Financial Statements

London Health Sciences Centre

March 31, 2009

MANAGEMENT'S REPORT

The accompanying financial statements of London Health Sciences Centre [the "Centre"] have been prepared by Management, reviewed and recommended by the Finance and Audit Committee, and approved by the Board of Directors at their meeting of May 26, 2009.

The Board of Directors carries out its responsibility for the Centre's financial statements principally through its Finance and Audit Committee. The Finance and Audit Committee meets with Management and the Internal and External Auditors to review any significant accounting and auditing matters and discuss the results of audit examinations. The Finance and Audit Committee also reviews the financial statements and the auditors' report and submits its findings to the Board of Directors for their consideration in approving the financial statements.

The Centre maintains a system of internal accounting controls which 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 generally accepted accounting principles.

Cliff Nordal, FCCHSE
President and CEO

Jim Flett, C.A., MBA
Integrated Executive Vice President,
Corporate Services (CFO)

John Mockler, CMA, MBA
Integrated Corporate Controller

London, Canada,
May 26, 2009.

AUDITORS' REPORT

To the Board of Directors of
London Health Sciences Centre

We have audited the statement of financial position of **London Health Sciences Centre** as at March 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the **London Health Sciences Centre's** management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the **London Health Sciences Centre** as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceeding year.

Ernst & Young LLP

London, Canada,
May 12, 2009.

Chartered Accountants
Licensed Public Accountants

London Health Sciences Centre

STATEMENT OF FINANCIAL POSITION

As at March 31
[in thousands]

	2009 $	2008 $
ASSETS		
Current		
Cash	**33,079**	22,139
Accounts receivable		
Ministry of Health & Long-Term Care [MOHLTC] and Local Health Integration Network [LHIN]	**3,389**	27,923
Patient and other	**26,318**	21,475
Due from affiliated organizations *[note 18]*	**15,804**	4,914
Inventories	**4,331**	4,609
Prepaid expenses	**4,978**	2,978
	87,899	84,038
Restricted cash *[note 5]*	**5,975**	6,401
Investments *[note 17]*	**4,110**	3,378
Capital assets *[note 7]*	**575,333**	574,353
	673,317	668,170
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued charges	**75,512**	80,350
Accounts payable		
Ministry of Health & Long-Term Care [MOHLTC] and Local Health Integration Network [LHIN]	**11,756**	9,764
Current debt *[note 8]*	**5,295**	31,651
Capital lease obligations *[note 11]*	**4,285**	3,852
Deferred contributions *[note 12]*	**9,006**	6,878
	105,854	132,495
Long-term liabilities *[note 9]*	**47,301**	47,373
Interest rate swaps *[note 10]*	**5,433**	2,871
Capital lease obligations *[note 11]*	**5,948**	2,883
Deferred contributions *[note 12]*	**383,429**	377,920
	547,965	563,542
Commitments and contingencies *[note 15]*		
NET ASSETS		
Invested in capital assets *[note 13]*	**148,457**	163,937
Unrestricted	**(23,105)**	(59,309)
	125,352	104,628
	673,317	668,170

See accompanying notes to financial statements

On behalf of the Board:

Robert Siskind
Chair, Board of Directors

Paul Andrews, C.A.
Chair, Finance and Audit Committee

London Health Sciences Centre

STATEMENT OF CHANGES IN NET ASSETS

Year ended March 31
[in thousands]

	2009			
	Invested in capital assets	**Unrestricted**	**Total**	**2008**
	$	$	$	$
	[note 13]			
Balance, beginning of year	**163,937**	**(59,309)**	**104,628**	79,759
Transition adjustment	—	—	—	(2,505)
Surplus (deficit) for the year	**(29,402)**	**52,688**	**23,286**	27,740
Interest rate swap adjustment	—	**(2,562)**	**(2,562)**	(366)
Net change in invested in capital assets *[note 13[b]]*	**13,922**	**(13,922)**	—	—
Balance, end of year	**148,457**	**(23,105)**	**125,352**	104,628

See accompanying notes to financial statements

London Health Sciences Centre

STATEMENT OF OPERATIONS

Year ended March 31
[in thousands]

	2009 $	2008 $
Revenues		
Ministry of Health & Long-Term Care [MOHLTC] and Local Health Integration Network [LHIN]	**768,511**	741,959
Non-patient	**95,163**	75,994
Patient	**51,052**	47,124
Preferred accommodation	**13,250**	13,306
Amortization of deferred contributions	**30,417**	29,498
Investment	**794**	868
	959,187	908,749
Expenses		
Salaries and wages	**503,167**	474,833
Employee benefits *[note 16]*	**96,806**	88,919
Supplies and other *[notes 17[b],[c]&[d]]*	**117,374**	114,679
Medical and surgical supplies	**74,424**	67,671
Drugs	**79,175**	69,805
Amortization of capital assets	**59,819**	59,359
Interest and other *[note 9]*	**4,711**	5,359
	935,476	880,625
Surplus before undernoted items	**23,711**	28,124
Restructuring and amalgamation costs	**(6,426)**	(6,473)
MOHLTC restructuring funding	**6,426**	6,473
Loss on equity investments *[note 17]*	**(425)**	(384)
Surplus	**23,286**	27,740

See accompanying notes to financial statements

London Health Sciences Centre

STATEMENT OF CASH FLOWS

Year ended March 31
[in thousands]

	2009 $	2008 $
FUNDS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Surplus	**23,286**	27,740
Add (deduct) non-cash items:		
Amortization of capital assets	**59,819**	59,359
Amortization of deferred contributions	**(30,417)**	(29,498)
Increase (decrease) in deferred contributions related to future operating expenses	**2,128**	(316)
	54,816	57,285
Net change in non-cash working capital items *[note 14]*	**15,124**	39,942
Cash provided by operating activities	**69,940**	97,227
FINANCING ACTIVITIES		
Deferred contributions received related to capital assets	**35,926**	37,348
Increase in other long-term liabilities	**910**	1,844
Decrease (increase) in due from/to affiliated organizations	**(10,890)**	1,571
Decrease in debt	**(27,338)**	(75,502)
Increase (reduction) in capital lease obligations	**3,498**	(2,001)
Cash provided by (used in) financing activities	**2,106**	(36,740)
INVESTING ACTIVITIES		
Increase in investments	**(732)**	(475)
Purchase of capital assets	**(60,800)**	(40,069)
Cash used in investing activities	**(61,532)**	(40,544)
Increase in cash in the year	**10,514**	19,943
Cash, beginning of year	**28,540**	8,597
Cash, end of reporting period (see below)	**39,054**	28,540

	2009 $	2008 $
Cash end of year:		
Cash	**33,079**	22,139
Restricted cash	**5,975**	6,401
Total	**39,054**	28,540

See accompanying notes to financial statements

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2009
[in thousands of dollars]

1. CENTRE OPERATIONS

London Health Sciences Centre [the "Centre"] receives the majority of its operating funding from the Province of Ontario in accordance with budget policies established by the Ontario Ministry of Health and Long-Term Care ["MOHLTC"] and the Local Heath Integration Network ["LHIN"]. Capital redevelopment expenditures are primarily funded by the MOHLTC and philanthropic contributions.

The Centre operates under a Hospital Service Accountability Agreement ["H-SAA"] with the LHIN. This agreement sets out the rights and obligations of the two parties in respect of funding provided to the Centre. The H-SAA sets out the funding provided to the Centre together with performance standards and obligations that establish acceptable results for the Centre's performance. The Centre retains any excess or deficiency of income over expenses during the year in accordance with the H-SAA.

The Centre also signed a Development Accountability Agreement ["DAA"] with the MOHLTC on November 18, 2008. The DAA sets out the conditions and funding obligations of the MOHLTC and the Centre for the redevelopment of capital assets. The DAA parameters and MOHLTC cost share agreements have been incorporated into project costs and funding commitments by the MOHLTC and the Centre for construction and equipment *[note 15]*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ["GAAP"]. The significant accounting policies are summarized as follows:

[a] Revenue recognition

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

Unrestricted funding is recognized as revenue if the amount to be received can be estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

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

[b] Inventory

Inventory is valued at the lower of cost and current replacement cost on a first-in, first-out basis. Reviews for obsolete, damaged and expired items are done on a regular basis, and any items that are found to be obsolete, damaged or expired are written off when such determination is made.

[c] Investments

The Centre has interests in economic activities where there is shared ownership of these activities by the venturers. The accounts of these joint venture activities are included in the accompanying financial statements following the equity method.

[d] Capital assets

Capital assets are recorded at original cost. Amortization of cost and any corresponding deferred contribution is calculated on a straight-line basis using the following annual rates:

Buildings and land improvements	2%
Parking lot pavement	3 1/3%
Equipment and furniture	10% to 20%

Donated capital assets are recorded at fair market value at the date of contribution. Construction and projects in progress comprise construction and development costs and capitalized interest. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

External labour and internally reassigned personnel costs associated with specific projects are included in their cost, capitalized and amortized over the life of the project.

[e] Use of estimates

Preparation of the Centre's financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the statement of financial position date and the reported amounts of revenue and expenses during the reporting period. The inherent uncertainty involved in making such estimates may impact the actual results reported in future periods.

[f] Other employee future benefits

The Centre accrues its obligations for other employee future benefits. The cost of other employee future benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service using best estimates of salary escalation, retirement ages of employees and expected health care costs. Differences arising from plan amendments, changes in assumptions and actuarial gains and losses are recognized in the statement of operations over the expected average remaining service life of employees. The cumulative excess of any gains (losses) over 10% of the accrued benefit obligation at the beginning of the year are amortized into expense over the expected average remaining service lifetime of active employees.

[g] Financial instruments

The Centre has chosen to continue to apply the Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3861: *Financial Instruments – Disclosure and Presentation* in place of CICA Handbook Section 3862: *Financial Instruments – Disclosures* and Section 3863: *Financial Instruments – Presentation*.

Financial assets and financial liabilities

GAAP requires that all financial instruments must be classified as held-for-trading ["HFT"], available-for-sale ["AFS"], held-to-maturity ["HTM"], loans and receivables, or other financial liabilities. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Centre's designation of such instruments.

The Centre has made the following classifications:

[a] Cash is classified as HFT and measured at fair value with changes in fair value recognized in net income.
[b] Accounts receivable are classified as loans and receivables. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
[c] Amounts due from affiliated organizations are classified as loans and receivables. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
[d] Accounts payable, accrued charges and long-term debt are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in interest and other expenses, net. Transaction costs related to HFT financial assets and HFT financial liabilities are expensed to interest and other expenses, net as incurred.

Determination of fair value

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

Derivatives and hedge accounting

All derivative instruments are carried at fair value on the statement of financial position unless exempted from derivative treatment as a normal purchase and sale. All changes in fair value are recorded in investment income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in net assets to the extent that the hedge is effective.

The Centre does not engage in derivative trading or speculative activities.

The Centre periodically develops hedging strategies for execution taking into account risk management objectives. At the inception of a hedging relationship, the Centre documents the relationship between the hedging instrument and the hedged item. This would include linking all derivatives to specific assets and liabilities on the statement of financial position or to specific firm commitments or forecasted transactions. The Centre would also assess, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used are effective in offsetting changes in fair values or cash flows of hedged items.

3. CHANGE IN ACCOUNTING POLICY

Effective April 1, 2008, the Centre adopted the recommendations of the CICA Handbook Section 1535: *Capital Disclosures,* which requires the disclosure of qualitative and quantitative information that enables the users of the financial statements to evaluate the Centre's objectives, policies and processes for managing capital. The adoption of these recommendations only required additional disclosures, which are provided in note 6.

Effective April 1, 2008, the Centre adopted CICA Handbook Section 3031: *Inventories*, which provides guidance on the measurement and disclosure requirements for inventories. The adoption of these new recommendations had no material impact on the Centre's financial statements.

Future changes in accounting policies

The CICA issued revisions to Section 4400*: Financial Statement Presentation by Not-for-Profit Organizations*, which makes the disclosure of net assets invested in capital assets optional. The effective date is fiscal years beginning on or after January 1, 2009. The Centre has the choice to adopt this revised presentation on April 1, 2009. The impact of adopting these revisions would have no impact to the financial statements except with respect to reclassification and disclosure.

The CICA issued revisions to Section 1000: *Financial Statement Concepts* to clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the statement of financial position. These amendments are not expected to have an impact on the Centre's financial statements.

4. FUNDS HELD IN TRUST

The Centre holds funds in trust for certain related or associated entities, which the Centre has received under the direction of multi-party agreements. The funds are not available for the use or benefit of the Centre and are disbursed according to the terms of the various agreements. Funds in trust are not included on the Centre's statement of financial position.

The Academic Medical Organization of Southwestern Ontario ["AMOSO"] is an unincorporated association whose members include: the Clinical Teachers' Association of the University of Western Ontario; the University of Western Ontario ["UWO"]; the Centre; and St. Joseph's Health Care, London ["SJHC"]. The members collectively and individually are concerned with medical education, basic and applied health research, and the provision of clinical services to the population served by the Centre.

The Regional Shared Service ["RSS"] was formed by the Thames Valley Hospital Planning Partnership ["TVHPP"] to support the implementation of regional information systems *[note 17(d)]*. The Centre holds funds in trust that have been contributed by regional hospitals, including the Centre, for future computer lease obligations and general business contingencies relating to refreshing the RSS assets.

The Centre also holds funds in trust related to the Southwestern Ontario Diagnostic Imaging Project ["SWO DI"] and for other regional information management projects. These funds were entirely contributed by Canada Health Infoway and the MOHLTC.

Certain of the funds held in trust for SWO DI may be rendered to the Centre as reimbursement for expenditures incurred subject to approval by the Diagnostic Imaging Steering Committee.

NOTES TO FINANCIAL STATEMENTS

March 31, 2009
[in thousands of dollars]

Funds held in trust are summarized in the following table:

	2009 $	2008 $
AMOSO	**21,894**	6,195
RSS – Regional hospital contributions to refresh assets	**397**	250
SWO DI / Regional Information Management Projects	**5,306**	4,860
Total	**27,597**	11,305

5. RESTRICTED CASH

The Centre has internally restricted cash in order to discharge obligations related to the following:

	2009 $	2008 $
Cancer Care Ontario ["CCO"] Integration Funding [a]	**847**	1,157
Local Share – Renal Dialysis Centre [b]	**1,333**	1,302
Employee benefit rebates *[note 9(d)]*	**3,795**	3,703
RSS – Centre contribution to refresh assets *[note 4]*	**—**	239
Total	**5,975**	6,401

[a] The Centre has restricted cash received for the purposes of integrating the former London Regional Cancer Centre ["LRCC"] into the operations of the Centre.

[b] The Centre has restricted the cash received for the construction of a Renal Dialysis Centre.

6. CAPITAL MANAGEMENT

In managing capital, the Centre focuses on liquid resources available for operations. The Centre's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. The Centre has an available line of credit of $45,000 that is used when sufficient cash flow is not available from operations to cover operating and capital expenditures. The Centre will enter into long-term debt, as approved by the Board of Directors, to assist with the financing of capital assets when other sources are not available. As at March 31, 2009, the Centre had sufficient liquid resources to meet its current obligations.

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2009
[in thousands of dollars]

7. CAPITAL ASSETS

	2009			2008
	Cost $	**Accumulated amortization** $	**Net book value** $	**Net book value** $
Buildings and land improvements	**444,882**	**123,595**	**321,287**	329,960
Parking lot pavement	**1,156**	**699**	**457**	242
Equipment and furniture	**546,692**	**423,685**	**123,007**	137,718
	992,730	**547,979**	**444,751**	467,920
Land	**1,420**	**—**	**1,420**	1,420
Construction and projects in progress *[notes 8 and 15[c]]*	**129,162**	**—**	**129,162**	105,013
	1,123,312	**547,979**	**575,333**	574,353

The above capital assets include assets under capital lease of $14,686 [2008 - $14,699] at cost with accumulated amortization of $4,468 [2008 - $7,977].

In addition, the above capital assets include construction in progress costs associated with a project agreement to build and finance the next phase of the Centre's redevelopment of buildings required to meet the Health Services Restructuring Commission ["HSRC"] directives *[note 15(c)]*. The project will proceed as an alternative financing and procurement project under Infrastructure Ontario, with the Centre and the MOHLTC sharing in the total project cost as described in note 15(c). Under this arrangement, financing for the project is provided by an external lender during construction, with certain internal planning costs being reimbursed to the Centre at various intervals during the construction phase. Payment of the MOHLTC’s share of $466,587 and the Centre’s share of $96,489 occurs at specified intervals during 2011 and is included in the overall Foundation commitment outlined in note 15(c).

NOTES TO FINANCIAL STATEMENTS

March 31, 2009
[in thousands of dollars]

8. CREDIT FACILITIES AND DEMAND DEBT

The credit facilities as at March 31, 2009 established with the Centre's bankers consist of a credit line of $45,000 to be used for general operating purposes and to bridge capital expenditures. No amount has been drawn on this facility at year-end. The Centre also has debt facilities as shown in the following table:

	2009 $	2008 $
Temporary bridge facilities		
Demand loan payable at bankers' acceptance rate plus 0.75% [a]	—	15,000
Demand loan payable at prime minus 1.4%	—	10,000
Demand non-revolving capital debt		
Demand non-revolving capital loan payable at 4.03% [b]	**4,313**	—
Demand revolving capital bridge debt		
Demand revolving loan payable at bankers' acceptance rate plus 0.75% [c]	—	5,725
	4,313	30,725
Current portion of long-term debt	**982**	926
Total current debt	**5,295**	31,651

[a] The Centre has a temporary bridge facility of $25,000 [2008 - $35,000] to provide for cash flow needs, bearing interest at bankers' acceptance rate plus 0.75%. As at March 31, 2009, no amount was drawn on this facility.

[b] On November 13, 2008 the Centre entered into a demand non-revolving capital loan to finance expenditures related to the replacement of chiller systems. The credit is available in two tranches, to be advanced in sequence. Monthly equal blended payments of principal and interest, amortized over eight years, will commence April 30, 2009.

The Centre is exposed to interest rate cash flow risk with respect to its floating rate debt. The Centre has addressed this risk by entering into an interest rate swap ["IRS"] agreement that fixes the interest rate over the term of the debt. This is designated as a hedge and is further described in note 10[a].

[c] On August 10, 2007 the Centre entered into a demand revolving loan bearing interest at bankers' acceptance rate plus 0.75%, to bridge payments to suppliers for the Milestone 2 Phase 2 redevelopment project. The $6,000 facility will continue to be used as required. No amount has been drawn on this facility at year-end.

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2009
[in thousands of dollars]

9. LONG TERM LIABILITIES

	2009 $	2008 $
Long-term debt		
Committed term installment loan at 6.353% re: Victoria Hospital parking facility [a]	**15,774**	16,217
Committed term installment loan at 7.08% re: University Hospital parking facility [b]	**17,138**	17,621
	32,912	33,838
Less current portion	**982**	926
	31,930	32,912
Other		
Sick leave entitlement [c]	**1,992**	2,232
Employee benefit rebates [d]	**3,795**	3,703
Other employee future benefits	**7,953**	6,785
Other	**1,631**	1,741
	15,371	14,461
Total long-term liabilities	**47,301**	47,373

[a] The Centre has a committed term installment loan bearing interest at a variable rate due December 31, 2022. Quarterly equal blended payments of principal and interest amortized over 25 years commenced September 30, 2003.

The Centre is exposed to interest rate cash flow risk with respect to its floating rate debt. The Centre has addressed this risk by entering into an IRS agreement that fixes the interest rate over the term of the debt. This is designated as a hedge and is further described in note 10[b].

The Centre has provided any surplus cash flows from the Victoria Hospital parking structure as collateral for all amounts drawn on the corresponding parking facilities.

[b] The Centre has a committed term installment loan bearing interest at 7.08% due July 31, 2021. Monthly equal blended payments of principal and interest, amortized over 25 years, commenced April 1, 2002. The fair value of this debt at March 31, 2009 is $20,499.

The Centre has provided any surplus cash flows from the University Hospital parking structure as collateral for all amounts drawn on the corresponding parking facilities.

[in thousands of dollars]

[c] 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 from the Centre.

[d] The rebate portion of certain legislated employee benefits programs in the past had been designated by the Centre to fund future costs. The balance includes accrued interest commencing April 1, 2007.

[e] Principal payments due under various debt agreements are as follows:

2010	982
2011	1,048
2012	1,120
2013	1,195
2014	1,276
	5,621

Interest costs incurred in the year amounted to $3,562 [2008 - $4,330], of which nil related to the capital loan [2008 - $199].

10. INTEREST RATE SWAPS

	2009 $	**2008** $
Interest rate swap on chiller loan [a]	**363**	—
Interest rate swap on Victoria Hospital parking facility loan [b]	**5,070**	2,871
	5,433	2,871

[a] On November 13, 2008 the Centre entered into a demand non-revolving capital loan to finance expenditures related to the replacement of chiller systems. The Centre entered into an IRS agreement in order to hedge a portion of its exposure to interest rate fluctuations on the debt. At March 31, 2009, the IRS agreement represented a notional principal amount of $4,313. The agreement causes the Centre to swap its floating rate obligation annually for a fixed rate of 4.03%. The maturity date of this IRS agreement is March 31, 2017.

As at March 31, 2009, the fair value of this IRS agreement represented a liability of $363. The fair value of the derivative financial instrument reflects the estimated amount that the Centre, if required to settle the outstanding contract, would be required to pay or would be entitled to receive at year end.

[in thousands of dollars]

[b] The Centre has a committed term installment loan related to the Victoria Hospital parking facility. The Centre entered into an IRS agreement in order to hedge a portion of its exposure to interest rate fluctuations on the debt. At March 31, 2009, the agreement represented a notional principal amount of $15,774. The IRS agreement causes the Centre to swap its floating rate obligation annually for a fixed rate of 6.353%. The maturity date of this agreement is December 30, 2022.

As at March 31, 2009, the fair value of this IRS agreement represented a liability of $5,070 [2008 - $2,871]. The fair value of the derivative financial instrument reflects the estimated amount that the Centre, if required to settle the outstanding contract, would be required to pay or would be entitled to receive at year end.

11. CAPITAL LEASE OBLIGATIONS

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

	2009	**2008**
	$	$
Total minimum lease payments	**10,697**	7,205
Less amounts representing interest	**464**	470
Present value of capital lease payments	**10,233**	6,735
Current portion of obligation under capital lease	**4,285**	3,852
	5,948	2,883

Principal payments due under capital lease agreements are as follows:

	$
2010	4,285
2011	3,417
2012	2,348
2013	183
	10,233

NOTES TO FINANCIAL STATEMENTS

March 31, 2009
[in thousands of dollars]

12. DEFERRED CONTRIBUTIONS

	2009 $	2008 $
Capital contributions [a]		
Completed projects	**261,672**	278,875
Construction in progress	**117,746**	90,968
Unspent contributions	**4,011**	8,077
Future operating expenses [b]	**9,006**	6,878
	392,435	384,798
Less current portion	**9,006**	6,878
	383,429	377,920

[a] Capital contributions

Deferred contributions received during the year of $35,926 [2008 - $37,348] are reflected in the statement of cash flows, and represent restricted grants and donations for the purchase of capital assets.

[b] Future operating expenses

Deferred contributions related to future periods represent unspent restricted grants for operating purposes.

13. NET ASSETS INVESTED IN CAPITAL ASSETS

[a]

	2009 $	2008 $
Capital assets *[note 7]*	**575,333**	574,353
Amounts financed by		
Deferred contributions *[note 12]*	**(379,418)**	(369,843)
Debt *[notes 8 & 9]*	**(37,225)**	(33,838)
Capital leases *[note 11]*	**(10,233)**	(6,735)
	148,457	163,937

[in thousands of dollars]

[b] Change in net assets invested in capital assets:

	2009 $	**2008** $
Deficit		
Amortization of deferred contributions	**30,417**	29,498
Amortization of capital assets	**(59,819)**	(59,359)
	(29,402)	(29,861)
Net change in investment in capital assets		
Additions to capital assets	**60,800**	40,069
Amounts funded by deferred contributions	**(39,993)**	(32,114)
Reduction (increase) in long-term debt and demand capital loans	**(3,387)**	21,096
Reduction (increase) in capital leases	**(3,498)**	2,001
	13,922	31,052

14. STATEMENT OF CASH FLOWS

The net change in non-cash working capital items related to operations consists of the following:

	2009 $	**2008** $
Funds provided by (used in)		
Accounts receivable		
MOHLTC and LHIN	**24,534**	40,844
Patient and other	**(4,843)**	(1,926)
Inventories	**278**	(484)
Prepaid expenses	**(2,000)**	(873)
Accounts payable MOHLTC and LHIN	**1,992**	1,192
Accounts payable and accrued charges	**(4,837)**	1,189
	15,124	39,942

NOTES TO FINANCIAL STATEMENTS

March 31, 2009
[in thousands of dollars]

15. COMMITMENTS AND CONTINGENCIES

[a] The Centre has entered into operating leases for premises and equipment. Minimum rental payments over the next five years are as follows:

	$
2010	561
2011	598
2012	615
2013	633
2014	651

[b] The Centre is subject to certain actual and potential legal claims that have arisen in the normal course of operations. In management's opinion, insurance coverage is sufficient to offset the cost of unfavourable settlements, if any, which may result from such claims.

[c] The Centre has spent approximately $261,035 on buildings and other related expenditures to complete HSRC directives received in 1998. Future capital asset expenditures of $302,041 are required to meet these directives over the next two years for a total cost of $563,076.

The Centre has a cost sharing agreement with the MOHLTC for the redevelopment of buildings and other related capital expenditures. Under the terms of the agreement, the MOHLTC will fund $466,587 of the required capital asset expenditures. According to the terms of the cost sharing agreement, $96,489 must be raised by the Centre from other sources of funds. The London Health Sciences Foundation [the "Foundation"] and the Children's Health Foundation have together committed to contribute $85,400. As of March 31, 2009, the Foundation and the Children's Health Foundation have transferred $41,030 [2008 - $38,430] to the Centre. The Centre contributed $5,400 from its own working capital funds.

The Centre also has a cost sharing agreement with the MOHLTC for the acquisition of capital equipment and furnishings. The total cost is $45,815 with the MOHLTC contributing $27,761. The Foundation has committed to contribute $17,052. As of March 31, 2009 the Foundation has transferred $8,200 [2008 - $8,200] to the Centre.

In addition, the Centre is committed to completing construction of research facilities located at Victoria Hospital. The total cost of the project is $4,827. All construction costs will be funded by the Foundation.

NOTES TO FINANCIAL STATEMENTS

March 31, 2009
[in thousands of dollars]

16. EMPLOYEE FUTURE BENEFITS

[a] Pension plan

Pension benefit costs are expensed as related contributions are made to the Hospitals of Ontario Pension Plan ["HOOPP"]. Substantially all of the employees of the Centre are members of the HOOPP. This plan is a multi-employer defined benefit pension plan. Employer contributions made to the HOOPP on behalf of employees amounted to $36,622 [2008 - $34,519].

The most recent actuarial valuation for accounting purposes completed by the HOOPP as at December 31, 2008, disclosed a smoothed assets value of $30,261,000 with accrued going concern liabilities of $31,244,000 resulting in a going concern deficit of $983,000.

[b] Other employee future benefits

The accrued obligations for all other employee future benefits, based on amounts determined by independent actuaries, are $9,554 as at March 31, 2009 [2008 - $8,252]. The transitional obligation of $1,950 at March 31, 2000 is being recognized over the employees' average remaining service life.

The significant actuarial assumptions adopted in measuring the Centre's accrued benefit obligations for the other employee future benefits are as follows:

Discount rate	7.5%
Future general inflation increase	2.0%
Executive supplementary pension increase	2.0%

Other employee future benefits expensed during the year were $2,103 [2008 - $2,182]. Benefits paid during the year were $335 [2008 - $354]. These obligations are funded in the year they are paid out.

[in thousands of dollars]

17. INVESTMENTS

The Centre has entered into four separate joint ventures, which are accounted for on an equity basis as follows:

	2009 $	2008 $
Investment in Western ProResp Inc. [a]	**1,352**	1,149
Investment in Healthcare Materials Management Services [b]	**933**	856
Investment in London Laboratory Services Group [c]	**1,825**	1,373
Investment in RSS [d]	—	—
	4,110	3,378

The Centre's share of the joint ventures' assets, liabilities, operations and cash flows are as follows:

	2009		
	LLSG $	**Other** $	**Total** $
Centre's share of current year revenue	46,114	9,342	55,456
Centre's share of current year expense	(46,611)	(9,270)	(55,881)
Centre's share of current year net income (loss)	**(497)**	**72**	**(425)**
Centre's share of total assets	2,425	27,594	30,019
Centre's share of total liabilities	592	25,783	26,375
Centre's share of cash provided by operating activities	164	931	1,095
Centre's share of cash used in investing activities	(950)	(304)	(1,254)
Centre's share of cash provided by (used in) financing activities	786	(67)	719
Centre's share of cash provided by operating, investing and financing activities	—	**560**	**560**

[in thousands of dollars]

	2008		
	LLSG $	Other $	Total $
Centre's share of current year revenue	44,291	9,077	53,368
Centre's share of current year expense	(44,801)	(8,951)	(53,752)
Centre's share of current year net income (loss)	(510)	126	(384)
Centre's share of total assets	2,110	19,201	21,311
Centre's share of total liabilities	726	16,945	17,671
Centre's share of cash provided by (used in) operating activities	575	(1,352)	(777)
Centre's share of cash provided by (used in) investing activities	(656)	7,660	7,004
Centre's share of cash used in financing activities	(18)	(9,372)	(9,390)
Centre's share of cash used in operating, investing and financing activities	(99)	(3,064)	(3,163)

[a] Western ProResp Inc.

The Centre has a 50% interest in Western ProResp Inc. Effective December 1, 1998, Western ProResp Inc. was incorporated as a joint venture ["JV"] between the Centre and a third party for the purposes of providing home care services to clients in Middlesex and Elgin Counties.

[b] Healthcare Materials Management Services ["HMMS"]

HMMS is an unincorporated JV between the Centre and SJHC, created in 1997 to consolidate purchasing, warehousing, distribution and payment processing functions and to provide similar services to other healthcare institutions in Southwestern Ontario. Operating costs are allocated to the Centre and SJHC based on a pre-determined cost-sharing formula and expensed to operations as a purchased service.

HMMS incurred a loss of $174 [2008 - $115] during the year, which is equal to the amortization of capital assets recorded during the year. The Centre's share of this loss is $131 [2008 - $87]. During the year, the Centre contributed capital of $207 [2008 - $203] to the JV.

HMMS has bank credit facilities consisting of a $10,000 operating line of credit. The Joint Venture Agreement restricts each partner's maximum credit liability based upon the partner's utilization of the JV. As at March 31, 2009, the Centre had provided a guarantee for up to $7,522 in support of the operating line of credit. In the event that HMMS is unable to fulfill its debt obligations, the Centre will be responsible for the guaranteed amount. At year-end, HMMS had not drawn on its operating facility.

[in thousands of dollars]

[c] London Laboratory Services Group ["LLSG"]

On December 1, 2000, the Centre and SJHC entered into an updated JV to consolidate all laboratory services and provide all laboratory and pathology services to the Centre and SJHC in their delivery of patient care. A consolidation agreement was subsequently updated on March 31, 2007. Operating expenses of LLSG are those expenses related to the operation of the consolidated service and to the extent that operating costs exceed the annual budget, any excess shall be allocated to the Centre and SJHC in accordance with their utilization percentage. The utilization percentage, for each, shall be equal to the percentage that the Centre's and SJHC's budgets for laboratory services are to the total budget for consolidated lab services.

The services purchased from LLSG for the year ended March 31 are as follows:

	2009 $	**2008** $
London Health Sciences Centre	**38,433**	37,635
St. Joseph's Health Care, London	**8,062**	7,801
	46,495	45,436

LLSG incurred a loss of $602 [2008 - $615] during the year, which is equal to the unfunded amortization of capital assets recorded during the year. The Centre's share of this loss is $497 [2008 - $509]. During the year, the Centre contributed capital of $950 [2008 - $656] to the JV.

[d] Regional Shared Services

The Centre has entered into an unincorporated JV with the TVHPP and other regional hospitals to develop and operate a shared electronic health information management system, which is operationally referred to as RSS. Services include information systems related to electronic patient records, PACS and general ledger applications. The Centre has an economic interest in the JV and pays to the JV its share of capital, staffing, and operating costs incurred. The Centre paid $1,663 to RSS for the Centre’s share of operating costs during the year.

RSS relies on the Centre to provide payroll, facilities and other administrative support, and RSS reimburses the Centre for costs incurred on its behalf. During the year, the Centre incurred total operating costs of $5,501 on behalf of RSS. At year-end, RSS owed $753 to the Centre with respect to these costs.

NOTES TO FINANCIAL STATEMENTS

March 31, 2009
[in thousands of dollars]

18. AFFILIATED ORGANIZATIONS

Amounts due from affiliated organizations not consolidated in the Centre's financial statements are as follows:

	2009	2008
	$	$
London Health Sciences Centre Research Inc. [a]	**2,810**	1,972
London Health Sciences Foundation [b]	**881**	374
Academic Medical Organization of Southwestern Ontario [c]	**12,113**	2,568
	15,804	4,914

[a] London Health Sciences Centre Research Inc. ["Research Inc."]

Research Inc. is incorporated without share capital under the laws of Ontario. On June 26, 2000, the Centre entered into an agreement with SJHC, Lawson Research Institute, and Research Inc. to form a Board to conduct joint research activities as the Lawson Health Research Institute. This agreement was amended and restated effective September 18, 2006. Each venturer has continued to account for costs independently.

The Centre provided approximately $459 [2008 - $709] in funding to Research Inc. to assist with the operations of Research Inc. In addition, facilities and certain administrative functions are provided at no cost to Research Inc.

Research Inc. relies on the Centre to provide payroll and other administrative support and reimburses the Centre for costs incurred on its behalf. During the year, Research Inc. made payments of $593 [2008 - $628] to the Centre for sharing of infrastructure costs.

Included in the amounts due from Research Inc. is $2,114 of funds, the disbursement of which is at the discretion of the Centre [2008 - $2,149].

[b] London Health Sciences Foundation [the "Foundation"]

The Foundation is incorporated without share capital under the laws of Ontario.

The Foundation relies on the Centre to provide payroll, facilities and other administrative support. In addition to funds transferred to the Centre for capital, research, education, and patient care, the Foundation reimburses the Centre for costs incurred on its behalf.

[in thousands of dollars]

[c] Academic Medical Organization of Southwestern Ontario ["AMOSO"]

The Centre has a working agreement with AMOSO whereby funding is collected and administered by the Centre on behalf of AMOSO *[note 4]*. Amounts due from AMOSO with respect to payments made on its behalf by the Centre at March 31, 2009 amounted to $12,113 [2008 - $2,568].

19. CLINICAL EDUCATION

The Centre provides education to medical students, residents and fellows, for which it receives funding from the MOHLTC. Any unspent funds are returned to the MOHLTC, and any over-expenditure is the responsibility of the Centre. The excess of expenses over revenue is included in the Centre's statement of operations.

During the year, the Clinical Education program incurred expenses of $47,157 and received funding of $42,774 from the MOHLTC as follows:

	2009 $	2008 $
Revenue	**42,774**	40,098
Expenses	**47,157**	44,038
Excess of expenses over revenue	**(4,383)**	(3,940)

20. SUBSEQUENT EVENT

During the year, the Centre entered into an agreement with SJHC for cash consideration of $3,150, whereby a parcel of land belonging to the Centre with a book value of zero would be sold to SJHC. At April 24, 2009, the title of the land transferred to SJHC and the transaction was complete. The gain on the sale is $3,150.

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation of the current year financial statements.