

Financial Statements

London Health Sciences Centre

March 31, 2010

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 25, 2010.

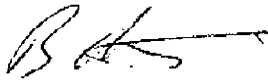
The Board of Directors carries out its responsibility for the Centre's financial statements principally through its Finance and Audit Committee. The Finance and Audit Committee meets with Management and the Internal and External Auditors to review any significant accounting and auditing matters and discuss 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.

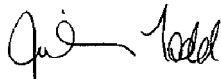
The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.



Cliff Nordal, FCCHSE
President and CEO



Bruce Hirst, CMA, MBA
Integrated Vice President,
Finance Services and Chief Financial Officer



Jillian Todd, CA, MAcc
Director, Accounting Services

London, Canada,
May 25, 2010.

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, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of **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 **London Health Sciences Centre** as at March 31, 2010 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.

London, Canada,
May 12, 2010.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

STATEMENT OF FINANCIAL POSITION

As at March 31
[in thousands]

	2010	2009
	\$	\$
ASSETS		
Current		
Cash	43,102	33,079
Restricted cash [note 5]	133,340	—
Accounts receivable		
Ministry of Health & Long-Term Care [MOHLTC] and Local Health Integration Network [LHIN]	10,827	3,389
Patient and other	24,327	26,318
Due from related entities [note 16]	13,845	15,804
Inventories	4,887	4,331
Prepaid expenses	2,869	4,978
	233,197	87,899
Restricted cash and investments [note 5]	25,742	5,975
Investments [note 17]	4,720	4,110
Capital assets [note 7]	724,033	575,333
	987,692	673,317
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued charges	71,741	75,512
Accounts payable with respect to construction in progress [note 14(c)]	148,505	—
Accounts payable MOHLTC and LHIN	20,626	11,756
Current portion of long term liabilities [note 9]	1,645	5,295
Capital lease obligations [note 11]	4,213	4,285
Deferred contributions [note 12]	7,154	9,006
	253,884	105,854
Long-term liabilities [note 9]	51,395	47,301
Interest rate swaps [note 10]	3,219	5,433
Capital lease obligations [note 11]	4,114	5,948
Deferred contributions [note 12]	524,479	383,429
	837,091	547,965
Commitments and contingencies [note 14]	—	—
NET ASSETS	150,601	125,352
	987,692	673,317

See accompanying notes to financial statements

On behalf of the Board:



Chair, Board of Directors



Gerry Wheaton
Chair, Finance and Audit Committee

STATEMENT OF CHANGES IN NET ASSETS

Year ended March 31
[in thousands]

	2010	2009
	\$	\$
Balance, beginning of year	125,352	104,628
Surplus	23,035	23,286
Interest rate swap fair value adjustment	2,214	(2,562)
Balance, end of year	150,601	125,352

See accompanying notes to financial statements

STATEMENT OF OPERATIONS

Year ended March 31
[in thousands]

	2010 \$	2009 \$
Revenues		
MOHLTC and LHIN	793,493	768,511
Non-patient	97,840	95,163
Patient	51,549	51,052
Preferred accommodation	12,425	13,250
Amortization of deferred contributions	28,784	30,417
Investment	231	794
	984,322	959,187
Expenses		
Salaries and wages	524,592	503,167
Employee benefits [note 15]	102,381	96,806
Supplies and other	114,126	117,374
Medical and surgical supplies	74,166	74,424
Drugs	80,779	79,175
Amortization of capital assets	58,445	59,819
Interest and other [note 9]	4,694	4,711
	959,183	935,476
Surplus before undernoted items	25,139	23,711
Restructuring and amalgamation costs [note 19]	(6,613)	(6,426)
MOHLTC restructuring funding	1,901	6,426
Loss on equity investments [note 17]	(542)	(425)
Gain on sale of land [note 20]	3,150	—
Surplus	23,035	23,286

See accompanying notes to financial statements

STATEMENT OF CASH FLOWS

Year ended March 31
[in thousands]

	2010 \$	2009 \$
FUNDS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Surplus	23,035	23,286
Add (deduct) non-cash items:		
Amortization of capital assets	58,445	59,819
Amortization of deferred contributions	(28,784)	(30,417)
(Decrease) increase in deferred contributions related to future operating expenses	(1,852)	2,128
	50,844	54,816
Net change in non-cash working capital items [note 13]	1,205	15,124
Cash provided by operating activities	52,049	69,940
FINANCING ACTIVITIES		
Deferred contributions received related to capital assets	169,834	35,926
Increase in accounts payable with respect to construction in progress	148,505	—
Increase in other long-term liabilities	917	910
Decrease (increase) in due from related entities	1,959	(10,890)
Decrease in long-term liabilities	(473)	(27,338)
(Decrease) increase in capital lease obligations	(1,906)	3,498
Cash provided by financing activities	318,836	2,106
INVESTING ACTIVITIES		
Increase in other investments	(610)	(732)
Purchase of capital assets	(207,145)	(60,800)
Cash used in investing activities	(207,755)	(61,532)
Net increase in cash during the year	163,130	10,514
Cash, beginning of year	39,054	28,540
Cash, end of year (see below)	202,184	39,054
Represented by:		
Cash	43,102	33,079
Restricted cash and investments [note 5]	159,082	5,975
Total	202,184	39,054

See accompanying notes to financial statements

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[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 MOHLTC and the 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 revenue 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 14].

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.

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

[b] Inventory

Inventory is valued at the lower of cost and net realizable value, which is considered to be 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] Cash and cash equivalents

Cash and cash equivalents consist of cash deposits and short-term investments. Short-term investments readily convertible to cash included in cash and cash equivalents totaled \$2,505 [2009 – nil].

[d] 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.

Investments in marketable securities, government bonds, debentures and equities are recorded at market value. The investments consist of government and corporate bonds with a minimum investment rating of A.

[e] 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 incremental internally reassigned personnel costs associated with specific projects are included in their cost, capitalized and amortized over the life of the project.

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

[f] Capital leases

A lease contract is accounted for as a capital lease if: the Centre intends to obtain legal title to the asset at the end of the lease term; the lease term covers a significant portion of the asset's useful life; or the Centre has determined that the vendor will recover the investment cost of the asset as well as earn a return on that investment. The capital cost of the leased asset is amortized on a straight-line basis over the useful life of the asset.

[g] 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.

[h] 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 prorated 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.

[i] 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.

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

The Centre has made the following classifications:

- [a] Cash, restricted cash and investments are 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 related entities 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 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.

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

At March 31, 2010, the Centre is party to interest rate swap agreements [note 10] and has determined that they qualify for hedge accounting and are effective per the criteria set out in CICA Handbook Section 3865: *Hedges*.

3. CHANGE IN ACCOUNTING POLICY

Effective April 1, 2009, the Centre retroactively adopted the changes to the recommendations in CICA Handbook Section 4400: *Financial Statement Presentation for Not-for-Profit Organizations* that eliminates the requirement to separately disclose the amount of net assets invested in capital assets. The Centre has eliminated from the financial statements details about the amount of net assets invested in capital assets and the calculation of this amount. As a result, the Centre has reclassified the prior year financial statements and included the amount of net assets invested in capital assets as at April 1, 2008 of \$104,628 and as at April 1, 2009 of \$125,352 in unrestricted assets.

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 held in trust are not included on the Centre's statement of financial position.

The Centre holds funds in trust for the Academic Medical Organization of Southwestern Ontario ["AMOSO"] and Regional Shared Services ["RSS"], which are further described in note 16.

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 remitted to the Centre as reimbursement for expenditures incurred subject to approval by the Diagnostic Imaging Steering Committee.

Funds held in trust are summarized in the following table:

	2010	2009
	\$	\$
AMOSO	19,553	21,894
RSS – Regional hospital contributions to refresh assets	—	397
SWO DI / Regional Information Management Projects	3,090	5,306
Total	22,643	27,597

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

5. RESTRICTED CASH AND INVESTMENTS

	2010	2009
	\$	\$
Externally restricted cash:		
Short-term restricted cash [a]	132,714	—
Internally restricted cash:		
Short-term restricted cash [b]	626	—
Long-term restricted cash [b]	20,723	5,975
Long-term restricted investments [b]	5,019	—
Total	159,082	5,975

[a] The Centre holds funds which were advanced by the MOHLTC for the construction of redevelopment projects [note 14(c)].

[b] The Centre has restricted funds in order to discharge obligations related to employee benefit rebates [note 9(d)], integration of the London Regional Cancer Centre and certain construction projects.

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, 2010, the Centre had sufficient liquid resources to meet its current obligations.

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

7. CAPITAL ASSETS

	2010		2009	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Buildings and land improvements	464,806	133,099	444,882	123,595
Parking lot pavement	1,568	755	1,156	699
Equipment and furniture	346,302	230,410	546,692	423,685
	812,676	364,264	992,730	547,979
Land	1,420	—	1,420	—
Construction and projects in progress	274,201	—	129,162	—
	1,088,297	364,264	1,123,312	547,979
Less accumulated amortization	364,264		547,979	
Net book value	724,033		575,333	

The above capital assets include assets under capital lease of \$15,397 [2009 - \$14,686] at cost with accumulated amortization of \$7,108 [2009 - \$4,468].

In addition, the above construction in progress includes costs related to a project associated with building redevelopment. This project is proceeding as an alternative financing and procurement ["AFP"] project under Infrastructure Ontario ["IO"], with the Centre and the MOHLTC sharing in the total project cost as described in note 14(c). The project is being constructed by an unrelated joint venture created to carry out the construction within the AFP arrangement. Payment by the Centre to the joint venture is to occur at specified intervals during 2011 and 2012. The Centre recognizes construction in progress relating to the project as title transfers on completion of project milestones. Included in the construction and projects in progress amount above is \$148,505 related to the value of work completed on this project as of March 31, 2010.

8. CREDIT FACILITIES

The credit facilities as at March 31, 2010 established with the Centre's bankers consist of a credit line of \$45,000 [2009 - \$45,000] to be used for general operating purposes and to bridge capital expenditures, as well as a temporary bridge facility of \$25,000 [2009 - \$25,000]. Both facilities bear interest at the bankers' acceptance rate plus 0.75%. No amount was drawn on either of these facilities at year-end.

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

9. LONG TERM LIABILITIES

	2010	2009
	\$	\$
Long-term debt		
Term installment loan at 6.353% [a]	15,302	15,774
Term installment loan at 7.08% [a]	16,620	17,138
Non-revolving installment loan [b]	4,830	4,313
	36,752	37,225
Less current portion	1,645	5,295
	35,107	31,930
Other		
Sick leave entitlement [c]	1,776	1,992
Employee benefit rebates [d]	3,795	3,795
Other employee future benefits	9,201	7,953
Other	1,516	1,631
	16,288	15,371
Total long-term liabilities	51,395	47,301

[a] The Centre has a non-revolving term installment loan on its Victoria Hospital parking structure 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 interest rate swap ["IRS"] agreement that fixes the interest rate over the term of the debt at 6.353%. This is designated as a hedge and is further described in note 10[b].

The Centre has a non-revolving term installment loan on its University Hospital parking structure 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, 2010 is \$19,118.

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

[b] The Centre has a non-revolving capital loan to finance expenditures related to the replacement of chiller systems. The credit is available in two tranches, advanced in sequence. Monthly equal blended payments of principal and interest commenced April 30, 2009.

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

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[a].

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

	\$
2011	1,645
2012	1,741
2013	1,841
2014	1,949
2015	2,062
	<u>9,238</u>

Interest costs incurred in the year amounted to \$3,303 [2009 - \$3,562].

10. INTEREST RATE SWAPS

	2010	2009
	\$	\$
Interest rate swap on non-revolving installment loan [a]	102	363
Interest rate swap on term installment loan [b]	3,117	5,070
	<u>3,219</u>	<u>5,433</u>

- [a] The Centre entered into an IRS agreement on its non-revolving capital loan related to the replacement of chiller systems. At March 31, 2010, the IRS agreement represented a notional principal amount of \$4,830. The agreement causes the Centre to swap its floating rate obligation annually for a fixed rate of 4.03% on tranche 1 of \$4,160, and 3.65% on tranche 2 of \$670. The maturity date of tranche 1 is March 31, 2017, and the maturity date of tranche 2 is March 29, 2018.

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

As at March 31, 2010, the fair value of this IRS agreement represented a liability of \$102 [2009 - \$363], which reflects the estimated amount that the Centre, if required to settle the outstanding contract, would be required to pay at year end.

[b] The Centre entered into an IRS agreement on its non-revolving term installment loan related to the Victoria Hospital parking structure. At March 31, 2010, the agreement represented a notional principal amount of \$15,303. 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, 2010, the fair value of this IRS agreement represented a liability of \$3,117 [2009 - \$5,070], which reflects the estimated amount that the Centre, if required to settle the outstanding contract, would be required to pay at year end.

11. CAPITAL LEASE OBLIGATIONS

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

	2010 \$	2009 \$
Total minimum lease payments	8,484	10,697
Less amounts representing interest	157	464
Present value of capital lease payments	8,327	10,233
Less current portion of obligation under capital lease	4,213	4,285
	4,114	5,948

Principal payments due under capital lease agreements are as follows:

	\$
2011	4,213
2012	3,073
2013	798
2014	243

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

12. DEFERRED CONTRIBUTIONS

	2010	2009
	\$	\$
Capital contributions [a]		
Completed projects	264,345	261,672
Construction in progress	255,018	117,746
Unspent contributions	5,116	4,011
Future operating expenses [b]	7,154	9,006
	<u>531,633</u>	<u>392,435</u>
Less current portion	7,154	9,006
	<u>524,479</u>	<u>383,429</u>

[a] Capital contributions

Deferred contributions received during the year of \$169,834 [2009 - \$35,926] 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. STATEMENT OF CASH FLOWS

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

	2010	2009
	\$	\$
Funds provided by (used in)		
Accounts receivable		
MOHLTC and LHIN	(7,438)	24,534
Patient and other	1,991	(4,843)
Inventories	(556)	278
Prepaid expenses	2,109	(2,000)
Accounts payable - MOHLTC and LHIN	8,870	1,992
Accounts payable and accrued charges	(3,771)	(4,837)
	<u>1,205</u>	<u>15,124</u>

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

14. 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:

	\$
2011	598
2012	615
2013	633
2014	651
2015	670

- [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 \$417,561 on buildings and other related expenditures to complete Health Services Restructuring Commission ["HSRC"] directives received in 1998. Future capital asset expenditures of \$145,722 are required to meet these directives over the next two years for a total cost of \$563,283.

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 \$466,865 of the required capital asset expenditures. According to the terms of the cost sharing agreement, \$96,418 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, 2010, the Foundation and the Children's Health Foundation have fulfilled \$46,430 [2009 - \$46,430] of this commitment, with the Centre contributing \$5,400 from its own working capital funds. Subsequent to year end, the Foundation transferred \$14,746 to the Centre.

The value of work completed at March 31, 2010 with respect to the building development has been recorded as construction in progress [note 7] together with a corresponding current obligation in the amount of \$148,505 [2009 - nil]. The Centre received MOHLTC funding of \$132,714, which has been recorded as short term restricted cash [note 5(a)] as well as a deferred contribution [note 12]. On April 19, 2010 the Centre discharged the entire current obligation.

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[in thousands of dollars]

[d] 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, 2010 the Foundation has transferred \$8,200 [2009 - \$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.

15. EMPLOYEE FUTURE BENEFITS

[a] Pension plan

Substantially all of the employees of the Centre are members of the Healthcare of Ontario Pension Plan ["HOOPP"], which is a multi-employer, defined benefit pension plan. The Centre's contributions to HOOPP during the year amounted to \$36,521 [2009 - \$35,391].

The most recent actuarial valuation for financial reporting purposes completed by HOOPP as at December 31, 2009, disclosed a smoothed assets value of \$32,556,000 with accrued going concern liabilities of \$32,020,000 resulting in a going concern surplus of \$536,000.

[b] Other employee future benefits

The accrued obligations for all other employee future benefits, based on amounts determined by independent actuaries, are \$10,987 as at March 31, 2010 [2009 - \$9,554]. 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:

	2010	2009
Discount rate	5.5%	7.5%
Future general inflation increase	2.0%	2.0%
Executive supplementary pension increase	2.0%	2.0%
Health care inflation increase	6.1%	8.0%

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

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[in thousands of dollars]

The health care inflation increase is expected to decrease to an ultimate rate of 2.9% in 2030 and thereafter. Other employee future benefits expensed during the year were \$2,276 [2009 - \$2,103]. Benefits paid during the year were \$361 [2009 - \$335]. These obligations are funded in the year they are paid out.

16. RELATED ENTITIES

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

	2010	2009
	\$	\$
London Health Sciences Centre Research Inc. [a]	692	2,810
London Health Sciences Foundation [b]	491	881
Academic Medical Organization of Southwestern Ontario [c]	12,662	12,113
	13,845	15,804

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

Research Inc. is incorporated without share capital under the laws of Ontario. The Centre entered into an agreement with St. Joseph's Health Care Centre, London ["SJHC"], Lawson Research Institute, and Research Inc. to form a Board to conduct joint research activities as the Lawson Health Research Institute. Each venturer continues to account for costs independently.

The Centre provided approximately \$459 [2009 - \$459] 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 \$663 [2009 - \$593] to the Centre for sharing of infrastructure costs.

Included in the amounts due from Research Inc. is \$1,704 of funds, the disbursement of which is at the discretion of the Centre [2009 - \$2,114].

London Health Sciences Centre

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[in thousands of dollars]

[b] London Health Sciences 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.

[c] Academic Medical Organization of Southwestern Ontario

AMOSO is an unincorporated association and its members include: the Clinical Teachers' Association of the University of Western Ontario; the University of Western Ontario ["UWO"]; the Centre; and SJHC. The members are concerned with medical education, basic and applied health research, and the provision of clinical services to the population served by the Centre.

The Centre has a working agreement with AMOSO whereby funding is collected and administered by the Centre on behalf of AMOSO.

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

HMMS is an unincorporated joint venture ["JV"] between the Centre and SJHC, created to consolidate purchasing, warehousing, distribution and payment processing functions and to provide similar services to other healthcare institutions. 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. The Centre accounts for this joint venture using the equity basis of accounting *[note 17]*.

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

The Centre and SJHC entered into a JV to consolidate all laboratory services and provide all laboratory and pathology services to the Centre and SJHC in their delivery of patient care. The Centre accounts for this joint venture using the equity basis of accounting *[note 17]*.

[f] Regional Shared Services

RSS is an unincorporated JV established to develop and operate a shared electronic health information management system. Its members include the Centre, the members of Thames Valley Hospital Planning Partnership ["TVHPP"] and other regional hospitals. 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 accounts for this joint venture using the equity basis of accounting *[note 17]*.

London Health Sciences Centre

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[in thousands of dollars]

[g] Western ProResp Inc.

Western ProResp Inc. was incorporated as a JV between the Centre and a third party for the purposes of providing home care services to clients in Middlesex and Elgin Counties. The Centre has a 50% interest in Western ProResp Inc., and accounts for this joint venture using the equity basis of accounting [note 17].

17. INVESTMENTS

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

	2010	2009
	\$	\$
Investment in Western ProResp Inc.	1,571	1,352
Investment in Healthcare Materials Management Services [a]	960	933
Investment in London Laboratory Services Group [b]	2,189	1,825
	4,720	4,110

London Health Sciences Centre

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[in thousands of dollars]

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

	2010		
	LLSG \$	Other \$	Total \$
Centre's share of current year revenue	46,207	10,226	56,433
Centre's share of current year expense	(46,807)	(10,168)	(56,975)
Centre's share of current year net income (loss)	(600)	58	(542)
Centre's share of total assets	2,807	19,316	22,123
Centre's share of total liabilities	610	17,476	18,086
Centre's share of cash provided by (used in) operating activities	(194)	1,667	1,473
Centre's share of cash used in investing activities	(885)	(203)	(1,088)
Centre's share of cash provided by (used in) financing activities	1,079	(148)	931
Centre's share of cash provided by operating, investing and financing activities	—	1,316	1,316
	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

London Health Sciences Centre

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[a] Healthcare Materials Management Services

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, 2010, the Centre had provided a guarantee for up to \$7,522 in support of the \$10,000 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 drawn \$84 [2009 - nil] on its operating facility.

[b] London Laboratory Services Group

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

	2010	2009
	\$	\$
London Health Sciences Centre	38,182	38,433
St. Joseph's Health Care, London	8,010	8,062
	46,192	46,495

[c] Regional Shared Services

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 \$6,557 on behalf of RSS. At year-end, RSS owed \$393 to the Centre with respect to these costs. The Centre paid \$1,902 to RSS for the Centre's share of operating costs during the year.

18. 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.

London Health Sciences Centre

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[in thousands of dollars]

During the year, the Clinical Education program incurred expenses of \$50,892 and received funding of \$46,265 from the MOHLTC as follows:

	2010	2009
	\$	\$
Revenue	46,265	42,774
Expenses	50,892	47,157
Excess of expenses over revenue	(4,627)	(4,383)

19. RESTRUCTURING AND AMALGAMATION COSTS

Restructuring costs include one-time operating expenses related to implementation of the HSRC directives including planning, transition, communication and staffing costs.

20. SALE OF LAND

In fiscal 2009, 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.