Financial Statements

London Health Sciences Centre

March 31, 2015

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 on May 27, 2015.

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, reliable, and accurate, and that assets are appropriately accounted for and adequately safe-guarded.

The financial statements have been prepared in accordance with Canadian public sector accounting standards. Where alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances.

Murray Glendining, CPA, CA (signed)
President and CEO

Shawn Gilhuly, MHA, CPA, CMA (signed)
Vice President, Finance and Chief Financial Officer

London, Canada
May 27, 2015

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
London Health Sciences Centre

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **London Health Sciences Centre**, which comprise the statement of financial position as at March 31, 2015 and the statements of changes in unrestricted net assets, remeasurement gains and losses, operations, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of **London Health Sciences Centre** as at March 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

London, Canada
May 27, 2015

London Health Sciences Centre

STATEMENT OF FINANCIAL POSITION

As at March 31
[in thousands]

	2015 $	2014 $
ASSETS		
Current		
Cash and cash equivalents	**180,490**	176,571
Restricted cash and cash equivalents *[note 4]*	**19,235**	32,541
Accounts receivable		
Ministry of Health & Long-Term Care [MOHLTC] and South West Local Health Integration Network [SW-LHIN]	**12,411**	48,141
Patient and other	**55,384**	54,526
Due from related entities *[note 15]*	**9,101**	10,111
Inventory	**10,287**	9,090
Prepaid expenses	**6,470**	6,068
	293,378	337,048
Restricted cash and portfolio investments *[note 4]*	**6,388**	7,660
Investment in joint ventures *[note 16]*	**8,976**	7,271
Capital assets, net *[note 5]*	**969,335**	951,384
	1,278,077	1,303,363
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued charges	**105,801**	115,301
Accounts payable with respect to construction in progress *[note 13[c]]*	—	38,324
Accounts payable - MOHLTC and SW-LHIN	**23,047**	24,028
Current portion of long-term liabilities *[note 7]*	**3,852**	3,658
Current portion of employee future benefits *[note 14]*	**1,740**	1,338
Current portion of capital lease obligations *[note 9]*	**3,989**	3,292
Current portion of deferred contributions *[note 11]*	**8,625**	8,317
	147,054	194,258
Long-term liabilities *[note 7]*	**82,959**	86,880
Employee future benefits *[note 14]*	**23,604**	22,525
Interest rate swaps *[note 7]*	**19,759**	12,578
Capital lease obligations *[note 9]*	**6,432**	6,251
Deferred contributions *[note 11]*	**450**	1,500
Deferred capital contributions *[note 10]*	**696,045**	674,667
	976,303	998,659
Commitments and contingencies *[note 13]*		
NET ASSETS		
Unrestricted net assets	**321,534**	317,282
Accumulated remeasurement losses	**(19,760)**	(12,578)
	1,278,077	1,303,363

See accompanying notes to financial statements

On behalf of the Board of Directors:

Ruthe Anne Conyngham (signed)
Chair, Board of Directors

Michelle Faysal (signed)
Chair, Finance and Audit Committee

London Health Sciences Centre

STATEMENT OF CHANGES IN UNRESTRICTED NET ASSETS

Year ended March 31
[in thousands]

	2015 $	2014 $
Unrestricted net assets, beginning of year	**317,282**	277,953
Surplus	**4,252**	39,329
Unrestricted net assets, end of year	**321,534**	317,282

See accompanying notes to financial statements

London Health Sciences Centre

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

Year ended March 31
[in thousands]

	2015	2014
	$	$
Accumulated remeasurement losses, beginning of year	**(12,578)**	(17,977)
Unrealized gain (loss) on interest rate swaps	**(7,684)**	6,025
Realized loss (gain) on interest rate swaps reclassified to statement of operations	**502**	(626)
Accumulated remeasurement losses, end of year	**(19,760)**	(12,578)

See accompanying notes to financial statements

London Health Sciences Centre

STATEMENT OF OPERATIONS

Year ended March 31
[in thousands]

	2015 $	2014 $
Revenue		
MOHLTC and SW-LHIN	**956,628**	948,082
Non-patient	**99,281**	116,700
Patient	**52,916**	53,771
Preferred accommodation	**14,140**	14,887
Amortization of deferred capital contributions	**28,292**	26,382
Interest	**2,018**	2,486
	1,153,275	1,162,308
Expenses		
Salaries and wages	**630,571**	613,893
Employee benefits *[note 14]*	**128,407**	125,784
Supplies and other	**134,209**	138,531
Medical and surgical supplies	**87,424**	87,137
Drugs	**97,945**	90,477
Amortization of capital assets	**62,547**	57,976
Interest and other *[note 7]*	**6,922**	8,052
	1,148,025	1,121,850
Surplus before undernoted item	**5,250**	40,458
Loss on investment in joint ventures *[note 16]*	**(998)**	(1,129)
Surplus	**4,252**	39,329

See accompanying notes to financial statements

London Health Sciences Centre

STATEMENT OF CASH FLOWS

Year ended March 31
[in thousands]

	2015	2014
	$	$
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Surplus	**4,252**	39,329
Add (deduct) non-cash items:		
Amortization of capital assets	**62,547**	57,976
Amortization of deferred capital contributions	**(28,292)**	(26,382)
Gain on disposal of equipment	**(633)**	—
Increase in employee future benefits	**1,481**	2,759
Decrease in due from related entities	**1,010**	2,650
Decrease in deferred contributions related to future operating expenses	**(742)**	(4,518)
	39,623	71,814
Net change in non-cash working capital items *[note 12]*	**22,792**	(65,396)
Cash provided by operating activities	**62,415**	6,418
FINANCING ACTIVITIES		
Contributions received related to capital assets	**35,529**	43,308
Increase (decrease) in accounts payable with respect to construction in progress	**(38,324)**	38,324
Accounts payable - MOHLTC and SW-LHIN	**(267)**	(333)
Repayment of long-term debt	**(3,461)**	(3,282)
Increase in capital lease obligations	**4,997**	7,219
Payment of capital lease obligations	**(4,119)**	(3,033)
Cash provided by (used in) financing activities	**(5,645)**	82,203
INVESTING ACTIVITIES		
Increase in restricted cash and portfolio investments, net	**1,272**	(3,618)
Increase in investment in joint ventures	**(1,705)**	(521)
Decrease (increase) in restricted cash and cash equivalents	**13,306**	(13,629)
Cash provided by (used in) investing activities	**12,873**	(17,768)
CAPITAL ACTIVITIES		
Proceeds on sale of capital assets	**896**	—
Purchase of capital assets	**(66,620)**	(85,425)
Cash used in capital activities	**(65,724)**	(85,425)
Net increase (decrease) in cash and cash equivalents during the year	**3,919**	(14,572)
Cash and cash equivalents, beginning of year	**176,571**	191,143
Cash and cash equivalents, end of year	**180,490**	176,571

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
[in thousands of dollars]

1. PURPOSE OF THE ORGANIZATION

London Health Sciences Centre [the "Centre"] was incorporated without share capital under the Corporations Act of Ontario. The Centre is a registered charity under the Income Tax Act (Canada) and, as such, is exempt from income taxes. The Centre is dedicated to excellence in patient care, teaching and research and is one of Canada's largest acute-care teaching hospitals.

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 South West Local Health Integration Network ["SW-LHIN"]. Capital redevelopment expenditures are primarily funded by the MOHLTC and philanthropic contributions.

The Centre operates under a Hospital Service Accountability Agreement ["H-SAA"] and a Multi-Sector Service Accountability Agreement ["M-SAA"] with the SW-LHIN. These agreements set out the rights and obligations of the two parties in respect of funding provided to the Centre. The H-SAA and M-SAA set 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 Development Accountability Agreements ["DAAs"] with the MOHLTC on November 18, 2008 and July 11, 2011. The DAAs set 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 13]*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Chartered Professional Accountants of Canada Public Sector Handbook ["PS"] which sets out Canadian generally accepted accounting principles for government not-for-profit organizations ["GNPOs"] in Canada. The Centre has chosen to use the standards specified for GNPOs set out in PS 4200 to PS 4270. The significant accounting policies are summarized as follows:

[a] Revenue recognition

The Centre follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be estimated and collection is reasonably assured. Externally restricted contributions are deferred and recognized as revenue in the period in which the related expenses are recognized.

Contributions externally restricted for capital assets are recorded as deferred capital contributions and are amortized to operations on the same basis as the related asset is depreciated.

Revenue from patient services, non-patient services and preferred accommodation are recognized when the services have been provided or when the goods have been sold.

Investment income (loss) is recognized as revenue when earned, except to the extent they relate to deferred contributions and amounts held for others, in which case they are added to the deferred contributions and amounts held for other balances, respectively. Investment income (loss) consists of interest, dividends, and realized gains and losses, net of related fees. Unrealized gains and losses are recorded in the statement of remeasurement gains and losses.

[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, restricted cash and cash equivalents

Cash and cash equivalents consist of cash on deposit. Restricted cash and cash equivalents consist of cash on deposit.

[d] Investment in joint ventures

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 modified equity method. The modified equity method is a basis of accounting for the Centre's business partnerships, whereby the equity method of accounting is only modified to the extent the venturer's accounting policies are not adjusted to conform with those of the Centre.

[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 over the estimated useful life of the asset. The amortization periods are as follows:

Land improvements	5 – 20 years
Buildings and building service equipment	5 – 50 years
Parking lot pavement	8 years
Equipment and furniture	5 – 20 years
Computer equipment and software	3 – 5 years

Donated capital assets are recorded at fair market value at the date of contribution. Construction and projects in progress include 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.

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

[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

The preparation of the Centre's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimation processes relate to employee future benefits and revenue recognized from the MOHLTC and the SW-LHIN. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Although some variability is inherent in these estimates, management believes that the amounts recorded are appropriate. Actual results could differ from those estimates.

[h] Employee future benefits

[a] Multi-employer pension plan

Defined contribution accounting is applied for the Healthcare of Ontario Pension Plan ["HOOPP"], a multi-employer plan, whereby contributions are expensed on an accrual basis, as the Centre has insufficient information to apply defined benefit plan accounting.

[b] 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 management's best estimates of salary escalation, retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation was determined by reference to the Centre's cost of borrowing. Differences arising from past service costs are expensed in the period of plan amendment. Actuarial gains and losses are amortized on a straight-line basis in the statement of operations over the expected average remaining service life of employees.

[i] Financial instruments

Financial instruments are classified in one of the following categories: [i] fair value or [ii] cost or [iii] amortized cost. The Centre determines the classification of its financial instruments at initial recognition. The financial instruments are measured as follows:

[a] Portfolio investments are measured at fair value, with changes in fair value recognized in the statement of remeasurement gains and losses.
[b] Accounts receivable, due from related entities, accounts payable and accrued charges and long-term debt are measured at amortized cost, net of any provision for impairment.
[c] Derivatives are measured at fair value on the statement of financial position, with changes in value recognized in the statement of remeasurement gains and losses. The Centre does not engage in derivative trading or speculative activities.

Transaction costs related to financial assets and financial liabilities measured at fair value are expensed to interest and other expenses, net as incurred.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price at the trade date, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined 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.

[in thousands of dollars]

A change in the fair value of a financial instrument in the fair value category is recognized in the statement of remeasurement gains and losses as a remeasurement gain or loss until the financial instrument is derecognized. In the reporting period that a financial instrument in the fair value category is derecognized, the accumulated remeasurement gain or loss associated with the derecognized item is reversed and reclassified to the statement of operations.

At each financial statement date, the Centre assesses financial assets or groups of financial assets to determine whether there is any objective evidence of impairment. When there has been a loss in value of a portfolio investment that is other than a temporary decline, the investment is written down to recognize the loss. A loss in value of a portfolio investment that is other than a temporary decline occurs when the actual value of the investment to the Centre becomes lower than its cost or amortized cost, adjusted for any write-downs recorded in previous reporting periods, and the impairment is expected to remain for a prolonged period. The write-down is included in the statement of operations. A write-down of a portfolio investment to reflect a loss in value is not to be reversed if there is a subsequent increase in value.

[j] Contributed services and materials

Volunteers contribute a significant amount of time each year. Due to the difficulty of determining the fair value, these contributed services are not recognized or disclosed in the financial statements and related financial statement notes. Contributed materials are also not recognized in the financial statements.

3. FUNDS HELD IN TRUST

The Centre holds funds in trust for certain 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 in the Centre's statement of financial position. Funds held in trust are summarized in the following table:

	2015 $	**2014** $
Academic Medical Association of Southwestern Ontario [a]	**18,478**	19,013
SWO DI/Regional Information Management Projects [b]	**400**	2,148
cSWO [c]	**7,592**	742
Total	**26,470**	21,903

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
[in thousands of dollars]

[a] The Centre holds funds in trust for the Academic Medical Organization of Southwestern Ontario, an unincorporated association with which the Centre has a service level agreement.

[b] 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. Subject to approval by the Diagnostic Imaging Steering Committee, the Centre may be reimbursed from the funds held in trust for SWO DI for expenses incurred.

[c] The Centre holds funds in trust related to the Connecting Southwestern Ontario ["cSWO"] project. These funds were entirely contributed by eHealth Ontario. Certain of the funds held in trust for cSWO may be remitted to the Centre as reimbursement for expenses incurred.

4. RESTRICTED CASH AND PORTFOLIO INVESTMENTS

	2015 $	2014 $
Externally restricted:		
Short-term restricted cash [a]	**4,982**	12,838
Short-term restricted portfolio investments – fixed income [a]	**6,000**	—
Internally restricted:		
Short-term restricted cash	**8,253**	19,703
Long-term restricted cash	**388**	4,860
Long-term restricted portfolio investments – fixed income	**6,000**	2,800
	25,623	40,201
Less current portion of restricted cash and cash equivalents	**19,235**	32,541
Total long-term restricted cash and portfolio investments	**6,388**	7,660

Internally restricted funds are funds to be spent on specific internal initiatives as approved by the Board of Directors. Externally restricted funds include MOHLTC funds received for large building and demolition projects and funds received from other external parties for specific purposes. All restricted funds are maintained in restricted accounts until they are spent. The funds are recorded on the statement of financial position as either short-term or long-term based on when the funds are anticipated to be spent. Fixed income portfolio investments consist of guaranteed investment certificates *[note 8[a][i]]*.

[a] The Centre holds funds which were advanced by the MOHLTC for the construction of redevelopment projects *[note 13[c]]*.

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
[in thousands of dollars]

5. CAPITAL ASSETS

	2015		2014	
	Cost	**Accumulated amortization**	**Cost**	**Accumulated amortization**
	$	$	$	$
Land	**2,202**	—	1,420	—
Construction and projects in progress [a]	**10,845**	—	42,976	—
Buildings, building service equipment and land improvements	**996,768**	**220,844**	952,585	199,947
Parking lot pavement	**2,231**	**1,016**	1,870	768
Equipment and furniture [b]	**435,685**	**256,536**	374,049	220,801
	1,447,731	**478,396**	1,372,900	421,516
Less accumulated amortization	**478,396**		421,516	
Net book value	**969,335**		951,384	

The above capital assets include assets under capital lease of $17,106 [2014 - $14,086] at cost with accumulated amortization of $6,753 [2014 - $4,593].

[a] Included in the construction and projects in progress amount above is $135 related to the value of work completed on a building redevelopment and infill project as at March 31, 2015 [2014 - $17,510]. The project reached substantial completion during the year. This redevelopment and infill project is proceeding as an alternative financing and procurement ["AFP"] project under Infrastructure Ontario, with the Centre and the MOHLTC sharing in the total project cost as described in note 13[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 until fiscal 2016. The Centre recognizes construction in progress relating to the project as work progresses toward completion of project milestones.

[b] During the year, the Centre recorded $14,141 in contributed assets and the related deferred capital contributions.

6. CREDIT FACILITIES

The credit facilities as at March 31, 2015 established with the Centre's bankers consist of a credit line of $45,000 [2014 - $45,000] to be used for general operating purposes and to bridge capital expenditures. The facility bears interest at the Bankers' Acceptance rate plus 0.45%. No amount was drawn on this facility as at March 31, 2015 or March 31, 2014.

[in thousands of dollars]

During the year, the Centre established a new credit facility to bridge capital purchases. The facility bears interest at prime less 0.55%. No amount was drawn on this facility as at March 31, 2015.

7. LONG-TERM LIABILITIES AND INTEREST SWAP RATES

	2015 $	2014 $
Long-term debt		
Term installment loan at 7.00% [a]	**12,476**	13,111
Term installment loan at 7.08% [a]	**13,402**	14,140
Non-revolving installment loan [b]	**1,585**	2,286
Term installment loan at 5.68% [c]	**24,834**	25,408
Term installment loans at 4.17% [d]	**30,367**	31,179
	82,664	86,124
Less current portion	**3,652**	3,458
	79,012	82,666
Other long-term liabilities		
Sick leave entitlement [e]	**756**	806
Employee benefit rebates [f]	**3,113**	3,317
Accumulating and non-vesting sick leave [g]	**278**	291
	4,147	4,414
Less current portion	**200**	200
	3,947	4,214
Total	**82,959**	86,880
Interest rate swaps		
Interest rate swap on term installment loan [a]	**3,503**	3,108
Interest rate swap on non-revolving installment loan [b]	**45**	74
Interest rate swap on term installment loan [c]	**9,193**	5,811
Interest rate swaps on term installment loans [d]	**7,018**	3,585
Total	**19,759**	12,578

The fair value of the interest rate swap ["IRS"] amounts disclosed above reflect the estimated amount that the Centre, if required to settle the outstanding contract, would be required to pay at year-end and represents the difference between the net present value of the cash flows based on the swap rate at inception and the net present value of the cash flows based on the projected swap rate for the remaining term of the swaps.

[a] The Centre has a non-revolving term installment loan on the first Victoria Hospital parking structure bearing interest at a floating rate of the Bankers' Acceptance rate plus 0.65% and due on December 30, 2022. Quarterly equal blended payments of principal and interest commenced September 30, 2003. As at March 31, 2015, the agreement represented a notional principal amount of $12,476 [2014 - $13,111].

The Centre is exposed to interest rate cash flow risk with respect to its floating rate debt and has addressed this risk by entering into an IRS agreement that fixes the interest rate over the term of the debt. The IRS agreement causes the Centre to swap its floating rate of the Bankers' Acceptance rate plus 0.65% obligation annually for a fixed rate of 7.00%. The maturity date of this agreement is December 30, 2022.

As at March 31, 2015, the fair value of this IRS agreement represented a liability of $3,503 [2014 - $3,108].

The Centre has a non-revolving term installment loan on its University Hospital parking structure bearing interest at 7.08% and due on July 31, 2021. Monthly equal blended payments of principal and interest commenced April 1, 2002. As at March 31, 2015, the agreement represented a notional principal amount of $13,402 [2014 – $14,140].

The Centre has provided 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 floating rate installment loan at the Bankers' Acceptance rate plus 0.60% to finance expenditures related to the replacement of chiller systems. The credit was available in two tranches, which were advanced in sequence. Monthly equal blended payments of principal and interest commenced April 30, 2009. The maturity date of tranche 1 is March 31, 2017, and the maturity date of tranche 2 is March 30, 2018.

The Centre is exposed to interest rate cash flow risk with respect to its floating rate debt and has addressed this risk by entering into an IRS agreement that fixes the interest rate over the term of the debt. The IRS agreement causes the Centre to swap its floating rate obligation at the Bankers' Acceptance rate plus 0.60% annually for a fixed rate of 4.03% on tranche 1 of $1,310, and 3.65% on tranche 2 of $275.

As at March 31, 2015, the fair value of this IRS agreement represented a liability of $45 [2014 - $74].

[c] The Centre has a non-revolving floating rate term installment loan at the Bankers' Acceptance rate plus 0.75% on a second parking facility that has been constructed at Victoria Hospital and the purchase of other long-term assets. Monthly equal blended payments of principal and interest commenced March 31, 2012. The maturity date of this agreement is September 30, 2036.

The Centre is exposed to interest rate cash flow risk with respect to its committed floating rate debt and has addressed this risk by entering into an IRS agreement that fixes the interest rate over the term of the debt. The IRS agreement causes the Centre to swap its floating rate obligation at the Bankers' Acceptance rate plus 0.75% annually for a fixed rate of 5.68%.

As at March 31, 2015, the fair value of this IRS agreement represented a liability of $9,193 [2014- $5,811].

As noted in [a], the Centre has provided surplus cash flows from the parking structures as collateral for all amounts drawn on the corresponding parking facilities.

[d] The Centre has two non-revolving floating rate term installment loans to finance expenditures related to the Phase 5 Co-Generation project at Victoria Hospital and the Emergency Backup Generator project at University Hospital. The loans bear interest at a floating rate of prime less 0.75% and are due on September 30, 2036. Monthly blended payments of principal and interest commenced October 1, 2011.

The Centre is exposed to interest rate cash flow risk with respect to its floating rate debt and has addressed this risk by entering into IRS agreements that fixes the interest rate over the term of the debt. The IRS agreements cause the Centre to swap its floating rate obligation at prime less 0.75% annually for a fixed rate of 4.17%. The maturity date of these agreements is September 1, 2036.

As at March 31, 2015, the fair value of these IRS agreements represented a liability of $7,018 [2014 - $3,585].

[e] 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.

[f] This represents the rebate portion of certain legislated employee benefits programs to fund future costs.

[g] The Centre has an obligation for accumulating and non-vesting sick pay benefits for certain employee groups. These benefits are paid out upon an illness or injury-related absence. Sick pay benefits expensed during the year were $13 [2014 - $10].

[in thousands of dollars]

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

	$
2016	3,652
2017	3,857
2018	3,377
2019	3,478
2020	3,687
Thereafter	64,613
	82,664

Interest costs incurred in the year amounted to $5,014 [2014 - $6,294].

8. FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the reliability of the data used to determine fair value. The fair value hierarchy is made up of the following levels:

Level 1 - valuation based on quoted prices [unadjusted] in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data [unobservable inputs].

The fair value hierarchy requires the use of observable data from the market each time such data exists. A financial instrument is classified at the lowest level of hierarchy for which significant inputs have been considered in measuring fair value.

[in thousands of dollars]

The following table presents the financial instruments measured at fair value classified according to the fair value hierarchy described above:

	Fair Value as at March 31, 2015			
	Level 1 $	Level 2 $	Level 3 $	Total assets at fair value $
Financial assets and liabilities				
Cash and cash equivalents	**180,490**	—	—	**180,490**
Restricted cash and portfolio investments	**13,623**	**12,000**	—	**25,623**
Interest rate swaps	—	**19,759**	—	**19,759**
	194,113	**31,759**	—	**225,872**

	Fair Value as at March 31, 2014			
	Level 1 $	Level 2 $	Level 3 $	Total assets at fair value $
Financial assets and liabilities				
Cash and cash equivalents	176,571	—	—	176,571
Restricted cash and portfolio investments	37,401	2,800	—	40,201
Interest rate swaps	—	12,578	—	12,578
	213,972	15,378	—	229,350

There have been no material transfers between Levels 1 and 2 for the year ended March 31, 2015.

FINANCIAL RISKS

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

[a] Market risk

Market risk is the risk that the fair value or future cash flows related to a financial instrument will fluctuate as a result of changes in market conditions including interest rates. Significant volatility in interest rates and equity values in which the Centre's investments are held can significantly impact the value of the investments.

[i] Interest rate risk

Interest rate risk refers to the effect on the fair value or future cash flows of a financial instrument due to fluctuations in interest rates. The Centre is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its cash and cash equivalents, investments and long-term debt. Changes in variable interest rates could cause unanticipated fluctuations in the Centre's operating results.

To manage the risks identified for its investments, the Centre has an investment policy setting out a target mix of investments designed to provide optimal rate of return within reasonable risk tolerances. The investment policy is renewed annually.

Fixed income portfolio investments have an average term to maturity of 0.7 years [2014 - 0.5 years] and an average yield of 1.98% [2014 - 1.57%] as at March 31, 2015 based on market values. Due to the short-term nature of the Centre's portfolio investments, there would be no significant changes in net assets if interest rates were to change.

The Centre mitigates interest rate risk on its long-term debt through a derivative financial instrument that exchanges the variable rate inherent in the long-term debt for a fixed rate *[note 7]*. Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the long-term debt.

[b] Credit risk

Credit risk arises from the possibility that the entities from which the Centre receives funding may experience difficulty and be unable to fulfill their obligations. The majority of the Centre's accounts receivable are owed by government agencies with good credit standing. At year-end, patient and other accounts receivable totaled $55,384 [2014 - $54,526]. As a result, the requirement for credit risk related reserves for accounts receivable is minimal. The Centre has no significant concentration of credit risk with any one individual customer. There are no significant past due or impaired balances as at March 31, 2015. The corporate bonds included in restricted cash and portfolio investments have a minimum investment rating of AA.

[c] Liquidity risk

Liquidity risk is the risk that the Centre will not be able to meet its obligations as they fall due. To manage liquidity risk, the Centre keeps sufficient resources readily available to meet its obligations, including available lines of credit *[note 6]* that may be used when sufficient cash flow is not available from operations to cover operating expenditures. The Centre believes that its current sources of liquidity are sufficient to cover its known short and long term cash obligations.

The majority of accounts payable and accrued charges are expected to be settled in the next fiscal year. The maturities of other financial liabilities are provided in the notes to the financial statements related to those liabilities.

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
[in thousands of dollars]

9. CAPITAL LEASE OBLIGATIONS

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

	2015 $	2014 $
Total minimum lease payments	**10,910**	10,020
Less amounts representing interest	**903**	671
Add residual values	**414**	194
Present value of capital lease obligations	**10,421**	9,543
Less current portion of capital lease obligations	**3,989**	3,292
	6,432	6,251

Principal payments due under capital lease obligations are as follows:

	$
2016	3,989
2017	3,068
2018	1,915
2019	607
2020 and thereafter	428

10. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of externally restricted contributions received related to capital assets. Changes in the deferred capital contributions balance are as follows:

	2015 $	2014 $
Balance, beginning of year	**674,667**	657,557
Contributions received during the year		
MOHLTC and SW-LHIN	**28,609**	36,956
Foundations	**1,791**	2,584
Other	**19,270**	3,952
Amortization	**(28,292)**	(26,382)
Balance, end of year	**696,045**	674,667

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
[in thousands of dollars]

11. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent grants for operating purposes that have been received and relate to a subsequent year. Changes in the deferred contributions balance are as follows:

	2015 $	2014 $
Balance, beginning of year	**9,817**	14,335
Contributions received during the year		
MOHLTC and SW-LHIN	**66**	1,117
Foundations	**437**	393
Other	**1,086**	821
Amounts recognized as revenue during the year	**(2,331)**	(6,849)
	9,075	9,817
Less current portion	**8,625**	8,317
Balance, end of year	**450**	1,500

12. STATEMENT OF CASH FLOWS

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

	2015 $	2014 $
Cash provided by (used in)		
Accounts receivable:		
MOHLTC and SW-LHIN	**35,730**	(34,875)
Patient and other	**(858)**	(3,278)
Inventory	**(1,197)**	(1,178)
Prepaid expenses	**(402)**	(1,462)
Accounts payable - MOHLTC and SW-LHIN	**(981)**	(37,079)
Accounts payable and accrued charges	**(9,500)**	12,476
	22,792	(65,396)

Non-cash transactions during the year related to contributed capital assets and the related deferred capital contribution of $14,141 are excluded from the statement of cash flows.

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
[in thousands of dollars]

13. 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:

	$
2016	1,704
2017	1,500
2018	1,404
2019	1,268
2020	725

[b] The Centre is subject to certain actual and potential legal claims that have arisen in the normal course of operations. Where the potential liability is likely and able to be estimated, management records its best estimate of the potential liability. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the year during which the liability is able to be estimated or adjustments are determined to be required. With respect to claims as at March 31, 2015, it is management's position that the Centre has valid defenses and appropriate insurance coverage to offset the cost of unfavourable settlements, if any, which may result from such claims.

[c] The Centre has spent $601,512 on buildings and other related expenditures to complete the Health Services Restructuring Commission’s directives received in 1998. Future capital asset expenditures of $8,859 are required to meet these directives over the next year for a total cost of $610,371.

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 $509,691 of the required capital asset expenditures. According to the terms of the cost sharing agreement, $100,680 must be raised by the Centre from other sources of funds including contributions from the London Health Sciences Foundation, Children's Health Foundation and internal working funds contributions. As at March 31, 2015, the Foundations have contributed $63,576 in total [2014 - $63,576], with the balance of the obligation being funded internally from non-MOHLTC generated revenues.

The value of work completed as at March 31, 2015 with respect to the building redevelopment has been recorded in capital assets [note 5[a]].

As at March 31, 2015 there is nil payable with respect to the building redevelopment [2014 - $38,324].

[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 $46,325 with the MOHLTC contributing $27,098. As at March 31, 2015, the London Health Sciences Foundation has transferred $10,066 [2014 - $10,066] to the Centre.

14. EMPLOYEE FUTURE BENEFITS

[a] Multi-employer pension plan

Substantially all of the employees of the Centre are members of the HOOPP, which is a multi-employer, defined benefit, final average earnings, contributory pension plan. The Centre's contributions to HOOPP during the year amounted to $43,553 [2014 - $42,570]. This amount is included in employee benefits expense in the statement of operations.

The most recent actuarial valuation for financial reporting purposes completed by the HOOPP as at December 31, 2014 disclosed net assets available for benefits of $60,848,000 [2013 - $51,626,000] with pension obligations of $46,923,000 [2013 - $41,478,000], resulting in a surplus of $13,925,000 [2013 - $10,148,000]. The cost of pension benefits is determined by HOOPP at $1.26 per every dollar of employee contributions. As at December 31, 2014, HOOPP was 115% funded [2013 - 114%].

[b] Other employee future benefits

The Centre provides post-retirement benefits of extended health coverage, dental and semi-private insurance. The most recent actuarial valuation for financial reporting purposes was completed by the Centre's independent actuaries as of March 31, 2015.

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

	2015	**2014**
Discount rate	**3.4%**	4.3%
Executive supplementary pension increase	**2.0%**	2.0%
Health care inflation increase	**6.7%**	5.6%

[in thousands of dollars]

The significant actuarial assumptions adopted in measuring the Centre's benefit expense are as follows:

	2015	2014
Discount rate	**4.3%**	3.6%
Executive supplementary pension increase	**2.0%**	2.0%
Health care inflation increase	**5.6%**	5.9%

The health care inflation increase is expected to decrease to an ultimate rate of 3.9% in 2035 and thereafter. Benefits paid during the year were $855 [2014 - $747]. These obligations are funded in the year they are paid out.

The following table presents information related to the Centre's post-retirement benefits as at March 31 including the amounts recorded on the statement of financial position, and components of net periodic benefit cost:

	2015 $	2014 $
Accrued benefit obligation		
Balance at beginning of year	**28,799**	29,427
Current service cost	**1,348**	1,538
Interest cost	**1,250**	1,047
Benefits paid	**(1,740)**	(1,338)
Plan amendment	**—**	656
Actuarial gain	**(1,771)**	(2,531)
Balance at end of year	**27,886**	28,799
Unamortized net actuarial loss	**(2,542)**	(4,936)
Employee future benefit liability	**25,344**	23,863
Less current portion	**1,740**	1,338
Total long-term employee future benefit liability	**23,604**	22,525

Unamortized actuarial losses (gains) are amortized over the expected average remaining service life of employees. The Centre's benefit plan expense was as follows:

	2015 $	2014 $
Current service cost	**1,348**	1,538
Interest cost	**1,250**	1,047
Plan amendment	**—**	656
Amortization of actuarial loss	**623**	856
Net benefit plan expense	**3,221**	4,097

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
[in thousands of dollars]

15. RELATED ENTITIES

Amounts due from related entities in the Centre's financial statements are as follows:

	2015 $	2014 $
London Health Sciences Centre Research Inc. [a]	**8,198**	7,815
London Health Sciences Foundation [b]	**903**	2,296
	9,101	10,111

The Centre is also party to joint venture agreements that are described in note 16.

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

The Centre has significant influence in LHSCRI. LHSCRI is incorporated without share capital under the laws of Ontario. The Centre entered into an agreement with St. Joseph's Health Care, London ["SJHC"], Lawson Research Institute, and LHSCRI to form a Board of Directors to conduct joint research activities as the Lawson Health Research Institute. Each venturer continues to account for costs independently. The accounts of LHSCRI and Lawson Health Research Institute are not included in these financial statements.

The Centre provided approximately $459 [2014 - $459] in funding to LHSCRI to assist with the operations of LHSCRI. In addition, facilities and certain administrative functions are provided at no cost to LHSCRI.

LHSCRI relies on the Centre to provide payroll and other administrative support and reimburses the Centre for costs incurred on its behalf. During the year, LHSCRI made payments of $385 [2014 - $353] to the Centre for sharing of infrastructure costs.

Included in the amounts due from LHSCRI is $4,589 [2014 - $4,726], the disbursement of which is at the discretion of the Centre.

[in thousands of dollars]

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

The Foundation is an independent corporation incorporated without share capital under the laws of Ontario with its own separate Board of Directors. The Foundation's accounts are not included in these financial statements. The Foundation relies on the Centre to provide payroll, facilities and other administrative support and reimburses the Centre for costs incurred on its behalf.

During the year, the Foundation contributed funds to the Centre for capital, patient care, education and research needs of the Centre as set out below:

	2015 $	2014 $
Capital	**1,748**	2,188
Patient care	**1,604**	1,276
Education	**1,141**	508
Research	**163**	169
	4,656	4,141

During the year, the Centre terminated the lease, sublease and management agreements with the Foundation to lease its parking facilities. The Centre recorded revenue of $5,313 [2014 - $12,472] related to these agreements, which is included in non-patient revenue in the statement of operations.

16. INVESTMENT IN JOINT VENTURES

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

	2015 $	2014 $
Investment in Western ProResp Inc.[a]	**2,703**	2,353
Investment in HMMS [b]	**2,243**	1,913
Investment in PaLM [c]	**4,030**	3,005
Investment in Information Technology Purchased Services [d]	—	—
	8,976	7,271

[a] Western ProResp Inc.

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. The Centre has a 50% interest in Western ProResp Inc.

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

HMMS is an unincorporated 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.

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, 2015, the Centre had provided a guarantee for up to $7,800 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. As at March 31, 2015, HMMS had not drawn on its operating line of credit [2014 - nil].

[c] Pathology and Laboratory Medicine ["PaLM"]

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 services purchased from PaLM for the year ended March 31, 2015 were $45,341 [2014 - $42,344].

[d] Information Technology Purchased Services

Information Technology Purchased Services is an unincorporated JV established to develop and operate a shared electronic health information management system across the region. Purchased services include information systems related to electronic patient records, picture archiving and communication, and general ledger applications.

Information Technology Purchased Services relies on the Centre to provide payroll, facilities and other administrative support, and reimburses the Centre for costs incurred on its behalf. During the year, the Centre incurred total operating costs of $10,344 [2014 - $9,399] on behalf of Information Technology Purchased Services. As at March 31, 2015, Information Technology Purchased Services owed $493 [2014 - $456] to the Centre with respect to these costs. The Centre paid $1,806 [2014 - $1,788] to Information Technology Purchased Services for the Centre's share of operating costs during the year.

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
[in thousands of dollars]

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

	2015		
	PaLM	**Other**	**Total**
	$	$	$
Centre's share of current year revenue	**56,173**	**12,135**	**68,308**
Centre's share of current year expenses	**(57,243)**	**(12,063)**	**(69,306)**
Centre's share of current year net income (loss)	**(1,070)**	**72**	**(998)**
Centre's share of total assets	**4,843**	**33,057**	**37,900**
Centre's share of total liabilities	**656**	**29,670**	**30,326**
Centre's share of cash provided by (used in) operating activities	**(192)**	**1,585**	**1,393**
Centre's share of cash used in investing activities	**(1,991)**	**(665)**	**(2,656)**
Centre's share of cash provided by financing activities	**100**	**370**	**470**
Centre's share of cash provided by (used in) operating, investing and financing activities	**(2,083)**	**1,290**	**(793)**

	2014		
	PaLM	**Other**	**Total**
	$	$	$
Centre's share of current year revenue	**51,365**	**11,635**	**63,000**
Centre's share of current year expenses	**(52,394)**	**(11,735)**	**(64,129)**
Centre's share of current year net loss	**(1,029)**	**(100)**	**(1,129)**
Centre's share of total assets	**3,731**	**32,641**	**36,372**
Centre's share of total liabilities	**560**	**29,641**	**30,201**
Centre's share of cash provided by operating activities	**460**	**1,973**	**2,433**
Centre's share of cash used in investing activities	**(806)**	**(906)**	**(1,712)**
Centre's share of cash provided by financing activities	**346**	**743**	**1,089**
Centre's share of cash provided by operating, investing and financing activities	**—**	**1,810**	**1,810**

Other includes Western ProResp Inc., HMMS and Information Technology Purchased Services.

NOTES TO FINANCIAL STATEMENTS

March 31, 2015
[in thousands of dollars]

17. 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 total of revenue and expenses is included in the Centre's statement of operations.

During the year, the Clinical Education program incurred expenses and received funding from the MOHLTC as follows:

	2015 $	**2014** $
Revenue	**63,483**	59,624
Expenses	**66,685**	62,913
Excess of expenses over revenue	**(3,202)**	(3,289)

18. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2015 financial statements.