Financial Statements of

ST. JOSEPH'S HEALTH CARE LONDON

Year ended March 31, 2015

ST JOSEPH's HEALTH CARE LONDON

MANAGEMENT'S REPORT

The accompanying financial statements of St. Joseph's Health Care London have been prepared by Management, and approved by St. Joseph's Health Care Society at their meeting of June 11, 2015.

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

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

The financial statements have been prepared in accordance with Canadian public sector accounting standards. 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

June 11, 2015

KPMG

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of St. Joseph's Health Care London, which comprise the statement of financial position as at March 31, 2015, the statements of operations, changes in net assets, remeasurement gains and losses and cash flows for the year ended March 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of St. Joseph's Health Care London as at March 31, 2015, its results from operations, remeasurement gains and losses and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 25, 2015

London, Canada

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Financial Position

As at March 31, 2015, with comparative information for March 31, 2014
(In thousands of dollars)

	2015	2014
Assets		
Current assets:		
Cash and investments (note 3)	$ 111,199	$ 82,089
Accounts receivable (note 4)	22,115	20,134
Ministry of Health capital receivable (note 10(c))	2,931	-
Prepaid expenses and other assets	3,598	3,607
	139,843	105,830
Restricted investments (note 3 and note 9)	172,907	192,792
Ministry of Health capital receivable (note 10(c))	208,725	47,087
Investment in joint ventures (note 15(c) and note 15(d))	1,428	1,219
Capital assets (note 5)	853,057	485,869
	$ 1,375,960	$ 832,797
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 78,305	$ 60,492
Capital payable (note 10(c))	2,931	-
Obligations under capital lease (note 12)	1,144	1,062
	82,380	61,554
Long-term liabilities:		
Capital payable (note 10(c))	208,725	51,080
Employee future benefits (note 13)	11,900	9,674
Obligations under capital lease (note 12)	1,136	1,566
	221,761	62,320
Deferred contributions:		
Unamortized capital contributions used to purchase capital assets (note 7)	726,003	351,760
Unspent capital contributions (note 7)	39,679	62,558
Expenses of future periods	451	353
	766,133	414,671
Net assets:		
Invested in capital assets (note 8)	124,774	131,481
Restricted (note 9)	132,777	129,881
Unrestricted	23,376	12,156
	280,927	273,518
Accumulated remeasurement gains	24,759	20,734
	305,686	294,252
Commitments and contingencies (note 10(c) and (e)) and note 11)		
	$ 1,375,960	$ 832,797

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Changes in Net Assets

Year ended March 31, 2015, with comparative information for March 31, 2014
(In thousands of dollars)

	Invested in capital assets	Restricted	Unrestricted	2015 Total	2014 Total
Balance, beginning of year	$ 131,481	$ 129,881	$ 12,156	$ 273,518	$ 263,433
Excess (deficiency) of revenues over expenses	(11,731)	-	19,140	7,409	10,085
Net change in invested in capital assets	5,024	(4,941)	(83)	-	-
Transfers to restricted	-	7,837	(7,837)	-	-
Balance, end of year	**$ 124,774**	**$ 132,777**	**$ 23,376**	**$ 280,927**	**$ 273,518**

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Operations

Year ended March 31, 2015, with comparative information for March 31, 2014
(In thousands of dollars)

	2015	2014
Revenues:		
Ministry of Health and Long-Term Care and Local Health Integration Network:		
Operating funding	$ 299,420	$ 301,472
Mental Health redevelopment funding (note 10(d))	18,764	14,288
Veterans Affairs Canada	21,700	23,890
Patient services	26,476	27,651
Other revenue	43,495	41,851
Amortization of deferred capital contributions (note 7(a))	21,788	13,978
	431,643	423,130
Expenses:		
Salaries and benefits	276,105	277,420
Supplies	99,839	97,534
Amortization of capital assets	33,519	26,496
Mental Health redevelopment contract expenses (note 10(d))	21,484	15,791
	430,947	417,241
Excess of revenues over expenses	696	5,889
Restructuring expenditures (note 17)	(3,078)	(2,477)
Realized investment income	9,791	6,673
Excess of revenues over expenses	**$ 7,409**	**$ 10,085**

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Remeasurement Gains and Losses

Year ended March 31, 2015, with comparative information for March 31, 2014
(In thousands of dollars)

	2015	2014
Opening balance, beginning of year	$ 20,734	$ 6,557
Unrealized gains attributable to portfolio investments	9,512	14,233
Realized gains attributable to portfolio investments, reclassified to the Statement of Operations	(5,487)	(56)
Net remeasurement gains for the year	$ 4,025	$ 14,177
Accumulated remeasurement gains, end of the year	**$ 24,759**	**$ 20,734**

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Cash Flows

Year ended March 31, 2015, with comparative information for March 31, 2014
(In thousands of dollars)

	2015	2014
Cash provided by (applied to):		
Operating activities:		
Excess of revenues over expenses	$ 7,409	$ 10,085
Items not involving cash:		
Amortization of capital assets	33,519	26,496
Amortization of deferred contributions	(21,788)	(13,978)
Loss (gain) on disposal of capital assets	230	(365)
Change in non-cash operating working capital (note 16)	15,923	(2,677)
Deferred contributions related to expenses of future periods	98	(36)
	35,391	19,525
Capital activities:		
Purchases of capital assets	(401,110)	(162,751)
Proceeds on sale of capital assets	173	646
Deferred contributions related to capital assets, net of unspent	373,152	143,357
	(27,785)	(18,748)
Investing activities:		
Net change in restricted investments	23,910	(1,469)
Ministry of Health capital receivable	(161,638)	(47,087)
Loan receivable from Lawson Research Institute	-	14,500
Net change in investment in joint ventures	(209)	(125)
	(137,937)	(34,181)
Financing activities:		
Capital payable	157,645	51,080
Obligations under capital lease	(430)	504
Employee future benefits	2,226	278
	159,441	51,862
Net increase in cash and investments	29,110	18,458
Cash and investments, beginning of year	82,089	63,631
Cash and investments, end of year	**$ 111,199**	**$ 82,089**

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

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 was incorporated without share capital under the Corporations Act of 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 in respect of funding provided to the Hospital. The H-SAA sets out the funding provided to the Hospital together with performance standards and obligations of the Hospital that establish acceptable performance results for the Hospital.

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

1. Significant accounting policies:

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

(a) Revenue recognition:

The deferral method of accounting for contributions is followed. Capital contributions for the purposes of acquiring depreciable capital assets are deferred and amortized on the same basis and over the same periods as the related capital assets.

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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

1. Significant accounting policies (continued):

(a) Revenue recognition (continued):

Patient and other revenues are recognized as services are provided.

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

(b) Investments and restricted investments:

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

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

(c) Investment in joint ventures:

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

(d) Related entities:

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

(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 annual rates over the estimated useful lives of the assets:

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

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

1. Significant accounting policies (continued):

(e) Capital assets (continued):

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

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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of capital assets and obligations related to employee future benefits. Actual results could differ from those estimates.

(g) Employee future benefits:

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

The Hospital accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the retirement and other future benefits. The actuarial determination of the accrued benefit obligations for retirement and other future benefits uses the projected benefit method prorated on service which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2015, and the next required valuation will be completed 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 (2014 - 11 years).

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

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

Year ended March 31, 2015
(In thousands of dollars)

1. Significant accounting policies (continued):

(g) Employee future benefits (continued):

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

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

(h) Financial instruments:

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

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 at the date, 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 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.

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 straight-line method.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

1. Significant accounting policies (continued):

(h) Financial instruments (continued):

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

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. The write-down is recognized in the Statement of Operations. A write-down of a portfolio investment to reflect a loss in value is not to be reversed if there is a subsequent increase in value.

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

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

(i) Foreign currency:

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

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

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

2. Change in accounting policy:

On April 1, 2014, the Hospital adopted PS 3260 - Liability for Contaminated Sites, which establishes standards on how to account for and report a liability associated with the remediation of contaminated sites. Contaminated sites are a result of a contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environment standard.

A liability for remediation of contaminated sites should be recognized when, as at the financial reporting date, an environmental standard exists, contamination exceeds the environmental standard, the Hospital is directly responsible or accepts responsibility, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount can be made.

In accordance with PS 2120 - Accounting Changes, the Hospital has elected to adopt PS 3260 - Liability for Contaminated Sites prospectively. There were no changes to the financial statements as a result of the implementation of this new standard.

3. Cash and investments:

	2015	2014
Cash and cash equivalents	$ 119,349	$ 110,076
Government bonds	11,944	22,739
Debentures and other fixed income securities	54,459	53,008
Equities	98,354	89,058
	284,106	274,881
Less: Restricted investments	(172,907)	(192,792)
Cash and investments	$ 111,199	$ 82,089

All cash and investments and restricted investments are classified as Level 1 within the financial instruments fair value hierarchy and there were no transfers between levels for the year ended March 31, 2015.

Restricted investments represent the investment of unspent deferred contributions for expenses of future periods and capital assets, 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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

4. Accounts receivable:

		2015		2014
Ministry / LHIN	$	9,481	$	6,398
Veterans Affairs Canada		1,718		3,003
Patient and other		10,916		10,733
	$	22,115	$	20,134

5. Capital assets:

		Cost		Accumulated Amortization		2015 Net Book Value	2014 Net Book Value
Land	$	11,066	$	-	$	11,066	$ 11,066
Land improvements		14,543		6,964		7,579	8,505
Buildings and building service equipment		991,919		208,165		783,754	426,648
Equipment		169,596		118,938		50,658	39,650
	$	1,187,124	$	334,067	$	853,057	$485,869

As at March 31, 2015, construction in progress totaled $12,772 (2014 - $56,556), the majority of which is included in Buildings and building service equipment.

6. Credit facilities:

The credit facilities established for the Hospital consists of an operating line of $20,000 and a revolving capital expenditure credit line of $10,000. At March 31, 2015, no amounts were drawn on these facilities (2014 – nil).

7. Deferred contributions:

(a) Unamortized capital contributions used to purchase assets:

		2015		2014
Balance beginning of year	$	351,760	$	218,780
Add: Net contributions used to purchase capital assets		396,031		146,958
		747,791		365,738
Less: Amounts amortized to revenue		(21,788)		(13,978)
	$	726,003	$	351,760

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

7. Deferred contributions (continued):

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

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

(b) Unspent capital contributions:

	2015	2014
Ministry of Health restructuring grants	$ 33,621	$ 55,587
Other Ministry of Health grants	2,822	3,484
Foundation donations	2,785	3,047
Other donations and grants	451	440
	$ 39,679	$ 62,558

8. Invested in capital assets:

Invested in capital assets is calculated as follows:

	2015	2014
Capital assets	$ 853,057	$ 485,869
Amounts financed by:		
Deferred contributions	(726,003)	(351,760)
Obligation under capital lease	(2,280)	(2,628)
	$ 124,774	$ 131,481

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

9. Restrictions on net assets:

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

	2015	2014
Restricted net assets:		
Research	$ 9,000	$ 9,000
Accumulated sick leave entitlement	232	245
Employee future benefits	11,668	9,429
Provision for demolition	-	177
Mental Health Care	2,196	7,884
Equipment and capital redevelopment	109,681	103,146
	$ 132,777	$ 129,881
Deferred contributions:		
Unspent contributions (note 7 (b))	39,679	62,558
Expenses of future periods	451	353
Restricted investments	$ 172,907	$ 192,792

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 ("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 the buildings constructed as part of the Project for a 30 year term.

The Southwest Centre for Forensic Mental Health Care in St. Thomas was substantially completed in April 2013 and the building was occupied in June 2013. The Parkwood Institute, Mental Health Care Building was substantially completed in October 2014 and the building was occupied in November 2014.

(b) Project costs:

Total Project costs of $500,623 have been incurred to March 31, 2015, consisting of $480,052 of building costs and $20,571 of equipment and building service equipment costs. All project costs are included in capital assets in the Statement of Financial Position.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

10. Mental Health redevelopment (continued):

(c) Funding of project costs:

The Ministry has funded $489,561 and the Hospital has funded $11,062 for the Project. A portion of the Ministry funded amount has been financed totaling $211,656 which will be repaid over the Project term. This financed amount has been recorded as a long-term capital payable due to Project Co in the Statement of Financial Position. The Ministry has committed funding of $211,656 which will be received over the Project term and has been recorded as a long-term Ministry of Health capital receivable in the Statement of Financial Position

Estimated long-term capital payable principal repayments over the remaining term of the project, expiring on May 31, 2043, are as follows:

2016	$	2,931
2017		3,267
2018		3,441
2019		3,679
2020		3,884
Thereafter		194,454
	$	211,656
Less: Current portion of capital payable		2,931
Long-term portion of capital payable	$	208,725

(d) Operating and financing expenses:

Mental Health redevelopment contract expenses of $21,484 (2014 - $15,791) paid during the year to Project Co. relate to interest, contract management fees, minor equipment costs and facilities maintenance fees of the Project.

The Ministry provided funding of $18,764 (2014 - $14,288) which is included in the Mental Health redevelopment funding in the Statement of Operations. The Hospital funded the remaining $2,720 representing facilities maintenance fees.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

10. Mental Health redevelopment (continued):

(e) Commitments:

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

	Ministry share	Hospital share	Total
Interest	$ 323,629	$ -	$ 323,629
Long-term capital payable	211,656	-	211,656
Facilities maintenance	-	157,121	157,121
Lifecycle maintenance	102,766	1,640	104,406
Contract management	23,747	-	23,747
	$ 661,798	$ 158,761	$ 820,559

11. Commitments and contingencies:

(a) Pursuant to the directives of the Ontario Health Services Restructuring Commission ("HSRC"), the Hospital has participated in the Unconditional Grant Initiative offered by the Ministry for the redevelopment of St. Joseph's Hospital and Mental Health Care. The Ministry advanced a portion of the committed funds in fiscal 2001 for St. Joseph's Hospital and Mental Health Care of $11,800 and $21,800, respectively. These advances were discounted to reflect the Hospital's ability to earn investment income on the funds prior to their expenditure. As at March 31, 2015, the accumulated interest was applied as funding to both redevelopment projects which were completed during the year. This accumulated interest consisted of $4,750 and $11,247 for St. Joseph's Hospital and Mental Health Care, respectively.

(b) The HSRC directives call for the majority of acute in-patient services to be transferred to London Health Sciences Centre, such that St. Joseph's Health Care London will become the focal point in London and region for certain ambulatory care, day surgery, rehabilitation, complex care, long-term and veterans care, and tertiary and specialized mental health services. This restructuring process was completed during the year ended March 31, 2015.

(c) The Hospital is subject to certain actual and potential legal claims, which have arisen in the normal course of operations. In Management's opinion, 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.

(d) In the normal course of operations, the Hospital is subject to various human resource matters, including grievances filed by employees or groups of employees under Provincial legislation. Currently, no significant matters are before an arbitrator or pending resolution.

(e) The Hospital had letters of guarantee outstanding at March 31, 2015 of $642 (2014 - $642).

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

12. Obligations under capital lease:

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

	2015	2014
Year ended March 31:		
2015	$ -	1,062
2016	1,144	950
2017	690	458
2018	330	158
2019	116	-
Total minimum lease payments	2,280	2,628
Present value of net minimum lease payments	2,280	2,628
Less: Current portion of obligation under capital lease	(1,144)	(1,062)
Long-term portion of obligation under capital lease	$ 1,136	$ 1,566

13. Employee future benefits:

Employee future benefits consist of the following:

	2015	2014
Accumulated sick leave entitlement (note 7(a))	$ 232	$ 245
Non-pension defined benefit plans (note 7(c))	11,668	9,429
	$ 11,900	$ 9,674

(a) 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.

(b) Pension plan:

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

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13. Employee future benefits (continued):

(b) Pension plan (continued):

Employer contributions to the Plan on behalf of employees amounted to $16,725 during the year ended March 31, 2015 (2014 - $17,001). The most recent actuarial valuation for accounting purposes was completed by the HOOPP as at December 31, 2014. The HOOPP December 31, 2014 audited financial statements disclosed net assets available for benefits in the amount of $60,848,000 with pension obligations of $46,923,000, resulting in a going concern surplus of $13,925,000.

(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 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:

	2015	2014
Current service costs	$ 2,262	$ 2,306
Plan amendments	1,977	-
Interest cost	334	315
Amortization of net actuarial loss	77	100
Net benefit plan expense	$ 4,650	$ 2,721

During the year, changes in the Hospital's labour configuration resulted in the recognition of prior service cost of $1,977.

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

	2015	2014
Accrued benefit obligation	$ 14,156	$ 10,122
Less: Unamortized net actuarial loss	(2,488)	(693)
	$ 11,668	$ 9,429

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

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Notes to Financial Statements

Year ended March 31, 2015
(In thousands of dollars)

13. Employee future benefits (continued):

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

	2015	2014
Discount rate	3.00%	4.00%
Health cost trends:		
Initial rate	6.00%	6.50%
Ultimate rate	4.75%	5.00%
Year ultimate rate reached	2021	2017

During the year ended March 31, 2015, the Hospital made employer contributions to the non-pension defined benefit plans of $2,411 (2014 - $2,396).

The Hospital has adopted a practice of tri-annual valuations, with extrapolation of results in the interim years. The most recent actuarial valuation was completed as at March 31, 2015.

(d) Employee benefit continuance:

During the year ended March 31, 2015, 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. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counter party may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to cash and investments, restricted investments, accounts receivable, Ministry of Health capital received, and investment in joint ventures.

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2015 is the carrying value of these assets.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the Statement of Operations. Subsequent recoveries of impairment losses related to accounts receivable are recognized in the Statement of Operations. The balance of the allowance for doubtful accounts at March 31, 2015 is $125 (2014 - $200).

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
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14. Financial risks and concentration of credit risk (continued):

(a) Credit risk (continued):

As at March 31, 2015, $540 (2014 - $479) of patient accounts receivable were past due, but not impaired.

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

There have been no significant changes to the credit risk exposure from 2014.

(b) Liquidity risk:

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

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

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

Principal repayments required under the long-term capital payable are disclosed in note 11(c), with principal payments scheduled to commence in April 2015.

(c) Market risk:

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

(i) Foreign exchange risk:

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

There have been no significant changes to the foreign exchange risk exposure from 2014.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2015
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14. Financial risks and concentration of credit risk (continued):

(c) Market risk (continued):

(ii) Interest rate risk:

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

Financial assets with fixed interest rates expose the Hospital to fair value interest rate risk. The Hospital is not exposed to interest rate risk on financial liabilities. There has been no change to the interest risk exposure from 2014.

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

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 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, 2015, the Foundation provided the Hospital with donations totaling $2,754 (2014 - $1,222).

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

(b) Lawson Research Institute:

On June 26, 2000, the Lawson Research Institute ("LRI") entered into an agreement with St. Joseph's Health Care London, London Health Sciences Centre, and the London Health Sciences Centre Research Inc., to form an alliance to conduct all research activities as the Lawson Health Research Institute. Each organization continues to account for their costs independently.

The Hospital made payments of $641 (2014 - $641) to LRI in support of direct research and administrative expenses.

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Notes to Financial Statements

Year ended March 31, 2015
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15. Related entities (continued):

(b) Lawson Research Institute (continued):

LRI operates in space owned and supported by the Hospital and the Hospital is responsible for maintenance and utility costs. During the year, LRI made payments to the Hospital in the amount of $235 (2014 - $216) to partially support these infrastructure costs.

LRI transfers funds to the Hospital on an annual basis to cover the reimbursement of construction costs, and purchases of equipment. Net transfers during the current year were $3,370 (2014 - $247).

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

(c) Healthcare Materials Management Services:

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

The Hospital's share in HMMS is as follows:

	2015	2014
Total assets	$ 8,667	$ 7,626
Total liabilities, deferred contributions	8,010	7,114
Net assets	$ 657	$ 512

	2015	2014
Cash provided by (used for):		
Operating	$ 261	$ 463
Capital actvities	(171)	(211)
Financing activities	188	215
Net increase in cash	$ 278	$ 467

	2015	2014
Revenues	$ 2,491	$ 2,084
Expenses	2,569	2,142
Deficiency of revenues over expense	$ (78)	$ (58)

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15. Related entities (continued):

(c) Healthcare Materials Management Services (continued):

HMMS incurred a total loss during the year ended March 31, 2015 of $356 compared to a loss of $290 at March 31, 2014. During the year ended March 31, 2015, the Hospital contributed $171 towards building and capital equipment investments of $778.

HMMS has bank credit facilities consisting of a $10,000 operating line of credit. As at March 31, 2014, HMMS has not drawn on its operating facility. The Hospital has provided a guarantee for up to $2,198 in support of these credit facilities.

The net investment in HMMS at March 31, 2015 is $743 (2014 - $650).

(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"). The Hospital accounts for its interest in the joint venture using the equity method of accounting.

The Hospital's share in PaLM is as follows:

		2015		2014
Total assets	$	616	$	479
Total liabilities, deferred contributions		84		72
Net assets	$	532	$	407

		2015		2014
Revenues	$	7,149	$	6,596
Expenses		7,285		6,728
Deficiency of revenues over expenses	$	(136)	$	(132)

The PaLM incurred a total loss during the year ended March 31, 2015 of $1,206 (2014 - $1,161), which is equal to the net amortization of capital assets recorded during the year. During the year, the Hospital contributed $252 towards a capital equipment investment of $2,243.

The net investment in PaLM at March 31, 2015 is $685 (2014 - $569).

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16. Change in non-cash operating working capital:

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

		2015		2014
Accounts receivable	$	(1,981)	$	(2,639)
Current portion of Ministry of Health capital receivable		(2,931)		-
Prepaid expenses and other assets		9		(298)
Accounts payable and accrued liabilities		17,813		36
Current portion of capital payable		2,931		-
Current portion of obligations under capital lease		82		224
	$	15,923	$	(2,677)

17. Health services restructuring:

The Hospital continues to incur non-operating costs to achieve and complete the directives of the HSRC. Any related funding received from the Ministry/LHIN and other third parties is deferred and recognized as revenue to offset these costs as they are incurred. Total funding received for the year ended March 31, 2015 is nil (2014 - nil).

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, 2015 total $346 (2014 - $432) and are not included in the financial statements of the Hospital, as it does not have legal rights to these funds.

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 ensure flexibility to take advantage of opportunities that will advance the Hospital's purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. The Hospital has a line of credit of $20,000 that is available for use when sufficient cash flow is not available from operations to cover operating and capital expenditures. The Hospital will enter into long-term financing arrangements, as approved by the Board of Directors, to assist with the financing of capital assets when other sources are not available. As at March 31, 2015, the Hospital has met its objective of having sufficient liquid resources to meet its current obligations.

20. Comparative information:

Certain of the 2014 comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.