

Financial Statements of

ST. JOSEPH'S HEALTH CARE LONDON

Year ended March 31, 2018



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 on June 14, 2018.

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 recommending the approval of the financial statements by St. Joseph's Health Care Society.

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. Where alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances.

original signed

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

original signed

Lori Higgs, CPA, CA
Vice President Clinical Support and Chief
Financial Officer

INDEPENDENT AUDITORS' REPORT

To St. Joseph's Health Care Society
St. Joseph's Health Care London

REPORT ON THE FINANCIAL STATEMENTS

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, 2018 and the statements of changes in net assets, operations, remeasurement gains and losses, and cash flows for the year then ended, and 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 the auditors' 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, the auditors 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 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, 2018 and the results of its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the *Corporations Act* (Ontario), we report that, in our opinion, Canadian public sector accounting standards have been applied on a basis consistent with the preceding year.



Chartered Professional Accountants
Licensed Public Accountants

London, Canada
June 14, 2018

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Financial Position

As at March 31, 2018, with comparative information as at March 31, 2017
(In thousands of dollars)

	2018	2017
Assets		
Current:		
Cash and cash equivalents (note 3)	\$ 85,048	\$ 92,752
Accounts receivable (note 4)	27,542	23,991
Ministry of Health and Long-Term Care capital receivable (note 10(b))	3,679	3,441
Prepaid expenses and other assets	3,382	3,208
	119,651	123,392
Restricted cash and cash equivalents and investments (note 3 and note 9)	221,522	209,284
Ministry of Health and Long-Term Care capital receivable (note 10(b))	198,337	202,017
Investments in joint ventures (note 15(c) and note 15(d))	2,040	1,337
Capital assets (note 5)	782,829	803,749
	\$ 1,324,379	\$ 1,339,779
Liabilities, Deferred Contributions and Net Assets		
Current:		
Accounts payable and accrued liabilities (note 15)	\$ 62,216	\$ 69,365
Current portion of long-term debt (note 10(b))	3,679	3,441
Current portion of obligations under capital lease (note 12)	1,846	2,020
	67,741	74,826
Long-term debt (note 10(b))	198,337	202,017
Employee future benefits (note 13)	14,848	14,520
Obligations under capital lease (note 12)	1,615	2,955
	214,800	219,492
Deferred contributions:		
Unamortized capital contributions used to purchase capital assets (note 7(b))	657,852	677,260
Unspent capital contributions (note 7(b))	51,433	43,626
	709,285	720,886
	991,826	1,015,204
Commitments and contingencies (note 10(d), note 11 and note 15)		
Net assets:		
Invested in capital assets (note 8)	121,516	121,514
Internally restricted (note 9)	170,089	165,658
Unrestricted	23,253	17,479
	314,858	304,651
Accumulated remeasurement gains	17,695	19,924
	332,553	324,575
	\$ 1,324,379	\$ 1,339,779

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for March 31, 2017
(In thousands of dollars)

	Invested in capital assets	Internally restricted	Unrestricted	2018 Total	2017 Total
Balance, beginning of year	\$ 121,514	\$ 165,658	\$ 17,479	\$ 304,651	\$ 295,011
Excess (deficiency) of revenues over expenses	(13,052)	-	23,259	10,207	9,640
Internally restricted funds invested in capital assets	13,054	(13,054)	-	-	-
Transfers to internally restricted	-	17,485	(17,485)	-	-
Balance, end of year	\$ 121,516	\$ 170,089	\$ 23,253	\$ 314,858	\$ 304,651

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Operations

Year ended March 31, 2018, with comparative information for March 31, 2017

(In thousands of dollars)

	2018	2017
Revenues:		
Ministry of Health and Long-Term Care and Local Health Integration Network:		
Operating funding	\$ 315,781	\$ 307,251
Mental Health redevelopment funding (note 10(c))	17,109	16,143
Veterans Affairs Canada	26,442	24,412
Patient services	29,290	27,720
Non-patient goods and services (note 15)	44,544	48,736
Amortization of deferred capital contributions (note 7(a))	25,778	25,970
	<u>458,944</u>	<u>450,232</u>
Expenses:		
Salaries and benefits (note 13)	297,548	290,328
Supplies and other (note 15)	78,745	72,862
Drugs	25,673	29,394
Mental Health redevelopment contract expenses (note 10(c))	21,440	20,401
Amortization of capital assets	38,830	39,941
	<u>462,236</u>	<u>452,926</u>
Deficiency of revenues over expenses before undernoted:	(3,292)	(2,694)
Realized investment income	13,499	12,334
Excess of revenues over expenses	\$ 10,207	\$ 9,640

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Remeasurement Gains and Losses

Year ended March 31, 2018, with comparative information for March 31, 2017
(In thousands of dollars)

	2018	2017
Accumulated remeasurement gains, beginning of year	\$ 19,924	\$ 1,404
Unrealized gains attributable to portfolio investments	5,831	20,894
Realized gains attributable to portfolio investments, reclassified to the Statement of Operations	(8,060)	(2,374)
Net remeasurement gains (losses) for the year	(2,229)	18,520
Accumulated remeasurement gains, end of year	\$ 17,695	\$ 19,924

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for March 31, 2017
(In thousands of dollars)

	2018	2017
Cash flows provided by (used in):		
Operating activities:		
Excess of revenues over expenses	\$ 10,207	\$ 9,640
Items not involving cash:		
Amortization of capital assets	38,830	39,941
Amortization of deferred contributions	(25,778)	(25,970)
Net change in non-cash operating working capital (note 16)	(10,874)	7,483
Net change in employee future benefits	328	543
	<u>12,713</u>	<u>31,637</u>
Capital activities:		
Purchases of capital assets	(17,910)	(16,109)
Investing activities:		
Net change in restricted cash and cash equivalents and investments	(14,467)	(11,828)
Net change in Ministry of Health and Long-Term Care capital receivable	3,442	3,267
Net change in investments in joint ventures	(703)	99
	<u>(11,728)</u>	<u>(8,462)</u>
Financing activities:		
Repayment of long-term debt	(3,442)	(3,267)
Net change in obligations under capital lease	(1,514)	(98)
Deferred contributions related to capital assets	14,177	5,475
	<u>9,221</u>	<u>2,110</u>
Net increase (decrease) in cash and cash equivalents	(7,704)	9,176
Cash and cash equivalents, beginning of year	92,752	83,576
Cash and cash equivalents, end of year	\$ 85,048	\$ 92,752

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

1. Purpose of the organization

The financial statements of St. Joseph's Health Care London (the "Hospital") include: St. Joseph's Hospital; Mount Hope Centre for Long-Term Care; Parkwood Institute; Western Counties Wing; 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 is incorporated without share capital under the *Corporations Act* (Ontario). The Hospital is a registered charity under the *Income Tax Act* (Canada) and, as such is exempt from income taxes.

St. Joseph's Health Care London 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, including funding provided to the Hospital, and the performance standards and obligations that establish acceptable performance results for the Hospital.

2. 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 Hospital follows the deferral method of accounting for contributions, which includes grants.

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

Capital contributions for the purposes of acquiring depreciable capital assets are recorded as deferred capital contributions and amortized on the same basis and over the same periods as the related capital assets.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

2. Significant accounting policies (continued):

(a) Revenue recognition (continued):

Patient services revenues are recognized as services are delivered and consist of basic and preferred accommodation fees and procedures.

Non-patient goods and services are recognized as services are provided or goods are delivered and consist of drug sales, products and services provided to third parties and other revenues.

Realized investment income (losses), which consists of interest, dividends, income distributions from pooled funds, and realized gains and losses, is recorded in the Statement of Operations, unless it is externally restricted, in which case it is deferred. Unrealized gains attributable to portfolio investments are recorded in the Statement of Remeasurement Gains and Losses.

(b) Restricted and non-restricted cash and cash equivalents and investments:

Restricted cash and cash equivalents and investments represent unspent deferred contributions for expenses of future periods and the future purchase of capital assets, as well as internally restricted net assets representing amounts designated by the Board of Directors for future capital projects, which are outlined in note 9.

Restricted cash and cash equivalents and investments consist of cash and cash equivalents and investments in marketable securities, government bonds, debentures and equities, which are recorded at market value and are outlined in note 3. The investments held by the Hospital are maintained in accordance with the Hospital's investment policy.

Cash and cash equivalents not subject to restrictions are presented in current assets in the Statement of Financial Position.

(c) Investments in joint ventures:

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

(d) Related entities:

Related entities include St. Joseph's Health Care Foundation, The Lawson Research Institute, Pathology and Laboratory Medicine, Healthcare Materials Management Services, and Information Technology Purchased Services. The Hospital's relationship with each of these entities and the method by which they are accounted for is described in note 15.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

2. Significant accounting policies (continued):

(e) 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 estimated useful lives of the assets:

Asset	Useful life
Land improvements	5–25 years
Buildings and building service equipment	4–40 years
Leasehold improvements	4 years
Equipment	3–15 years

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

When a capital asset no longer has any long-term service potential to the Hospital, the excess of its net carrying amount over any residual value is recognized as an expense in the Statement of Operations.

(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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the useful life of capital assets, obligations related to employee future benefits and revenue recognized from the MOHLTC, LHIN and Veterans Affairs Canada. 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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

2. Significant accounting policies (continued):

(g) Employee future benefits (continued):

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 discount rate applied in the actuarial determination is based on the hospital's long-term rate of borrowing. The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2018.

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 (2017 - 11 years). Past service costs arising from plan amendments are recognized immediately in the period the plan amendments occur.

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

The costs of multi-employer defined benefit 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 and contributions are expensed as contributions are due.

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Transactions are recorded on a trade date basis. Derivative instruments and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments, including cash and cash equivalents, accounts receivable, prepaid expenses and other assets, Ministry of Health and Long-Term Care capital receivable, accounts payable and accrued liabilities, obligations under capital lease, and long-term debt, 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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

2. Significant accounting policies (continued):

(h) Financial instruments (continued):

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 on the date of the transaction, 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 using valuation techniques that 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.

Unrealized changes in fair value are recognized in the Statement of Remeasurement Gains and Losses until they are realized upon derecognition of the financial instrument, 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 effective interest 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 reversal in remeasurements are adjusted through the Statement of Remeasurement Gains and Losses until realized.

A loss in value of a portfolio investment that is other than a temporary decline occurs when the actual value of the investment to the Hospital becomes lower than its cost or amortized cost, adjusted for any write-downs recorded in previous reporting periods, and the impairment is expected to remain for a prolonged period.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

2. Significant accounting policies (continued):

(h) Financial instruments (continued):

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

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

The fair value hierarchy requires the use of observable data from the market each time such data exists. A financial instrument is classified at the lowest level of hierarchy for which significant inputs have been considered in measuring fair value.

(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.

(j) Contributed materials and services:

Contributed materials and services are not recognized in the financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

2. Significant accounting policies (continued):

(k) New accounting standards:

During the year, the Hospital adopted the new accounting standards PS 2200, *Related Party Disclosures*, and PS 3420, *inter-entity transactions*. These new standards are effective for fiscal years beginning on or after April 1, 2017. PS 2200 defines a related party and establishes disclosures required for related party transactions. PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. The new accounting standards were applied on a prospective basis and did not have any impact on the financial statements.

3. Cash and cash equivalents and investments:

	Fair value hierarchy	2018	2017
Cash and cash equivalents	Level 1	\$ 113,710	\$ 118,251
Government bonds	Level 2	-	-
Debentures and other fixed income securities	Level 2	51,059	42,122
Equities	Level 1	141,801	141,663
		306,570	302,036
Less: Restricted cash and cash equivalents and investments (note 9)		221,522	209,284
Cash and cash equivalents		\$ 85,048	\$ 92,752

During the year ended March 31, 2018, there were no transfers between fair value hierarchy levels for reported cash and cash equivalents and investments (2017 - nil).

4. Accounts receivable:

	2018	2017
Ministry of Health and Long-Term Care / LHIN	\$ 9,371	\$ 6,748
Veterans Affairs Canada	5,184	4,569
Patient and other (note 14(a) and note 15)	12,987	12,674
	\$ 27,542	\$ 23,991

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

5. Capital assets:

			2018
	Cost	Accumulated amortization	Net book value
Land	\$ 11,066	\$ -	\$ 11,066
Land improvements	14,691	9,695	4,996
Buildings, building service equipment and leasehold improvements	1,008,237	284,341	723,896
Equipment	202,095	159,224	42,871
	\$ 1,236,089	\$ 453,260	\$ 782,829

			2017
	Cost	Accumulated amortization	Net book value
Land	\$ 11,066	\$ -	\$ 11,066
Land improvements	14,666	8,789	5,877
Buildings, building service equipment and leasehold improvements	1,002,261	259,032	743,229
Equipment	190,291	146,714	43,577
	\$ 1,218,284	\$ 414,535	\$ 803,749

As at March 31, 2018, construction in progress totalled \$13,536 (2017 - \$9,365), the majority of which is included in buildings and building service equipment.

6. Credit facilities:

The Hospital maintains credit facilities including an unsecured operating line of \$20,000 (2017 - \$20,000) with a stated rate of Prime less 0.75% and an unsecured revolving capital expenditure credit line of \$10,000 (2017 - \$10,000) with a stated rate of Prime less 0.50%. As at March 31, 2018, no amounts were drawn on these facilities (2017 - nil).

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

7. Deferred contributions:

- (a) Unamortized capital contributions used to purchase capital assets:

Unamortized capital contributions used to purchase capital assets represent the unamortized amount of donations and grants received and applied towards the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the Statement of Operations.

Changes in unamortized capital contributions used to purchase capital assets consist of:

	2018	2017
Balance, beginning of year	\$ 677,260	\$ 699,795
Contributions used to purchase capital assets (note 15(a))	6,370	3,435
	683,630	703,230
Amortization of deferred capital contributions	(25,778)	(25,970)
Balance, end of year	\$ 657,852	\$ 677,260

- (b) Unspent capital contributions:

Unspent capital contributions represent donations and grants received for the purchase of capital assets that have not yet been expended. Unspent capital contributions consist of:

	2018	2017
Ministry restructuring grants	\$ 42,405	\$ 34,191
Other Ministry grants	6,507	4,794
Foundation donations	1,566	2,855
Other donations and grants	955	1,786
	\$ 51,433	\$ 43,626

8. Invested in capital assets:

Net assets invested in capital assets are calculated as follows:

	2018	2017
Capital assets	\$ 782,829	\$ 803,749
Amounts financed by:		
Deferred contributions	(657,852)	(677,260)
Obligations under capital lease	(3,461)	(4,975)
	\$ 121,516	\$ 121,514

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

9. Restricted cash and cash equivalents and investments:

Restricted cash and cash equivalents and investments are determined in accordance with the accounting policy disclosed in note 2(b), consisting of internally restricted net assets and unspent deferred contributions, as follows:

	2018	2017
Internally restricted net assets:		
Research	\$ 9,000	\$ 9,000
Accumulated sick leave entitlement (note 13)	131	172
Non-pension defined benefit plans (note 13)	14,717	14,348
Building and equipment	146,241	142,138
	\$ 170,089	\$ 165,658
Deferred contributions:		
Unspent capital contributions (note 7(b))	51,433	43,626
Restricted cash and cash equivalents and investments (note 3)	\$ 221,522	\$ 209,284

10. Mental Health redevelopment:

(a) General:

The Hospital is committed to a multi-site Project Agreement for the redevelopment, construction and operation of the Hospital's mental health facilities. The Project Agreement includes a Design, Build, Finance, and Maintain ("DBFM") Alternative Financing and Procurement ("AFP") Project under Infrastructure Ontario ("the Project"), with the Hospital and the Ministry sharing in the total project cost.

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 Southwest Centre for Forensic Mental Health Care and the Parkwood Institute, Mental Health Care Building. Project costs are recorded as tangible capital assets and totalled \$500,676.

(b) Funding of project costs and financing arrangements:

As part of the Project Funding Agreement, the Ministry has committed to fund a portion of the capital and financing costs. A portion of the Ministry funded amount was financed and is being repaid over the Project term. This financed amount has been recorded as long-term debt in the Statement of Financial Position. The Ministry-committed funding is being received over the Project term and is recorded as a Ministry of Health and Long-Term Care capital receivable in the Statement of Financial Position.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

10. Mental Health redevelopment (continued):

(b) Funding of project costs and financing arrangements (continued):

Estimated long-term debt principal repayments due to Project Co and Ministry funding to be received over the remaining term of the Project, expiring on May 31, 2043, are as follows:

	Long-term debt repayment	MOHLTC capital receivable
2019	\$ 3,679	\$ 3,679
2020	3,884	3,884
2021	4,130	4,130
2022	4,368	4,368
2023	4,632	4,632
Thereafter	181,323	181,323
	\$ 202,016	\$ 202,016
Less: Current portion	3,679	3,679
	\$ 198,337	\$ 198,337

(c) Project operating and financing expenses and associated funding:

Mental Health redevelopment contract expenses and funding are recorded in the Statement of Operations. The Ministry provided funding of \$17,109 (2017 - \$16,143) and the Hospital has funded the remaining \$4,331 (2017 - \$4,258) representing facility maintenance fees.

Ministry-funded expenses:		
Interest (post-construction), 7.59% per annum	\$ 15,952	\$ 15,396
Contract management fees	1,117	707
Minor equipment	40	40
	17,109	16,143
Hospital-funded expenses:		
Facility maintenance fees	4,331	4,258
Mental Health redevelopment contract expenses	\$ 21,440	\$ 20,401

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

10. Mental Health redevelopment (continued):

(d) Project commitments:

The Hospital is committed to operating and financing expenses over the Project term, expiring May 31, 2043, as follows:

	Ministry share	Hospital share	Total
Interest	\$ 270,907	\$ -	\$ 270,907
Long-term capital payable	202,016	-	202,016
Facilities maintenance	-	144,244	144,244
Lifecycle maintenance	102,024	1,627	103,651
Contract management	21,608	-	21,608
	\$ 596,555	\$ 145,871	\$ 742,426

The Project agreement stipulates that operating and financing costs will increase annually based on the Canadian consumer price index. Estimates of inflation are included in the above operating and financing commitments as outlined in the Project Agreement.

11. Commitments and contingencies:

- (a) The Hospital is subject to certain actual and potential legal claims, which have arisen in the normal course of operations. In Management's opinion, where the cost of an unfavourable settlement is known or can be estimated, insurance coverage is sufficient to offset the costs, if any, which may result from such claims.
- (b) 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.
- (c) The Hospital participates in the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the public liability insurance risks of its hospital members. All members of the HIROC pool pay annual premiums which are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the years in which they were members. No assessments have been made for the year ended March 31, 2018 (2017 - nil).
- (d) The Hospital had letters of guarantee outstanding as at March 31, 2018 of \$605 (2017 - \$605).

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

12. Obligations under capital lease:

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

	2018
Year ended March 31:	
2019	\$ 1,846
2020	1,256
2021	436
Total minimum lease payments	3,538
Less: Amounts representing interest	77
Present value of net minimum lease payments	3,461
Less: Current portion of obligations under capital lease	1,846
Long-term portion of obligations under capital lease	\$ 1,615

13. Employee future benefits:

Employee future benefits consist of the following:

	2018	2017
Accumulated sick leave entitlement (note 9 and note 13(a))	\$ 131	\$ 172
Non-pension defined benefit plans (note 9 and note 13(c)):		
Accrued benefit liability	14,717	14,348
Employee future benefit liability	\$ 14,848	\$ 14,520

(a) Accumulated sick leave entitlement:

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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

13. Employee future benefits (continued):

(b) Pension benefits:

Substantially all full time employees of the Hospital are members of HOOPP. As HOOPP is a multi-employer, defined benefit pension plan, no actuarial liability has been recorded on the Hospital's financial statements. Employer contributions to HOOPP are expensed as contributions are due.

Employer contributions to HOOPP on behalf of employees amounted to \$18,683 during the year ended March 31, 2018 (2017 - \$17,777). The most recent actuarial valuation for financial reporting purposes completed by the HOOPP as at December 31, 2017 disclosed net assets available for benefits of \$77,755,000 (2016 - \$70,359,000), with pension obligations of \$59,602,000 (2016 - \$54,461,000) resulting in a surplus of \$18,153,000 (2016 - \$15,898,000). The cost of pension benefits is determined by HOOPP at \$1.26 per every dollar of employee contributions. As at December 31, 2017, the HOOPP was 122% funded (2016 - 122%).

(c) Non-pension defined benefit plans:

The non-pension post-retirement and post-employment benefit plans are defined benefit plans funded on a cash basis by contributions from the Hospital. The Hospital has adopted a practice of triennial valuations, with extrapolation of results in the interim years. The most recent actuarial valuation was completed as at March 31, 2018.

During the year ended March 31, 2018, the Hospital made employer contributions of \$2,090 (2017 - \$2,076).

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

	2018	2017
Current service costs	\$ 1,784	\$ 2,004
Plan amendments	-	-
Interest cost	474	455
Amortization of net actuarial loss	200	208
Net benefit plan expense	\$ 2,458	\$ 2,667

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

13. Employee future benefits (continued):

- (c) Non-pension defined benefit plans (continued):

The Hospital's accrued, non-pension benefits liability as at March 31 is calculated as follows:

	2018	2017
Accrued benefit obligation	\$ 10,888	\$ 15,861
Unamortized net actuarial gain (loss)	3,829	(1,513)
	\$ 14,717	\$ 14,348

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

	2018	2017
Discount rate, accrued benefit obligation	2.90%–3.20%	3.30%
Discount rate, net benefit plan expense	2.90%–3.20%	3.25%
Health cost trends:		
Initial rate	8.00%	6.00%
Ultimate rate	4.00%	4.75%
Year ultimate rate reached	2038	2021

- (d) Employee benefit continuance:

During the year ended March 31, 2018, 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. The cost of salary continuance and education support is recorded in accounts payable and accrued liabilities and the cost of benefits continuance is included in the accrued, non-pension benefit liability in the Statement of Financial Position.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

14. Financial risks:

The Hospital's operations and investment activities expose it to a range of financial risks. The Hospital manages these risks in accordance with its internal policies.

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to cash and cash equivalents, restricted cash and cash equivalents and investments, accounts receivable, Ministry of Health and Long-Term Care capital receivable, and investments in joint ventures. The maximum exposure to credit risk of the Hospital as at March 31, 2018 is the carrying value of these assets.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. 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 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.

Accounts receivable is recorded net of an allowance for doubtful accounts of \$225 (2017 - \$150). Patient accounts receivable that were past due, but not impaired totalled \$657 (2017 - \$496).

The maximum exposure to credit risk relating to investments is outlined in note 3. The Hospital's investment policy specifies that no investments rated below investment grade by any of the main ratings agencies will be held.

There have been no significant changes to the credit risk exposure from 2017.

(b) Liquidity risk:

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis. 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. The Hospital also has available lines of credit of \$20,000 and \$10,000 for operating and capital expenditures, respectively (note 6).

Accounts payable and accrued liabilities are generally due within 60 days of receipt of an invoice. The maturities of other financial liabilities are provided in the notes to the financial statements related to those liabilities.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

14. Financial risks (continued):

(c) Market risk:

Market risk is the risk that changes in market prices and market conditions, 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 is exposed to foreign exchange risk with respect to investments denominated in U.S. dollars and other international currencies. As at March 31, 2018, the Hospital held \$54,008 CDN (2017 - \$54,733 CDN) of investments denominated in U.S. dollars and \$40,715 CDN (2017 - \$39,976 CDN) of investments denominated in other international currencies. The Hospital's investment policy statement outlines foreign exchange exposure of between 38% and 58% and a target of 48% of the investment portfolio. As at March 31, 2018, the Hospital was in compliance with the investment policy statement.

There have been no significant changes to the foreign exchange risk exposure from 2017.

(ii) Interest rate risk:

Interest rate risk is the risk that the fair value or 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 2017.

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

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

15. Related entities:

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

St. Joseph's Health Care Foundation of London ("the Foundation") is incorporated under the laws of Ontario as a corporation without share capital with its own separate Board of Directors. The net assets and results of operations of the Foundation are not included in these financial statements.

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 Institute 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, 2018, the Foundation provided the Hospital with donations totalling \$1,294 (2017 - \$856). The donations are recorded as deferred capital contributions in the Statement of Financial Position or non-patient goods and services revenue in the Statement of Operations based on the nature of the expenditure the donation is supporting.

During 2016 and 2017, the Foundation provided funding to the Hospital, which was remitted to the London Medical Innovation and Commercialization Network (LMICN) and recorded on a net basis in the Hospital's financial statements. During the year ended March 31, 2018, this funding was not provided by the Foundation (2017 - \$4,013).

The Hospital provides payroll and human resource administrative and support services to the Foundation where the Hospital makes payments on the Foundation's behalf and is reimbursed by the Foundation. During the year, the Hospital incurred total operating costs of \$2,309 (2017 - \$2,425) on behalf of the Foundation. Amounts receivable from the Foundation as at March 31, 2018 totalled \$56 (2017 - \$329).

Transactions are in the normal course of business and are recorded at their exchange amount, which is the amount agreed upon by both parties.

(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 ("LHRI"). Amended and restated agreements were signed on September 18, 2006 and November 1, 2015. Each organization continues to account for its costs independently. The net assets and results of operations of LRI and LHRI are not included in these financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

15. Related entities (continued):

(b) Lawson Research Institute (continued):

The Hospital made payments of \$642 (2017 - \$641) to LRI in support of operating and administrative expenses, which is recorded in supplies and other expenses in the Statement of Operations.

The Hospital provides administrative and support services to LRI including payroll, human resource and accounts payable functions where the Hospital makes payments on LRI's behalf and is reimbursed by LRI. During the year, the Hospital incurred total operating costs of \$16,323 (2017 - \$16,950) on behalf of LRI. Amounts receivable from LRI as at March 31, 2018 totalled \$1,490 (2017 - \$1,797).

Transactions are in the normal course of business and are recorded at their exchange amount, which is the amount agreed upon by both parties.

(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 HMMS using the modified equity method of accounting.

The Hospital's share in HMMS is as follows:

	2018		2017	
Total assets	\$	5,348	\$	5,479
Total liabilities, deferred contributions		4,861		4,993
Net assets	\$	487	\$	486
		2018		2017
Cash provided by (used in):				
Operating activities	\$	351	\$	(306)
Capital activities		(77)		(72)
Financing activities		83		81
Net increase (decrease) in cash	\$	357	\$	(297)

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

15. Related entities (continued):

(c) Healthcare Materials Management Services (continued):

	2018	2017
Revenue	\$ 2,663	\$ 2,242
Expenses	2,747	2,322
Deficiency of revenue over expense	\$ (84)	\$ (80)

HMMS incurred a total loss during the year ended March 31, 2018 of \$525 (2017 - \$511). During the year ended March 31, 2018, the Hospital contributed \$77 (2017 - \$72) towards building and capital equipment investments of \$482 (2017 - \$463).

HMMS has bank credit facilities consisting of a \$10,000 operating line of credit. As at March 31, 2018, HMMS had not drawn on its operating facility. The Hospital has provided a guarantee of 16.07% (2017 - 15.68%) of all credit facilities outstanding.

The Hospital's net investment in HMMS as at March 31, 2018 is \$760 (2017 - \$767). Amounts payable to HMMS as at March 31, 2018 totalled \$2,242 (2017 - \$9,284) and is included in accounts payable and accrued liabilities in the Statement of Financial Position.

The Hospital provides payroll administrative and support services to HMMS where the Hospital makes payments to employees on HMMS' behalf and is reimbursed by HMMS. During the year, the Hospital incurred total operating costs of \$14,711 (2017 - \$12,764) on behalf of HMMS. Amounts receivable from HMMS as at March 31, 2018 totalled \$1,278 (2017 - \$1,237).

Transactions are in the normal course of business and are recorded at their exchange amount, which is the amount agreed upon by both parties.

(d) Pathology and Laboratory Medicine:

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. In April 2014, the joint venture agreement was revised and amended under the name Pathology and Laboratory Medicine ("PaLM"). This agreement was amended on January 1, 2017 to modify the methodology used in determining the utilization percentage. The Hospital accounts for its interest in the joint venture using the modified equity method of accounting.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

15. Related entities (continued):

(d) Pathology and Laboratory Medicine (continued):

The Hospital's share in PaLM is as follows:

	2018	2017
Total assets	\$ 1,365	\$ 499
Total liabilities, deferred contributions	75	61
Net assets	\$ 1,290	\$ 438
	2018	2017
Cash provided by (used in):		
Operating activities	\$ (18)	\$ 17
Financing activities	(12)	(18)
Capital activities	(858)	(41)
Net decrease in cash	\$ (888)	\$ (42)
	2018	2017
Revenues	\$ 10,211	\$ 7,817
Expenses	10,389	7,949
Deficiency of revenues over expenses	\$ (178)	\$ (132)

The PaLM incurred a total loss during the year ended March 31, 2018 of \$1,150 (2017 - \$1,123), which is equal to the net amortization of capital assets recorded during the year. During the year, the Hospital contributed \$888 (2017 - \$41) towards a capital equipment investment of \$5,729 (2017 - \$346).

The Hospital's net investment in PaLM as at March 31, 2018 is \$1,280 (2017 - \$570). Amounts payable to PaLM as at March 31, 2018 totalled \$1,114 (2017 receivable from PaLM - \$89).

Transactions are in the normal course of business and are recorded at their exchange amount, which is the amount agreed upon by both parties.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2018

(In thousands of dollars)

15. Related entities (continued):**(e) Information Technology Purchased Services:**

Information Technology Purchased Services ("ITPS") is an unincorporated joint arrangement established to develop and operate a shared electronic health information management system across the region. Purchased services include information systems related to electronic patient records, picture archiving and communication, and general ledger applications. The Hospital accounts for this joint arrangement using the modified equity basis of accounting.

ITPS relies on the Hospital to provide payroll, facilities, and other administrative support, and reimburses the Hospital for costs incurred on its behalf. During the year, the Hospital incurred total operating costs of \$278 (2017 - \$358) on behalf of ITPS. The Hospital paid \$862 (2017 - \$721) to ITPS for the Hospital's share of operating costs during the year.

The Hospital's net investment in ITPS as at March 31, 2018 is nil (2017 - nil). Amounts receivable from Regional Shared Services, a division of ITPS, as at March 31, 2018 totalled \$174 (2017 - \$125).

Transactions are in the normal course of business and are recorded at their exchange amount, which is the amount agreed upon by both parties.

16. Net change in non-cash operating working capital:

The net change in non-cash operating working capital consists of the following:

	2018	2017
Accounts receivable	\$ (3,551)	\$ (2,406)
Prepaid expenses and other assets	(174)	380
Accounts payable and accrued liabilities	(7,149)	9,509
	\$ (10,874)	\$ 7,483

17. In-trust funds:

The Hospital holds funds in trust for certain patients and custodial fund accounts for various programs within the Hospital. As at March 31, 2018, these funds totalled \$385 (2017 - \$335) and are not included in the Hospital's financial statements as the Hospital does not have legal rights to these funds.

18. Comparative information:

Certain of the 2017 comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.