Financial Statements of

ST. JOSEPH'S HEALTH CARE, LONDON

Year ended March 31, 2011

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 30, 2011.

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
President and Chief Executive Officer

original signed

Lori Higgs, C.A.
Vice President Corporate Services and
Chief Financial Officer

May 30, 2011

KPMG LLP
Chartered Accountants
140 Fullarton Street Suite 1400
PO Box 2305
London ON N6A 5P2
Canada

Telephone (519) 672-4880
Fax (519) 672-5684
Internet www.kpmg.ca

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, 2011, the statements of operations, changes in net assets and cash flows for the year then ended, 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 generally accepted accounting principles, 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 controls. 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of St. Joseph's Health Care, London as at March 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

May 30, 2011

London, Canada

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Financial Position

As at March 31, 2011 with comparative figures for March 31, 2010
(In thousands of dollars)

		2011		2010
Assets				
Current assets:				
Cash and investments (note 2)	**$**	**44,879**	$	61,888
Accounts receivable (note 3)		**23,224**		24,369
Prepaid expenses and other assets		**2,880**		3,860
		70,983		90,117
Restricted investments (note 2 and note 9)		**186,461**		148,643
Loan receivable from Lawson Research Institute (note 15(b))		**15,000**		15,000
Investment in joint ventures (note 15 (c) and note 15 (d))		**1,003**		852
Capital assets (note 4)		**327,928**		316,325
	$	**601,375**	$	570,937
Liabilities, Deferred Contributions and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities	**$**	**58,222**	$	81,756
Current portion of long-term liabilities (note 6)		**200**		490
Current portion of obligations under capital lease (note 12)		**2,490**		2,837
		60,912		85,083
Long-term liabilities:				
Long-term liabilities (note 6)		**6,413**		6,875
Provision for demolition (note 11)		**6,483**		5,271
Obligations under capital lease (note 12)		**1,114**		3,597
		14,010		15,743
Deferred contributions (note 7):				
Unamortized capital contributions used to purchase assets		**202,213**		196,378
Unspent capital contributions		**68,925**		34,643
Expenses of future periods		**610**		401
		271,748		231,422
Net assets:				
Invested in capital assets (note 8)		**122,802**		116,648
Restricted (note 9)		**116,926**		113,599
Unrestricted		**14,977**		8,442
		254,705		238,689
Commitments and contingencies (note 10 and 20)				
	$	**601,375**	$	570,937

See accompanying notes to financial statements

On behalf of the Board:

original signed

Gerald Killan
Chair, Board of Directors

original signed

Jacquie Davison
Treasurer, Board of Directors

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Changes in Net Assets

Year ended March 31, 2011 with comparative figures for March 31, 2010
(In thousands of dollars)

	Invested in capital assets	Restricted	Unrestricted	**2011 Total**	2010 Total
	(note 8)	(note 9)			
Balance, beginning of year	$ 116,648	$ 113,599	$ 8,442	**$ 238,689**	$ 224,814
Excess (deficiency) of revenues over expenses	(15,213)	-	31,229	**16,016**	13,875
Net change in invested in capital assets	21,367	(19,959)	(1,408)	**-**	-
Transfers to restricted	-	23,286	(23,286)	**-**	-
Balance, end of year	$ 122,802	$ 116,926	$ 14,977	**$ 254,705**	$ 238,689

See accompanying notes to financial statements

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Operations

Year ended March 31, 2011 with comparative figures for March 31, 2010
(In thousands of dollars)

		2011		2010
Revenues:				
Ministry of Health and Long-Term Care and Local Health Integration Network	**$**	**364,487**	$	362,295
Veterans Affairs Canada		**24,763**		27,364
Patient services		**30,881**		30,330
Other revenue		**37,043**		30,509
Amortization of deferred contributions		**11,970**		12,789
		469,144		463,287
Expenses:				
Salaries and benefits		**331,650**		335,837
Supplies		**99,706**		93,596
Amortization of capital assets		**27,182**		29,117
		458,538		458,550
Excess of revenues over expenses from operations		**10,606**		4,737
Other income (expenses):				
Health Services Restructuring (note 17):				
Current expenditures		**(7,975)**		(3,717)
Restructuring funding		**5,488**		1,899
Investment income		**3,472**		3,079
Unrealized investment gains		**4,425**		7,877
Excess of revenues over expenses	**$**	**16,016**	$	13,875

See accompanying notes to financial statements

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Cash Flows

Year ended March 31, 2011 with comparative figures for March 31, 2010
(In thousands of dollars)

		2011		2010
Cash provided by (used for):				
Operating activities:				
Excess of revenues over expenses	**$**	**16,016**	$	13,875
Items not involving cash:				
Amortization of capital assets		**27,182**		29,117
Amortization of deferred contributions		**(11,970)**		(12,789)
Provision for demolition		**1,212**		298
Unrealized investment gains		**(4,425)**		(7,877)
Loss on disposal of fixed assets		**-**		27
Change in non-cash operating working capital (note 16)		**(22,046)**		12,038
Deferred contributions related to expenses of future periods		**209**		(76)
		6,178		34,613
Financing activities:				
Long-term liabilities		**(462)**		559
Obligations under capital lease		**(2,483)**		(464)
Deferred contributions related to capital assets		**52,087**		56,209
		49,142		56,304
Investing activities:				
Purchase of capital assets		**(38,790)**		(91,779)
Proceeds on sale of capital assets		**5**		-
Net change in restricted investments		**(33,393)**		11,643
Net change in investment in joint ventures		**(151)**		(85)
		(72,329)		(80,221)
Net (decrease) increase in cash and investments		**(17,009)**		10,696
Cash and investements, beginning of year		**61,888**		51,192
Cash and investments, end of year	**$**	**44,879**	$	61,888

See accompanying notes to financial statements

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(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 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 the Hospital.

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 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. 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.

Patient and other revenues are recognized as services are provided.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(In thousands of dollars)

(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. 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 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, London Laboratory Services Group, 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 15.

(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 – 20%
Equipment	5 – 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. 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.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(In thousands of dollars)

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

(g) Financial instruments:

The Hospital has chosen to apply Section 3861, Financial Instruments – Disclosure and Presentation in place of CICA 3862, Financial Instruments – Disclosures and CICA 3863 – Financial Instruments – Presentation.

Financial Assets and Financial Liabilities

Under the 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 agreements have 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.

Transaction Costs

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

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(In thousands of dollars)

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.

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.

The Hospital has elected not to apply Section 3855 to the following: derivatives embedded in leases; derivatives embedded in insurance contracts; contracts to buy or sell non-financial items including derivatives embedded therein; and derivatives embedded in contracts to buy or sell a non-financial item in accordance with the Hospital's expected purchase, sale or usage requirements, in accordance with Section 3855 Paragraph 07A.

(h) Future changes in accounting policies:

In December 2010, the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("AcSB") and the Public Sector Accounting Board ("PSAB") released the accounting standards impacting the future financial reporting framework for not-for-profit organizations. These standards are effective for years beginning on or after January 1, 2012. Organizations have an option to early adopt these new standards.

The PSAB is responsible for the accounting standards used by not-for-profit organizations. Under the new accounting standards issued by the PSAB, not-for-profit organizations will apply public sector accounting standards contained in the Public Sector Accounting (PSA) Handbook.

The Hospital is currently in the process of determining the impact of these changes, which will be implemented for the fiscal 2013 year end.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(In thousands of dollars)

2. Cash and Investments:

	2011 Market Value	2010 Market Value
Cash and cash equivalents	**$ 95,552**	$ 55,102
Government bonds	**74,258**	94,363
Debentures and other fixed income securities	**24,521**	27,978
Equities	**37,009**	33,088
	231,340	210,531
Less: Restricted Investments	**(186,461)**	(148,643)
Cash and Investments	**$ 44,879**	$ 61,888

Restricted investments represent the investment of unspent deferred contributions for expenses of future periods and capital assets, including the Unconditional Grant Initiative (note 10(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.

3. Accounts receivable:

	2011	2010
MOHLTC / LHIN	**$ 8,401**	$ 9,778
Veterans Affairs Canada	**1,169**	3,043
Patient and Other	**13,654**	11,548
	$ 23,224	$ 24,369

4. Capital assets:

	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value
Land	$ 11,066	$ -	**$ 11,066**	$ 11,066
Land improvements	10,942	3,373	**7,569**	1,572
Buildings and building service equipment	432,102	156,226	**275,876**	262,246
Equipment	201,169	167,752	**33,417**	41,441
	$ 655,279	$ 327,351	**$ 327,928**	$ 316,325

Included in these categories is construction in progress in the amount of $39,483.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(In thousands of dollars)

5. Credit facilities:

The credit facilities established for St. Joseph's Health Care, London consist of an operating line of $20,000 and revolving capital expenditure credit of $10,000. At March 31, 2011, no amounts were drawn on these facilities.

6. Long-term liabilities:

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

Non-revolving, term loan bearing interest at variable rates; with monthly payments of principal and interest of $24 through to December 15, 2011	**$**	**-**	$	1,333
	$	**-**	$	1,333
Employee future benefits (note 13(b))		**6,127**		5,304
Accumulated sick leave entitlement (note 6(b))		**486**		648
Interest rate swap agreement				80
		6,613		7,365
Less current portion		**200**		490
	$	**6,413**	$	6,875

Interest for the year on long-term liabilities was $42 (2010, $133).

(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.

7. 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 10(a)). To-date interest earned of $15,291 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, 2011
(In thousands of dollars)

8. Invested in capital assets:

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

	2011	2010
Capital assets	$ 327,928	$ 316,325
Amounts financed by:		
Deferred contributions	(202,213)	(196,378)
Deferred contributions receivable	691	4,548
Mortgage, banker's acceptance and equipment financing	-	(1,333)
Interest rate swap agreement	-	(80)
Obligation under capital lease	(3,604)	(6,434)
	$ 122,802	$ 116,648

9. 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.

	2011	2010
Restricted net assets:		
Research	$ 1,000	$ 1,000
Accumulated sick leave entitlement	486	648
Employee future benefits	6,127	5,305
Provision for demolition	6,483	5,271
Mental Health Care	18,350	17,062
Equipment and capital redevelopment	84,480	84,313
	$ 116,926	$ 113,599
Deferred contributions:		
Unspent contributions	68,925	34,643
Expenses of future periods	610	401
	$ 186,461	$ 148,643

10. 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 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 St. Joseph's Health Care, London's ability to earn investment income on the funds prior to their expenditure. As at March 31, 2011, the accumulated interest is $4,619 and $10,672 for St. Joseph's Hospital and Mental Health Care, respectively.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(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, with expected completion in 2015.

St. Joseph's Health Care, London is currently negotiating 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 share of the total costs is estimated to be $10,725 which is included in Restricted Investments.

(c) St. Joseph's Health Care, London 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 share of the total costs is estimated to be $16,739 which is included in Restricted Investments.

(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, no significant matters are before an arbitrator or pending resolution.

(f) St Joseph's Health Care, London had letters of guarantee outstanding at March 31, 2011 of $632 (2010, $10).

11. 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. This estimate is updated annually by management to account for changes in expected costs.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(In thousands of dollars)

12. Obligations under capital lease:

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

		2011
Year ended March 31:		
2012	$	**2,490**
2013		**839**
2014		**275**
Total minimum lease payments	$	**3,604**
Less amounts representing interest		**-**
Present value of net minimum lease payments		**3,604**
Current portion of obligation under capital lease	$	**2,490**

Interest expense on the capital lease obligation in 2011 was nil (2010, $6).

13. 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. As this is a multi-employer plan, no liability has been recorded on the Hospital's books.

Employer contributions to the Plan on behalf of employees amounted to $20,632 (2010, $20,695). The most recent actuarial valuation for accounting purposes was completed by the HOOPP as at December 31, 2009. The December 31, 2010 audited financial statements disclosed an actuarial value of Net Assets in the amount of $35,073,000 with accrued pension benefits of $34,897,000 resulting in a going concern surplus of $176,000.

(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, 2011
(In thousands of dollars)

		2011		2010
Current service costs	$	**230**	$	161
Interest cost		**411**		417
Amortization of transitional obligation		**43**		43
Amortization of past service cost		**313**		(409)
Amortization of net actuarial gain		**(175)**		795
Net benefit plan expense	$	**822**	$	1,007

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

		2011		2010
Accured benefit obligation	$	**(5,535)**	$	(5,505)
Unamortized transitional obligation		**159**		202
Unamortized past service cost		**1,632**		1,944
Unamortized net actuarial loss		**(2,383)**		(1,945)
	$	**(6,127)**	$	(5,304)

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, 2011 are as follows:

	2011	2010
Discount rate	**5.25%**	5.75%
Health cost trends:		
Initial rate	**8%**	8.0%
Ultimate rate	**5%**	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:

		2011		2010
Employer contributions	$	**362**	$	232
Benefits paid	$	**362**	$	232

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, 2009.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(In thousands of dollars)

(c) Employee benefit continuance:

In 2011, 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.

14. Fair value of financial instruments:

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.

15. 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, 2011, the Foundation provided St. Joseph's Health Care, London donations totaling $4,182 (2010, $3,271).

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

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(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:

		2011	2010
Total assets	$	30,550	28,302
Total liabilities, deferred contributions		30,311	28,078
Net assets		239	224
Revenues		16,010	18,984
Expenses		15,995	18,749
Excess of revenues over expenses		15	235
Cash flows:			
Operating		1,361	1,549
Financing and investing		(597)	(650)
Net increase in cash		764	899

Deferred contributions of $12,001 (2010, $10,521) 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, certain operating costs and the LRI's portion of purchased equipment. Transfers during 2011 were $535 (2010, $3,120).

During the year LRI made payments of $248 (2010, $344) to St. Joseph's Health Care, London for sharing of infrastructure support and certain operating costs.

The loan to LRI in the amount of $15,000 is due March 31, 2014. The loan is non-interest bearing with no principle payments required until maturity.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(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:

		2011		2010
Total assets	**$**	**10,109**	$	5,698
Total liabilities, deferred contributions		**9,772**		5,360
Net assets		**337**		338
Revenues		**2,042**		2,240
Expenses		**2,100**		2,293
Deficiency of revenues over expenses		**(58)**		(53)
Cash flows:				
Operating		**(415)**		496
Financing and investing		**0**		0
Net increase (decrease) in cash	**$**	**(415)**	$	496

HMMS incurred a loss of $233 (2010, $214) 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 $46 towards a capital equipment investment of $185.

HMMS has bank credit facilities consisting of a $10,000 operating line of credit and a $339 term loan. As at March 31, 2011, HMMS has 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.

The net investment in HMMS at March 31, 2011 is $385 (2010, $388).

(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"). 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

Notes to Financial Statements

Year ended March 31, 2011
(In thousands of dollars)

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

		2011		2010
Total assets	**$**	**842**	$	589
Total liabilities, deferred contributions		**222**		128
Net assets		**620**		461
Revenues		**9,903**		9,693
Expenses		**10,030**		9,819
Deficiency of revenues over expenses	**$**	**(127)**	$	(126)

The LLSG incurred a loss of $726 (2010, $726) 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 $281 towards a capital equipment investment of $1,597.

The net investment in LLSG at March 31, 2011 is $618 (2010, $464).

(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 method of accounting.

16. Change in non-cash operating working capital:

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

		2011		2010
Accounts receivable	**$**	**1,145**	$	(8,433)
Prepaid expenses and other assets		**980**		225
Accounts payable and accrued liabilities		**(23,534)**		20,152
Current portion of long term liabilities		**(637)**		94
	$	**(22,046)**	$	12,038

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2011
(In thousands of dollars)

17. Health services restructuring:

St. Joseph's Health Care, London incurs non-operating costs to achieve the directives of the HSRC. Related funding is received to partially offset these costs from the Ministry/LHIN and other third parties including Veterans Affairs Canada in the current fiscal year due to restructuring required in response to the declining Veteran population. Total funding received for 2011 is $5,488 (2010, $1,899) of which $4,100 is from the Ministry in support of acute care restructuring (2010, $1,750).

18. 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, 2011 total $909 (2010, $1,089) and are not included in the financial statements of the Hospital at March 31, 2011 as it does not have legal rights and obligations to this cash.

19. 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 provide it with the flexibility to take advantage of opportunities that will advance its 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 debt, 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, 2011, the Hospital has met its objective of having sufficient liquid resources to meet its current obligations.

20. Subsequent Event:

On May 6, 2011 the Hospital received confirmation from the South West Local Health Integration Network ("LHIN") of funding in the amount of $2.9 million for three years, for a total commitment of $8.7 million. This funding will be restricted for the purpose of supporting the divestment of Mental Health Care beds to receiving hospitals and the community. Use of this funding requires pre-approval from the LHIN and the related costs will be incurred in fiscal 2012 and beyond.

21. Comparative Figures:

Certain of the 2010 comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.