

Financial Statements of

ST. JOSEPH'S HEALTH CARE, LONDON

Year ended March 31, 2008



Management's Report

The accompanying financial statements of St. Joseph's Health Care, London have been prepared by Management, and approved by the Board of Directors at their meeting of May 26, 2008.

Management works with the Board of Directors to carry out its responsibility for the financial statements principally through the Audit Committee. Voting membership of this Committee is comprised solely of independent volunteers possessing a high degree of financial literacy. The 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 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.

A handwritten signature in black ink, appearing to read "Cliff Nardal".

Mr. Cliff Nardal, FCCHE
President and CEO

A handwritten signature in black ink, appearing to read "Jim Flett".

Mr. Jim Flett, CA, MBA
Integrated Executive Vice President Finance and
Chief Financial Officer

A handwritten signature in black ink, appearing to read "John Mockler".

Mr. John Mockler, CMA, MBA
Integrated Corporate Controller

May 26, 2008

AUDITORS' REPORT

To the Board of Directors

We have audited the statement of financial position of St. Joseph's Health Care, London 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 St. Joseph's Health Care, London'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 St. Joseph's Health Care, London as at March 31, 2008 and the results of operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The letters are bold and slanted. A long, horizontal, slightly curved line is drawn underneath the signature.

Chartered Accountants, Licensed Public Accountants

London, Canada
May 9, 2008

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Financial Position

As at March 31, 2008 with comparative figures for March 31, 2007

(In thousands of dollars)

	2008	2007
Assets		
Current assets:		
Cash	\$ 33,625	\$ 18,187
Investments (note 3)	38,996	13,886
Accounts receivable (note 4)	22,335	35,875
Inventories and prepaid expenses	3,736	3,428
	<u>98,692</u>	<u>71,376</u>
Restricted investments (note 3 and note 10)	154,412	145,692
Investment in joint ventures (note 16 c,d)	646	578
Capital assets (note 5)	221,405	224,870
	<u>\$ 475,155</u>	<u>\$ 442,516</u>
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 62,921	\$ 53,175
Current portion of long-term liabilities (note 7)	490	2,404
Current portion of obligation under capital lease (note 13)	2,570	2,776
	<u>65,981</u>	<u>58,355</u>
Long-term liabilities:		
Long-term liabilities (note 7)	6,259	4,757
Interest rate swap agreement (note 7e, note 15)	137	-
Provision for demolition (note 12)	4,828	3,600
Obligations under capital lease (note 13)	2,077	2,797
	<u>13,301</u>	<u>11,154</u>
Deferred contributions (note 8):		
Unamortized capital contributions used to purchase assets	108,746	107,574
Unspent capital contributions	61,482	55,694
Expenses of future periods	621	494
	<u>170,849</u>	<u>163,762</u>
Net assets:		
Invested in capital assets	107,778	109,544
Restricted (note 10)	92,309	89,504
Unrestricted	24,937	10,197
	<u>225,024</u>	<u>209,245</u>
Commitments and contingencies (note 11)		
Subsequent event (note 20)		
	<u>\$ 475,155</u>	<u>\$ 442,516</u>

See accompanying notes to financial statements

On behalf of the Board:



Graham Porter, Chair, Board of Directors



Robert Wood, Chair, Audit Committee

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Changes in Net Assets

Year ended March 31, 2008 with comparative figures for March 31, 2007
(In thousands of dollars)

	Invested in capital assets	Restricted	Unrestricted	2008 Total	2007 Total
	(note 9)	(note 10)			
Balance, beginning of year	\$ 109,544	89,504	10,197	209,245	200,368
Change in Accounting Policy (note 2 (c))	-	-	4,500	4,500	-
Adjusted balance, beginning of year	109,544	89,504	14,697	213,745	200,368
Excess of revenues over expenses	(14,434)	-	25,713	11,279	8,877
Net change in invested in capital assets	12,668	(12,329)	(339)	-	-
Transfers to restricted	-	15,134	(15,134)	-	-
Balance, end of year	\$ 107,778	92,309	24,937	225,024	209,245

See accompanying notes to financial statements

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Operations

Year ended March 31, 2008 with comparative figures for March 31, 2007
(In thousands of dollars)

	2008	2007
Revenues		
Ministry of Health and Long-Term Care and Local Health Integration Network	\$ 341,792	\$ 327,454
Veterans Affairs Canada	27,353	26,313
Patient Services	30,939	31,003
Other revenue	29,946	23,216
Amortization of deferred contributions	10,376	10,164
	<u>440,406</u>	<u>418,150</u>
Expenses		
Salaries and benefits	312,870	299,081
Supplies	93,350	91,119
Amortization of capital assets	24,810	23,863
	<u>431,030</u>	<u>414,063</u>
Excess of revenues over expenses from operations	9,376	4,087
Health Services Restructuring (note 18):		
Current expenditures	(3,513)	(3,732)
Ministry of Health and Long-Term Care special funding	3,513	3,732
Investment income	6,146	4,790
Unrealized investment losses (note 2)	(4,243)	-
	<u>11,279</u>	<u>8,877</u>
Excess of revenues over expenses	\$ 11,279	\$ 8,877

See accompanying notes to financial statements

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Cash Flows

Year ended March 31, 2008 with comparative figures for March 31, 2007

(In thousands of dollars)

	2008	2007
Cash provided by (used for):		
Operating activities:		
Excess of revenues over expenses	\$ 11,279	\$ 8,877
Items not involving cash:		
Amortization of capital assets	24,810	23,863
Amortization of deferred contributions	(10,376)	(10,164)
Provision for demolition	1,228	2,000
Unrealized investment losses	4,243	-
Change in non-cash operating working capital (note 17)	20,858	(22,846)
Net increase (decrease) in deferred contributions related to expenses of future periods	127	(100)
	52,169	1,630
Financing activities:		
Increase in long-term liabilities	1,639	244
Decrease in obligation under capital lease	(720)	(365)
Deferred contributions related to capital assets	17,336	15,874
	18,255	15,753
Investing activities:		
Purchase of capital assets	(22,085)	(19,877)
Proceeds on sale of capital assets	740	15
Net change in investments	(24,853)	(13,886)
Net change in restricted investments	(8,720)	(17,269)
Net change in investment in joint ventures	(68)	68
	(54,986)	(50,949)
Net increase (decrease) in cash	15,438	(33,566)
Cash, beginning of year	18,187	51,753
Cash, end of year	\$ 33,625	\$ 18,187

See accompanying notes to financial statements

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

The accompanying 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; St. Joseph's Health Centre Auxiliary; 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.

In the prior year, St. Joseph's Health Care, London entered into two Hospital Accountability Agreements ("HAA") with the Ministry. These agreements set out the rights and obligations of the two parties in respect of funding provided to St. Joseph's Health Care, London by the Ministry for each of fiscal 2007 and 2008. The HAA sets out the funding provided to St. Joseph's Health Care, London together with performance standards and obligations of St. Joseph's Health Care, London that establish acceptable performance results for St. Joseph's Health Care, London.

If St. Joseph's Health Care, London does not meet certain performance standards or obligations, the Ministry has the right to adjust some funding streams received by St. Joseph's Health Care, London. 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.

1. Accounting policies:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies adopted by the Hospital are summarized as follows:

(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.

(b) Investments:

Investments in joint ventures over which St. Joseph's Health Care, London has significant influence or joint control, are accounted for using the equity method.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008
(In thousands of dollars)

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 with a minimum investment rating of A.

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 and Healthcare Materials Management Services. St. Joseph'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:

Asset	Rate
Land improvements	2 – 12.5%
Buildings and building service equipment	2 – 20.0%
Equipment	5 – 33.0%

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 balance sheet.

(f) Use of estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles 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

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Change in Accounting Policy

As required by the Canadian Institute of Chartered Accountants ("CICA"), on April 1, 2007, the Hospital adopted CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3865, *Hedges* and amendments in Section 4400, *Financial Statement Presentation by Not-for-Profit Organizations*. The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments and hedging relationships as well as the recognition of certain transition adjustments that have been recorded in opening net assets as described below. As required by the implementation of these new standards, the comparative financial statements have not been restated. The principal changes in the accounting for financial instruments and hedging relationships due to the adoption of these accounting standards are described below.

(a) Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation*

Financial Assets and Financial Liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Hospital's designation of such instruments. The standards require that all financial assets and liabilities be classified either as held-for-trading ("HFT"), available-for-sale ("AFS"), held-to-maturity ("HTM"), loans and receivables or other liabilities. The standards require that all financial assets and liabilities, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as HTM, and AFS financial assets that do not have quoted market prices in an active market.

Classification of Financial Instruments

The Hospital has classified its financial instruments as follows:

- Cash and Investments have been designated as held-for trading ("HFT") on the basis that this most accurately reflects the nature of these items. HFT financial assets and liabilities are typically acquired for resale or settlement prior to maturity. They are measured at fair value at the balance sheet date. Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in the statement of operations
- Accounts receivable have been designated as loans and receivables and are measured at amortized cost
- Interest rate swap agreement has been designated as held-for trading and are measured at fair value with realized and unrealized gains and losses included in the statement of operations
- Accounts payable and accrued liabilities, and current and long-term debt have been designated as other liabilities. After their initial fair value measurement, they are measured at amortized cost.

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Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

Transaction Costs

Transaction costs related to HFT financial assets are expensed to investment income as incurred.

Determination of Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's 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 which refer to observable market data. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(b) Section 3865, Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies, fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

At March 31, 2008, the Hospital is party to an interest rate swap and has determined that it does not qualify for hedge accounting. Accordingly, the interest rate swap contract is marked to market with the gain or loss recorded in the statement of operations.

(c) Transitional adjustment

As required, these standards have been applied as an adjustment to opening net assets. Prior period balances have not been restated. The transitional adjustment had the following impact to financial statement accounts at April 1, 2007: increase to interest rate swap agreement liability of \$133; increase to investments of \$4,436; decrease to deferred revenue of \$197; and a total increase to unrestricted net assets of \$4,500.

(d) Future Changes in accounting policies

The CICA issued new accounting standards: section 1535, Capital Disclosures, section 3862, Financial Instruments-Disclosures, and section 3863, Financial Instruments-Presentation. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. Sections 3862 and 3863 will replace section 3861, Financial Instruments –Disclosure and Presentation, revising and enhancing disclosure requirements while maintaining its presentation requirements. These new sections will increase emphasis on disclosure about the nature and extent of risks arising from financial instruments

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

and how the entity manages those risks. The mandatory effective date is for annual and interim periods in fiscal years beginning on or after October 1, 2007. The Hospital will begin application of these sections effective April 1, 2008.

3. Investments:

		2008 Market Value	2007 Cost	2007 Market value
Cash and cash equivalents	\$	46,261	6,861	6,861
Government bonds		97,496	81,414	81,304
Debentures and other fixed income securities		3,848	54,911	54,552
Equities		45,803	16,372	21,297
		193,408	159,558	164,014
Less: Restricted investments		(154,412)	(145,692)	(145,692)
	\$	38,996	13,886	18,322

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:

		2008	2007
MOHLTC / LHIN	\$	8,416	24,710
Veterans Affairs Canada		2,657	2,796
Patient and other		8,975	8,369
In-trust funds due from Lawson Research Institute (note 16(b))		2,287	—
	\$	22,335	35,875

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

5. Capital assets:

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
Land	\$ 7,915	—	7,915	8,028
Land improvements	3,951	2,397	1,554	1,512
Buildings and building service equipment	295,753	126,954	168,799	175,199
Equipment	197,031	153,894	43,137	40,131
	\$ 504,650	283,245	221,405	224,870

6. Credit facilities:

The credit facilities established for St. Joseph's Health Care, London consist of an operating line of \$20,000, non-revolving term installment loans of \$1,914, and revolving capital expenditure credit of \$10,000. Amounts were drawn on these facilities as described in note 7.

7. Long-term liabilities:

(a) Long-term liabilities at March 31 are as follows:

	2008	2007
Unsecured banker's acceptances payable on demand, bearing interest at variable rates; the principal outstanding is renewable monthly and is to be reduced by \$24 per month through to December 15, 2011 (e)	\$ —	2,204
Non-revolving, term loan bearing interest at variable rates; with monthly payments of principal and interest of \$24 through to December 15, 2011 (b), (e)	1,914	—
	1,914	2,204
Employee future benefits (note 14(b))	4,098	3,629
Accumulated sick leave entitlement	737	1,066
Employee benefit continuance	—	262
	6,749	7,161
Less current portion	490	2,404
	\$6,259	4,757

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008
(In thousands of dollars)

- (b) During the year, the Hospital renegotiated the terms and conditions related to this loan to remove the demand feature, therefore resulting in reclassifying the balance outstanding at March 31, 2008 to long-term.

Interest for the year on long-term liabilities was \$241 (2007, \$183).

- (c) Principal payments due under various debt agreements are as follows:

2009	\$	290
2010		291
2011		773
2012		560
2013		—
	\$	1,914

- (d) 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.

- (e) St. Joseph's Health Care, London has entered into an interest rate swap agreement on a notional principal of \$1,914 as at March 31, 2008 terminating on December 15, 2011. This agreement has effectively converted variable interest rates on unsecured banker's acceptances to an effective fixed interest rate of 6.315% plus stamping fee. The fair value of the interest rate swap agreement is disclosed in note 15.

8. Deferred contributions:

- (a) Capital assets:

Deferred capital contributions related to capital assets represent both the unamortized amount of grants already spent, and the unspent amount of donations and grants received for the future purchase of capital assets.

During 2001, \$33,600 was received as a restricted unconditional grant from the Ministry (note 11(a)). To-date interest earned of \$12,152 has been recorded as unspent contributions.

- (b) Expenses of future periods:

Deferred contributions related to expenses of future periods represent unspent restricted grants and donations for research and other purposes.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

9. Invested in capital assets:

Invested in capital assets at March 31 is calculated as follows:

	2008	2007
Capital assets	\$ 221,405	224,870
Amounts financed by:		
Deferred contributions	(108,746)	(107,574)
Deferred contributions receivable	1,817	25
Mortgage, banker's acceptance and equipment financing	(1,914)	(2,204)
Interest rate swap agreement	(137)	-
Obligation under capital lease	(4,647)	(5,573)
	\$ 107,778	109,544

10. Restrictions on net assets:

The Board of Directors of St. Joseph's Health Care, London, have placed certain restrictions on funds to reflect the wishes of donors or to meet future needs as identified by the Board.

	2008	2007
Restricted net assets:		
Research	\$ 1,000	1,000
Accumulated sick leave entitlement	738	1,067
Employee future benefits	4,098	3,629
Provision for demolition	4,828	3,600
Capital lease obligation	230	905
Mental Health	19,598	21,024
Provision for future equipment and capital redevelopment	61,817	58,279
	92,309	89,504
Deferred contributions:		
Unspent contributions	61,482	55,694
Expenses of future periods	621	494
	\$ 154,412	145,692

11. Commitments and contingencies:

- (a) Pursuant to the directives of the Ontario Health Services Restructuring Commission ("HSRC"), St. Joseph's Health Care, London has participated in the Unconditional Grant Initiative offered by the Ministry for the redevelopment of St. Joseph's Hospital and Mental Health Services. 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 St. Joseph's Health Care, London's ability to earn investment income on the funds prior to their expenditure. As at March 31, 2008, the remaining funds, including accumulated interest are \$4,268 and \$7,884 for St. Joseph's Hospital and Mental Health Care, respectively.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

- (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.

Future capital investment to renovate the St. Joseph's Hospital site is estimated to be \$139,114. The Ministry and St. Joseph's Health Care, London have agreed to a cost sharing arrangement whereby the Ministry's share of this future investment is \$120,040 with the remaining \$19,074 being the responsibility of St. Joseph's Health Care, London.

As part of this future capital investment St. Joseph's Health Care, London is participating in the Alternative Financing and Procurement (AFP) program with Infrastructure Ontario. At March 31, 2008 an agreement has been reached on the sharing of the costs of the first phase of this redevelopment. Of the total costs of \$40,863, the Ministry's share is \$36,436 with the remaining \$4,427 being the responsibility of St. Joseph's Health Care, London. Under this agreement, financing for the redevelopment project is provided by an external lender during construction. At March 31, 2008 externally financed construction costs incurred to date were \$19,515. St. Joseph's Health Care, London is responsible for 10% of these costs which have been included in the hospital's \$4,427 share.

- (c) St. Joseph's Health Care, London has entered into a lease with the Ontario Realty Corporation at nominal value to utilize the existing London and St. Thomas Psychiatric Hospital sites for Regional Mental Health Services until new facilities can be constructed, and services decanted to other communities as directed by the HSRC.
- (d) St. Joseph's Health Care, London 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, St. Joseph's Health Care, London is subject to various human resource matters, including grievances filed by employees or groups of employees under Provincial legislation. Currently, one matter is before an arbitrator and pending resolution, however, management is not able to predict with certainty the outcome of the matter or reasonably estimate the amount, if any, that St. Joseph's Health Care, London will be required to pay if an unfavourable ruling is received. A favourable ruling would result in St. Joseph's Health Care, London not having any financial exposure. No amount has been accrued in these financial statements as management is unable to reasonably estimate its possible obligation until the ruling of the arbitrator is received. Management is not in a position at this time to suggest a date when this matter will be fully resolved.

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 will no longer be used and will be torn down.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

13. Obligations under capital lease:

St. Joseph's Health Care, London has entered into the following capital lease obligations for equipment:

	2008
Year ended March 31:	
2009	\$ 2,632
2010	1,180
2011	625
2012	235
Total minimum lease payments	4,672
Less amounts representing interest at nil to 6.62%	25
Present value of net minimum lease payments	4,647
Current portion of obligation under capital lease	2,570
	\$ 2,077

Interest expense on the capital lease obligation in 2008 was \$48 (2007, \$131).

14. Employee future benefits:

(a) Pension plan

Substantially all full time employees of St. Joseph's Health Care, London are members of the Hospitals of Ontario Pension Plan. This Plan is a multi-employer, defined benefit pension plan.

Employer contributions to the Plan on behalf of employees amounted to \$19,315 (2007, \$18,395). The most recent regulatory funding valuation conducted as at December 31, 2006 disclosed actuarial assets of \$25,205,000 with accrued pension liabilities of \$25,454,000 resulting in a deficit of \$249,000. Accrued pension liabilities should have been \$25,808,000 resulting in a deficit of \$603,000. This funding valuation also confirmed that the Plan is fully funded on a solvency basis.

(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 St. Joseph's Health Care, London.

The net expense for St. Joseph's Health Care, London'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:

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

	2008	2007
Current service costs	\$ 131	115
Interest cost	166	134
Amortization of transitional obligation	43	43
Amortization of past service cost	247	204
Amortization of net actuarial gain	(119)	(114)
Net benefit plan expense	\$ 468	382

Information about St. Joseph's Health Care, London's accrued non-pension benefits liability as at March 31, is as follows:

	2008	2007
Accrued benefit obligation	\$ (4,918)	(5,201)
Unamortized transitional obligation	288	331
Unamortized past service cost	1,782	2,029
Unamortized net actuarial gain	(1,249)	(788)
	\$ (4,098)	(3,629)

The current portion of employee future benefits is included in accounts payable and current liabilities.

The significant actuarial assumptions adopted in measuring the St. Joseph's Health Care, London's accrued non-pension benefit obligations as of March 31, are as follows:

	2008	2007
Discount rate	6.20%	5.25%
Health cost trends:		
Initial rate	8.5%	9.0%
Ultimate rate	5.0%	5.0%
Year ultimate rate reached	2016	2016

Other information about St. Joseph's Health Care, London's non-pension defined benefit plans for the year ended March 31 is as follows:

	2008	2007
Employer contributions	\$ 84	100
Benefits paid	\$ 84	100

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

St. Joseph's Health Care, London 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, 2008.

(c) Employee benefit continuance

In 2008, 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. Fair value of financial instruments:

The fair market value of the interest rate swap agreement described in note 7(e) is \$137 and the unrealized loss that would have been realized had the agreement been terminated on March 31, 2008, is \$137 (2007, loss of \$133).

The fair values of all other monetary assets and liabilities approximate their carrying values in the balance sheet due to the short-term nature of the instruments, or due to the interest rate charged being similar to year-end market rates.

The Hospital is subject to market risk, foreign exchange risk and interest rate risk with respect to its investment portfolio. Changes to market conditions or interest rates could cause unanticipated fluctuations in operating results. The Hospital does not use derivative instruments to reduce its exposure to foreign currency risk. Changes in foreign exchange rates between the Canadian and United States dollars could cause unanticipated fluctuations in the operating results. To manage the risks identified for the investment portfolio, the Hospital has an investment policy setting out a target mix of investments designed to provide optimal long-term rate of return within reasonable risk tolerances. The investment policy is renewed on an ongoing basis and changed as necessary.

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, 2008, the Foundation provided St. Joseph's Health Care, London donations totaling \$1,355 (2007, \$11,654).

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

ST. JOSEPH'S HEALTH CARE, LONDON

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(In thousands of dollars)

(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 venture continues to account for their costs independently. The LRI is not consolidated in these statements.

The following information is from the financial statements Lawson Research Institute at March 31:

	2008	2007
Total assets	\$ 11,795	11,969
Total liabilities, deferred contributions	10,973	11,462
Net assets	822	507
Revenues	13,515	13,271
Expenses	13,620	12,954
Excess of revenues over expenses	(105)	317
Cash flows:		
Operating	7	730
Financing and investing	(180)	(777)
Net decrease	\$ (173)	(47)

Deferred contributions of \$12,325 (2007, \$7,962) related to expenses of future periods represent unspent deferred contributions for research capital.

LRI operates in space owned and supported by St. Joseph's Health Care, London. St. Joseph's Health Care, London is responsible for maintenance and utility costs.

LRI transfers funds to St. Joseph's Health Care, London on an annual basis to cover the reimbursement of construction costs, interest on funds advanced and the LRI's portion of purchased equipment. Transfers during 2008 were \$6,457 (2007, \$18).

During the year LRI made payments of \$601 (2007, \$474) to St. Joseph's Health Care, London for sharing of infrastructure support.

At March 31, 2008 LRI also held \$2,287 in-trust for the Hospital (2007, nil). These funds are included in accounts receivable and unspent deferred contributions for research capital.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

(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. St. Joseph's Health Care, London accounts for its interest in the joint venture using the equity method of accounting.

St. Joseph's Health Care, London's share in HMMS is as follows:

	2008	2007
Total assets	\$ 5,927	6,136
Total liabilities, deferred contributions	5,622	5,853
Net assets	305	283
Revenues	1,930	1,856
Expenses	1,959	1,998
Deficiency of revenues over expenses	(29)	(142)
Cash flows:		
Operating	(526)	1,149
Financing and investing	446	(124)
Net increase	\$ (80)	1,025

HMMS incurred a loss of \$115 (2007, \$552) during the year, which is equal to the amortization of capital assets recorded during the year. During the year, St. Joseph's Health Care, London contributed \$17 towards a capital equipment investment of \$68.

HMMS has bank credit facilities consisting of a \$10,000 operating line of credit and a \$483 term loan. As at March 31, 2008, HMMS had not drawn on its operating facility. St. Joseph's Health Care, London has provided a guarantee for up to \$2,478 in support of these credit facilities.

During the year, St. Joseph's Health Care, London entered into an agreement sell a building to HMMS for gross proceeds of \$450. This transaction is not in the normal course of operations and has been recorded at the fair value of the building, which was determined by a third party real estate agent. St. Joseph's Health Care, London realized a gain on disposal of this building in the amount of \$175.

The net investment in HMMS at March 31, 2008 is \$353, (2007, \$315).

(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

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2008

(In thousands of dollars)

Services Group ("LLSG"). St. Joseph's Health Care, London accounts for its interest in the joint venture using the equity method of accounting.

St. Joseph's Health Care, London's share in LLSG is as follows:

	2008	2007
Total assets	\$ 497	518
Total liabilities, deferred contributions	171	226
Net assets	396	292
Revenues	10,443	9,876
Expenses	10,563	9,994
Deficiency of revenue over expenses	(120)	(118)

The LLSG incurred a loss of \$615 (2007, \$604) during the year, which is equal to the amortization of capital assets recorded during the year. During the year, St. Joseph's Health Care, London contributed \$136 towards a capital equipment investment of \$791.

The net investment in LLSG at March 31, 2008 is \$293 (2007, \$263).

(e) Regional Shared Services

St. Joseph's Health Care, London has entered into a joint venture with the Thames Valley Hospital Planning Partnership ("TVHPP") and other regional hospitals to develop and operate a shared electronic health information management system - Regional Shared Services ("RSS"). An agreement was executed by all involved hospitals in order to outline the rights, obligations and duties of each joint venture ("JV") partner. The Hospital has an economic interest in the JV and pays to the JV its share of capital, staffing, and operating costs incurred. The Hospital accounts for the joint venture using the equity basis of accounting.

17. Change in non-cash operating working capital:

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

	2008	2007
Accounts receivable	\$ 13,540	(12,274)
Inventory and prepaid expenses	(308)	(31)
Accounts payable and accrued liabilities	9,746	(10,487)
Current portion of long-term liabilities	(1,914)	(318)
Current portion of obligation under capital lease	(206)	264
	\$ 20,858	(22,846)

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

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(In thousands of dollars)

18. Health services restructuring:

St. Joseph's Health Care, London incurs non-operating costs to achieve the directives of the HSRC. Related funding from the Ministry is received to offset these costs. Funding received for 2008 is \$3,513 (2007, \$3,732).

19. In-trust funds:

St. Joseph's Health Care, London 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, 2008 total \$1,316 (2007, \$1,362) and are not included in the financial statements of the Hospital at March 31, 2008 as it does not have legal rights and obligations to this cash.

20. Subsequent event:

On May 7, 2008 St. Joseph's Health Care, London entered into a second Project Agreement to build and finance the second phase of the redevelopment described in note 11(b). The project will proceed as an alternative financing and procurement project under Infrastructure Ontario, with the hospital and the Ministry sharing in the total project cost. Under this arrangement financing for the project is provided by an external lender during construction. The Ministry and St. Joseph's Health Care, London have agreed to a cost sharing arrangement whereby the Ministry's share of the total costs of \$63,166 are \$54,668 with the remaining \$8,498 being the responsibility of St. Joseph's Health Care, London. Payment of the Ministry Share of \$54,688 and the Hospital share of \$8,498 occurs at specified intervals throughout the project during 2011.

21. Comparative amounts:

Certain of the 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.