Financial Statements of

ST. JOSEPH'S HEALTH CARE LONDON

Year ended March 31, 2014

ST JOSEPH's HEALTH CARE LONDON

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 12, 2014.

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 public sector accounting standards.

original signed

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

original signed

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

June 12, 2014

KPMG

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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 statement of financial position as at March 31, 2014, the statements of operations, changes in net assets, remeasurement gains and losses and cash flows for the year ended March 31, 2014, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 audit 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, 2014, its results from operations, remeasurement gains and losses and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 26, 2014

London, Canada

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Financial Position

As at March 31, 2014, with comparative information for March 31, 2013
(In thousands of dollars)

	2014	2013
Assets		
Current assets:		
Cash and investments (note 3)	$ 82,089	$ 63,631
Accounts receivable (note 4)	20,134	17,495
Loan receivable from Lawson Research Institute (note 17(b))	-	14,500
Prepaid expenses and other assets	3,607	3,309
	105,830	98,935
Restricted investments (note 3 and note 10)	192,792	177,146
Ministry of Health capital receivable (note 11(b))	47,087	-
Investment in joint ventures (note 17(c) and note 17(d))	1,219	1,094
Capital assets (note 5)	485,869	349,895
	$ 832,797	$ 627,070
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 60,492	$ 60,456
Current portion of long-term liabilities (note 7)	50	150
Current portion of obligations under capital lease (note 14)	1,062	838
	61,604	61,444
Long-term liabilities:		
Long-term capital payable (note 11(b))	51,080	-
Long-term liabilities (note 7)	9,624	9,246
Obligations under capital lease (note 14)	1,566	1,062
	62,270	10,308
Deferred contributions (note 8):		
Unamortized capital contributions used to purchase capital assets	351,760	218,780
Unspent capital contributions	62,558	66,159
Expenses of future periods	353	389
	414,671	285,328
Net assets:		
Invested in capital assets (note 9)	131,481	129,939
Restricted (note 10)	129,881	110,598
Unrestricted	12,156	22,896
	273,518	263,433
Accumulated remeasurement gains	20,734	6,557
	294,252	269,990
Commitments and contingencies (note 11 and note 12)		
	$ 832,797	$ 627,070

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Changes in Net Assets

Year ended March 31, 2014, with comparative information for March 31, 2013
(In thousands of dollars)

	Invested in capital assets	Restricted	Unrestricted	2014 Total	2013 Total
Balance, beginning of year	$ 129,939	$ 110,598	$ 22,896	**$ 263,433**	**$ 259,847**
Excess (deficiency) of revenues over expenses	(12,518)	-	22,603	**10,085**	**3,586**
Net change in invested in capital assets	14,060	(13,497)	(563)	**-**	**-**
Transfers to restricted	-	32,780	(32,780)	**-**	**-**
Balance, end of year	$ 131,481	$ 129,881	$ 12,156	**$ 273,518**	**$ 263,433**

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Operations

Year ended March 31, 2014, with comparative information for March 31, 2013
(In thousands of dollars)

	2014	2013
Revenues:		
Ministry of Health and Long-Term Care and		
Local Health Integration Network:		
Operating funding	$ 301,472	$ 302,781
Mental Health redevelopment funding (note 11(c))	14,288	-
Veterans Affairs Canada	23,890	21,705
Patient services	27,651	26,954
Other revenue	41,851	37,193
Amortization of deferred contributions (note 8(a))	13,978	12,463
	423,130	401,096
Expenses:		
Salaries and benefits	277,420	282,113
Supplies	97,534	91,641
Amortization of capital assets	26,496	25,220
Mental Health redevelopment contract expenses (note 11(c))	15,791	-
	417,241	398,974
Excess of revenues over expenses	5,889	2,122
Restructuring expenditures (note 19)	(2,477)	(2,472)
Realized investment income	6,673	3,936
Excess of revenues over expenses	$ 10,085	$ 3,586

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Remeasurement Gains and Losses

Year ended March 31, 2014, with comparative information for March 31, 2013
(In thousands of dollars)

		2014		2013
Opening balance, beginning of year	$	6,557	$	-
Unrealized gains attributable to portfolio investments		14,233		6,581
Realized gain attributable to portfolio investments, reclassified to the Statement of Operations		(56)		(24)
Net remeasurement gains for the year	$	14,177	$	6,557
Accumulated remeasurement gains, end of the year	$	20,734	$	6,557

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Cash Flows

Year ended March 31, 2014, with comparative information for March 31, 2013
(In thousands of dollars)

		2014		2013
Cash provided by (applied to):				
Operating activities:				
Excess of revenues over expenses	$	10,085	$	3,586
Items not involving cash:				
Amortization of capital assets		26,496		25,220
Amortization of deferred contributions		(13,978)		(12,463)
Gain on disposal of capital assets		(365)		(833)
Change in non-cash operating working capital (note 18)		(2,777)		3,429
Deferred contributions related to expenses of future periods		(36)		(39)
		19,425		18,900
Capital activities:				
Purchases of capital assets		(162,751)		(54,664)
Proceeds on sale of capital assets		646		881
Deferred contributions related to capital assets, net of unspent		143,357		29,381
		(18,748)		(24,402)
Investing activities:				
Net change in restricted investments		(1,469)		13,999
Ministry of Health capital receivable		(47,087)		-
Loan receivable from Lawson Research Institute		14,500		-
Write-down of loan receivable from Lawson Research Institute		-		500
Net change in investment in joint ventures		(125)		(2)
		(34,181)		14,497
Financing activities:				
Long-term capital payable		51,080		-
Obligations under capital lease		504		523
Long-term liabilities		378		(27)
		51,962		496
Net increase in cash and investments		18,458		9,491
Cash and investments, beginning of year		63,631		54,140
Cash and investments, end of year	$	82,089	$	63,631

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2014
(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, the Southwest Centre for Forensic Mental Health Care, 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 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.

1. Significant accounting policies:

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

(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.

Government transfers are recognized in the financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amount can made.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2014
(In thousands of dollars)

1. Significant accounting policies (continued):

(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 17.

(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%
Leasehold improvements	25%
Equipment	6.7 – 33%

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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2014
(In thousands of dollars)

1. Significant accounting policies (continued):

(e) Impairment of long-lived assets (continued):

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.

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 (2013 - 11 years).

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

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2014
(In thousands of dollars)

1. Significant accounting policies (continued):

(g) Employee future benefits (continued):

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.

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

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2014
(In thousands of dollars)

1. Significant accounting policies (continued):

(h) Financial instruments (continued):

- 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, 2013, the Hospital adopted Public Sector Accounting Standards *PS 3410 – Government Transfers*. The standard discusses what the criteria are for a government transfer, recognition of the transferring and recipient government, eligibility criteria and stipulations within the transfer, and presentation and disclosure information related to the transfer. In accordance with the transitional guidance included within the standard, this change has been applied prospectively. There were no changes to the financial statements as a result of the implementation of this standard.

3. Cash and investments:

	Level	2014	2013
Cash and cash equivalents	1	$ 110,076	$ 93,190
Government bonds	1	22,739	52,053
Debentures and other fixed income securities	1	53,008	26,776
Equities	1	89,058	68,758
		274,881	240,777
Less: Restricted Investments		(192,792)	(177,146)
Cash and Investments		$ 82,089	$ 63,631

ST. JOSEPH'S HEALTH CARE LONDON
Notes to Financial Statements

Year ended March 31, 2014
(In thousands of dollars)

3. Cash and investments (continued):

Restricted investments represent the investment of unspent deferred contributions for expenses of future periods and capital assets, including the Unconditional Grant Initiative (note 12(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:

	2014	2013
Ministry / LHIN	$ 6,398	$ 3,606
Veterans Affairs Canada	3,003	1,128
Patient and other	10,733	12,761
	$ 20,134	$ 17,495

5. Capital assets:

	Cost	Accumulated Amortization	2014 Net Book Value	2013 Net Book Value
Land	$ 11,066	$ -	$ 11,066	$ 11,066
Land improvements	14,550	6,045	8,505	9,407
Buildings and building service equipment	614,873	188,225	426,648	295,139
Equipment	148,948	109,298	39,650	34,283
	$ 789,437	$ 303,568	$ 485,869	$ 349,895

As at March 31, 2014, construction in progress totaled $56,556 (2013 - $57,141), the majority of which is included in Buildings and building service equipment.

6. Credit facilities:

The credit facilities established for the Hospital consists of an operating line of $20,000 and a revolving capital expenditure credit of $10,000. At March 31, 2014, no amounts were drawn on these facilities (2013 – nil).

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2014
(In thousands of dollars)

7. Long-term liabilities:

(a) Long-term liabilities are as follows:

		2014		2013
Employee future benefits (note 15(b))	$	9,429	$	9,104
Accumulated sick leave entitlement (note 7(b))		245		292
		9,674		9,396
Less: Current portion		(50)		(150)
	$	9,624	$	9,246

(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:

		2014		2013
Balance beginning of year	$	218,780	$	199,474
Add: Net contributions used to purchase capital assets		146,958		31,769
		365,738		231,243
Less: Amounts amortized to revenue		(13,978)		(12,463)
	$	351,760	$	218,780

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.

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

		2014		2013
Ministry of Health restructuring grants	$	55,587	$	58,812
Other Ministry of Health grants		3,484		3,354
Foundation donations		3,047		3,522
Other donations and grants		440		471
	$	62,558	$	66,159

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2014
(In thousands of dollars)

9. Invested in capital assets:

Invested in capital assets is calculated as follows:

	2014	2013
Capital assets	$ 485,869	$ 349,895
Amounts financed by:		
Deferred contributions	(351,760)	(218,780)
Deferred contributions receivable	-	724
Obligation under capital lease	(2,628)	(1,900)
	$ 131,481	$ 129,939

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.

	2014	2013
Restricted net assets:		
Research	$ 9,000	$ 9,000
Accumulated sick leave entitlement	245	292
Employee future benefits	9,429	9,104
Provision for demolition	177	1,303
Mental Health Care	7,884	11,661
Equipment and capital redevelopment	103,146	79,238
	$ 129,881	$ 110,598
Deferred contributions:		
Unspent contributions	62,558	66,159
Expenses of future periods	353	389
Restricted investments	$ 192,792	$ 177,146

11. Mental Health redevelopment:

(a) The Hospital has finalized a multi-site Project Agreement ("Project") for the redevelopment, construction and operation of the Hospital's mental health facilities. The Project includes a new forensic mental health care facility in St. Thomas ("St. Thomas") and a new specialized mental health care facility in London ("London"). 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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2014
(In thousands of dollars)

11. Mental Health redevelopment (continued):

In March 2011, the Hospital entered into a project agreement with a third party company, Integrated Team Solution SJHC Partnership ("Project Co") to design, build, finance, and maintain the buildings constructed as part of the Project for a 30 year term.

The Hospital's total share for the construction related costs of the Project is $15,844 and the estimated remaining share of costs is estimated to be $11,416 and is included in Restricted Investments in the Statement of Financial Position. The Hospital's share of facilities maintenance costs over the term of the Project is estimated to be $160,977 in current year dollars.

(b) The St. Thomas facility was substantially completed in April 2013 and the building was occupied in June 2013. Total project costs of $152,333 have been incurred to March 31, 2014 and have been recorded as buildings and building service equipment and equipment in capital assets.

As at March 31, 2014, the Ministry has funded $100,863 and the Hospital has funded $390 of the total project costs. The remaining balance of $51,080 has been recorded as a long-term payable to Project Co, of which the Ministry has committed $47,087 and the Hospital $3,993. The Ministry's commitment of $47,087 has been recorded as a long-term receivable.

(c) Mental Health redevelopment contract expenses of $15,791 paid during the year to Project Co relate to interest, contract management fees and facilities maintenance fees of the Project. The Ministry provided funding of $14,288 which is included in Mental Health redevelopment funding in the Statement of Operations. The Hospital funded the remaining $1,503 for facilities maintenance fees.

(d) The London facility is expected to be substantially completed in October 2014 with the building being occupied in November 2014. During construction, Project Co retains title to the building under construction. Estimated construction costs incurred by Project Co to March 31, 2014 are $215,603. The Hospital has also incurred $10,957 of ancillary costs related to this facility which is included in capital assets as construction in progress related to building and building service equipment.

(e) Estimated ongoing contract costs over the remaining term of the Project in current year dollars are as follows:

	Ministry Share	Hospital Share	Total
Interest	$ 331,222	$ -	$ 331,222
Long-term capital payable	210,809	847	211,656
Facilities maintenance	-	159,474	159,474
Lifecycle maintenance	102,766	1,640	104,406
Contract management	24,491	-	24,491
	$ 669,288	$ 161,961	$ 831,249

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2014
(In thousands of dollars)

12. 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, 2014, the accumulated interest is $4,750 and $11,247 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 over the next year, 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 $5,635 are included in Restricted Investments.

(c) 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.

(d) 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.

(e) The Hospital had letters of guarantee outstanding at March 31, 2014 of $642 (2013 - $652).

13. 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 completed, and the remaining liability of $177 is related to repairs to the adjacent building which was impacted during the demolition.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2014
(In thousands of dollars)

14. Obligations under capital lease:

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

	2014	2013
Year ended March 31:		
2014	$ -	$ 838
2015	1,062	531
2016	950	396
2017	458	135
2018	158	-
Total minimum lease payments	2,628	1,900
Present value of net minimum lease payments	2,628	1,900
Less: Current portion of obligation under capital lease	(1,062)	(838)
Long-term portion of obligation under capital lease	$ 1,566	$ 1,062

15. 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 $17,001 during March 31, 2014 (2013 - $17,244). The most recent actuarial valuation for accounting purposes was completed by the HOOPP as at December 31, 2013. The December 31, 2013 audited financial statements disclosed net assets available for benefits in the amount of $51,626,000 with pension obligations of $41,478,000, resulting in a going concern surplus of $10,148,000.

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(In thousands of dollars)

15. 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:

		2014		2013
Current service costs	$	2,306	$	2,202
Interest cost		315		327
Amortization of net actuarial loss		100		56
Net benefit plan expense	$	2,721	$	2,585

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

		2014		2013
Accured benefit obligation	$	10,122	$	10,146
Less: Unamortized net actuarial loss		(693)		(1,042)
	$	9,429	$	9,104

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

	2014	2013
Discount rate	4.00%	3.75%
Health cost trends:		
Initial rate	6.50%	7.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2017	2017

During the year ended March 31, 2014, the Hospital made employer contributions to the non-pension defined plans of $2,396 (2013 - $2,589).

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.

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15. Employee future benefits (continued):

(c) Employee benefit continuance:

During the year ended March 31, 2014, 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.

16. 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, 2014 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, 2014 is $200, (2013 - $200).

As at March 31, 2014, $479, (2013 - $1,128) 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 2013.

(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.

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 14.

There have been no significant changes to the liquidity risk exposure from 2013.

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16. Financial risks and concentration of credit risk (continued):

(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 2013.

(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 fixed interest rates expose the Hospital to fair value interest rate risk. The Hospital is not exposed to interest rate risk on financial liabilities. There has been no change to the interest risk exposure from 2013.

The Hospital's investments, including bonds and debentures, are disclosed in note 3.

17. 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 the Hospital. The Foundation also subsidizes the growth of community outreach programs. During the year ended March 31, 2014, the Foundation provided the Hospital with donations totaling $1,222 (2013 - $2,065).

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Year ended March 31, 2014
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17. Related entities (continued):

(a) St. Joseph's Health Care Foundation (continued):

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 $641 (2013 - $708) 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 $216 (2013 - $249) 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. Net transfers during the current year were $247 (2013 - $137).

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

(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.

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17. Related entities (continued):

(c) Healthcare Materials Management Services (continued):

The Hospital's share in HMMS is as follows:

		2014		2013
Total assets	$	7,626	$	8,154
Total liabilities, deferred contributions		7,114		7,805
Net assets	$	512	$	349

		2014		2013
Cash provided by (used for):				
Operating	$	465	$	(309)
Capital actvities		(211)		(48)
Financing activities		213		34
Net increase (decrease) in cash	$	467	$	(323)

		2014		2013
Revenues	$	2,084	$	2,007
Expenses		2,142		2,029
Deficiency of revenues over expense	$	(58)	$	(22)

HMMS incurred a total loss during the year ended March 31, 2014 of $290 compared to a loss of $116 at March 31, 2013. During the year ended March 31, 2014, the Hospital contributed $211 towards building and capital equipment investments of $1,054.

HMMS has bank credit facilities consisting of a $10,000 operating line of credit. As at March 31, 2014, HMMS has not drawn on its operating facility. The Hospital has provided a guarantee for up to $2,000 in support of these credit facilities.

The net investment in HMMS at March 31, 2014 is $650 (2013 - $497).

(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.

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17. Related entities (continued):

(e) London Laboratory Services Group (continued):

The Hospital's share in LLSG is as follows:

		2014		2013
Total assets	$	479	$	516
Total liabilities, deferred contributions		72		74
Net assets	$	407	$	442

		2014		2013
Revenues	$	6,596	$	7,002
Expenses		6,728		7,127
Deficiency of revenues over expenses	$	(132)	$	(125)

The LLSG incurred a total loss during the year ended March 31, 2014 of $1,161 (2013 - $1,098), which is equal to the net amortization of capital assets recorded during the year. During the year, the Hospital contributed $104 towards a capital equipment investment of $910.

The net investment in LLSG at March 31, 2014 is $569 (2013 - $597).

18. Change in non-cash operating working capital:

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

		2014		2013
Accounts receivable	$	(2,639)	$	1,738
Prepaid expenses and other assets		(298)		366
Accounts payable and accrued liabilities		36		1,517
Current portion of long-term liabilities		(100)		-
Current portion of obligations under capital lease		224		(192)
	$	(2,777)	$	3,429

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19. 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, 2014 is nil (2013 - nil).

20. 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, 2014 total $432 (2013 - $325) and are not included in the financial statements of the Hospital, as it does not have legal rights to this cash.

21. 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, 2014, the Hospital has met its objective of having sufficient liquid resources to meet its current obligations.

22. Comparative figures:

Certain of the 2013 comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.