

Financial Statements of

ST. JOSEPH'S HEALTH CARE LONDON

Year ended March 31, 2020



MANAGEMENT'S REPORT

The accompanying financial statements of St. Joseph's Health Care London have been prepared by Management, and approved by St. Joseph's Health Care Society at their meeting on June 15, 2020.

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 15, 2020

Independent auditor's report

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

Opinion

We have audited the financial statements of **St. Joseph's Health Care London** [the "Hospital"], which comprise the statement of financial position as at March 31, 2020, and the statement of changes in net assets, statement of operations, statement of remeasurement gains (losses), and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Hospital in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Hospital's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Hospital or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Hospital's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Hospital's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Hospital to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

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

London, Canada
June 15, 2020

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



ST. JOSEPH'S HEALTH CARE LONDON

Statement of Financial Position

As at March 31, 2020, with comparative information as at March 31, 2019
(In thousands of dollars)

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Assets | | |
| Current: | | |
| Cash and cash equivalents (note 3) | \$ 92,140 | \$ 95,855 |
| Accounts receivable (note 4 and note 15) | 24,238 | 22,352 |
| Ministry of Health capital receivable (note 10(a)) | 4,130 | 3,884 |
| Prepaid expenses and other assets | 3,791 | 4,032 |
| | 124,299 | 126,123 |
| Restricted cash and cash equivalents and investments (note 3 and note 9) | 203,224 | 231,595 |
| Ministry of Health capital receivable (note 10(a)) | 190,323 | 194,453 |
| Investments in joint ventures (note 15(c) and note 15(d)) | 1,815 | 2,035 |
| Capital assets, net (note 5) | 744,028 | 763,822 |
| | \$ 1,263,689 | \$ 1,318,028 |
| Liabilities, Deferred Capital Contributions and Net Assets | | |
| Current: | | |
| Accounts payable and accrued liabilities (note 15) | \$ 62,963 | \$ 66,785 |
| Current portion of long-term debt (note 10(a)) | 4,130 | 3,884 |
| Current portion of obligations under capital lease (note 12) | 1,268 | 1,495 |
| | 68,361 | 72,164 |
| Long-term debt (note 10(a)) | 190,323 | 194,453 |
| Employee future benefits (note 13) | 15,441 | 15,356 |
| Obligations under capital lease (note 12) | 1,431 | 990 |
| | 207,195 | 210,799 |
| Deferred capital contributions: | | |
| Unamortized capital contributions used to purchase capital assets (note 7(a) and note 8) | 618,723 | 637,425 |
| Unspent capital contributions (note 7(b)) | 47,272 | 49,578 |
| | 665,995 | 687,003 |
| | 941,551 | 969,966 |
| Commitments and contingencies (note 10(c), note 11 and note 15) | | |
| Net assets: | | |
| Invested in capital assets (note 8) | 122,606 | 123,912 |
| Internally restricted (note 9) | 155,952 | 182,017 |
| Unrestricted | 72,480 | 29,547 |
| | 351,038 | 335,476 |
| Accumulated remeasurement gains (losses) | (28,900) | 12,586 |
| | 322,138 | 348,062 |
| | \$ 1,263,689 | \$ 1,318,028 |

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Changes in Net Assets

Year ended March 31, 2020, with comparative information for March 31, 2019
(In thousands of dollars)

| | Invested in capital assets | Internally restricted | Unrestricted | 2020 Total | 2019 Total |
|--|----------------------------------|--------------------------|------------------|-------------------|-------------------|
| Balance, beginning of year | \$ 123,912 | \$ 182,017 | \$ 29,547 | \$ 335,476 | \$ 314,858 |
| Excess (deficiency) of revenues over expenses | (14,127) | - | 29,689 | 15,562 | 20,618 |
| Internally restricted funds invested in capital assets | 12,821 | (12,821) | - | - | - |
| Transfers to internally restricted | - | (13,244) | 13,244 | - | - |
| Balance, end of year | \$ 122,606 | \$ 155,952 | \$ 72,480 | \$ 351,038 | \$ 335,476 |

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Operations

Year ended March 31, 2020, with comparative information for March 31, 2019
(In thousands of dollars)

| | 2020 | 2019 |
|---|------------------|------------------|
| Revenues: | | |
| Ministry of Health, Ministry of Long-Term Care and Local Health Integration Network: | | |
| Operating funding | \$ 337,697 | \$ 330,338 |
| Mental Health redevelopment funding (note 10(b)) | 16,066 | 16,164 |
| Veterans Affairs Canada | 28,930 | 28,631 |
| Patient services | 30,809 | 30,200 |
| Non-patient goods and services (note 15) | 49,131 | 47,157 |
| Amortization of deferred capital contributions (note 7(a)) | 24,562 | 25,478 |
| | <u>487,195</u> | <u>477,968</u> |
| Expenses: | | |
| Salaries and benefits (note 13) | 314,121 | 304,882 |
| Supplies and other (note 15) | 84,784 | 81,177 |
| Drugs | 28,719 | 27,225 |
| Mental Health redevelopment contract expenses (note 10(b)) | 20,551 | 20,599 |
| Amortization of capital assets | 38,689 | 38,238 |
| | <u>486,864</u> | <u>472,121</u> |
| Excess of revenues over expenses before undernoted: | 331 | 5,847 |
| Realized investment income | 15,231 | 14,771 |
| Excess of revenues over expenses | \$ 15,562 | \$ 20,618 |

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Remeasurement Gains (Losses)

Year ended March 31, 2020, with comparative information for March 31, 2019
(In thousands of dollars)

| | 2020 | 2019 |
|--|--------------------|------------------|
| Accumulated remeasurement gains, beginning of year | \$ 12,586 | \$ 17,695 |
| Unrealized gains (losses) attributable to portfolio investments | (34,169) | 3,754 |
| Realized gains attributable to portfolio investments, reclassified to the Statement of Operations | (7,317) | (8,863) |
| Net remeasurement losses for the year | (41,486) | (5,109) |
| Accumulated remeasurement gains (losses), end of year | \$ (28,900) | \$ 12,586 |

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Statement of Cash Flows

Year ended March 31, 2020, with comparative information for March 31, 2019
(In thousands of dollars)

| | 2020 | 2019 |
|--|------------------|------------------|
| Cash flows provided by (used in): | | |
| Operating activities: | | |
| Excess of revenues over expenses | \$ 15,562 | \$ 20,618 |
| Items not involving cash: | | |
| Amortization of capital assets | 38,689 | 38,238 |
| Amortization of deferred capital contributions | (24,562) | (25,478) |
| Net change in non-cash operating working capital (note 16) | (5,467) | 9,109 |
| Net change in employee future benefits | 85 | 508 |
| | <u>24,307</u> | <u>42,995</u> |
| Capital activities: | | |
| Purchases of capital assets | (18,895) | (19,231) |
| Investing activities: | | |
| Net change in restricted cash and cash equivalents and investments | (13,115) | (15,182) |
| Net change in investments in joint ventures | 220 | 5 |
| | <u>(12,895)</u> | <u>(15,177)</u> |
| Financing activities: | | |
| Repayment of long-term debt | (3,884) | (3,679) |
| Net change in Ministry of Health capital receivable | 3,884 | 3,679 |
| Net change in obligations under capital lease | 214 | (976) |
| Deferred capital contributions related to capital assets | 3,554 | 3,196 |
| | <u>3,768</u> | <u>2,220</u> |
| Net increase (decrease) in cash and cash equivalents | (3,715) | 10,807 |
| Cash and cash equivalents, beginning of year | 95,855 | 85,048 |
| Cash and cash equivalents, end of year | \$ 92,140 | \$ 95,855 |

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

1. Purpose of the organization

The financial statements of St. Joseph's Health Care London (the "Hospital") include: St. Joseph's Hospital; Mount Hope Centre for Long-Term Care; Parkwood Institute; Western Counties Wing; the Southwest Centre for Forensic Mental Health Care; and various joint ventures as described in the notes to the financial statements.

St. Joseph's Health Care London is incorporated without share capital under the *Corporations Act* (Ontario). The Hospital is a registered charity under the *Income Tax Act* (Canada) and, as such is exempt from income taxes.

St. Joseph's Health Care London is funded primarily by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health ("MOH") and the Ontario Ministry of Long-Term Care ("MOLTC"), collectively referred to as the "Ministries," as well as the Local Health Integration Network ("LHIN"). Any excess of revenue over expenses earned during a fiscal year may be retained by the Hospital. The Ministries' stated policy is that deficits incurred by the Hospital will not be funded, and this policy has been consistently followed. Therefore, to the extent that deficits are incurred and not funded, future operations may be affected. The LHIN provides operating funding, which is expected to be received on an annual basis, and special funding, which is non-recurring in nature and consequently is unconfirmed for future years.

The Hospital operates under a Hospital Service Accountability Agreement ("H-SAA") with the LHIN. This agreement sets out the rights and obligations of the two parties, including funding provided to the Hospital, and the performance standards and obligations that establish acceptable performance results for the Hospital. It is expected that the Hospital's future H-SAA or similar agreements will be executed with the newly created Ontario Health.

2. Significant accounting policies:

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

(a) Revenue recognition:

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

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

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

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

2. Significant accounting policies (continued):

(a) Revenue recognition (continued):

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

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

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

(b) Restricted and unrestricted cash and cash equivalents and investments:

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

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

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

(c) Investments in joint ventures:

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

(d) Related entities:

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

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

2. Significant accounting policies (continued):

(e) Capital assets:

Capital assets are recorded at cost. Amortization of original cost is calculated on a straight-line basis using the following estimated useful lives of the assets:

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

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

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

(f) Use of estimates:

The preparation of the financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the useful life of capital assets, obligations related to employee future benefits and revenue recognized from the Ministries, LHIN and Veterans Affairs Canada. Actual results could differ from those estimates.

(g) Employee future benefits:

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

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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

2. Significant accounting policies (continued):

(g) Employee future benefits (continued):

The discount rate applied in the actuarial determination is based on the Hospital's long-term rate of borrowing. The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2018, and the next required valuation will be completed as of March 31, 2021.

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 (2019 – 11 years). Past service costs arising from plan amendments are recognized immediately in the period the plan amendments occur.

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

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

(h) Financial instruments:

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

Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price on the date of the transaction, which is the fair value of the consideration given or received.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

2. Significant accounting policies (continued):

(h) Financial instruments (continued):

Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined using valuation techniques that refer to observable market data. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Unrealized changes in fair value are recognized in the Statement of Remeasurement Gains and Losses until they are realized upon derecognition of the financial instrument, when they are transferred to the Statement of Operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest method.

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

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

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.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

2. Significant accounting policies (continued):

(i) Foreign currency:

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

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

(j) Contributed materials and services:

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

3. Cash and cash equivalents and investments:

| | Fair value hierarchy | 2020 | 2019 |
|---|----------------------|------------|------------|
| Cash and cash equivalents | Level 1 | \$ 108,856 | \$ 126,798 |
| Debentures and other fixed income securities | Level 2 | 41,948 | 48,959 |
| Equities | Level 1 | 140,300 | 151,693 |
| Infrastructure related investments | Level 3 | 4,260 | - |
| | | 295,364 | 327,450 |
| Less: Restricted cash and cash equivalents and investments (note 9) | | 203,224 | 231,595 |
| Cash and cash equivalents | | \$ 92,140 | \$ 95,855 |

During the year ended March 31, 2020, there were no transfers between fair value hierarchy levels for reported cash and cash equivalents and investments (2019 – nil).

Fair values of infrastructure related investments are based on valuations obtained from investment managers.

The valuations of infrastructure related investments obtained from investment managers are based on comparable transactions in the market and discounted cash flow models using unobservable inputs such as discount rates, terminal values and expected future cash flows. Holding other factors constant, an increase to terminal values or expected future cash flows would increase the fair value, while an increase in the discount rate would decrease the fair value of the Hospital's infrastructure related investments.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

4. Accounts receivable:

| | 2020 | 2019 |
|---|------------------|------------------|
| Ministry of Health, Ministry of Long-Term Care and LHIN | \$ 5,808 | \$ 7,262 |
| Veterans Affairs Canada | 2,443 | 2,029 |
| Patient and other (note 14(a) and note 15) | 15,987 | 13,061 |
| | \$ 24,238 | \$ 22,352 |

5. Capital assets:

| | Cost | Accumulated amortization | 2020 Net book value |
|---|---------------------|-----------------------------|---------------------------|
| Land | \$ 11,066 | \$ - | \$ 11,066 |
| Land improvements | 15,168 | 11,172 | 3,996 |
| Buildings, building service equipment and leasehold improvements | 1,018,269 | 335,581 | 682,688 |
| Equipment | 156,923 | 110,645 | 46,278 |
| | \$ 1,201,426 | \$ 457,398 | \$ 744,028 |

| | Cost | Accumulated amortization | 2019 Net book value |
|---|---------------------|-----------------------------|---------------------------|
| Land | \$ 11,066 | \$ - | \$ 11,066 |
| Land improvements | 14,684 | 10,589 | 4,095 |
| Buildings, building service equipment and leasehold improvements | 1,014,610 | 309,954 | 704,656 |
| Equipment | 214,960 | 170,955 | 44,005 |
| | \$ 1,255,320 | \$ 491,498 | \$ 763,822 |

The above capital assets include assets under capital lease of \$8,929 (2019 – \$14,152) at cost with accumulated amortization of \$6,212 (2019 – \$12,341).

As at March 31, 2020, construction in progress capital assets totalled \$10,856 (2019 – \$12,678), the majority of which is included in buildings and building service equipment.

During the year, the Hospital disposed of \$72,789 of fully depreciated assets no longer in use.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

6. Credit facilities:

The Hospital maintains credit facilities including an unsecured operating line of \$20,000 (2019 – \$20,000) with a stated rate of Prime less 0.75% and an unsecured revolving capital expenditure credit line of \$10,000 (2019 – \$10,000) with a stated rate of Prime less 0.50%. As at March 31, 2020, no amounts were drawn on these facilities (2019 – nil).

7. Deferred capital contributions:

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

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

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

| | 2020 | 2019 |
|--|------------|------------|
| Balance, beginning of year | \$ 637,425 | \$ 657,852 |
| Contributions used to purchase capital assets (note 15(a)) | 5,860 | 5,051 |
| | 643,285 | 662,903 |
| Amortization of deferred capital contributions | (24,562) | (25,478) |
| Balance, end of year | \$ 618,723 | \$ 637,425 |

(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:

| | 2020 | 2019 |
|-------------------------------|-----------|-----------|
| Ministry restructuring grants | \$ 42,405 | \$ 42,405 |
| Other Ministry grants | 4,282 | 4,839 |
| Foundation donations | 183 | 1,432 |
| Other donations and grants | 402 | 902 |
| | \$ 47,272 | \$ 49,578 |

Ministry restructuring grants represent unspent funds received for restructuring projects that have been completed, but have not yet been reviewed and reconciled by the Ministry of Health. Repayment of unspent Ministry funds follows the completion of the review and reconciliation of the Hospital's completed project submissions.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

8. Invested in capital assets:

Net assets invested in capital assets are calculated as follows:

| | 2020 | 2019 |
|---------------------------------|------------|------------|
| Capital assets | \$ 744,028 | \$ 763,822 |
| Amounts financed by: | | |
| Deferred capital contributions | (618,723) | (637,425) |
| Obligations under capital lease | (2,699) | (2,485) |
| | \$ 122,606 | \$ 123,912 |

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 capital contributions, as follows:

| | 2020 | 2019 |
|---|------------|------------|
| Internally restricted net assets: | | |
| Research | \$ 9,000 | \$ 9,000 |
| Accumulated sick leave entitlement (note 13) | 127 | 131 |
| Non-pension defined benefit plans (note 13) | 15,314 | 15,225 |
| Building and equipment | 131,511 | 157,661 |
| | \$ 155,952 | \$ 182,017 |
| Deferred capital contributions: | | |
| Unspent capital contributions (note 7(b)) | 47,272 | 49,578 |
| Restricted cash and cash equivalents and investments (note 3) | \$ 203,224 | \$ 231,595 |

10. Mental Health redevelopment:

(a) Funding and financing arrangements:

In March 2011, the Hospital entered into a Project Agreement with a third-party company, Integrated Team Solution SJHC Partnership ("Project Co") to redevelop, construct and operate the Southwest Centre for Forensic Mental Health Care and the Parkwood Institute, Mental Health Care Building. 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 of Health sharing in the total project cost. A portion of the cost was financed and this amount is fully funded by the MOH. The financed amount has been recorded as long-term debt in the Statement of Financial Position, and the MOH-committed funding is being received over the Project term and is recorded as a Ministry of Health capital receivable in the Statement of Financial Position.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

10. Mental Health redevelopment (continued):

(a) Funding and financing arrangements (continued):

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

| | Long-term debt repayment | MOH capital receivable |
|-----------------------|-----------------------------|---------------------------|
| 2021 | 4,130 | 4,130 |
| 2022 | 4,368 | 4,368 |
| 2023 | 4,632 | 4,632 |
| 2024 | 4,892 | 4,892 |
| 2025 | 5,190 | 5,190 |
| Thereafter | 171,241 | 171,241 |
| | \$ 194,453 | \$ 194,453 |
| Less: Current portion | 4,130 | 4,130 |
| | \$ 190,323 | \$ 190,323 |

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

Mental Health redevelopment contract expenses and funding are recorded in the Statement of Operations. The Ministry of Health provided funding of \$16,066 (2019 – \$16,164) and the Hospital has funded the remaining \$4,485 (2019 – \$4,435) representing facility maintenance fees.

| | 2020 | 2019 |
|---|-----------|-----------|
| Ministry of Health-funded expenses: | | |
| Interest (post-construction), 7.59% per annum | \$ 15,485 | \$ 15,441 |
| Contract management fees | 537 | 665 |
| Minor equipment | 44 | 58 |
| | 16,066 | 16,164 |
| Hospital-funded expenses: | | |
| Facility maintenance fees | 4,485 | 4,435 |
| Mental Health redevelopment contract expenses | \$ 20,551 | \$ 20,599 |

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

10. Mental Health redevelopment (continued):

(c) Commitments:

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

| | MOH share | Hospital share | Total |
|------------------------|------------|----------------|------------|
| Interest | \$ 240,898 | \$ - | \$ 240,898 |
| Long-term debt | 194,453 | - | 194,453 |
| Facilities maintenance | - | 135,223 | 135,223 |
| Lifecycle maintenance | 100,908 | 1,610 | 102,518 |
| Contract management | 20,136 | - | 20,136 |
| | \$ 556,395 | \$ 136,833 | \$ 693,228 |

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

11. Commitments and contingencies:

- (a) The Hospital is subject to certain actual and potential legal claims, which have arisen in the normal course of operations. In Management's opinion, where the cost of an unfavourable settlement is known or can be estimated, insurance coverage is sufficient to offset the costs, if any, which may result from such claims.
- (b) In the normal course of operations, the Hospital is subject to various human resource matters, including grievances filed by employees or groups of employees under Provincial legislation.
- (c) The Hospital participates in the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the public liability insurance risks of its hospital members. All members of the HIROC pool pay annual premiums which are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the years in which they were members. No assessments have been made for the year ended March 31, 2020 (2019 – nil).
- (d) The Hospital had letters of guarantee outstanding as at March 31, 2020 of \$530 (2019 – \$605).

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

12. Obligations under capital lease:

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

| | 2020 |
|---|----------|
| Year ended March 31: | |
| 2021 | \$ 1,268 |
| 2022 | 930 |
| 2023 | 481 |
| 2024 | 119 |
| 2025 | 9 |
| Total minimum lease payment | 2,807 |
| Less: Amounts representing interest | 108 |
| Present value of capital lease obligations | 2,699 |
| Less: Current portion of obligation under capital lease | 1,268 |
| Long-term portion of obligation under capital lease | \$ 1,431 |

13. Employee future benefits:

Employee future benefits consist of the following:

| | 2020 | 2019 |
|--|-----------|-----------|
| Accumulated sick leave entitlement (note 9 and note 13(a)) | \$ 127 | \$ 131 |
| Non-pension defined benefit plans (note 9 and note 13(c)): | | |
| Accrued benefits liability | 15,314 | 15,225 |
| Employee future benefits liability | \$ 15,441 | \$ 15,356 |

(a) Accumulated sick leave entitlement:

The accumulated sick leave entitlement reflects the remaining liability from a former plan, with changes during the year representing changes in wage rates and payouts to employees upon retirement or departure.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

13. Employee future benefits (continued):

(b) Pension benefits:

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

Employer contributions to HOOPP on behalf of employees amounted to \$19,897 during the year ended March 31, 2020 (2019 – \$19,197). The most recent actuarial valuation for financial reporting purposes completed by the HOOPP as at December 31, 2019 disclosed net assets available for benefits of \$94,102,000 (2018 – \$79,019,000), with pension obligations of \$73,547,000 (2018 – \$65,128,000), resulting in a surplus of \$20,555,000 (2018 – \$13,891,000). The cost of pension benefits is determined by HOOPP at \$1.26 per every dollar of employee contributions. As at December 31, 2019, the HOOPP was 119% funded (2018 – 121%).

(c) Non-pension defined benefit plans:

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

During the year ended March 31, 2020, the Hospital made employer contributions of \$1,240 (2019 – \$988).

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:

| | 2020 | 2019 |
|------------------------------------|-----------------|-----------------|
| Current service costs | \$ 547 | \$ 510 |
| Interest cost | 352 | 346 |
| Amortization of net actuarial gain | 429 | 641 |
| Net benefit plan expense | \$ 1,328 | \$ 1,497 |

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

13. Employee future benefits (continued):

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

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

| | 2020 | 2019 |
|---------------------------------------|-----------|-----------|
| Accrued benefit obligation | \$ 12,015 | \$ 11,992 |
| Unamortized net actuarial gain | 3,299 | 3,233 |
| Accrued non-pension benefit liability | \$ 15,314 | \$ 15,225 |

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

| | 2020 | 2019 |
|---|----------|----------|
| Discount rate, accrued benefit obligation | 2.5–3.2% | 2.6–3.0% |
| Discount rate, net benefit plan expense | 2.6–3.0% | 2.9–3.2% |
| Health cost trends: | | |
| Initial rate | 8.0% | 8.0% |
| Ultimate rate | 4.0% | 4.0% |
| Year ultimate rate reached | 2038 | 2038 |

(d) Employee benefit continuance:

During the year ended March 31, 2020, certain employees subject to lay-off have been granted future benefits for a pre-determined period and of a pre-determined nature, subject to the provisions of the relevant collective agreements. These benefits include salary plus benefits continuance, and education support. The cost of salary continuance and education support is recorded in accounts payable and accrued liabilities and the cost of benefits continuance is included in the accrued, non-pension benefit liability in the Statement of Financial Position.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

14. Financial risks and risk management:

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

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to cash and cash equivalents, restricted cash and cash equivalents and investments, accounts receivable, Ministry of Health capital receivable, and investments in joint ventures. The maximum exposure to credit risk of the Hospital as at March 31, 2020 is the carrying value of these assets.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The amount of any related impairment loss is recognized in the Statement of Operations. Subsequent recoveries of impairment losses related to accounts receivable are recognized in the Statement of Operations.

Accounts receivable is recorded net of an allowance for doubtful accounts of \$225 (2019 – \$225). Patient accounts receivable that were past due, but not impaired totaled \$637 (2019 – \$592).

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 2019.

(b) Liquidity risk:

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis. The Hospital manages its liquidity risk by monitoring its operating requirements. The Hospital prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. The Hospital also has available lines of credit of \$20,000 and \$10,000 for operating and capital expenditures, respectively (note 6).

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

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

14. Financial risks (continued):

(c) Market risk:

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

(i) Foreign exchange risk:

The Hospital is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Hospital makes purchases denominated in U.S. dollars. The Hospital does not currently enter into forward contracts to mitigate this risk.

The Hospital is exposed to foreign exchange risk with respect to investments denominated in U.S. dollars and other international currencies. At March 31, 2020, the Hospital held \$67,429 CDN (2019 – \$59,443) of investments denominated in U.S. dollars and \$43,991 CDN (2019 – \$40,566) of investments denominated in other international currencies. The Hospital's investment policy statement outlines foreign exchange exposure of between 38% and 74% and a target of 56% of the investment portfolio. At March 31, 2020, the Hospital was in compliance with the investment policy statement.

(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 2019.

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

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

15. Related entities:

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

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

The Foundation was established on April 1, 2005 as the result of the amalgamation of the former St. Joseph's Health Care Foundation of London and Parkwood Institute Foundation of London, Ontario. The Foundation uses its resources to support research and education initiatives, to pilot new and innovative programs, and for the purchase of specialized equipment at all sites of the Hospital. The Foundation also subsidizes the growth of community outreach programs.

During the year ended March 31, 2020, the Foundation provided the Hospital with donations totalling \$2,013 (2019 – \$2,068). The donations are recorded as deferred capital contributions in the Statement of Financial Position or non-patient goods and services revenue in the Statement of Operations based on the nature of the expenditure the donation is supporting.

The Hospital provides payroll and human resource administrative and support services to the Foundation where the Hospital makes payments on the Foundation's behalf and is reimbursed by the Foundation. During the year, the Hospital incurred total operating costs of \$2,231 (2019 – \$2,207) on behalf of the Foundation. Amounts receivable from the Foundation as at March 31, 2020 totalled \$173 (2019 – payable amount – \$16).

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

(b) Lawson Research Institute:

On June 26, 2000, the Lawson Research Institute ("LRI") entered into an agreement with St. Joseph's Health Care London, London Health Sciences Centre, and the London Health Sciences Centre Research Inc., to form an alliance to conduct all research activities as the Lawson Health Research Institute ("LHRI"). Amended and restated agreements were signed on September 18, 2006 and November 1, 2015. Each organization continues to account for its costs independently. The net assets and results of operations of LRI and LHRI are not included in these financial statements.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

15. Related entities (continued):

(b) Lawson Research Institute (continued):

The Hospital made payments of \$641 (2019 – \$641) to LRI in support of operating and administrative expenses, which is recorded in supplies and other expenses in the Statement of Operations.

The Hospital provides administrative and support services to LRI including payroll, human resource and accounts payable functions where the Hospital makes payments on LRI's behalf and is reimbursed by LRI. During the year, the Hospital incurred total operating costs of \$16,970 (2019 – \$16,783) on behalf of LRI. Amounts receivable from LRI as at March 31, 2020 totalled \$4,431 (2019 – \$2,231).

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

(c) Healthcare Materials Management Services:

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

The Hospital's share in HMMS is as follows:

| | 2020 | 2019 |
|---|----------|----------|
| Total assets | \$ 7,638 | \$ 6,958 |
| Total liabilities, deferred contributions | 7,121 | 6,452 |
| Net assets | \$ 517 | \$ 506 |
| <hr/> | | |
| Cash provided by (used in): | | |
| Operating activities | \$ (16) | \$ (23) |
| Capital activities | (90) | (44) |
| Financing activities | 95 | 42 |
| Net decrease in cash | \$ (11) | \$ (25) |

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

15. Related entities (continued):

(c) Healthcare Materials Management Services (continued):

| | 2020 | 2019 |
|-------------------------------------|----------|----------|
| Revenue | \$ 3,161 | \$ 2,900 |
| Expenses | 3,233 | 2,971 |
| Deficiency of revenue over expenses | \$ (72) | \$ (71) |

HMMS incurred a total loss during the year ended March 31, 2020 of \$420 (2019 – \$411). During the year ended March 31, 2020, the Hospital contributed \$90 (2019 – \$46) towards building and capital equipment investments of \$526 (2019 – \$264).

HMMS has bank credit facilities consisting of a \$10,000 operating line of credit. As at March 31, 2020, HMMS had not drawn on its operating facility. The Hospital has provided a guarantee of 17.15% (2019 – 17.39%) of all credit facilities outstanding.

The Hospital's net investment in HMMS as at March 31, 2020 is \$752 (2019 – \$734). Amounts payable to HMMS as at March 31, 2020 totalled \$2,821 (2019 – \$7,775) and is included in accounts payable and accrued liabilities in the Statement of Financial Position.

The Hospital provides payroll administrative and support services to HMMS where the Hospital makes payments to employees on HMMS' behalf and is reimbursed by HMMS. During the year, the Hospital incurred total operating costs of \$15,461 (2019 – \$14,840) on behalf of HMMS. Amounts receivable from HMMS as at March 31, 2020 totalled \$2,497 (2019 – \$1,270).

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

(d) Pathology and Laboratory Medicine:

On December 1, 2000, St. Joseph's Health Care London and London Health Sciences Centre entered into a joint venture to consolidate all laboratory services. In April 2014, the joint venture agreement was revised and amended under the name Pathology and Laboratory Medicine ("PaLM"). This agreement was amended on January 1, 2017 to modify the methodology used in determining the utilization percentage. The Hospital accounts for its interest in the joint venture using the modified equity method of accounting.

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

15. Related entities (continued):

(d) Pathology and Laboratory Medicine (continued):

The Hospital's share in PaLM is as follows:

| | 2020 | 2019 |
|---|-----------|-----------|
| Total assets | \$ 1,325 | \$ 1,457 |
| Total liabilities, deferred contributions | 144 | 115 |
| Net assets | \$ 1,181 | \$ 1,342 |
| | 2020 | 2019 |
| Cash provided by (used in): | | |
| Operating activities | \$ 20 | \$ 51 |
| Financing activities | 45 | (7) |
| Capital activities | (159) | (394) |
| Net decrease in cash | \$ (94) | \$ (350) |
| | 2020 | 2019 |
| Revenues | \$ 11,492 | \$ 11,079 |
| Expenses | 11,851 | 11,410 |
| Deficiency of revenues over expenses | \$ (359) | \$ (331) |

The PaLM incurred a total loss during the year ended March 31, 2020 of \$2,135 (2019 – \$2,085), which is equal to the net amortization of capital assets recorded during the year. During the year, the Hospital contributed \$120 (2019 – \$352) towards a capital equipment investment of \$944 (2019 – \$2,478).

The Hospital's net investment in PaLM as at March 31, 2020 is \$1,063 (2019 – \$1,301). Amounts receivable from PaLM as at March 31, 2020 totalled \$51 (2019 payable amount – \$1,015).

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

ST. JOSEPH'S HEALTH CARE LONDON

Notes to Financial Statements

Year ended March 31, 2020

(In thousands of dollars)

15. Related entities (continued):

(e) Information Technology Purchased Services:

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

ITPS relies on the Hospital to provide payroll, facilities, and other administrative support, and reimburses the Hospital for costs incurred on its behalf. During the year, the Hospital incurred total operating costs of \$284 (2019 – \$354) on behalf of ITPS. The Hospital paid \$842 (2019 – \$879) to ITPS for the Hospital's share of operating costs during the year.

The Hospital's net investment in ITPS as at March 31, 2020 is nil (2019 – nil). Amounts receivable from Regional Shared Services, a division of ITPS, as at March 31, 2020 totalled \$297 (2019 – \$230).

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

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

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

| | 2020 | 2019 |
|--|------------|----------|
| Accounts receivable | \$ (1,886) | \$ 5,190 |
| Prepaid expenses and other assets | 241 | (650) |
| Accounts payable and accrued liabilities | (3,822) | 4,569 |
| | \$ (5,467) | \$ 9,109 |

17. In-trust funds:

The Hospital holds funds in trust for certain patients and custodial fund accounts for various programs within the Hospital. As at March 31, 2020, these funds totalled \$552 (2019 – \$515) 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

Year ended March 31, 2020

(In thousands of dollars)

18. COVID 19 - Global Pandemic:

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel corona virus ["COVID-19"] as a pandemic which has resulted in a series of public health and emergency measures that have been put into place to combat the spread of the virus. Subsequent to year-end, governments worldwide have continued to enact emergency measures to combat the spread of the virus. As a result, the Hospital is experiencing changes in demand for its services and is working to mitigate the financial impacts while carrying out its response to the impacts of COVID-19.

The impact of COVID-19 has led to significant volatility and declines in the global equity and fixed income markets during the first quarter of 2020. It is uncertain how long this volatility will continue and could potentially lead to further decreases in the value and income of portfolio investments. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess. Management considered the impact of COVID-19 in its assessment of the Hospital's assets and liabilities and its ability to continue as a going concern.

Although COVID-19 has had an impact on the Hospital's operations, as well as the funding and operations of its related entities, the Hospital has sufficient liquidity to maintain current operations as well as the additional operational demands relating to the Hospital's COVID-19 response. In addition, the Hospital is tracking and reporting expenses related to the COVID-19 response and is applying for government reimbursement of expenses incurred by the Hospital in order to mitigate the financial impacts of the Hospital's COVID-19 response during the year ended March 31, 2020 and thereafter.

The duration and impact of the COVID-19 outbreak is unknown at this time as well as the efficacy of the government and central bank monetary and fiscal interventions designed to stabilize economic conditions and slow the spread of the disease. As a result, it is not possible to reliably estimate the length and severity of these developments nor the impact on the financial position and financial results of the Hospital in future years.