total assets	\$ 8,154	\$ 7,657	\$ 10,109
Total liabilities, deferred contributions	7,805	7,308	9,797
Net assets	\$ 349	\$ 349	\$ 312
		March 31, 2013	March 31, 2012
Cash provided by (used for):			
Operating	\$ (309)	\$ 61	
Capital activities	(48)	(64)	
Financing activities	34	60	
Net increase (decrease) in cash	\$ (323)	\$ 57	
		March 31, 2013	March 31, 2012
Revenues	\$ 2,007	\$ 1,912	
Expenses	2,029	1,899	
Excess/(deficiency) of revenues over expense	\$ (22)	\$ 13	

HMMS incurred a loss during the year ended March 31, 2013 of \$116 compared to a surplus of \$63 at March 31, 2012. During the year ended March 31, 2013, the Hospital contributed \$47 towards a capital equipment investment of \$245.

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16. Related entities (continued):

HMMS has bank credit facilities consisting of a \$10,000 operating line of credit. As at March 31, 2013, HMMS has not drawn on its operating facility. The Hospital has provided a guarantee for up to \$1,940 in support of these credit facilities.

The net investment in HMMS at March 31, 2013 is \$497, (March 31, 2012 - \$472, April 1, 2011 - \$385).

(d) London Laboratory Services Group

On December 1, 2000, St. Joseph's Health Care London and London Health Sciences Centre entered into a joint venture to consolidate all laboratory services under London Laboratory Services Group ("LLSG"). The Hospital accounts for its interest in the joint venture using the equity method of accounting.

The Hospital's share in LLSG is as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
Total assets	\$ 516	\$ 632	\$ 842
Total liabilities, deferred contributions	74	210	222
Net assets	\$ 442	\$ 422	\$ 620

	March 31, 2013	March 31, 2012
Revenues	\$ 7,002	\$ 7,180
Expenses	7,127	7,325
Deficiency of revenues over expenses	\$ (125)	\$ (145)

The LLSG incurred a loss during the year ended March 31, 2013 of \$1,098 (March 31, 2012 - \$1,094), which is equal to the amortization of capital assets recorded during the year. During the year, the Hospital contributed \$102 towards a capital equipment investment of \$881.

The net investment in LLSG at March 31, 2013 is \$597 (March 31, 2012 - \$620, April 1, 2011 - \$618).

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17. Change in non-cash operating working capital:

The change in non-cash operating working capital is comprised of the following:

	March 31, 2013	March 31, 2012
Accounts receivable	\$ 4,832	\$ 3,991
Prepaid expenses and other assets	366	(795)
Accounts payable and accrued liabilities	(1,577)	717
Current portion of long-term liabilities	-	(50)
Current portion of obligations under capital lease	(192)	(1,460)
	\$ 3,429	\$ 2,403

18. Health services restructuring:

The Hospital continues to incur non-operating costs to achieve and complete the directives of the HSRC. Any related funding received from the Ministry/LHIN and other third parties is deferred and recognized as revenue to offset these costs as they are incurred. Total funding received for the year ended March 31, 2013 is nil (March 31, 2012 - nil).

19. In-trust funds:

The Hospital holds funds in trust for certain patients and custodial fund accounts for various programs within the Hospital. The balances of these funds at March 31, 2013 total \$325 (March 31, 2012 - \$714, April 1, 2011 - \$909) and are not included in the financial statements of the Hospital, as it does not have legal rights and obligations to this cash.

20. Capital management:

In managing capital, the Hospital focuses on liquid resources available for operations. The Hospital's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to ensure flexibility to take advantage of opportunities that will advance the Hospital's purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. The Hospital has a line of credit of \$20,000 that is available for use when sufficient cash flow is not available from operations to cover operating and capital expenditures. The Hospital will enter into long-term financing arrangements, as approved by the Board of Directors, to assist with the financing of capital assets when other sources are not available. As at March 31, 2013, the Hospital has met its objective of having sufficient liquid resources to meet its current obligations.

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21. Transitional adjustments:

(a) Net Assets:

The following table summarizes the impact of the transition to PSAS on the Hospital's net assets as of April 1, 2011:

Net assets:	
As previously reported under Canadian generally accepted accounting principles, March 31, 2011	\$ 254,705
Transition election to recognize all cumulative actuarial gains and losses on employee future benefits	(1,879)
Adjustment to recognize non-vested sick leave plans	(194)
Restated April 1, 2011	\$ 252,632

In accordance with transitional provisions of PSAS, the Hospital has elected to use the exemption for employee future benefits. The Hospital has elected to recognize all cumulative actuarial gains and losses and past services costs in opening net assets.

(b) Statement of Operations:

As a result of the above noted election and the retrospective application of PSAS, the Hospital recorded the following adjustments to the excess of revenue over expenses for the year ended March 31, 2012:

Excess of revenue over expenses	
As previously reported under Canadian generally accepted accounting principles, March 31, 2012	\$ 8,099
Increase to employee future benefits expense as a result of electing to recognize all cumulative actuarial gains and losses and past service costs	(880)
Increase to employee future benefits expense as a result of recognizing non-vested sick leave plans	(4)
Restated for the year ended March 31, 2012	\$ 7,215