

Financial statements

London Health Sciences Centre

March 31, 2017



Building a better
working world

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 31, 2017.

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 (Original signed)
President and CEO

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

London, Canada
May 31, 2017

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, 2017 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, 2017 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.

London, Canada
May 31, 2017

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



STATEMENT OF FINANCIAL POSITION

As at March 31
[in thousands]

	2017	2016
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	206,474	167,804
Restricted cash and portfolio investments [notes 4 and 8]	14,050	14,540
Accounts receivable		
Ministry of Health and Long-Term Care [MOHLTC] and South West Local Health Integration Network [SW-LHIN]	9,108	28,121
Patient and other [note 16]	35,789	39,755
Due from related entities [note 15]	11,512	7,903
Inventory	8,023	9,078
Prepaid expenses	6,406	7,262
	291,362	274,463
Restricted cash and portfolio investments [note 4]	5,622	5,937
Investment in joint ventures [note 16]	8,812	9,229
Capital assets, net [note 5]	934,910	951,431
	1,240,706	1,241,060
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued charges [note 16]	97,587	99,415
Accounts payable – MOHLTC and SW-LHIN	10,130	11,075
Short-term liabilities [note 6]	3,124	—
Current portion of long-term liabilities [note 7]	3,931	4,087
Current portion of employee future benefits [note 14]	1,588	1,335
Current portion of capital lease obligations [note 9]	3,948	3,689
Current portion of deferred contributions [note 11]	9,229	9,347
	129,537	128,948
Long-term liabilities [note 7]	82,890	78,832
Employee future benefits [note 14]	27,039	25,902
Interest rate swaps [note 7]	16,273	20,901
Capital lease obligations [note 9]	4,460	4,827
Deferred contributions [note 11]	1,357	1,357
Deferred capital contributions [note 10]	668,289	677,021
	929,845	937,788
Commitments and contingencies [note 13]		
NET ASSETS		
Unrestricted net assets	327,134	324,173
Accumulated rereasurement losses	(16,273)	(20,901)
	1,240,706	1,241,060

See accompanying notes to financial statements

On behalf of the Board of Directors:

Tom Gergely (Original signed)
Chair, Board of Directors

Brenda Bird (Original signed)
Chair, Finance and Audit Committee

**STATEMENT OF CHANGES IN UNRESTRICTED
NET ASSETS**

Year ended March 31
[in thousands]

	2017	2016
	\$	\$
Unrestricted net assets, beginning of year	324,173	321,534
Surplus	2,961	2,639
Unrestricted net assets, end of year	327,134	324,173

See accompanying notes to financial statements

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

Year ended March 31
[in thousands]

	2017	2016
	\$	\$
Accumulated remeasurement losses, beginning of year	(20,901)	(19,759)
Unrealized gain (loss) on interest rate swaps <i>[note 7]</i>	5,620	(1,958)
Realized loss (gain) on interest rate swaps reclassified to statement of operations <i>[note 7]</i>	(992)	816
Accumulated remeasurement losses, end of year	(16,273)	(20,901)

See accompanying notes to financial statements

STATEMENT OF OPERATIONS

Year ended March 31
[in thousands]

	2017	2016
	\$	\$
Revenue		
MOHLTC and SW-LHIN	980,022	963,452
Non-patient	111,329	123,090
Patient	56,368	55,247
Preferred accommodation	9,999	14,485
Amortization of deferred capital contributions [note 10]	23,980	29,824
Interest	1,680	1,643
	1,183,378	1,187,741
Expenses		
Salaries and wages	643,235	642,292
Employee benefits [note 14]	132,071	129,513
Supplies and other	141,444	139,154
Medical and surgical supplies	85,958	90,257
Drugs	105,057	110,265
Amortization of capital assets	64,535	65,312
Interest and other [note 7]	7,006	6,963
	1,179,306	1,183,756
Surplus before undernoted item	4,072	3,985
Loss on investment in joint ventures [note 16]	(1,111)	(1,346)
Surplus	2,961	2,639

See accompanying notes to financial statements

STATEMENT OF CASH FLOWS

Year ended March 31
[in thousands]

	2017	2016
	\$	\$
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Surplus	2,961	2,639
Add (deduct) non-cash items:		
Amortization of capital assets	64,535	65,312
Amortization of deferred capital contributions	(23,980)	(29,824)
Gain on disposal of equipment	(59)	(99)
Increase in employee future benefits	1,390	1,893
Decrease (increase) in due from related entities	(3,609)	1,198
Increase (decrease) in deferred contributions related to future operating expenses	(118)	1,629
Decrease in deferred capital contributions reallocated	(97)	(2,417)
	41,023	40,331
Net change in non-cash working capital items [note 12]	22,117	(18,021)
Cash provided by operating activities	63,140	22,310
FINANCING ACTIVITIES		
Contributions received related to capital assets	14,982	11,308
Increase in short-term liabilities	3,124	—
Decrease in other long-term liabilities	(441)	(240)
Increase in long-term debt	8,200	—
Repayment of long-term debt	(3,857)	(3,652)
Payment of capital lease obligations	(4,349)	(4,272)
Cash provided by financing activities	17,659	3,144
INVESTING ACTIVITIES		
Decrease in restricted cash and portfolio investments, net	805	5,146
Decrease (increase) in investment in joint ventures	417	(253)
Cash provided by investing activities	1,222	4,893
CAPITAL ACTIVITIES		
Proceeds on sale of capital assets	59	239
Purchase of capital assets	(43,410)	(43,272)
Cash used in capital activities	(43,351)	(43,033)
Net increase (decrease) in cash and cash equivalents during the year	38,670	(12,686)
Cash and cash equivalents, beginning of year	167,804	180,490
Cash and cash equivalents, end of year	206,474	167,804

See accompanying notes to financial statements

London Health Sciences Centre

Notes to financial statements

[in thousands of dollars]

March 31, 2017

1. Purpose of the organization

London Health Sciences Centre [the "Centre"] was incorporated without share capital under the *Corporations Act* (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.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with the *CPA Canada Public Sector ["PS"] Handbook*, 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 initially deferred when recorded in the accounts and recognized as revenue in the period in which the related expenses are incurred.

Contributions externally restricted for capital assets are initially 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 is 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 it relates to deferred contributions and amounts held for others, in which case it is 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.

London Health Sciences Centre

Notes to financial statements

[in thousands of dollars]

March 31, 2017

[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, restricted cash and cash equivalents consist of cash on deposit and guaranteed investment certificates.

[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.

London Health Sciences Centre

Notes to financial statements

[in thousands of dollars]

March 31, 2017

[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, such as funding adjustments from the MOHLTC and the SW-LHIN. 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

[i] 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.

[ii] 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, which ranges from 4.4 to 14.9 years.

London Health Sciences Centre

Notes to financial statements

[in thousands of dollars]

March 31, 2017

[i] Financial instruments

Financial instruments are classified in one of the following categories: [i] fair value; [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:

- [i] Portfolio investments are measured at fair value, with changes in fair value recognized in the statement of remeasurement gains and losses.
- [ii] 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.
- [iii] 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 that 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.

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.

London Health Sciences Centre

Notes to financial statements

[in thousands of dollars]

March 31, 2017

[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:

	2017	2016
	\$	\$
Academic Medical Organization of Southwestern Ontario [a]	5,755	5,592
SWO DI/Regional Information Management Projects [b]	340	494
cSWO [c]	7,960	1,916
	14,055	8,002

[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.

London Health Sciences Centre

Notes to financial statements

[in thousands of dollars]

March 31, 2017

4. Restricted cash and portfolio investments

	2017	2016
	\$	\$
Externally restricted:		
Short-term restricted cash	91	426
Short-term restricted portfolio investments – fixed income	10,024	10,000
Internally restricted:		
Short-term restricted cash	3,446	4,114
Long-term restricted cash	405	3,437
Short-term restricted portfolio investments – fixed income	489	—
Long-term restricted portfolio investments – fixed income	5,217	2,500
	19,672	20,477
Less current portion of restricted cash and portfolio investments	14,050	14,540
Total long-term restricted cash and portfolio investments	5,622	5,937

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[b]].

London Health Sciences Centre

Notes to financial statements

[in thousands of dollars]

March 31, 2017

5. Capital assets

	2017		2016	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Land	3,997	—	2,202	—
Construction and projects in progress	10,561	—	12,928	—
Buildings, building service equipment and land improvements	1,022,262	264,549	1,009,942	242,492
Parking lot pavement	2,459	1,558	2,459	1,286
Equipment and furniture [a]	494,510	332,772	461,083	293,405
	1,533,789	598,879	1,488,614	537,183
Less accumulated amortization	598,879		537,183	
Net book value	934,910		951,431	

The above capital assets include assets under capital lease of \$17,861 [2016 – \$18,092] at cost with accumulated amortization of \$9,487 [2016 – \$9,542].

[a] During the year, the Centre recorded \$363 [2016 – \$1,909] in contributed assets and the related deferred capital contributions.

6. Credit facilities

The credit facilities as at March 31, 2017 established with the Centre's bankers consist of a credit line of \$45,000 [2016 – \$45,000] to be used for general operating purposes and to bridge capital expenditures. The first facility bears interest at the Bankers' Acceptance rate plus 0.45%. No amount was drawn on this facility as at March 31, 2017 or March 31, 2016.

The Centre has a second credit facility to bridge capital purchases. This facility, due on demand, bears interest at prime less 0.85%. \$3,124 was drawn on this facility as at March 31, 2017 [2016 – nil].

London Health Sciences Centre

Notes to financial statements

[in thousands of dollars]

March 31, 2017

7. Long-term liabilities and interest swap rates

	2017	2016
	\$	\$
Long-term debt		
Term instalment loan at 7.00% [a]	11,088	11,802
Term instalment loan at 7.08% [a]	11,762	12,611
Non-revolving instalment loan [b]	95	855
Term instalment loan at 5.68% [c]	23,582	24,226
Term instalment loans at 4.17% [d]	28,628	29,518
Term instalment loan at 2.60% [e]	8,200	—
	83,355	79,012
Less current portion	3,693	3,857
	79,662	75,155
Other long-term liabilities		
Sick leave entitlement [g]	340	616
Employee benefit rebates [h]	2,885	3,056
Accumulating and non-vesting sick pay benefits [i]	241	235
	3,466	3,907
Less current portion	238	230
	3,228	3,677
	82,890	78,832
Interest rate swaps		
Interest rate swap on term instalment loan [a]	2,392	3,193
Interest rate swap on non-revolving instalment loan [b]	1	14
Interest rate swap on term instalment loan [c]	7,879	9,876
Interest rate swaps on term instalment loans [d]	5,983	7,818
Interest rate swap on term instalment loan [e]	111	—
Interest rate swap on future loan [f]	(93)	—
	16,273	20,901

The fair value of the interest rate swap ["IRS"] amounts disclosed above reflects 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.

London Health Sciences Centre

Notes to financial statements

[in thousands of dollars]

March 31, 2017

- [a] The Centre has a non-revolving term instalment 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, 2017, the agreement represented a notional principal amount of \$11,088 [2016 – \$11,802].

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%.

As at March 31, 2017, the fair value of this IRS agreement represented a liability of \$2,392 [2016 – \$3,193].

The Centre has a non-revolving term instalment 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, 2017, the agreement represented a notional principal amount of \$11,762 [2016 – \$12,611].

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 instalment 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 nil and 3.65% on tranche 2 of \$95.

As at March 31, 2017, the fair value of this IRS agreement represented a liability of \$1 [2016 – \$14].

- [c] The Centre has a non-revolving floating rate term instalment 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, 2017, the fair value of this IRS agreement represented a liability of \$7,879 [2016 – \$9,876].

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Notes to financial statements

[in thousands of dollars]

March 31, 2017

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 instalment 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 fix 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, 2017, the fair value of these IRS agreements represented a liability of \$5,983 [2016 – \$7,818].

- [e] The Centre has a non-revolving floating rate term instalment loan at the Bankers' Acceptance rate plus 0.30% on the purchase of long-term assets. Monthly equal blended payments of principal and interest will commence April 28, 2017. The maturity date of this agreement is March 30, 2037.

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 0.30% annually for a fixed rate of 2.60%.

As at March 31, 2017, the fair value of this IRS agreement represented a liability of \$111 [2016 – nil].

- [f] The Centre has entered into an IRS agreement that fixes the interest rate for future debt. The IRS agreement causes the Centre to swap its floating rate obligation at the Bankers' Acceptance rate plus 0.30% annually for a fixed rate of 1.66%.

As at March 31, 2017, the fair value of this IRS agreement represented an asset of \$93 [2016 – nil].

- [g] 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.

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

- [i] 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 \$6 [2016 – \$43].

London Health Sciences Centre

Notes to financial statements

[in thousands of dollars]

March 31, 2017

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

	\$
2018	3,693
2019	3,803
2020	4,020
2021	4,251
2022	3,780
Thereafter	63,808
	<u>83,355</u>

Interest costs incurred in the year amounted to \$4,948 [2016 – \$5,055].

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.

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, 2017			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets and liabilities				
Cash and cash equivalents	176,380	30,094	—	206,474
Restricted cash and portfolio investments [note 4]	3,746	15,926	—	19,672
Interest rate swaps [note 7]	—	(16,273)	—	(16,273)
	<u>180,126</u>	<u>29,747</u>	<u>—</u>	<u>209,873</u>

London Health Sciences Centre

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March 31, 2017

	Fair value as at March 31, 2016			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets and liabilities				
Cash and cash equivalents	152,804	15,000	—	167,804
Restricted cash and portfolio investments <i>[note 4]</i>	7,977	12,500	—	20,477
Interest rate swaps <i>[note 7]</i>	—	(20,901)	—	(20,901)
	<u>160,781</u>	<u>6,599</u>	<u>—</u>	<u>167,380</u>

There have been no material transfers between Levels 1 and 2 for the year ended March 31, 2017.

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.

[b] 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 0.9 years [2016 – 0.7 years] and an average yield of 1.44% [2016 – 1.35%] as at March 31, 2017 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 derivative financial instruments that exchange 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.

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[c] 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 \$35,789 [2016 – \$39,755]. 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, 2017. The corporate bonds included in restricted cash and portfolio investments have a minimum investment rating of AA.

[d] 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.

9. Capital lease obligations

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

	2017	2016
	\$	\$
Total minimum lease payments	8,389	8,693
Less amounts representing interest	736	737
Add residual values	755	560
Present value of capital lease obligations	8,408	8,516
Less current portion of capital lease obligations	3,948	3,689
	4,460	4,827

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Principal payments due under capital lease obligations are as follows:

	\$
2018	3,606
2019	2,250
2020	1,145
2021	509
2022 and thereafter	<u>142</u>

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:

	2017 \$	2016 \$
Balance, beginning of year	677,021	696,045
Contributions received during the year		
MOHLTC and SW-LHIN	10,152	8,034
Foundations	4,155	2,025
Other	1,038	3,158
Capital contributions reallocated	(34)	(814)
Capital contributions reclassified to accounts payable	(63)	(1,603)
Amortization	(23,980)	(29,824)
Balance, end of year	<u>668,289</u>	<u>677,021</u>

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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:

	2017 \$	2016 \$
Balance, beginning of year	10,704	9,075
Contributions received during the year		
MOHLTC and SW-LHIN	13	—
Foundations	774	658
Other	2,428	4,004
Amounts recognized as revenue during the year	(3,333)	(3,033)
	10,586	10,704
Less current portion	9,229	9,347
Balance, end of year	1,357	1,357

12. Statement of cash flows

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

	2017 \$	2016 \$
Cash provided by (used in)		
Accounts receivable		
MOHLTC and SW-LHIN	19,013	(15,710)
Patient and other	3,966	15,628
Inventory	1,055	1,209
Prepaid expenses	856	(792)
Accounts payable – MOHLTC and SW-LHIN	(945)	(11,972)
Accounts payable and accrued charges	(1,828)	(6,384)
	22,117	(18,021)

Non-cash transactions during the year related to contributed capital assets and the related deferred capital contributions of \$363 [2016 – \$1,909] are excluded from the statement of cash flows.

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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:

	\$
2018	1,499
2019	1,268
2020	725
2021	725
2022	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, 2017, it is management's position that the Centre has valid defences and appropriate insurance coverage to offset the cost of unfavourable settlements, if any, which may result from such claims.

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 the HOOPP during the year amounted to \$41,627 [2016 – \$42,458]. 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, 2016 disclosed net assets available for benefits of \$70,359,000 [2015 – \$63,924,000] with pension obligations of \$54,461,000 [2015 – \$49,151,000], resulting in a surplus of \$15,898,000 [2015 – \$14,773,000]. The cost of pension benefits is determined by HOOPP at \$1.26 per every dollar of employee contributions. As at December 31, 2016, the HOOPP was 122% funded [2015 – 122%].

[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, 2017.

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

	<u>2017</u>	<u>2016</u>
Discount rate	3.6%	3.4%
Executive supplementary pension increase	1.5%	2.0%
Health care inflation increase	<u>6.4%</u>	<u>6.6%</u>

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

	<u>2017</u>	<u>2016</u>
Discount rate	3.4%	3.4%
Executive supplementary pension increase	2.0%	2.0%
Health care inflation increase	<u>6.6%</u>	<u>6.7%</u>

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 \$1,010 [2016 – \$917]. 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:

	<u>2017</u>	<u>2016</u>
	\$	\$
Accrued benefit obligation		
Balance at beginning of year	29,431	27,886
Current service cost	1,442	1,361
Interest cost	1,011	977
Benefits paid	(1,588)	(1,335)
Plan amendment	—	379
Actuarial loss (gain)	(649)	163
Balance at end of year	<u>29,647</u>	<u>29,431</u>
Unamortized net actuarial loss	(1,020)	(2,194)
Employee future benefit liability	<u>28,627</u>	<u>27,237</u>
Less current portion	1,588	1,335
Total long-term employee future benefit liability	<u>27,039</u>	<u>25,902</u>

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

	2017	2016
	\$	\$
Current service cost	1,442	1,361
Interest cost	1,011	977
Plan amendment	—	379
Amortization of actuarial loss	526	512
Net benefit plan expense	2,979	3,229

15. Related entities

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

	2017	2016
	\$	\$
London Health Sciences Centre Research Inc. [a]	10,055	7,255
London Health Sciences Foundation [b]	1,457	648
	11,512	7,903

All related party transactions are in the normal course of operations and are measured at the agreed-upon exchange amount. 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 [2016 – \$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 \$379 [2016 – \$379] to the Centre for sharing of infrastructure costs.

Included in the amounts due from LHSCRI is \$5,176 [2016 – \$4,998], the disbursement of which is at the discretion of the Centre.

London Health Sciences Centre

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[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:

	2017 \$	2016 \$
Capital	2,718	1,212
Patient care	1,318	1,855
Education	648	1,026
Research	10	401
	<u>4,694</u>	<u>4,494</u>

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:

	2017 \$	2016 \$
Investment in Western ProResp Inc. [a]	3,311	3,006
Investment in HMMS [b]	2,332	2,374
Investment in PaLM [c]	3,169	3,849
Investment in Information Technology Purchased Services [d]	—	—
	<u>8,812</u>	<u>9,229</u>

[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. As at March 31, 2017, Western ProResp Inc. owed \$287 [2016 – \$280] to the Centre. This amount is included in patient and other accounts receivable.

[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

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expensed to operations as a purchased service. As at March 31, 2017, the Centre owed \$11,925 [2016 – \$14,691] to HMMS. This amount is included in accounts payable and accrued charges.

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, 2017, the Centre had provided a guarantee for up to \$8,432 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, 2017, HMMS had not drawn on its operating line of credit [2016 – nil].

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

The Centre and SJHC entered into an unincorporated 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, 2017 were \$43,300 [2016 – \$43,305]. As at March 31, 2017, the Centre owed \$662 [2016 – \$588] to PaLM. This amount is included in accounts payable and accrued charges.

[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 \$11,170 [2016 – \$11,084] on behalf of Information Technology Purchased Services. As at March 31, 2017, the Centre owed \$298 to Information Technology Purchased Services with respect to these costs. As at March 31, 2016, Information Technology Purchased Services Centre owed \$1,340 to the Centre with respect to these costs. The Centre paid \$1,694 [2016 – \$1,622] to Information Technology Purchased Services for the Centre's share of operating costs during the year.

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

	2017		
	PaLM	Other	Total
	\$	\$	\$
Centre's share of current year revenue	56,264	15,771	72,035
Centre's share of current year expenses	(57,250)	(15,896)	(73,146)
Centre's share of current year net loss	(986)	(125)	(1,111)
Centre's share of total assets	3,745	31,448	35,193
Centre's share of total liabilities	489	27,928	28,417
Centre's share of cash provided by (used in) operating activities	124	(2,204)	(2,080)
Centre's share of cash used in investing activities	(304)	(507)	(811)
Centre's share of cash provided by (used in) financing activities	(132)	1,015	883
Centre's share of cash provided by (used in) operating, investing and financing activities	(312)	(1,696)	(2,008)
	2016		
	PaLM	Other	Total
	\$	\$	\$
Centre's share of current year revenue	55,370	14,139	69,509
Centre's share of current year expenses	(56,632)	(14,223)	(70,855)
Centre's share of current year net loss	(1,262)	(84)	(1,346)
Centre's share of total assets	4,534	28,900	33,434
Centre's share of total liabilities	573	25,473	26,046
Centre's share of cash provided by (used in) operating activities	(47)	2,604	2,557
Centre's share of cash used in investing activities	(1,078)	(600)	(1,678)
Centre's share of cash provided by (used in) financing activities	47	(103)	(56)
Centre's share of cash provided by (used in) operating, investing and financing activities	(1,078)	1,901	823

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

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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:

	2017	2016
	\$	\$
Revenue	67,161	65,628
Expenses	70,029	68,532
Excess of expenses over revenue	(2,868)	(2,904)

18. Comparative financial statements

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

