Financial Statements

London Health Sciences Centre

March 31, 2012

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 30, 2012.

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 appropriately accounted for and adequately safe-guarded.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances.

Bonnie Adamson, MScN, FCCHSE, FACHE (signed)
President and CEO

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

London, Canada,
May 30, 2012.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
London Health Sciences Centre

We have audited the accompanying financial statements of **London Health Sciences Centre**, which comprise the statement of financial position as at March 31, 2012 and the statements of operations, changes in net assets 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 generally accepted accounting principles, 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, 2012 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 preceding year.

(signed)
Chartered Accountants
Licensed Public Accountants

London, Canada,
May 30, 2012.

London Health Sciences Centre

STATEMENT OF FINANCIAL POSITION

As at March 31
[in thousands]

	2012 $	2011 $
ASSETS		
Current		
Cash and cash equivalents *[note 14(e)]*	**198,031**	81,333
Restricted cash and investments *[note 5]*	**24,261**	33,227
Accounts receivable		
Ministry of Health & Long-Term Care [MOHLTC] and Local Health Integration Network [LHIN]	**18,713**	25,012
Patient and other	**29,080**	40,026
Due from related entities *[note 16]*	**17,914**	15,475
Inventories	**7,313**	4,773
Prepaid expenses	**4,266**	2,830
	299,578	202,676
Restricted cash and investments *[note 5]*	**4,185**	7,096
Investments *[note 17]*	**6,422**	5,650
Capital assets *[note 7]*	**875,232**	804,179
	1,185,417	1,019,601
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued charges	**99,980**	87,820
Accounts payable with respect to construction in progress *[note 14(c)]*	**13,213**	21,883
Accounts payable MOHLTC and LHIN *[note 14(e)]*	**60,654**	28,619
Current portion of long-term liabilities *[note 9]*	**4,116**	12,655
Capital lease obligations *[note 11]*	**1,693**	3,919
Deferred contributions *[note 12]*	**9,678**	15,801
	189,334	170,697
Long-term liabilities *[note 9]*	**105,954**	49,310
Interest rate swaps *[note 10]*	**16,880**	5,681
Capital lease obligations *[note 11]*	**1,272**	1,789
Deferred contributions *[note 12]*	**638,691**	595,359
	952,131	822,836
Commitments and contingencies *[note 14]*	**—**	—
NET ASSETS	**233,286**	196,765
	1,185,417	1,019,601

See accompanying notes to financial statements

On behalf of the Board:

Peter Johnson (signed)
Chair, Board of Directors

Gerry Wheaton (signed)
Chair, Finance and Audit Committ

London Health Sciences Centre

STATEMENT OF OPERATIONS

Year ended March 31
[in thousands]

	2012 $	2011 $
Revenues		
MOHLTC and LHIN	**895,797**	822,459
Non-patient	**84,826**	83,206
Patient	**56,830**	52,485
Preferred accommodation	**14,197**	12,552
Amortization of deferred contributions	**26,549**	24,718
Investment	**1,717**	963
	1,079,916	996,383
Expenses		
Salaries and wages	**578,547**	525,005
Employee benefits *[note 15]*	**113,733**	104,049
Supplies and other	**118,645**	108,169
Medical and surgical supplies	**80,777**	73,609
Drugs	**80,206**	79,844
Amortization of capital assets	**54,529**	51,613
Interest and other *[note 9]*	**7,330**	4,910
	1,033,767	947,199
Surplus before undernoted items	**46,149**	49,184
Restructuring and amalgamation costs *[note 19]*	**(4,043)**	(6,345)
MOHLTC restructuring funding	**4,043**	6,345
Loss on equity investments *[note 17]*	**(998)**	(556)
Surplus	**45,151**	48,628

See accompanying notes to financial statements

London Health Sciences Centre

STATEMENT OF CHANGES IN NET ASSETS

Year ended March 31
[in thousands]

	2012	2011
	$	$
Balance, beginning of year	**196,765**	150,601
Correction of prior years amortization *[note 7]*	**1,580**	—
Surplus	**45,151**	48,628
Interest rate swap fair value adjustment	**(10,210)**	(2,464)
Balance, end of year	**233,286**	196,765

See accompanying notes to financial statements

London Health Sciences Centre

STATEMENT OF CASH FLOWS

Year ended March 31
[in thousands]

	2012 $	2011 $
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Surplus	**45,151**	48,628
Add (deduct) non-cash items:		
Amortization of capital assets	**54,529**	51,613
Amortization of deferred contributions	**(26,549)**	(24,718)
Recognition of deferred contributions related to future operating expenses	**(9,679)**	(10,260)
Unrealized loss on financial instruments	**988**	—
Decrease in deferred contributions related to future operating expenses	**3,556**	18,907
	67,996	84,170
Net change in non-cash working capital items *[note 13]*	**57,464**	(4,781)
Cash provided by operating activities	**125,460**	79,389
FINANCING ACTIVITIES		
Deferred contributions received related to capital assets	**69,881**	95,598
Decrease in accounts payable with respect to construction in progress	**(8,670)**	(126,622)
Increase (decrease) in other long-term liabilities *[note 9]*	**732**	(336)
Increase in due from related entities	**(2,439)**	(1,630)
Increase in long-term debt *[note 9]*	**47,374**	8,381
Decrease in capital lease obligations	**(2,743)**	(2,619)
Cash provided by (used in) financing activities	**104,135**	(27,228)
INVESTING ACTIVITIES		
Increase in other investments	**(772)**	(930)
Purchase of capital assets	**(124,002)**	(131,759)
Cash used in investing activities	**(124,774)**	(132,689)
Net increase (decrease) in cash during the year	**104,821**	(80,528)
Cash, beginning of year	**121,656**	202,184
Cash, end of year (see below)	**226,477**	121,656
Represented by:		
Cash and cash equivalents	**198,031**	81,333
Restricted cash and investments *[note 5]*	**28,446**	40,323
Total	**226,477**	121,656

See accompanying notes to financial statements

London Health Sciences Centre

NOTES TO FINANCIAL STATEMENTS

March 31, 2012
[in thousands of dollars]

1. CENTRE OPERATIONS

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

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

The Centre also signed Development Accountability Agreements ["DAA"s] 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 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 period 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.

NOTES TO FINANCIAL STATEMENTS

[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. 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. Short-term investments readily convertible to cash included in cash and cash equivalents were $2,598 [2011 - $2,919].

[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.

[e] Capital assets

Capital assets are recorded at original cost. Amortization of cost and any corresponding deferred contribution is calculated using the following annual rates:

Buildings and land improvements	2% straight-line
Parking lot pavement	10% declining balance
Equipment and furniture	10% to 20% straight-line

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.

[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 pro-rated on service using best estimates of salary escalation, retirement ages of employees and expected health care costs. Differences arising from plan amendments, changes in assumptions and actuarial gains and losses are recognized in the statement of operations over the expected average remaining service life of employees. The cumulative excess of any gains (losses) over 10% of the accrued benefit obligation at the beginning of the year is amortized to 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*.

NOTES TO FINANCIAL STATEMENTS

Financial assets and financial liabilities

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

The Centre has made the following classifications:

[a] Investments are classified as HFT and measured at fair value with changes in fair value recognized in the statement of operations.
[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. Unless otherwise noted, the fair value of financial assets and liabilities approximates book value.

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 includes linking all derivatives to specific assets and liabilities on the statement of financial position or to specific firm commitments or forecasted transactions. The Centre assesses, 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. Hedge effectiveness is tested using the critical terms match method.

At March 31, 2012, the Centre is party to interest rate swap ["IRS"] agreements *[note 10]* and has determined that they qualify for hedge accounting. The gain or loss associated with the ineffective portion of a hedge is reflected in interest and other expenses in the statement of operations.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

In September 2010, the Public Sector Accounting Board ["PSAB"] approved the inclusion of the 4400 series from the CICA Handbook – Accounting into the Public Sector Accounting ["PSA"] Handbook for use by government organizations applying the standards for not-for-profit organizations. The standards were renumbered Sections PS4200 to PS4270. PSAB also approved changes to the Introduction to the Standards giving these organizations a choice to apply either the PSA Handbook with the PS4200 series of standards or the PSA Handbook without the PS4200 series of standards. These standards are effective for fiscal years beginning on or after January 1, 2012.

Set out below are the main areas where changes in accounting policies are expected to have an impact on the Centre's financial statements, including note disclosure:

- Statement of Cash Flows [PS 1200];
- Employee Future Benefits [PS 3250/PS 3255]; and
- Financial Instruments [PS 3450].

[in thousands of dollars]

This list should not be regarded as a complete list of all changes that will result from transition to PSAB. It is intended to highlight areas that the Centre believes to be the most significant. The Centre is currently evaluating the impact of these standards.

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"], which is 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.

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 expenditures incurred.

Funds held in trust are summarized in the following table:

	2012 $	**2011** $
AMOSO	**21,130**	19,599
SWO DI / Regional Information Management Projects	**3,741**	3,074
cSWO	**2,854**	—
Total	**27,725**	22,673

[in thousands of dollars]

5. RESTRICTED CASH AND INVESTMENTS

	2012 $	2011 $
Externally restricted cash:		
Short-term restricted cash [a]	**19,363**	33,227
Internally restricted cash:		
Short-term restricted cash [b]	**3,001**	—
Long-term restricted cash [b]	**932**	1,876
Short-term restricted investments [b]	**1,897**	—
Long-term restricted investments [b]	**3,253**	5,220
Total	**28,446**	40,323

[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(e)],* 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 available lines of credit totaling $45,000 that are 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, 2012, the Centre had sufficient liquid resources to meet its current obligations.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012
[in thousands of dollars]

7. CAPITAL ASSETS

	2012		2011	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Buildings and land improvements	**870,412**	**162,888**	655,086	144,485
Parking lot pavement	**1,383**	**277**	1,714	838
Equipment and furniture	**282,883**	**165,100**	358,825	250,150
	1,154,678	**328,265**	1,015,625	395,473
Land	**1,420**	**—**	1,420	—
Construction and projects in progress	**47,399**	**—**	182,607	—
	1,203,497	**328,265**	1,199,652	395,473
Less accumulated amortization	**328,265**		395,473	
Net book value	**875,232**		804,179	

The above capital assets include assets under capital lease of $8,755 [2011 - $14,486] at cost with accumulated amortization of $5,739 [2011 - $8,959].

During the year, the Centre removed from its accounts certain assets having an original cost of $7,650 and accumulated amortization of $9,230 that were no longer in use. These assets were purchased prior to the merger of University Hospital and Victoria Hospital, and it was discovered during the year that at the time of the merger, these assets had been over-amortized by $1,580. An adjustment to opening net assets was recorded to correct the excess amortization from prior years.

In addition, the above construction in progress includes project costs related to building redevelopment and infill. This 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 14. 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. Included in the construction and projects in progress amount above is $23,921 related to the value of work completed on this project as at March 31, 2012 [2011 - $152,900]. During the year, $160,794 was moved out of construction and projects in progress related to substantial completion of Phase 2 of this project.

[in thousands of dollars]

8. CREDIT FACILITIES

The credit facilities as at March 31, 2012 established with the Centre's bankers consist of a credit line of $45,000 [2011 - $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 at year-end.

9. LONG TERM LIABILITIES

	2012 $	2011 $
Long-term debt		
Term installment loan at 7.00% [a]	**14,272**	14,803
Term installment loan at 7.08% [a]	**15,467**	16,064
Non-revolving installment loan [b]	**3,609**	4,232
Term installment loan at 5.68% [c]	**26,464**	10,034
Term installment loans at 4.51% [d]	**32,695**	—
	92,507	45,133
Less current portion	**3,095**	11,775
	89,412	33,358
Other		
Sick leave entitlement [e]	**1,284**	1,493
Employee benefit rebates [f]	**3,659**	3,822
Other employee future benefits	**12,459**	11,206
Other	**161**	311
	17,563	16,832
Less current portion	**1,021**	880
	16,542	15,952
Total long-term liabilities	**105,954**	49,310

[a] The Centre has a non-revolving term installment loan on the first Victoria Hospital parking structure bearing interest at a floating rate and due on December 31, 2022. Quarterly equal blended payments of principal and interest amortized over 25 years commenced September 30, 2003. The Centre is exposed to interest rate cash flow risk with respect to its floating rate debt. The Centre has addressed this risk by entering into an IRS agreement that fixes the interest rate over the term of the debt at 7.00%. 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% and due on 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 as at March 31, 2012 is $18,076.

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 floating rate installment loan 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, and are due March 30, 2018.

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 at a weighted average rate of 3.975%. This IRS is designated as a hedge and is further described in note 10[b].

[c] The Centre has a non-revolving floating rate term installment loan 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 amortized over 25 years commenced March 31, 2012. The Centre will be exposed to interest rate cash flow risk with respect to its committed 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 at 5.68%. This IRS is designated as a hedge and is further described in note 10[c].

The Centre has provided any surplus cash flows from the parking structure 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 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. The Centre has addressed this risk by entering into an IRS agreement that fixes the interest rate over the term of the debt at 4.51%. This is designated as a hedge and is further described in note 10[b].

[in thousands of dollars]

[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] The rebate portion of certain legislated employee benefits programs in the past had been designated by the Centre to fund future costs.

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

	$
2013	3,095
2014	3,266
2015	3,449
2016	3,640
2017	3,844
	17,294

Interest costs incurred in the year amounted to $4,615 [2011 - $3,473].

10. INTEREST RATE SWAPS

	2012 $	**2011** $
Interest rate swap on term installment loan [a]	**4,036**	2,930
Interest rate swap on non-revolving installment loan [b]	**175**	108
Interest rate swap on term installment loan [c]	**7,604**	2,643
Interest rate swap on term installment loan [d]	**5,065**	—
	16,880	5,681

[a] The Centre entered into an IRS agreement on its non-revolving term installment loan related to the Victoria Hospital parking structure. At March 31, 2012, the agreement represented a notional principal amount of $14,272. The IRS agreement causes the Centre to swap its floating rate obligation annually for a fixed rate of 7.00%. The maturity date of this agreement is December 30, 2022.

As at March 1, 2012, the fair value of this IRS agreement represented a liability of $4,036 [2011 - $2,930], 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 installment loan related to the replacement of chiller systems. At March 31, 2012, the IRS agreement represented a notional principal amount of $3,609. The agreement causes the Centre to swap its floating rate obligation annually for a fixed rate of 4.03% on tranche 1 of $3,089, and 3.65% on tranche 2 of $520. The maturity date of tranche 1 is February 28, 2017, and the maturity date of tranche 2 is March 30, 2018.

As at March 31, 2012, the fair value of this IRS agreement represented a liability of $175 [2011 - $108], which reflects the estimated amount that the Centre, if required to settle the outstanding contract, would be required to pay at year end.

[c] The Centre entered into an IRS agreement on its committed term installment loan related to the construction of a new parking structure at Victoria Hospital and the purchase of other long term assets. At March 31, 2012, the agreement represented a notional principal amount of $30,418. The IRS agreement causes the Centre to swap its floating rate obligation annually for a fixed rate of 5.68%. The maturity date of this agreement is September 30, 2036.

As at March 31, 2012, the fair value of this IRS agreement represented a liability of $7,604 [2011 - $2,643], which reflects the estimated amount that the Centre, if required to settle the outstanding contract, would be required to pay at year end.

This IRS is partially ineffective at March 31, 2012. Ineffectiveness of $988 is recorded in the statement of operations.

[d] During the year, the Centre entered into IRS agreements on its term installment loans related to the Phase 5 Co-generation project at Victoria Hospital and the Emergency Backup Generator project at University Hospital. At March 31, 2012, the agreements represented a notional principal amount of $32,695. The IRS agreements cause the Centre to swap its floating rate obligation annually for a fixed rate of 4.17%. The maturity date of these agreements is September 1, 2036.

As at March 31, 2012, the fair value of these IRS agreements represented a liability of $5,065 [2011 - nil], which reflects the estimated amount that the Centre, if required to settle the outstanding contracts, would be required to pay at year end.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012
[in thousands of dollars]

11. CAPITAL LEASE OBLIGATIONS

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

	2012 $	2011 $
Total minimum lease payments	**3,018**	5,917
Less amounts representing interest	**53**	209
Present value of capital lease payments	**2,965**	5,708
Less current portion of obligations under capital lease	**1,693**	3,919
	1,272	1,789

Principal payments due under capital lease agreements are as follows:

	$
2013	1,693
2014	955
2015	279
2016	38

12. DEFERRED CONTRIBUTIONS

	2012 $	2011 $
Capital contributions [a]		
Completed projects	**587,764**	440,325
Construction in progress	**26,243**	134,918
Unspent contributions	**24,684**	20,116
Future operating expenses [b]	**9,678**	15,801
	648,369	611,160
Less current portion	**9,678**	15,801
	638,691	595,359

[in thousands of dollars]

[a] Capital contributions

Deferred contributions received during the year of $69,881 [2011 - $95,598] 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 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:

	2012 $	**2011** $
Cash provided by (used in)		
Accounts receivable		
MOHLTC and LHIN	**6,299**	(14,185)
Patient and other	**10,946**	(15,699)
Inventories	**(2,540)**	114
Prepaid expenses	**(1,436)**	39
Accounts payable - MOHLTC and LHIN	**32,035**	7,993
Accounts payable and accrued charges	**12,160**	16,957
	57,464	(4,781)

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:

	$
2013	1,350
2014	1,368
2015	1,387
2016	1,407
2017	1,427

NOTES TO FINANCIAL STATEMENTS

March 31, 2012
[in thousands of dollars]

[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 $512,409 on buildings and other related expenditures to complete the Health Services Restructuring Commission's directives received in 1998. Future capital asset expenditures of $97,962 are required to meet these directives over the next four years 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. The London Health Sciences Foundation [the "Foundation"] and the Children's Health Foundation have together committed to contribute $85,400. As at March 31, 2012, the Foundation and the Children's Health Foundation have fulfilled $61,476 [2011 - $61,176] of this commitment, with the Centre contributing $5,400 from its own working capital funds.

The value of work completed at March 31, 2012 with respect to the building development has been recorded in capital assets.

[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. The Foundation has committed to contribute $17,052. As of March 31, 2012, the Foundation has transferred $8,697 [2011 - $8,200] to the Centre.

[e] The Centre holds funds in cash which were received over many fiscal years from the MOHLTC and LHIN for various programs. The timing of these program reconciliations varies according to MOHLTC and LHIN reconciliation processes, and as such the Centre reports both the cash and the liability on its financial statements. The Centre currently holds $60,654 [2011 - $28,619] payable to the MOHLTC and LHIN.

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, final average earnings, contributory pension plan. The Centre's contributions to HOOPP during the year amounted to

[in thousands of dollars]

$39,030 [2011 - $37,002]. This amount is included in compensation expense in the statement of operations and changes in net assets.

The most recent actuarial valuation for financial reporting purposes completed by HOOPP as at December 31, 2011, disclosed net assets available for benefits of $40,321,000 [2010 - $35,717,000] with pension obligations of $36,782,000 [2010 - $34,897,000] resulting in a surplus of $3,539,000 [2010 - $820,000].

The Centre sponsors defined benefit plans for post-retirement benefits including extended health care, semi-private and dental. The cost of pension benefits is determined by HOOPP at 1.26% of total employee contributions. The plan is funded by HOOPP. As of December 31, 2011, HOOPP was 103% funded [2010 - 101%].

[b] Other employee future benefits

The accrued obligations for all other employee future benefits, based on amounts determined by independent actuaries, are $12,459 as at March 31, 2012 [2011 - $11,206]. 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:

	2012	**2011**
Discount rate	**4.5%**	5.1%
Future general inflation increase	**2.0%**	2.0%
Executive supplementary pension increase	**2.0%**	2.0%
Health care inflation increase	**6.1%**	6.1%

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 $2,264 [2011 - $2,337]. Benefits paid during the year were $302 [2011 - $335]. These obligations are funded in the year they are paid out.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012
[in thousands of dollars]

The following table presents information related to the Centre's post-retirement benefits as at March 31, 2012 including the amounts recorded on the balance sheet, and components of net periodic benefit cost:

	2012 $	2011 $
Accrued benefit obligation		
Balance at beginning of year	**12,755**	12,273
Current service cost	**621**	329
Interest cost	**885**	651
Benefits paid	**(1,021)**	(880)
Plan amendment	**5,107**	—
Actuarial loss	**8,100**	382
Balance at end of year	**26,447**	12,755
Unamortized net actuarial loss	**(8,709)**	(609)
Unamortized past service costs	**(5,036)**	(640)
Unamortized transitional obligation (asset)	**(243)**	(300)
Employee future benefit liability	**12,459**	11,206

The increase in unamortized net actuarial loss is due to changes in employee headcount and the premium and claims assumptions. The increase in unamortized past service costs is mainly due to benefit cost sharing changes for certain union groups.

The Centre recognized $2,274 [2011 - $2,042] in benefit costs related to the post-retirement benefits plan in fiscal 2012. Unamortized actuarial losses (gains) are amortized over the average remaining service period. The Centre's benefit plan expense was as follows:

	2012 $	2011 $
Current service cost	**621**	329
Interest cost	**885**	651
Amortization of:		
Past service cost	**711**	1,005
Transitional obligation	**57**	57
Net benefit plan expense	**2,274**	2,042

NOTES TO FINANCIAL STATEMENTS

March 31, 2012
[in thousands of dollars]

16. RELATED ENTITIES

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

	2012 $	2011 $
London Health Sciences Centre Research Inc. [a]	**1,936**	2,479
London Health Sciences Foundation [b]	**908**	554
Academic Medical Organization of Southwestern Ontario [c]	**15,070**	12,442
	17,914	15,475

[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 [2011 - $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 $568 [2011 - $616] to the Centre for sharing of infrastructure costs.

Included in the amounts due from Research Inc. is $1,596 of funds, the disbursement of which is at the discretion of the Centre [2011 - $1,610].

[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 and reimburses the Centre for costs incurred on its behalf. In addition, funds contributed to the Centre for capital, research, education and patient care totaled $9,825 [2011 - $32,260].

During the year, the Centre entered into an agreement to lease its parking facilities to the Foundation through lease and sublease agreements. The Centre has a management agreement with the Foundation whereby the Centre was appointed manager of the parking facilities. The Foundation paid management fees and rent related to these agreements to the Centre during the year.

[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; 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 JV 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 JV using the equity basis of accounting *[note 17]*.

[f] Information Technology Purchased Services

Information Technology Purchased Services [formerly referred to as Regional Shared 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. The Centre accounts for this JV using the equity basis of accounting *[note 17]*.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012
[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 JV 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:

	2012 $	**2011** $
Investment in Western ProResp Inc.	**1,924**	1,790
Investment in HMMS [a]	**1,281**	953
Investment in LLSG [b]	**3,217**	2,907
Investment in Information Technology Purchased Services [c]	**—**	—
	6,422	5,650

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

		2012	
	LLSG $	**Other** $	**Total** $
Centre's share of current year revenue	**47,052**	**10,823**	**57,875**
Centre's share of current year expense	**(48,001)**	**(10,872)**	**(58,873)**
Centre's share of current year net loss	**(949)**	**(49)**	**(998)**
Centre's share of total assets	**4,144**	**31,244**	**35,388**
Centre's share of total liabilities	**1,378**	**28,676**	**30,054**
Centre's share of cash provided by operating activities	**1,388**	**68**	**1,456**
Centre's share of cash provided by (used in) investing activities	**1,388**	**(267)**	**1,121**
Centre's share of cash provided by financing activities	**—**	**372**	**372**
Centre's share of cash provided by operating, investing and financing activities	**2,776**	**173**	**2,949**

NOTES TO FINANCIAL STATEMENTS

March 31, 2012
[in thousands of dollars]

	2011		
	LLSG $	**Other** $	**Total** $
Centre's share of current year revenues	46,426	9,769	56,195
Centre's share of current year expenses	(47,025)	(9,726)	(56,751)
Centre's share of current year net income (loss)	(599)	43	(556)
Centre's share of total assets	3,949	32,594	36,543
Centre's share of total liabilities	1,040	30,541	31,581
Centre's share of cash provided by (used in) operating activities	1,196	(1,074)	122
Centre's share of cash used in investing activities	(1,316)	(182)	(1,498)
Centre's share of cash provided by (used in) financing activities	120	(60)	60
Centre's share of cash used in operating, investing and financing activities	—	(1,316)	(1,316)

[a] HMMS

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, 2012, the Centre had provided a guarantee for up to $8,060 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, 2012, HMMS had not drawn on its operating line of credit [2011 - nil].

[b] LLSG

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

	2012 $	**2011** $
London Health Sciences Centre	**40,139**	38,924
St. Joseph's Health Care, London	**6,126**	8,303
	46,265	47,227

NOTES TO FINANCIAL STATEMENTS

March 31, 2012
[in thousands of dollars]

[c] Information Technology Purchased Services

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 $8,055 [2011 - $7,136] on behalf of Information Technology Purchased Services. At March 31, 2012, Information Technology Purchased Services owed $81 [2011 - $923] to the Centre with respect to these costs. The Centre paid $2,062 [2011 - $1,860] to Information Technology Purchased Services 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 total of revenue and expenses is included in the Centre's statement of operations.

During the year, the Clinical Education program incurred expenses of $59,753 and received funding of $55,697 from the MOHLTC as follows:

	2012 $	**2011** $
Revenue	**55,697**	52,193
Expenses	**59,753**	56,054
Excess of expenses over revenue	**(4,056)**	(3,861)

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. COMPARATIVE FIGURES

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