Financial statements

London Health Sciences Centre

March 31, 2018

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 30, 2018.

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 its 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.

Original Signed

Paul Woods, MD, MS, CCFP
President and CEO

Original Signed

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

London, Canada
May 30, 2018

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, 2018, 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, 2018, and the results of its financial performance 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 30, 2018

Chartered Professional Accountants
Licensed Public Accountants

London Health Sciences Centre

STATEMENT OF FINANCIAL POSITION

As at March 31
[in thousands]

	2018 $	2017 $
ASSETS		
Current		
Cash and cash equivalents	**223,048**	206,474
Restricted cash and portfolio investments *[notes 5 and 9]*	**8,267**	14,050
Accounts receivable		
Ministry of Health and Long-Term Care [MOHLTC], South West Local Health Integration Network [SW-LHIN] and Cancer Care Ontario [CCO]	**14,321**	9,108
Patient and other *[notes 9[c] and 17]*	**42,572**	35,789
Due from related entities *[note 16]*	**8,378**	11,512
Inventory	**8,351**	8,023
Prepaid expenses	**5,789**	6,406
	310,726	291,362
Restricted cash and portfolio investments *[note 5]*	**4,927**	5,622
Investments in joint ventures *[note 17]*	**13,015**	8,812
Capital assets, net *[note 6]*	**922,914**	934,910
	1,251,582	1,240,706
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued charges *[note 17]*	**108,089**	97,587
Accounts payable – MOHLTC, SW-LHIN and CCO	**13,038**	10,130
Short-term liabilities *[note 7]*	¾	3,124
Current portion of long-term liabilities *[note 8]*	**4,538**	3,931
Current portion of employee future benefits *[note 15]*	**1,859**	1,588
Current portion of capital lease obligations *[note 10]*	**3,182**	3,948
Current portion of deferred contributions *[note 12]*	**13,761**	9,229
	144,467	129,537
Long-term liabilities *[note 8]*	**82,828**	82,890
Employee future benefits *[note 15]*	**27,907**	27,039
Interest rate swaps *[note 8]*	**11,368**	16,273
Capital lease obligations *[note 10]*	**3,952**	4,460
Deferred contributions *[note 12]*	**1,357**	1,357
Deferred capital contributions *[note 11]*	**655,709**	668,289
	927,588	929,845
Commitments and contingencies *[note 14]*		
NET ASSETS		
Unrestricted net assets	**335,362**	327,134
Accumulated remeasurement losses	**(11,368)**	(16,273)
	1,251,582	1,240,706

See accompanying notes to financial statements

On behalf of the Board of Directors:

Original Signed

Ramona Robinson
Chair, Board of Directors

Original Signed

Brenda Bird
Chair, Finance and Audit Committee

London Health Sciences Centre

STATEMENT OF CHANGES IN UNRESTRICTED NET ASSETS

Year ended March 31
[in thousands]

	2018 $	2017 $
Unrestricted net assets, beginning of year	**327,134**	324,173
Surplus	**8,228**	2,961
Unrestricted net assets, end of year	**335,362**	327,134

See accompanying notes to financial statements

London Health Sciences Centre

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

Year ended March 31
[in thousands]

	2018 $	2017 $
Accumulated remeasurement losses, beginning of year	**(16,273)**	(20,901)
Unrealized gain on interest rate swaps *[note 8]*	**4,248**	3,636
Realized loss on interest rate swaps reclassified to statement of operations *[note 8]*	**657**	992
Accumulated remeasurement losses, end of year	**(11,368)**	(16,273)

See accompanying notes to financial statements

London Health Sciences Centre

STATEMENT OF OPERATIONS

Year ended March 31
[in thousands]

	2018 $	2017 $
Revenue		
MOHLTC, SW-LHIN and CCO	**1,003,462**	980,022
Non-patient	**119,650**	111,329
Patient	**60,464**	56,368
Preferred accommodation	**10,543**	9,999
Amortization of deferred capital contributions *[note 11]*	**26,334**	23,980
Interest	**3,051**	1,680
	1,223,504	1,183,378
Expenses		
Salaries and wages	**659,018**	643,235
Employee benefits *[note 15]*	**132,174**	132,071
Supplies and other	**147,360**	141,444
Medical and surgical supplies	**92,539**	85,958
Drugs	**115,223**	105,057
Amortization of capital assets	**60,149**	64,535
Interest and other *[note 8]*	**7,770**	7,006
	1,214,233	1,179,306
Surplus before undernoted item	**9,271**	4,072
Loss on investments in joint ventures *[note 17]*	**(1,043)**	(1,111)
Surplus	**8,228**	2,961

See accompanying notes to financial statements

London Health Sciences Centre

STATEMENT OF CASH FLOWS

Year ended March 31
[in thousands]

	2018 $	2017 $
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Surplus	**8,228**	2,961
Add (deduct) non-cash items:		
Amortization of capital assets	**60,149**	64,535
Amortization of deferred capital contributions	**(26,334)**	(23,980)
Loss (gain) on disposal of equipment	**276**	(59)
Increase in employee future benefits	**1,139**	1,390
Decrease (increase) in due from related entities	**3,134**	(3,609)
Increase (decrease) in deferred contributions related to future operating expenses	**4,532**	(118)
Decrease in deferred capital contributions reallocated	**(5,860)**	(97)
	45,264	41,023
Net change in non-cash working capital items *[note 13]*	**1,703**	22,117
Cash provided by operating activities	**46,967**	63,140
FINANCING ACTIVITIES		
Contributions received related to capital assets	**18,954**	14,982
Increase (decrease) in short-term liabilities	**(3,124)**	3,124
Decrease in other long-term liabilities	**(450)**	(441)
Increase in long-term debt	**5,000**	8,200
Repayment of long-term debt	**(4,005)**	(3,857)
Payment of capital lease obligations	**(3,944)**	(4,349)
Cash provided by financing activities	**12,431**	17,659
INVESTING ACTIVITIES		
Decrease in restricted cash and portfolio investments, net	**6,478**	805
Decrease (increase) in investments in joint ventures	**(4,203)**	417
Cash provided by investing activities	**2,275**	1,222
CAPITAL ACTIVITIES		
Proceeds on sale of capital assets	**28**	59
Purchase of capital assets	**(45,127)**	(43,410)
Cash used in capital activities	**(45,099)**	(43,351)
Net increase in cash and cash equivalents during the year	**16,574**	38,670
Cash and cash equivalents, beginning of year	**206,474**	167,804
Cash and cash equivalents, end of year	**223,048**	206,474

See accompanying notes to financial statements

London Health Sciences Centre

Notes to financial statements

[in thousands of dollars]

March 31, 2018

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"], the South West Local Health Integration Network ["SW-LHIN"] and Cancer Care Ontario ["CCO"]. 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.

Notes to financial statements

[in thousands of dollars]

March 31, 2018

[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] 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 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.

When the Centre has significant influence or control of a not-for-profit organization, it is disclosed in the notes to the financial statements.

[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, and are capitalized and amortized over the life of the project.

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

[f] Capital leases

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

[g] Use of estimates

The preparation of the Centre's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and 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 3.4 to 13.6 years.

Notes to financial statements

[in thousands of dollars]

March 31, 2018

[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.

[in thousands of dollars]

[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. Change in accounting policy

During the year, the Centre adopted the new accounting standards PS 2200*, Related Party Disclosures,* and PS 3420, *Inter-Entity Transactions*. These new standards are effective for fiscal years beginning on or after April 1, 2017. PS 2200 defines a related party and establishes disclosures required for related party transactions. PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. The new accounting standards were applied on a prospective basis and did not have any impact on the financial statements.

4. 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:

	2018 $	**2017** $
Academic Medical Organization of Southwestern Ontario [a]	**5,696**	5,755
SWO DI/Regional Information Management Projects [b]	**168**	340
cSWO [c]	**4,579**	7,960
	10,443	14,055

[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.

Notes to financial statements

[in thousands of dollars]

March 31, 2018

5. Restricted cash and portfolio investments

	2018 $	2017 $
Externally restricted		
Short-term restricted cash	**—**	91
Short-term restricted portfolio investments – fixed income	**4,025**	10,024
Internally restricted		
Short-term restricted cash	**—**	3,446
Long-term restricted cash	**410**	405
Short-term restricted portfolio investments – fixed income	**4,242**	489
Long-term restricted portfolio investments – fixed income	**4,517**	5,217
	13,194	19,672
Less current portion of restricted cash and portfolio investments	**8,267**	14,050
Total long-term restricted cash and portfolio investments	**4,927**	5,622

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 9[b]]*.

Notes to financial statements

[in thousands of dollars]

March 31, 2018

6. Capital assets

	2018		2017	
	Cost	**Accumulated amortization**	**Cost**	**Accumulated amortization**
	$	$	$	$
Land	**3,997**	**—**	3,997	—
Construction and projects in progress	**16,015**	**—**	10,561	—
Buildings, building service equipment and land improvements	**1,028,600**	**286,849**	1,022,262	264,549
Parking lot pavement	**2,840**	**1,809**	2,459	1,558
Equipment and furniture [a]	**527,085**	**366,965**	494,510	332,772
	1,578,537	**655,623**	1,533,789	598,879
Less accumulated amortization	**655,623**		598,879	
Net book value	**922,914**		934,910	

[a] During the year, the Centre recorded $660 [2017 – $363] in contributed assets and the related deferred capital contributions.

The above capital assets include assets under capital lease of $20,747 [2017 – $17,861] at cost with accumulated amortization of $13,426 [2017 – $9,487].

7. Credit facilities

The credit facilities as at March 31, 2018 established with the Centre's bankers consist of a credit line of $45,000 [2017 – $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, 2018 or March 31, 2017.

As at March 31, 2017, the Centre had a second credit facility to bridge capital purchases. This facility, due on demand, bears interest at prime less 0.85% and $3,124 was drawn on this facility as at March 31, 2017. This facility was closed during the year and the balance transferred to a new debt facility *[note 8[f]*].

Notes to financial statements

[in thousands of dollars]

March 31, 2018

8. Long-term liabilities and interest rate swaps

	2018 $	2017 $
Long-term debt		
Term installment loan at 7.00% [a]	**10,330**	11,088
Term installment loan at 7.08% [a]	**10,851**	11,762
Non-revolving installment loan [b]	**—**	95
Term installment loan at 5.68% [c]	**22,901**	23,582
Term installment loans at 4.17% [d]	**27,697**	28,628
Term installment loan at 2.60% [e]	**7,883**	8,200
Term installment loan at 1.61% [f]	**4,691**	—
	84,353	83,355
Less current portion	**4,273**	3,693
	80,080	79,662
Other long-term liabilities		
Sick leave entitlement [g]	**82**	340
Employee benefit rebates [h]	**2,665**	2,885
Accumulating and non-vesting sick pay benefits [i]	**266**	241
	3,013	3,466
Less current portion	**265**	238
	2,748	3,228
	82,828	82,890
Interest rate swaps		
Interest rate swap on term installment loan [a]	**1,532**	2,392
Interest rate swap on non-revolving installment loan [b]	**—**	1
Interest rate swap on term installment loan [c]	**5,970**	7,879
Interest rate swaps on term installment loans [d]	**4,230**	5,983
Interest rate swap on term installment loan [e]	**(136)**	111
Interest rate swap on term installment loan [f]	**(228)**	(93)
	11,368	16,273

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.

Notes to financial statements

[in thousands of dollars]

March 31, 2018

[a] The Centre has a non-revolving term installment loan on the first Victoria Hospital parking structure bearing interest at a floating rate of the Bankers' Acceptance rate plus 0.65% and due on December 30, 2022. Quarterly equal blended payments of principal and interest commenced September 30, 2003. As at March 31, 2018, the agreement represented a notional principal amount of $10,330 [2017 – $11,088].

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, 2018, the fair value of this IRS agreement represented a liability of $1,532 [2017 – $2,392].

The Centre has a non-revolving term installment loan on its University Hospital parking structure bearing interest at 7.08% and due on July 31, 2021. Monthly equal blended payments of principal and interest commenced April 1, 2002. As at March 31, 2018, the agreement represented a notional principal amount of $10,851 [2017 – $11,762].

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

[b] The Centre has a non-revolving floating rate installment loan at the Bankers' Acceptance rate plus 0.60% to finance expenditures related to the replacement of chiller systems. The credit was available in two tranches, which were advanced in sequence. Monthly equal blended payments of principal and interest commenced April 30, 2009. The maturity date of tranche 1 is March 31, 2018, and the maturity date of tranche 2 is March 30, 2018. Both tranches have been fully repaid as at March 31, 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 and 3.65% on tranche 2.

As at March 31, 2018, the fair value of this IRS agreement represented a liability of nil [2017 – $1].

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

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

As at March 31, 2018, the fair value of this IRS agreement represented a liability of $5,970 [2017 – $7,879].

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

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

The Centre is exposed to interest rate cash flow risk with respect to its floating rate debt and has addressed this risk by entering into IRS agreements that 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, 2018, the fair value of these IRS agreements represented a liability of $4,230 [2017 – $5,983].

[e] The Centre has a non-revolving floating rate term installment loan at the Bankers' Acceptance rate plus 0.30% on the purchase of long-term assets. Monthly equal blended payments of principal and interest commenced 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, 2018, the fair value of this IRS agreement represented an asset of $136 and a liability of $111 as at March 31, 2017.

[f] The Centre has a non-revolving floating rate term installment loan at the Bankers' Acceptance rate plus 0.30% related to the replacement of chiller systems. Monthly equal blended payments of principal and interest commenced August 31, 2017. The maturity date of this agreement is July 31, 2027.

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 1.61%.

As at March 31, 2018, the fair value of this IRS agreement represented an asset of $228 [2017 – $93].

[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.

[in thousands of dollars]

[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 $24 [2017 – $6].

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

	$
2019	4,273
2020	4,498
2021	4,736
2022	4,272
2023	3,439
Thereafter	63,135
	84,353

Interest costs incurred in the year amounted to $5,008 [2017 – $4,948].

9. 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.

Notes to financial statements

[in thousands of dollars]

March 31, 2018

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, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Financial assets and liabilities				
Cash and cash equivalents	**172,662**	**50,386**	**—**	**223,048**
Restricted cash and portfolio investments *[note 5]*	**410**	**12,784**	**—**	**13,194**
Interest rate swaps *[note 8]*	**—**	**(11,368)**	**—**	**(11,368)**
	173,072	**51,802**	**—**	**224,874**

	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 5]*	3,746	15,926	—	19,672
Interest rate swaps *[note 8]*	—	(16,273)	—	(16,273)
	180,126	29,747	—	209,873

There have been no material transfers between Levels 1 and 2 for the years ended March 31, 2018 and 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 an 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 0.6 years [2017 – 0.9 years] and an average yield of 1.50% [2017 – 1.44%] as at March 31, 2018 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 8]*. Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the long-term debt.

[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. As at year-end, patient and other accounts receivable totalled $42,572 [2017 – $35,789]. 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, 2018.

[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 7]* that may be used when sufficient cash flow is not available from operations to cover operating expenditures. The Centre believes that its current sources of liquidity are sufficient to cover its known short and long-term cash obligations.

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

Notes to financial statements

[in thousands of dollars]

March 31, 2018

10. Capital lease obligations

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

	2018 $	2017 $
Total minimum lease payments	**7,235**	8,389
Less amounts representing interest	**673**	736
Add residual values	**572**	755
Present value of capital lease obligations	**7,134**	8,408
Less current portion of capital lease obligations	**3,182**	3,948
	3,952	4,460

Principal payments due under capital lease obligations are as follows:

	$
2019	2,980
2020	1,911
2021	1,184
2022	487
2023 and thereafter	—

11. 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:

	2018 $	2017 $
Balance, beginning of year	**668,289**	677,021
Contributions received during the year		
MOHLTC, SW-LHIN and CCO	**14,124**	10,152
Foundations	**2,821**	4,155
Other	**2,669**	1,038
Capital contributions reallocated	**(5,545)**	(34)
Capital contributions reclassified to accounts payable	**(315)**	(63)
Amortization	**(26,334)**	(23,980)
Balance, end of year	**655,709**	668,289

Notes to financial statements

[in thousands of dollars]

March 31, 2018

12. 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:

	2018 $	**2017** $
Balance, beginning of year	**10,586**	10,704
Contributions received during the year		
MOHLTC and SW-LHIN	**5,001**	13
Foundations	**908**	774
Other	**1,724**	2,428
Amounts recognized as revenue during the year	**(3,101)**	(3,333)
	15,118	10,586
Less current portion	**13,761**	9,229
Balance, end of year	**1,357**	1,357

13. Statement of cash flows

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

	2018 $	**2017** $
Cash provided by (used in)		
Accounts receivable		
MOHLTC, SW-LHIN and CCO	**(5,213)**	19,013
Patient and other	**(6,783)**	3,966
Inventory	**(328)**	1,055
Prepaid expenses	**617**	856
Accounts payable – MOHLTC, SW-LHIN and CCO	**2,908**	(945)
Accounts payable and accrued charges	**10,502**	(1,828)
	1,703	22,117

Non-cash transactions during the year related to contributed capital assets and the related deferred capital contributions of $660 [2017 – $363] are excluded from the statement of cash flows.

Notes to financial statements

[in thousands of dollars]

March 31, 2018

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:

	$
2019	1,365
2020	725
2021	747
2022	857
2023	857

[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, 2018, 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.

[c] The Centre routinely engages in collective bargaining and is subject to various human rights matters under Provincial legislation when employees or groups within the bargaining units file grievances against the Centre or when the collective bargaining agreements are negotiated, which may result in a retroactive pay.

15. 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 $42,619 [2017 – $41,627]. 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, 2017 disclosed net assets available for benefits of $77,755,000 [2016 – $70,359,000] with pension obligations of $59,602,000 [2016 – $54,461,000], resulting in a surplus of $18,153,000 [2016 – $15,898,000]. The cost of pension benefits is determined by HOOPP at $1.26 per every dollar of employee contributions. As at December 31, 2017, the HOOPP was 122% funded [2016 – 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, 2018.

Notes to financial statements

[in thousands of dollars]

March 31, 2018

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

	2018	2017
Discount rate	**3.1%**	3.6%
Executive supplementary pension increase	**1.5%**	1.5%
Health care inflation increase	**5.7%**	6.4%

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

	2018	2017
Discount rate	**3.6%**	3.4%
Executive supplementary pension increase	**1.5%**	2.0%
Health care inflation increase	**6.4%**	6.6%

The health care inflation increase is expected to decrease to an ultimate rate of 3.9% in 2038 and thereafter. Benefits paid during the year were $1,144 [2017 – $1,010]. 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:

	2018 $	2017 $
Accrued benefit obligation		
Balance, beginning of year	**29,647**	29,431
Current service cost	**1,453**	1,442
Interest cost	**1,077**	1,011
Benefits paid	**(1,859)**	(1,588)
Actuarial gain	**(4,921)**	(649)
Balance, end of year	**25,397**	29,647
Unamortized net actuarial gain (loss)	**4,369**	(1,020)
Employee future benefit liability	**29,766**	28,627
Less current portion	**1,859**	1,588
Total long-term employee future benefit liability	**27,907**	27,039

[in thousands of dollars]

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

	2018 $	2017 $
Current service cost	**1,453**	1,442
Interest cost	**1,077**	1,011
Amortization of actuarial loss	**468**	526
Net benefit plan expense	**2,998**	2,979

16. Related entities

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

	2018 $	2017 $
London Health Sciences Centre Research Inc. [a]	**7,569**	10,055
London Health Sciences Foundation [b]	**809**	1,457
	8,378	11,512

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 17.

[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 [2017 – $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 nil [2017 – $379] to the Centre for sharing of infrastructure costs.

Included in the amounts due from LHSCRI is $5,207 [2017 – $5,176], the disbursement of which is at the discretion of the Centre.

Notes to financial statements

[in thousands of dollars]

March 31, 2018

[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:

	2018 $	2017 $
Capital	**1,559**	2,718
Patient care	**1,805**	1,318
Education	**891**	648
Research	**20**	10
	4,275	4,694

17. Investments 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:

	2018 $	2017 $
Investment in Western ProResp Inc. [a]	**3,685**	3,311
Investment in HMMS [b]	**2,295**	2,332
Investment in PaLM [c]	**7,035**	3,169
Investment in Information Technology Purchased Services [d]	**—**	—
	13,015	8,812

All transactions with the joint ventures are in the normal course of operations and are measured at the agreed-upon exchange amount.

[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, 2018, Western ProResp Inc. owed $340 [2017 – $287] 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 expensed to operations as a purchased service. As at March 31, 2018, the Centre owed $13,566 [2017 – $11,925] 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, 2018, the Centre had provided a guarantee for up to $8,406 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, 2018, HMMS had not drawn on its operating line of credit [2017 – 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, 2018 were $43,289 [2017 – $43,300]. As at March 31, 2018, the Centre owed $514 [2017 – $662] 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 $11,481 [2017 – $11,170] on behalf of Information Technology Purchased Services. As at March 31, 2018, Information Technology Purchased Services owed $1,248 to the Centre with respect to these costs. As at March 31, 2017, the Centre owed $368 to Information Technology Purchased Services with respect to these costs. The Centre paid $2,082 [2017 – $1,694] to Information Technology Purchased Services for the Centre’s share of operating costs during the year.

Notes to financial statements

[in thousands of dollars]

March 31, 2018

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

	2018		
	PaLM	**Other**	**Total**
	$	$	$
Centre's share of current year revenue	**56,832**	**18,636**	**75,468**
Centre's share of current year expenses	**(57,807)**	**(18,704)**	**(76,511)**
Centre's share of current year net loss	**(975)**	**(68)**	**(1,043)**
Centre's share of total assets	**7,465**	**31,226**	**38,691**
Centre's share of total liabilities	**411**	**27,688**	**28,099**
Centre's share of cash provided by (used in) operating activities	**(99)**	**2,635**	**2,536**
Centre's share of cash used in investing activities	**(4,691)**	**(709)**	**(5,400)**
Centre's share of cash provided by (used in) financing activities	**(67)**	**825**	**758**
Centre's share of cash provided by (used in) operating, investing and financing activities	**(4,857)**	**2,751**	**(2,106)**

	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 used in operating, investing and financing activities	(312)	(1,696)	(2,008)

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

Notes to financial statements

[in thousands of dollars]

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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 and received funding from the MOHLTC as follows:

	2018 $	2017 $
Revenue	**69,050**	67,161
Expenses	**69,133**	70,029
Excess of expenses over revenue	**(83)**	(2,868)