Grant Thornton

Financial Statements

St. Joseph's Care Group

March 31, 2017

Contents

Independent Auditor's Report

Grant Thornton LLP
979 Alloy Drive
Thunder Bay, ON
P7B5Z8

T (807) 345-6571
F (807) 345-0032
www.GrantThornton.ca

To the Board of Directors of
St. Joseph's Care Group

We have audited the accompanying financial statements of St. Joseph's Care Group which comprise the statement of financial position as at March 31, 2017 and the statements of operations, changes in net assets, cash flows, and remeasurement gains and losses for the year ended March 31, 2017, 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.

Auditor's 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 auditor's 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 auditor considers 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 Care Group as at March 31, 2017 and the results of its operations, changes in net assets, cash flows, and remeasurement gains and losses for the year ended March 31, 2017 in accordance with Canadian public sector accounting standards.

Grant Thornton LLP

Thunder Bay, Canada
June 21, 2017

Chartered Professional Accountants
Licensed Public Accountants

St. Joseph's Care Group — Statement 1

Statement of Financial Position

As at March 31	**2017**	2016
	$	$
	[Thousands of Dollars]	
ASSETS		
Current		
Cash	**17,341**	28,599
Accounts receivable - Ministry of Health and Long-Term Care/North West Local Health Integration Network	**1,215**	—
Accounts receivable	**4,809**	6,449
Inventory	**566**	573
Prepaid expenses	**765**	499
Total current assets	**24,696**	36,120
Restricted assets *[note 2]*		
Endowment Fund	**271**	268
Restricted Replacement Reserve Fund	**1,970**	1,615
Restricted Benefits Fund	**2,446**	2,088
Capital Expenditure Reserve Fund	**10,004**	9,917
Total restricted assets	**14,691**	13,888
Property, plant, and equipment *[note 3]*	**208,046**	184,172
	247,433	234,180

See accompanying notes to the financial statements.

On behalf of the Board:

Larry Lovis
Director

Linda Pauluik
Director

St. Joseph's Care Group — Statement 1

Statement of Financial Position (Continued)

As at March 31	**2017**	2016
	$	$
	[Thousands of Dollars]	
LIABILITIES AND NET ASSETS		
Current		
Accounts payable - Ministry of Health and Long-Term Care/North West Local Health Integration Network	**—**	320
Accounts payable and accrued liabilities	**27,843**	31,159
Long-term debt principal due within one year *[note 5]*	**1,697**	1,521
Employee future benefits *[note 7]*	**40**	40
Total current liabilities	**29,580**	33,040
Other accrued liabilities	**2,446**	2,096
Long-term debt - non-current amount *[note 5]*	**59,443**	61,340
Deferred capital contributions *[note 6]*	**107,059**	89,418
Employee future benefits - non-current *[note 7]*	**6,489**	6,539
NET ASSETS		
Investment in property, plant, and equipment *[note 8[a]]*	**50,810**	45,511
Unrestricted	**(17,860)**	(9,708)
Restricted		
Restricted Benefits Fund	**2,446**	2,088
Capital Expenditure Reserve Fund	**10,004**	9,917
Endowment Fund	**271**	268
Restricted Replacement Reserve Fund *[note 9]*	**2,378**	1,959
Accumulated remeasurement losses *[statement 5]*	**(5,633)**	(8,288)
Total net assets	**42,416**	41,747
	247,433	234,180

St. Joseph's Care Group — Statement 2
Statement of Operations

Year ended March 31	**2017**	2016
	$	$
	[Thousands of Dollars]	
REVENUE		
North West Local Health Integration Network	**133,890**	119,737
Alternative Level of Care Co-Payment	**1,161**	1,107
Long-Term Care – resident's portion	**10,468**	5,026
Canada Mortgage and Housing Corporation	**81**	139
The District of Thunder Bay Social Services Administration Board	**318**	328
Program fees and rentals	**4,186**	4,161
Amortization of deferred contributions related to equipment	**161**	361
Municipal contributions	**362**	360
Other recoveries	**17,848**	17,984
	168,475	149,203
EXPENSES		
Amortization of equipment	**2,525**	2,018
Drugs	**1,153**	1,259
Interest on long-term debt	**1,637**	910
Medical and surgical supplies	**1,407**	1,365
Medical staff remuneration	**8,744**	8,038
Municipal taxes	**630**	721
Salaries and benefits	**122,208**	106,944
Supplies and other	**29,083**	25,716
	167,387	146,971
Excess of revenue over expenses before the following	**1,088**	2,232
Amortization of buildings/leaseholds	**(4,439)**	(2,919)
Amortization of deferred capital contributions related to building	**2,056**	1,493
Employee future benefits *[note 7]*	**(265)**	(417)
Gain on sale of equipment	**1**	4
Restructuring	**(427)**	(276)
Excess (shortfall) of revenue over expenses for year	**(1,986)**	117

See accompanying notes to the financial statements.

St. Joseph's Care Group **Statement 3**

Statement of Changes in Net Assets

Year ended March 31 **2017** 2016

	Investment in property, plant, and equipment $	Endowment Fund $	Unrestricted $	Restricted Replacement Reserve Fund $	Restricted Benefits Fund $	Capital Expenditure Reserve Fund $	Accumulated remeasurement gains (losses) $	Total $	Total $
								[Thousands of Dollars]	
Balance, beginning of year	**45,511**	**268**	**(9,708)**	**1,959**	**2,088**	**9,917**	**(8,288)**	**41,747**	44,045
Excess (shortfall) of revenue over expenses for year *[note 8[b]]*	**(4,747)**	**—**	**2,761**	**—**	**—**	**—**	**—**	**(1,986)**	(395)
Net remeasurement gains (losses) for the year	**—**	**—**	**—**	**—**	**—**	**—**	**2,655**	**2,655**	(1,903)
Net change in investment in property, plant, and equipment *[note 8[c]]*	**10,046**	**—**	**(10,046)**	**—**	**—**	**—**	**—**	**—**	—
Increase (decrease) in Restricted Benefits Fund	**—**	**—**	**(358)**	**—**	**358**	**—**	**—**	**—**	—
Change in Capital Expenditure Reserve Fund	**—**	**—**	**(87)**	**—**	**—**	**87**	**—**	**—**	—
Increase (decrease) in accumulated fund balance *[note 9]*	**—**	**—**	**(419)**	**419**	**—**	**—**	**—**	**—**	—
Increase (decrease) in endowment	**—**	**3**	**(3)**	**—**	**—**	**—**	**—**	**—**	—
Balance, end of year	**50,810**	**271**	**(17,860)**	**2,378**	**2,446**	**10,004**	**(5,633)**	**42,416**	41,747

See accompanying notes to the financial statements.

St. Joseph's Care Group **Statement 4**
General Fund
Statement of Cash Flows

Year ended March 31	**2017**	2016
	$	$
	[Thousands of Dollars]	
OPERATING ACTIVITIES		
Excess (shortfall) of revenue over expenses for year	**(1,986)**	117
Add charges (deduct credits) to earnings not involving a current payment (receipt) of cash		
Amortization of equipment	**2,525**	2,018
Amortization of deferred capital contributions	**(2,217)**	(1,854)
Amortization of buildings/leaseholds	**4,439**	2,919
Employee future benefits	**(50)**	102
	2,711	3,302
Net change in non-cash working capital accounts related to operations *[note 10]*	**(3,470)**	(1,332)
Cash provided by (used in) operating activities	**(759)**	1,970
INVESTMENT ACTIVITIES		
Increase in Endowment Fund	**(3)**	(3)
Decrease (increase) in Capital Expenditure Reserve Fund	**(87)**	3,680
Increase in Restricted Replacement Reserve Fund	**(355)**	(308)
Transfer to Restricted Benefits Fund	**(358)**	(450)
Cash provided by (used in) investment activities	**(803)**	2,919
CAPITAL ACTIVITIES		
Purchase of property, plant, and equipment	**(30,838)**	(36,940)
Deferred capital contributions received *[note 6]*	**19,858**	15,052
Cash used in capital activities	**(10,980)**	(21,888)
FINANCING ACTIVITIES		
Proceeds from long-term debt	**2,504**	15,551
Repayment of long-term debt	**(1,570)**	(738)
Increase in other accrued liabilities	**350**	126
Cash provided by financing activities	**1,284**	14,939
Decrease in cash during year	**(11,258)**	(2,060)
Cash position, beginning of year	**28,599**	30,659
Cash position, end of year	**17,341**	28,599

See accompanying notes to the financial statements.

St. Joseph's Care Group — Statement 5
General Fund
Statement of Remeasurement Gains and Losses

Year ended March 31	**2017**	2016
	$	$
	[Thousands of Dollars]	
Accumulated remeasurement losses, beginning of year	**(8,288)**	(5,873)
Unrealized gains (losses) attributable to:		
Derivatives	**2,655**	(1,903)
Amounts reclassified to statement of operations:		
Bond Portfolio and Term Deposits	**—**	(512)
Change in net remeasurement losses, for year	**2,655**	(2,415)
Accumulated remeasurement losses, end of year	**(5,633)**	(8,288)

See accompanying notes to the financial statements.

GENERAL

St. Joseph's Care Group ("Care Group") was incorporated under the laws of Ontario as a corporation without share capital on August 12, 1976. Its principal activity is delivering programs in complex continuing care, seniors care, rehabilitation, addictions and mental health. St. Joseph's Care Group is a registered charity under the Income Tax Act, and operates under the sponsorship of the Catholic Health Corporation of Ontario.

The Care Group 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 the North West Local Health Integration Network ("NWLHIN"). Any excess of revenue over expenses earned during a fiscal year may be retained by the Care Group. The Ministry's stated policy is that deficits incurred by the Care Group 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 NWLHIN provides operating funding including base funding, which is expected to be received on an annual basis, and special funding, which is non-recurring in nature, and consequently is unconfirmed for future years.

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

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian public sector accounting standards ("PSAS") for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public Sector of Accounting Board. The financial statements have been prepared within the framework of the accounting policies as summarized below:

Fund accounting

The accounts of the Care Group are maintained in accordance with the principles of fund accounting whereby separate accounts are maintained for each fund, as explained below, to ensure observance of the limitations and restrictions placed on the use of particular assets.

Unrestricted Fund

This fund is used to account for operational and administrative revenue and expenses.

Restricted Benefits Fund

The Care Group has adopted an administrative services only funding arrangement with a group insurance plan provider. Under the arrangement, the Care Group manages its benefit premium changes as a form of self-insurance. This fund is internally restricted and consists of reserve and deposit account balances which have been contributed proportionately by the Care Group and its employees.

Capital Expenditure Reserve Fund

This Reserve is internally restricted and is to be used to finance replacements or additions to buildings, furniture and equipment and/or leasehold improvements for the Care Group.

Restricted Replacement Reserve Fund

The Care Group is maintaining a Replacement Reserve Fund for the PR Cook Apartments and the Sister Leila Greco Apartments. This Replacement Reserve Fund is internally restricted and is to be used to finance replacements of equipment and furniture in the PR Cook Apartments and Sister Leila Greco Apartments.

Residents' Trust Fund

The Residents' Trust Fund consists of amounts held in trust for the residents of the Bethammi Nursing Home, St. Joseph's Hospital, Hogarth Riverview Manor and Lakehead Psychiatric Hospital. These funds are not reflected in these financial statements *[note 15]*.

Property, plant, and equipment

Property, plant, and equipment are initially recorded at cost. Such cost includes financing and other expenses incurred during the period of construction.

Normal maintenance and repairs are expensed as incurred. Amortization is provided on the straight-line basis at the rate of 2.5% for buildings, 6.67% to 50% for furniture and equipment, 20% for site improvements and 2.5% to 5% for leasehold improvements.

It is expected that these procedures will charge operations with the recorded cost of the property, plant, and equipment over their estimated useful lives.

Construction-in-progress is stated at cost, which comprises all direct and indirect costs of construction. Construction-in-progress is transferred to land improvement, buildings and building service equipment and amortization of the asset commences when construction is complete and the facility commences operations.

Revenue recognition

The Care Group follows the deferral method of accounting for contributions which include donations and government grants.

Under the Health Insurance Act and Regulations thereto, the Care Group is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry and the NWLHIN. The NWLHIN has been given the mandate for planning, integrating and funding health care services.

Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. These financial statements reflect agreed arrangements approved by the Ministry.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of property and equipment are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related property and equipment.

Endowment contributions are recognized as direct increases in endowment net assets.

Contributed services

A substantial number of volunteers contribute a significant amount of their time each year. Due to the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

Inventory

Inventory of general, medical and surgical supplies is valued at the lower of average cost and replacement value, whereas drugs are carried at cost on a first-in, first-out basis.

Post-employment benefits and compensated absences

The Care Group provides post-employment benefits and compensated absences to certain employee groups. These benefits include health, dental, life insurance, and non-vesting sick leave. The Care Group elected to recognize all unamortized balances in accumulated surplus/deficit as of April 1, 2011 and adopted the discount rate based on the Care Groups borrowing rate.

Compensated absences

Compensation expense is accrued for all employees as entitlement of these payments are earned, in accordance with the Care Group's benefit plans for vacation, statutory and retirement allowances.

Management's estimates

The preparation of financial statements, in conformity with PSAS for Governments Not-for-Profit Organizations, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are determined using a consistent approach year over year. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent; however, actual results could differ from those estimates.

The most significant estimate is these financial statements include allowance for doubtful accounts receivable, amortization of capital assets, actuarial estimate of employee future benefits and fair value of derivatives.

Financial instruments

The Care Group classifies its financial instruments as either fair value or amortized cost.

Instruments that are recorded at fair value are initially recognized at cost and subsequently carried at fair value. Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from accumulated remeasurement gains and losses and recognized in the statement of operations. On sale, the amount held in accumulated remeasurement gains and losses associated with that instrument is removed from net assets and recognized in the statement of operations.

Fair values are based on quoted market values where available from active markets, otherwise fair values are estimated using a variety of valuation techniques and models. Transaction costs are expensed as incurred.

Instruments that are categorized at fair value are cash, investments and derivatives.

Instruments that are categorized at amortized cost include accounts receivable, accounts receivable – LHIN, accounts payable – LHIN, accounts payable and accrued liabilities and long-term debt. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses of financial assets.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

March 31, 2017 [Thousands of Dollars]

Derivatives

The Care Group has entered into interest rate swap agreements as an economic hedge to manage the volatility to interest rates relating to its debt. Derivatives are initially recorded at fair value and are revalued at each financial statement date, with unrealized changes in fair value recorded in the statement of remeasurement gains and losses.

2. RESTRICTED ASSETS

	2017		2016	
	Cost	**Market value**	Cost	Market value
	$	$	$	$
ENDOWMENT FUND				
Restricted				
Cash	**271**	**271**	268	268
REPLACEMENT RESERVE FUND				
Restricted				
Cash	**1,970**	**1,970**	1,615	1,615
BENEFITS FUND				
Restricted				
Cash	**2,446**	**2,446**	2,088	2,088
CAPITAL EXPENDITURE RESERVE FUND				
Restricted				
Cash	**91**	**91**	90	90
Term deposits	**9,913**	**9,913**	9,827	9,827
	10,004	**10,004**	9,917	9,917

March 31, 2017 [Thousands of Dollars]

3. PROPERTY, PLANT, AND EQUIPMENT

Details of year-end property, plant, and equipment balances are as follows:

	2017		2016	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
	$	$	$	$
Buildings				
P. R. Cook Apartments	**5,476**	**4,919**	5,391	4,824
St. Joseph's Heritage	**11,299**	**9,188**	11,253	8,963
Hogarth Riverview Manor	**93,646**	**7,021**	92,058	4,700
St. Joseph's Health Centre	**4,415**	**997**	4,376	891
Sister Margaret Smith Centre	**15,145**	**2,810**	15,118	2,434
Sister Leila Greco Apartments	**22,388**	**2,509**	22,388	1,949
Construction-in-progress	**48,465**	**—**	21,840	—
Furniture and equipment	**47,387**	**33,472**	45,430	30,947
Leasehold improvements	**28,757**	**10,951**	28,286	10,203
Site improvements	**263**	**157**	263	149
	277,241	**72,024**	246,403	65,060
Land	**2,829**	**—**	2,829	—
	280,070	**72,024**	249,232	65,060
Net book value	**208,046**		184,172	

4. CONSTRUCTION-IN-PROGRESS

Construction-in-progress represents costs incurred to date on:

- the construction of the second phase of the Hogarth Riverview Manor building, of which $8,274 has been spent to date;
- construction of the LINK, of which $5,594 has been spent to date; and
- construction of the East Wing Project, of which $34,597 has been spent to date.

Once the construction has been completed and the asset is available for use, the total cost will be reclassified to capital assets and amortization will commence. As at March 31, 2017, construction-in-progress amounted to $48,465 [2016 - $21,840].

March 31, 2017 [Thousands of Dollars]

5. LONG-TERM DEBT

	2017 $	2016 $
Canada Mortgage and Housing Corporation		
First mortgage covering the P. R. Cook Apartments premises was repaid during the year.	—	3,619
An increase in the first mortgage charge, as explained above, covering the P. R. Cook Apartments premises was repaid during the year.	—	480
Royal Bank of Canada		
Loan covering the Energy Retrofit project at the Heritage site. Interest rate swap that establishes the underlying fixed rate applicable to the loan at 3.22% per annum, repayable in monthly instalments of approximately $17,500, due July 30, 2021.	**847**	1,026
Royal Bank of Canada		
Loan covering the Sister Leila Greco Apartments. Interest rate swap that establishes the underlying fixed rate applicable to the loan at 3.22% per annum, repayable in monthly instalments of approximately $28,000, due August 31, 2034.	**4,741**	4,925
Royal Bank of Canada		
Loan covering Hogarth Riverview Manor Expansion. Interest rate swap that establishes the fixed rate applicable to the loan at 3.74% per annum, repayable in monthly instalments of approximately $166,000, due November 30, 2040.	**31,820**	32,602
Royal Bank of Canada		
Loan covering Hogarth Riverview Manor addition. Interest rate swap that establishes the fixed rate applicable to the loan at 3.66% to 3.75% per annum, repayable in monthly instalments of approximately $25,000, commencing July, 2017 and due June 30, 2036.	**7,974**	5,696
Carry forward	**45,382**	48,348

March 31, 2017 [Thousands of Dollars]

	2017 $	2016 $
Subtotals carried forward	**45,382**	48,348
Royal Bank of Canada Loan covering PR Cook Apartments premises. Interest rate swap that establishes the fixed rate applicable to the loan at 1.80% per annum, repayable in monthly instalments of approximately $17,000, due October 4, 2033.	**3,900**	—
Sisters of St. Joseph of Sault Ste. Marie Interest-free promissory note payable 90 days following written demand. It is not expected that the Sisters will demand repayment within the next twelve months [note 13].	**6,225**	6,225
	55,507	54,573
Less principal due within one year	**(1,697)**	(1,521)
Add fair value adjustment of derivatives	**5,633**	8,288
Non-current amount	**59,443**	61,340

Principal instalments required in each of the next five years are as follows:

	$
2018	1,697
2019	1,759
2020	1,819
2021	1,886
2022	1,837
Thereafter	46,509

The Care Group has entered into four interest rate swap agreements with the Royal Bank of Canada.

During the year, the Care Group was approved to discharge the mortgage with the Canada Mortgage and Housing Corporation and then refinanced through a fourth loan of a notional amount of $3,982 as the mortgage for the PR Cook Premises. Principal and interest payments commenced November, 2016. This loan encompasses an interest rate swap agreement which establishes the underlying rate applicable to this loan at 2.28%. The maturity of this swap is October 4, 2033.

The fair value of the interest rate swap agreements is estimated based on amounts determined by the Royal Bank of Canada using prevailing rates. As at March 31, 2017, the interest rate swap agreements were in a net unfavourable position, representing a liability of $5,633 [2016 - $8,288] which is recognized in the statement of financial position and the statement of remeasurement gains and losses.

March 31, 2017 [Thousands of Dollars]

Available line of credit

The Care Group has an available line of credit of $5,000 [2016 - $5,000], of which $nil [2016 - $nil] was borrowed at year-end. Interest on the line of credit is calculated at prime less 0.25% [2.45% at year-end].

6. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions related to property, plant, and equipment represent the unamortized amount and unspent amount of donations and grants received for the purchase of property, plant, and equipment. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2017 $	2016 $
Balance, beginning of year	**89,418**	76,220
Additional contributions received	**19,858**	15,052
Amounts amortized to revenue	**(2,217)**	(1,854)
Balance, end of year	**107,059**	89,418
Unamortized capital contributions	**106,325**	88,684
Unspent contributions	**734**	734
Balance, end of year	**107,059**	89,418

7. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES LIABILITY

The following tables outline the Care Group's post-employment benefits and compensated absences liabilities and the related expenses.

	2017 $	2016 $
Accrued employee future benefit obligations	**6,580**	6,477
Unamortized actuarial gains (losses)	**(51)**	102
	6,529	6,579
Less current portion	**40**	40
Non-current portion	**6,489**	6,539
Current year benefit cost	**257**	415
Amortization of actuarial losses	**(187)**	(188)
Interest on accrued obligation	**195**	190
	265	417

Post-employment benefits

The Care Group provides extended health care, dental and life insurance benefits to substantially all full-time employees. Some employee groups are entitled to continue to receive these benefits upon early retirement until they reach age 65.

The significant actuarial assumptions adopted in estimating the Care Group's accrued benefit obligation are as follows:

The present value as at March 31, 2017 of the future benefits was determined using a discount rate of 3.75 % [2016 – 3.75%].

Dental costs were assumed to increase to 4.0% per annum.

Extended health care trend rates were assumed to decrease by 0.2% per annum to a rate of 7.4% in 2017 to an ultimate rate of 5.0% per annum in 2028 and thereafter.

Non-vesting sick days

The Care Group has certain employee groups that earn a specified number of days per month for use as paid absences in the event of illness or injury. These days do not vest and are available immediately. Employees are permitted to accumulate their unused allocation each year, up to the allowable maximum (if applicable) provided in their employment agreements. Sick days are paid out at the salary in effect at the time of usage.

March 31, 2017 [Thousands of Dollars]

8. INVESTMENT IN PROPERTY, PLANT, AND EQUIPMENT

[a] Investment in property, plant, and equipment is calculated as follows:

	2017 $	2016 $
Property, plant, and equipment at net book value	**208,046**	184,172
Amounts financed by		
Deferred capital contributions	**(106,325)**	(88,684)
Long-term debt	**(50,911)**	(49,977)
	50,810	45,511

[b] Change in net assets investment in property, plant, and equipment is calculated as follows:

	2017 $	2016 $
Loss for year		
Amortization of equipment	**(2,525)**	(2,018)
Amortization of buildings/leaseholds	**(4,439)**	(2,919)
Amortization of deferred capital contributions	**2,217**	1,854
	(4,747)	(3,083)

[c] Net change in investment in property, plant, and equipment:

	2017 $	2016 $
Purchase of property, plant, and equipment	**30,838**	36,940
Amounts funded by		
Ministry of Health and Long-Term Care	**(17,642)**	(18,702)
St. Joseph's Foundation of Thunder Bay	**(14)**	(229)
Other	**(2,202)**	(1,276)
Repayment of long-term debt	**1,570**	738
Proceeds from long-term debt	**(2,504)**	(15,551)
	10,046	1,920

March 31, 2017 [Thousands of Dollars]

9. RESTRICTED REPLACEMENT RESERVE FUNDS

This accumulated fund balance is comprised of the following:

	2017 $	2016 $
P. R. Cook Apartments		
Provision for year	**96**	96
Interest earned	**5**	5
Reserve Fund expenditures	**(90)**	(132)
Increase (decrease) in accumulated fund balance for year	**11**	(31)
Accumulated fund balance, beginning of year	**776**	807
Accumulated fund balance, end of year	**787**	776
Sister Leila Greco Apartments		
Provision for year	**400**	400
Interest earned	**8**	5
Reserve Fund expenditures	**—**	(21)
Increase in accumulated fund balance for year	**408**	384
Accumulated fund balance, beginning of year	**1,183**	799
Accumulated fund balance, end of year	**1,591**	1,183
Total accumulated fund balance, end of year	**2,378**	1,959

10. STATEMENT OF CASH FLOWS

The net change in the non-cash working capital accounts related to operations is represented by the following:

	2017 $	2016 $
Decrease (increase) in current assets		
Accounts receivable – Ministry of Health and Long-Term Care/ North West Local Health Integration Network	**(1,215)**	—
Accounts receivable	**1,640**	(3,603)
Inventory	**7**	(92)
Prepaid expenses	**(266)**	(1)
	166	(3,696)
Increase (decrease) in current liabilities		
Accounts payable – Ministry of Health and Long-Term Care/ North West Local Health Integration Network	**(320)**	(946)
Accounts payable and accrued liabilities	**(3,316)**	3,310
	(3,636)	2,364
Total net change	**(3,470)**	(1,332)

11. ECONOMIC INTEREST

The Care Group has economic interest in St. Joseph's Foundation of Thunder Bay. The Foundation's primary purpose is to raise funds from the public and business community to provide funds for the furtherance of the long-term charitable works of the Sisters of St. Joseph of Sault Ste. Marie within the District of Thunder Bay, including St. Joseph's Care Group. During the year, the Foundation granted $14 [2016 - $229] to the Care Group for use in the purchase of property, plant, and equipment.

12. RELATED PARTIES

The Care Group is a member of the Northwest Health Alliance (NWHA) which is a not-for-profit organization that was established by 12 of the 13 hospitals in Northwestern Ontario to facilitate collaboration and cost-sharing among health service providers. The NWHA is tasked with developing, implementing, managing, operating and distributing products and shared services that will enhance the provision of health care.

13. CONTINGENT LIABILITIES

Sisters of St. Joseph of Sault Ste. Marie

The demand note to the Sisters of St. Joseph of Sault Ste. Marie was issued April 1, 1997 and is subject to a General Security Agreement which outlines collateral provisions and events of default.

This is an interest-free promissory note that is payable 90 days following a written demand from the Sisters. It is not expected that the Sisters will demand repayment within the next twelve months.

Ministry of Municipal Affairs and Housing

In conjunction with receiving a Ministry of Municipal Affairs and Housing grant for the construction of Sister Leila Greco Apartments included in deferred capital contributions, the Care Group received a capital contribution in the amount of $6,600 in 2013. The term of the agreement is twenty years expiring October 28, 2029. Failure to operate and manage the Sister Leila Greco Apartments in accordance with the terms and conditions of the Provincial Contribution Agreement could result in any unamortized portion of the capital contribution being repaid.

March 31, 2017 [Thousands of Dollars]

St. Joseph's Care Group Operations

The St. Joseph's Care Group is the defendant in a number of legal claims, the outcome of which are indeterminable. The Care Group's management feels that insurance coverage is adequate to cover any potential liabilities.

14. COMMITMENTS

[a] The Care Group's St. Joseph's Hospital site land and buildings are owned by The Avila Foundation and are leased to the Care Group for a nominal payment annually. The Care Group is responsible for all occupancy costs which include leasehold improvements.

[b] The Care Group has entered into lease agreements for building space. The leases are for varying terms expiring between 2017 and 2019. In addition, the Care Group has lease commitments for vehicles and equipment. The following minimum payments are required over the terms of the leases:

	$
2017	18
2018	11
2019	4

[c] Construction projects

Hogarth Riverview Manor

The Care Group has entered into a contract for the construction of a 448 bed long-term care home over two phases. Phase 1 is 100% complete at March 31, 2017 and costs incurred are included in Buildings, Furniture and Equipment. Phase 2 of the project costs are reported as construction-in-progress. The total value of the combined project is approximately $93.2 million and was completed as of April, 2017. The funding sources for the project include provincial grants of $28.9 million, Capital Expenditure Reserve Funds of $23.3 million and long-term financing of $41 million.

St. Joseph's Hospital - East Wing Project

The Care Group has entered into a contract for the construction of the addition of the East Wing on the St. Joseph's Hospital site. The project will provide facilities for the specialized mental health rehabilitation program as well as administrative and support areas. The contract is valued at $36.3 million. The East Wing is approximately 70% complete at March 31, 2017 and costs incurred to date are reported as construction-in-progress. The East Wing is anticipated to be completed by December, 2017.

LINK

In September, 2016, the Care Group entered into a contract with F. Janzen Drug Limited ("Janzen") to build the LINK. The LINK is a building which will physically connect the Sister Leila Greco Home to the new Hogarth Riverview Manor Expansion. Janzen will be responsible for funding their share of construction and development costs of the LINK (71%) and the Care Group will be the owner of the entire building once completed. The value of the total construction contract is $4.8 million.

15. RESIDENTS' TRUST FUND

The balance held in trust at year-end was $160 [2016 - $128].

16. PENSION PLAN

Most of the employees of the Care Group are members of the Healthcare of Ontario Pension Plan (formerly Hospitals of Ontario Pension Plan) ("HOOPP"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. The OPSEU Pension Plan ("OP Trust") is defined as a contributory defined benefit pension plan. Membership within the Plan consists of members represented by OPSEU. Both plans will provide members with benefits based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement, termination or death, that provide the highest average earnings.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with contributions by employees, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are to be funded proportionately by the employees and the employer. The most recent actuarial valuation of HOOPP as at March 31, 2017 for the December 31, 2016 year, indicates HOOPP was 122 per cent funded. Contributions to HOOPP made during the year by the Care Group and its employees amounted to $13,271 [2016 - $11,737].

The majority of employees in the OPSEU Union are members of the OP Trust. The most recent actuarial valuation of OP Trust as at December 31, 2016 indicates the Plan remains fully funded. Contributions to the OP Trust made during the year by the Care Group and its employees amounted to $1,428 [2016 - $1,522].

17. FINANCIAL INSTRUMENT RISK MANAGEMENT

Credit risk

Credit risk is the risk of financial loss to the Care Group if a debtor fails to make payments when due. The Care Group is exposed to this risk with respect to accounts receivable.

Accounts receivable are due from clients and/or outside agencies. A bad debt allowance is set up based on the Care Group's historical experience regarding collections.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk, and equity risk.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Currency risk

The Care Group does not have any material transactions or financial instruments denominated in foreign currencies.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Care Group is exposed to this risk through its interest bearing investments and term debt. The Care Group mitigates interest rate on its long-term debt through a derivative financial instrument that exchanges variable rates inherent in the term debt for a fixed rate (see note 5). Therefore, fluctuations in market interest rates would not impact future cashflows and operations relating to the term debt.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Equity risk

The Care Group does not have any transactions or financial instruments in the equity market.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity risk

Liquidity risk is the risk that the Care Group will not be able to meet all cash outflow obligations as they come due. The Care Group mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

18. CAPITAL MANAGEMENT

In managing capital, the Care Group considers its capital to be its net assets, consisting of investment in property and equipment, unrestricted, and capital expenditure reserve funds. The amounts invested in property and equipment ensure that the physical facility is able to provide services. The Care Group's objectives when managing its property and equipment are to safeguard its ability to continue as a going concern so it can continue to provide services and to allow for future expansion. Annual budgets are developed and monitored to ensure the Care Group's capital is maintained to meet these objectives.

19. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2017 financial statements.

St. Joseph's Care Group

Schedule 1

Operations

Year Ended March 31

	Hospital Sector $	Community Sector $	Long-Term Care Sector $	Apartments and Leased Areas $	**2017** Total $	2016 Total $
					[Thousands of Dollars]	
REVENUE						
North West Health Integration Network	**91,558**	**12,470**	**29,862**	**—**	**133,890**	119,737
Alternative Level of Care Co-Payment	**1,161**	**—**	**—**	**—**	**1,161**	1,107
Long-Term Care - resident's portion	**—**	**—**	**10,468**	**—**	**10,468**	5,026
Canada Mortgage and Housing Corporation	**—**	**—**	**19**	**62**	**81**	139
The District of Thunder Bay Social Services Administration Board	**—**	**—**	**—**	**318**	**318**	328
Program fees and rentals	**—**	**1,129**	**59**	**2,998**	**4,186**	4,161
Amortization of deferred contributions related to equipment	**37**	**19**	**105**	**—**	**161**	361
Municipal contribution	**—**	**—**	**—**	**362**	**362**	360
Other recoveries	**14,225**	**1,145**	**2,403**	**75**	**17,848**	17,984
	106,981	**14,763**	**42,916**	**3,815**	**168,475**	149,203
EXPENSES						
Amortization of equipment	**1,503**	**19**	**935**	**68**	**2,525**	2,018
Drugs	**1,153**	**—**	**—**	**—**	**1,153**	1,259
Interest on long-term debt	**—**	**—**	**1,260**	**377**	**1,637**	910
Medical and surgical supplies	**1,024**	**—**	**380**	**3**	**1,407**	1,365
Medical staff remuneration	**8,378**	**261**	**105**	**—**	**8,744**	8,038
Municipal taxes	**49**	**—**	**—**	**581**	**630**	721
Salaries and benefits	**78,413**	**12,089**	**31,366**	**340**	**122,208**	106,944
Supplies and other	**16,708**	**2,593**	**8,387**	**1,395**	**29,083**	25,716
	107,228	**14,962**	**42,433**	**2,764**	**167,387**	146,971
Excess (shortfall) of revenues over expenses before the following	**(247)**	**(199)**	**483**	**1,051**	**1,088**	2,232
Amortization of buildings/leaseholds	**(871)**	**(376)**	**(2,538)**	**(654)**	**(4,439)**	(2,919)
Amortization of deferred capital contributions related to building	**389**	**375**	**896**	**396**	**2,056**	1,493
Employee future benefits *[note 7]*	**(294)**	**—**	**29**	**—**	**(265)**	(417)
Gain on disposal of equipment	**1**	**—**	**—**	**—**	**1**	4
Restructuring	**(427)**	**—**	**—**	**—**	**(427)**	(276)
Excess (shortfall) of revenues over expenses for year	**(1,449)**	**(200)**	**(1,130)**	**793**	**(1,986)**	117