Financial Statements of

ST. JOSEPH'S HEALTH CARE LONDON

Year ended March 31, 2016

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 16, 2016.

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

June 16, 2016

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, 2016, 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, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other matters
The financial statements of **St. Joseph's Health Care London** for the year ended March 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on May 25, 2015.

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 that of the preceding year.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

London, Canada
June 16, 2016

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Financial Position

As at March 31, 2016, with comparative information for March 31, 2015
(In thousands of dollars)

	2016	2015
Assets		
Current:		
Cash and cash equivalents (note 3)	$ 83,151	$ 111,199
Accounts receivable (note 4)	21,585	22,115
Ministry of Health capital receivable (note 10(c))	3,267	2,931
Prepaid expenses and other assets	3,588	3,598
	111,591	139,843
Restricted cash and cash equivalents and investments (note 3 and note 9)	179,361	172,907
Ministry of Health capital receivable (note 10(c))	205,458	208,725
Investment in joint ventures (note 15(c) and note 15(d))	1,436	1,428
Capital assets (note 5)	827,581	853,057
	$ 1,325,427	$ 1,375,960
Liabilities, Deferred Contributions and Net Assets		
Current:		
Accounts payable and accrued liabilities	$ 59,431	$ 78,305
Current portion of long-term debt (note 10(c))	3,267	2,931
Current portion of obligations under capital lease (note 12)	1,767	1,144
	64,465	82,380
Long-term debt (note 10(c))	205,458	208,725
Employee future benefits (note 13)	13,977	11,900
Obligations under capital lease (note 12)	3,306	1,136
	222,741	221,761
Deferred contributions:		
Unamortized capital contributions used to purchase capital assets (note 7(a))	699,795	726,003
Unspent capital contributions (note 7(b))	41,586	39,679
Expenses of future periods (note 9)	425	451
	741,806	766,133
	1,029,012	1,070,274
Net assets:		
Invested in capital assets (note 8)	122,713	124,774
Internally restricted (note 9)	137,350	132,777
Unrestricted	34,948	23,376
	295,011	280,927
Accumulated remeasurement gains	1,404	24,759
	296,415	305,686
Commitments and contingencies (note 10, note 11 and note 15 (c))		
	$ 1,325,427	$ 1,375,960

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Changes in Net Assets

Year ended March 31, 2016, with comparative information for March 31, 2015
(In thousands of dollars)

	Invested in capital assets (note 8)	Internally restricted (note 9)	Unrestricted	2016 Total	2015 Total
Balance, beginning of year	$ 124,774	$ 132,777	$ 23,376	$ 280,927	$ 273,518
Excess (deficiency) of revenues over expenses	(13,877)	-	27,961	14,084	7,409
Internally restricted funds invested in capital assets	11,816	(11,816)	-	-	-
Transfers to restricted	-	16,389	(16,389)	-	-
Balance, end of year	**$ 122,713**	**$ 137,350**	**$ 34,948**	**$ 295,011**	**$ 280,927**

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Operations

Year ended March 31, 2016, with comparative information for March 31, 2015
(In thousands of dollars)

	2016	2015
Revenues:		
Ministry of Health and Long-Term Care and		
Local Health Integration Network:		
Operating funding	$ 303,713	$ 299,420
Mental Health redevelopment funding (note 10(d))	16,449	18,764
Veterans Affairs Canada	23,493	21,700
Patient services	27,604	26,476
Non-patient goods and services	46,842	45,706
Amortization of deferred capital contributions (note 7(a))	27,337	21,788
	445,438	433,854
Expenses:		
Salaries and benefits (note 13)	286,773	278,316
Supplies and other (note 15)	73,336	73,772
Drugs	28,169	26,067
Mental Health redevelopment contract expenses (note 10(d))	20,630	21,484
Amortization of capital assets	41,214	33,519
	450,122	433,158
Excess (deficiency) of revenues over expenses before undernoted:	(4,684)	696
Restructuring expenditures (note 17)	-	(3,078)
Realized investment income	18,768	9,791
Excess of revenues over expenses	**$ 14,084**	**$ 7,409**

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Remeasurement Gains and Losses

Year ended March 31, 2016, with comparative information for March 31, 2015
(In thousands of dollars)

	2016	2015
Accumulated remeasurement gains, beginning of year	$ 24,759	$ 20,734
Unrealized gains (losses) attributable to portfolio investments	(9,492)	9,512
Realized gains attributable to portfolio investments, reclassified to the Statement of Operations	(13,863)	(5,487)
Net remeasurement gains (losses) for the year	$ (23,355)	$ 4,025
Accumulated remeasurement gains, end of the year	**$ 1,404**	**$ 24,759**

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for March 31, 2015
(In thousands of dollars)

	2016	2015
Cash and cash equivalents provided by (used in):		
Operating activities:		
Excess of revenues over expenses	$ 14,084	$ 7,409
Items not involving cash:		
Amortization of capital assets	41,214	33,519
Amortization of deferred contributions	(27,337)	(21,788)
Loss on disposal of capital assets	1	230
Change in non-cash operating working capital (note 16)	(18,334)	12,910
Employee future benefits	2,077	2,226
Deferred contributions related to expenses of future periods	(26)	98
	11,679	34,604
Capital activities:		
Purchases of capital assets	(15,739)	(401,110)
Proceeds on sale of capital assets	-	173
Deferred contributions related to capital assets	3,036	373,152
	(12,703)	(27,785)
Investing activities:		
Net change in restricted cash and cash equivalents and investments	(29,809)	23,910
Net change in Ministry of Health capital receivable	2,931	(161,638)
Net change in investment in joint ventures	(8)	(209)
	(26,886)	(137,937)
Financing activities:		
Proceeds from (repayment of) long-term debt	(2,931)	160,576
Obligations under capital lease	2,793	(348)
	(138)	160,228
Net increase (decrease) in cash and cash equivalents	(28,048)	29,110
Cash and cash equivalents, beginning of year	111,199	82,089
Cash and cash equivalents, end of year	**$ 83,151**	**$ 111,199**

See accompanying notes to financial statements.

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

Year ended March 31, 2016
(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 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 including 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.

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.

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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

2. Significant accounting policies (continued):

(a) Revenue recognition (continued):

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.

Patient services revenues are recognized as services are delivered and consist of basic and preferred accommodation fees and procedures funded by the Ontario Health Insurance Plan.

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.

Donations are recorded when received since pledges are not legally enforceable claims.

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. Unrealized gains attributable to portfolio investments are recorded in the Statement of Remeasurement Gains and Losses.

(b) 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 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.

Investment income on unspent deferred capital contributions, if externally restricted for future use, is deferred as a component of such contributions.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

2. Significant accounting policies (continued):

(c) Investment 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, and Healthcare Materials Management Services. The Hospital's relationship with each of these entities and the method by which they are accounted for is 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%

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 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 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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

2. Significant accounting policies (continued):

(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 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, 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 (2015 - 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 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 as contributions are due.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

2. Significant accounting policies (continued):

(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 accounts receivable, accounts payable and accrued liabilities, prepaid expenses and other assets, Ministry of Health capital receivable, 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.

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 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 straight-line method.

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

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(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 service:

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, 2016
(In thousands of dollars)

3. Cash and cash equivalents and investments:

	Fair value hierarchy		2016		2015
Cash and cash equivalents	Level 1	$	101,916	$	119,349
Government bonds	Level 2		2,818		11,944
Debentures and other fixed income securities	Level 2		37,306		54,459
Equities	Level 1		120,472		98,354
			262,512		284,106
Less: Restricted cash and cash equivalents and investments (note 9)			(179,361)		(172,907)
Cash and cash equivalents		$	83,151	$	111,199

During the year ended March 31, 2016 there were no transfers between fair value hierarchy levels for reported cash and cash equivalents and investments. (2015 - nil).

4. Accounts receivable:

		2016		2015
Ministry / LHIN	$	5,273	$	9,481
Veterans Affairs Canada		2,573		1,718
Patient and other (note 14 (a))		13,739		10,916
	$	21,585	$	22,115

5. Capital assets:

		Cost		Accumulated Amortization		2016 Net Book Value
Land	$	11,066	$	-	$	11,066
Land improvements		14,588		7,884	$	6,704
Buildings, building service equipment and leasehold improvements		996,757		233,604	$	763,153
Equipment		179,802		133,144	$	46,658
	$	1,202,213	$	374,632	$	827,581

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

5. Capital assets (continued):

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

As at March 31, 2016, construction in progress totaled $8,038 (2015 - $12,772), 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 (2015 - $20,000) with a stated rate of Prime less 0.75% and an unsecured revolving capital expenditure credit line of $10,000 (2015 - $10,000) with a stated rate of Prime less 0.50%. At March 31, 2016, no amounts were drawn on these facilities (2015 - nil).

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 toward 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:

		2016		2015
Balance, beginning of year	$	726,003	$	351,760
Contributions used to purchase capital assets (note 15 (a))		1,129		396,031
		727,132		747,791
Amortization of deferred capital contributions		(27,337)		(21,788)
Balance, end of year	$	699,795	$	726,003

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

7. Deferred contributions (continued):

(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:

		2016		2015
Ministry of Health restructuring grants	$	33,069	$	33,621
Other Ministry of Health grants		5,653		2,822
Foundation donations		2,506		2,785
Other donations and grants		358		451
	$	41,586	$	39,679

8. Invested in capital assets:

Invested in capital assets is calculated as follows:

		2016		2015
Capital assets	$	827,581	$	853,057
Amounts financed by:				
Deferred contributions		(699,795)		(726,003)
Obligations under capital lease		(5,073)		(2,280)
	$	122,713	$	124,774

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:

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

9. Restricted cash and cash equivalents and investments (continued):

		2016		2015
Internally restricted net assets:				
Research	$	9,000	$	9,000
Accumulated sick leave entitlement (note 13)		220		232
Non-pension defined benefit plans (note 13)		13,757		11,668
Mental Health Care		-		2,196
Equipment and capital redevelopment		114,373		109,681
	$	137,350	$	132,777
Deferred contributions:				
Unspent capital contributions (note 7 (b))		41,586		39,679
Expenses of future periods		425		451
Restricted cash and cash equivalents and investments (note 3)	$	179,361	$	172,907

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 ending May 31, 2043.

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 capital costs:

Total Project costs of $500,661 have been incurred to March 31, 2016, consisting of $480,090 of building costs and $20,571 of equipment and building service equipment costs.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

10. Mental Health redevelopment (continued):

(c) Funding of project costs and financing arrangements:

The Ministry has funded $488,752 and the Hospital has funded $11,909 for the Project. A portion of the Ministry funded amount was financed totaling $211,656 which 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 of $211,656, which is being received over the Project term and is recorded as a Ministry of Health capital receivable in the Statement of Financial Position.

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	Ministry capital receivable
2017	$ 3,267	$ 3,267
2018	3,441	3,441
2019	3,679	3,679
2020	3,884	3,884
2021	4,130	4,130
Thereafter	190,324	190,324
	$ 208,725	$ 208,725
Less: Current portion	3,267	3,267
	$ 205,458	$ 205,458

(d) 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 $16,449 (2015 - $18,764) and the Hospital has funded the remaining $4,181 (2015 - $2,720) representing facilities maintenance fees.

	2016	2015
Ministry-funded expenses:		
Interest (post-construction), 7.59% per annum	15,750	15,319
Contract management fees	699	840
Minor equipment cost	-	2,605
	16,449	18,764
Hospital-funded expenses:		
Facilities maintenance fees	4,181	2,720
Mental health redevelopment contract expenses	$ 20,630	$ 21,484

ST. JOSEPH'S HEALTH CARE LONDON

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Year ended March 31, 2016
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10. Mental Health redevelopment (continued):

(e) Project commitments:

The Hospital is committed to operating and financing expenses over the remaining term of the Project as follows:

	Ministry share	Hospital share	Total
Interest	$ 301,771	$ -	$ 301,771
Long-term capital payable	208,725	-	208,725
Facilities maintenance	-	152,913	152,913
Lifecycle maintenance	102,766	1,640	104,406
Contract management	23,043	-	23,043
	$ 636,305	$ 154,553	$ 790,858

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 Health Services Restructuring Commission ("HSRC") directives called for the majority of acute in-patient services to be transferred to London Health Sciences Centre, such that St. Joseph's Health Care London became 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. The completion of certain restructuring projects remains subject to final financial reconciliation and settlement with the Ministry.

(b) 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.

(c) 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.

(d) 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, 2016.

(e) The Hospital had letters of guarantee outstanding at March 31, 2016 of $642 (2015 - $642).

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Notes to Financial Statements

Year ended March 31, 2016
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12. Obligations under capital lease:

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

		2016		2015
Year ended March 31:				
2017	$	1,767	$	1,144
2018		1,444		690
2019		1,173		330
2020		730		116
2021		121		-
Total minimum lease payments		5,235		2,280
Less: Amounts representing interest		(162)		-
Present value of net minimum lease payments		5,073		2,280
Less: Current portion of obligations under capital lease		(1,767)		(1,144)
Long-term portion of obligations under capital lease	$	3,306	$	1,136

13. Employee future benefits:

Employee future benefits consist of the following:

		2016		2015
Accumulated sick leave entitlement (note 9 and note 13(a))	$	220	$	232
Non-pension defined benefit plans (note 9 and note 13(c)):				
Accrued benefit liability		13,757		11,668
Employee future benefit liability	$	13,977	$	11,900

(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 benefits:

Substantially all full time employees of the Hospital are members of the Healthcare of Ontario Pension Plan ("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.

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Year ended March 31, 2016
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13. Employee future benefits (continued):

(b) Pension benefits (continued):

Employer contributions to HOOPP on behalf of employees amounted to $17,751 during the year ended March 31, 2016 (2015 - $16,725). The most recent actuarial valuation for financial reporting purposes completed by the HOOPP as at December 31, 2015 disclosed net assets available for benefits of $63,924,000 (2014 - $60,848,000), with pension obligations of $49,151,000 (2014 - $46,923,000) resulting in a surplus of $14,773,000 (2014 - $13,925,000). The cost of pension benefits is determined by HOOPP at $1.26 per every dollar of employee contributions. As at December 31, 2015, the HOOPP was 122% funded (2014 - 115%).

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

During the year ended March 31, 2016, the Hospital made employer contributions of $2,404 (2015 - $2,411).

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:

		2016		2015
Current service costs	$	2,452	$	2,262
Plan amendments		1,417		1,977
Interest cost		377		334
Amortization of net actuarial loss		247		77
Net benefit plan expense	$	4,493	$	4,650

During the year, plan amendments made as a result of changes in the Hospital's labour configuration resulted in the recognition of prior service cost of $1,417 (2015 - $1,977).

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

		2016		2015
Accrued benefit obligation	$	15,567	$	14,156
Less: Unamortized net actuarial loss		(1,810)		(2,488)
Accrued benefit liability	$	13,757	$	11,668

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

13. Employee future benefits (continued):

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

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

	2016	2015
Discount rate, accrued benefit obligation	3.25%	3.00%
Discount rate, net benefit plan expense	3.25%	3.00%
Health cost trends:		
Initial rate	6.00%	6.00%
Ultimate rate	4.75%	4.75%
Year ultimate rate reached	2021	2021

(d) Employee benefit continuance:

During the year ended March 31, 2016, 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.

14. Financial risks:

St. Joseph's operations and investment activities expose it to a range of financial risks. St. Joseph's 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 capital receivable, and investment in joint ventures. The maximum exposure to credit risk of the Hospital at March 31, 2016 is the carrying value of these assets.

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Notes to Financial Statements

Year ended March 31, 2016
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14. Financial risks (continued):

(a) Credit risk (continued):

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 $175 (2015 - $125). Patient accounts receivable that were past due, but not impaired totaled $638 (2015 - $540).

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 2015.

(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.

(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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

14. Financial risks (continued):

(c) Market risk (continued):

(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. At March 31, 2016, the Hospital held $43,884 CDN (2015 - $35,564) of investments denominated in U.S. dollars and $35,073 CDN (2015 - $30,805) of investments denominated in other international currencies. The Hospital's investment policy statement outlines foreign exchange exposure of between 40% and 60% and a target of 50% of the investment portfolio. At March 31, 2016, the Hospital was in compliance with the investment policy statement.

There have been no significant changes to the foreign exchange risk exposure from 2015.

(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 2015.

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 with its own separate Board of Directors. The net assets and results of operations of the Foundation are not included in these financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

15. Related entities (continued):

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

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, 2016, the Foundation provided the Hospital with donations totaling $448 (2015 - $2,754). The donations are either 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 the year ended March 31, 2016, the Foundation also provided $1,000 (2015 - nil) to the Hospital, which was remitted to the London Medical Innovation and Commercialization Network (LMICN). The $1,000 receipts of funds from the Foundation and the $1,000 transfer to LMICN are recorded on a net basis in the Hospital's 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 ("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.

The Hospital made payments of $641 (2015 - $641) to LRI in support of direct research and administrative expenses, which is recorded in supplies and other expenses in the Statement of Operations.

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 $183 (2015 - $235) to partially support these infrastructure costs, which is recorded in non-patient goods and services revenue in the Statement of Operations.

LRI transfers funds to the Hospital to cover the reimbursement of construction costs, and purchases of equipment. No transfers were made during the year ended March 31, 2016 (2015 - $3,370).

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

15. Related entities (continued):

(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 modified equity method of accounting.

The Hospital's share in HMMS is as follows:

		2016		2015
Total assets	$	6,545	$	8,667
Total liabilities, deferred contributions		5,929		8,010
Net assets	$	616	$	657

		2016		2015
Cash provided by (used for):				
Operating activities	$	564	$	261
Capital actvities		(126)		(171)
Financing activities		128		188
Net increase in cash	$	566	$	278

		2016		2015
Revenues	$	2,561	$	2,491
Expenses		2,655		2,569
Deficiency of revenues over expense	$	(94)	$	(78)

HMMS incurred a total loss during the year ended March 31, 2016 of $481 (2015 - $356). During the year ended March 31, 2016, the Hospital contributed $126 (2015 - $171) towards building and capital equipment investments of $643 (2015 - $778).

HMMS has bank credit facilities consisting of a $10,000 operating line of credit. At March 31, 2016, HMMS had not drawn on its operating facility. The Hospital has provided a guarantee for up to $1,958 (2015 - $2,198) in support of these credit facilities.

The Hospital's net investment in HMMS at March 31, 2016 is $775 (2015 - $743). Amounts payable to HMMS at March 31, 2016 totaled $373 (2015 - $115).

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
(In thousands of dollars)

15. Related entities (continued):

(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 modified equity method of accounting.

The Hospital's share in PaLM is as follows:

		2016		2015
Total assets	$	557	$	616
Total liabilities, deferred contributions		179		84
Net assets	$	378	$	532

		2016		2015
Cash provided by (used for):				
Operating activities	$	(6)	$	24
Capital actvities		(145)		(253)
Financing activities		6		13
Net decrease in cash	$	(145)	$	(216)

		2016		2015
Revenues	$	7,672	$	7,149
Expenses		7,842		7,285
Deficiency of revenues over expenses	$	(170)	$	(136)

PaLM incurred a total loss during the year ended March 31, 2016 of $1,437 (2015 - $1,206), which is equal to the net amortization of capital assets recorded during the year. During the year, the Hospital contributed $145 (2015 - $252) towards a capital equipment investment of $1,227 (2015 - $2,243).

The Hospital's net investment in PaLM at March 31, 2016 is $661 (2015 - $685). Amounts payable to PaLM at March 31, 2016 totaled $523 (2015 - $489).

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2016
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15. Related entities (continued):

(e) Information Technology Purchased Services:

Information Technology Purchased Services 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.

Information Technology Purchased Services 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 $201 (2015 - $125 on behalf of Information Technology Purchases Services. The Hospital paid $696 (2015 - $735) to Information Technology Purchased Services for the Hospital's share of operating costs during the year.

The Hospital's net investment in Information Technology Purchased Services at March 31, 2016 is nil (2015 - nil). Amounts payable by Information Technology Purchased Services at March 31, 2016 totaled $196 (2015 - $125).

16. Change in non-cash operating working capital:

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

		2016		2015
Accounts receivable	$	530	$	(4,912)
Prepaid expenses and other assets		10		9
Accounts payable and accrued liabilities		(18,874)		17,813
	$	(18,334)	$	12,910

17. Health services restructuring:

The Hospital incurred non-operating costs to achieve and complete the directives of the HSRC up to March 31, 2015. No restructuring charges were incurred during the year ended March 31, 2016.

18. In-trust funds:

The Hospital holds funds in trust for certain patients and custodial fund accounts for various programs within the Hospital. At March 31, 2016, these funds totaled $343 (2015 - $346) and are not included in the Hospital's financial statements as the Hospital does not have legal rights to these funds.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

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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 annual budget. The Hospital has available lines of credit of $20,000 and $10,000 for operating and capital expenditures respectively that are available for use when sufficient cash flow is not available. 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, 2016, the Hospital has met its objective of having sufficient liquid resources to meet its current obligations.

20. Comparative information:

Certain of the 2015 comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.