Financial statements of

Lakeridge Health

March 31, 2014

Lakeridge Health
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Deloitte.

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Independent Auditor's Report

To the Board of Directors of
Lakeridge Health

We have audited the accompanying financial statements of Lakeridge Health, which comprise the statement of financial position as at March 31, 2014, and the statements of operations, remeasurement gains and losses, changes in net assets, and cash flows for the year ended March 31, 2014 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.

Auditor's 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 auditor's 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 auditor considers 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 Lakeridge Health as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
June 19, 2014

Lakeridge Health

Statement of financial position
as at March 31, 2014

(In thousands of dollars)

	2014	2013
	$	$
Assets		
Current assets		
Cash (Note 3)	**132,496**	120,334
Accounts receivable (Note 4)	**16,952**	18,899
Inventories	**3,036**	3,907
Prepaid expenses	**2,453**	1,507
	154,937	144,647
Cash - restricted funds redevelopment (Note 3)	**1,287**	1,287
Cash - restricted funds energy retrofit (Note 3)	**10,250**	14,433
Capital assets (Note 5)	**428,843**	434,112
	595,317	594,479
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**97,379**	147,874
Deferred capital contributions - capital advances (Note 6)	**6,246**	6,642
Deferred contributions - other	**9,460**	8,114
Current portion - long-term debt (Note 8)	**2,957**	2,340
	116,042	164,970
Long-term debt (Note 8)	**48,950**	50,946
Employee future benefit liability (Note 9)	**12,358**	11,468
Derivative liability (Note 7)	**3,142**	4,048
Deferred capital contributions (Note 6)	**340,814**	348,587
	521,306	580,019
Net assets		
Invested in capital assets (Note 10)	**36,122**	32,805
Internally restricted (Note 11)	**238**	238
Unrestricted	**36,531**	(18,796)
Net assets	**72,891**	14,247
Accumulated remeasurement gains and losses	**1,120**	213
	74,011	14,460
	595,317	594,479

On behalf of the Board

R. St. George Chair of the Board

D Kingelin Treasurer

The accompanying notes to the financial statements are an integral part of this financial statement.

Lakeridge Health

Statement of operations
year ended March 31, 2014
(In thousands of dollars)

	2014	2013
	$	$
Revenue		
Ministry of Health and Long-Term Care ("MoHLTC") (Note 19)	**419,059**	379,138
Patient services	**28,436**	27,501
Other	**29,604**	24,922
Specifically funded programs	**18,373**	19,516
Amortization of deferred capital contributions	**2,821**	2,785
	498,293	453,862
Expenses		
Compensation and benefits	**301,670**	295,480
Supplies and other	**57,812**	53,248
Drugs	**29,738**	31,223
Medical and surgical supplies	**21,496**	20,681
Specifically funded programs	**18,373**	19,734
Amortization of capital assets	**6,373**	5,325
	435,462	425,691
MoHLTC Margin	**62,831**	28,171
Net building amortization and interest		
Amortization of deferred capital contributions	**12,875**	12,446
Amortization of buildings	**(15,003)**	(13,025)
Long-term interest	**(2,058)**	(2,143)
Excess of revenue over expenses	**58,644**	25,449

The accompanying notes to the financial statements are an integral part of this financial statement.

Lakeridge Health

Statement of remeasurement gains and losses
year ended March 31, 2014

(In thousands of dollars)

	2014	2013
	$	$
Accumulated remeasurement gains and (losses) at beginning of year	**213**	-
Unrealized gains attributable to derivative	**907**	213
Net remeasurement gains and (losses) for the year	**1,120**	213
Accumulated remeasurement gains and (losses) at end of year	**1,120**	213

The accompanying notes to the financial statements are an integral part of this financial statement.

Lakeridge Health

Statement of changes in net assets
year ended March 31, 2014
(In thousands of dollars)

	Invested in capital assets (Note 10)	Internally restricted (Note 11)	Unrestricted	2014 Total	2013 Total
	$	$	$	$	$
Net assets, beginning of year	**32,805**	**238**	**(18,796)**	**14,247**	(11,202)
Excess (deficiency) of revenue over expenses before amortization	**-**	**-**	**64,324**	**64,324**	28,568
Amortization of capital assets	**(21,376)**	**-**		**(21,376)**	(18,350)
Amortization of deferred capital contributions	**15,696**	**-**		**15,696**	15,231
	27,125	**238**	**45,528**	**72,891**	14,247
Purchase of capital assets, net of disposals (Note 13)	**16,107**	**-**	**(16,107)**	**-**	-
Amounts funded from deferred contributions and long term debt, less repayments of long-term debt	**(7,110)**	**-**	**7,110**	**-**	-
Net assets (deficiency), end of year	**36,122**	**238**	**36,531**	**72,891**	14,247

The accompanying notes to the financial statements are an integral part of this financial statement.

Lakeridge Health

Statement of cash flows
year ended March 31, 2014

(In thousands of dollars)

	2014	2013
	$	$
Operating activities		
Excess of revenue over expenses for the year	**58,644**	25,449
Add (deduct) non-cash items		
Amortization of capital assets	**21,376**	18,350
Amortization of deferred capital contributions	**(15,696)**	(15,231)
Employee future benefit expense (Note 9)	**1,591**	2,113
	65,915	30,681
Net change in non-cash operating items (Note 12)	**(47,395)**	21,624
Long-term receivable	**-**	1,106
Employee future benefits paid (Note 9)	**(631)**	(539)
	17,889	52,872
Capital activity		
Purchase of capital assets net of change in accounts payable related to capital asset acquisitions (Note 13)	**(16,058)**	(14,374)
Financing activities		
Proceeds of long-term debt	**983**	18,276
Repayment of long-term debt and equipment financing	**(2,362)**	(2,373)
Capital contributions short-term (Note 6)	**4,268**	2,184
Capital contributions long-term (Note 6)	**3,259**	2,641
	6,148	20,728
Net increase in cash during the year	**7,979**	59,226
Cash, beginning of year	**136,054**	76,828
Cash, end of year (Note 3)	**144,033**	136,054
Supplemental information		
Interest paid (Note 8)	**2,058**	2,271

The accompanying notes to the financial statements are an integral part of this financial statement.

1. The Corporation

Lakeridge Health (the Hospital) was formed July 31, 1998 by amalgamation under subsection 113(3) of the Corporations Act of Ontario and is a registered charity under the Income Tax Act. The Hospital is an amalgamation of Oshawa General Hospital, Memorial Hospital Bowmanville, North Durham Hospital Corporation and Whitby General Hospital.

Under the Health Insurance Act and the regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care (MoHLTC). The Board of Trustees recognizes the Hospital's on-going dependency on the MoHLTC as the primary funding source for the Hospital's operating activities.

As provided under the Local Health System Integration Act, 2006, effective April 1, 2007, the MoHLTC assigned to the Central East Local Health Integration Network (CELHIN), all of its rights, duties and obligations under its 2007/08 Hospital Accountability Agreement with the Hospital. This assignment is aligned with the Ministry's transformation agenda and will enable the CELHIN to take on full responsibility for planning, funding and integrating health services in the CELHIN area, which includes the Hospital.

2. Significant accounting policies

Management has prepared these financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations, using the deferral method of reporting restricted contributions. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the year. Actual results could differ from these estimates. Accounts requiring significant estimates include accounts receivable, capital assets, accrued liabilities, deferred revenue and employee future benefits.

Revenue recognition

Under the Health Insurance Act and Regulations thereto, the Hospital is primarily funded by the Province of Ontario. Operating grants are recorded as revenue in the year to which they relate.

To the extent which MoHLTC or CELHIN funding has been received with the stipulated requirement that the Hospital provides specific services, and these services have not yet been provided, the funding is deferred until such time as the services are performed and the monies spent. In the event that the services are not performed in accordance with the funding requirements, the funds received in excess of monies spent could be recovered by the MoHLTC or by the CELHIN.

Operating contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Capital contributions externally restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis at a rate corresponding with the amortization rate of the related capital assets.

Revenue from other agencies, patients, special programs and other sources is recognized when the service is provided.

2. Significant accounting policies (continued)

Classification of Financial instruments

All financial instruments reported on the Statement of Financial Position of the Hospital are measured as follows:

Financial instrument	Measurement
Cash	Amortized cost
Accounts receivable	Amortized cost
Cash - restricted funds - redevelopment	Amortized cost
Cash - restricted funds - energy retrofit	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Derivative liability	Fair value

The Hospital initially recognizes financial instruments at fair value and subsequently measures them at amortized cost using the effective interest rate method, less any impairment losses on financial assets, except for derivative liability. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Inventories

Inventories are valued at the lower of cost and replacement cost, with cost being determined on a first-in, first-out basis.

Capital assets

Capital assets are recorded at acquisition cost. Amortization is provided on a straight-line basis and is based on the estimated useful service lives of the assets as follows:

Land improvements	10-20 years
Buildings and building service equipment	20-50 years
Furniture and equipment	3-15 years

Upon completion, costs in construction-in-progress are reclassified to the appropriate capital asset amount and amortization is commenced when the asset is operational.

Employee future benefits

The Hospital accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of retirement ages of employees and expected heath care costs.

Adjustments arising from plan amendments are recognized in the year that the plan amendments occur. Actuarial gains or losses are amortized over the average remaining service period of the active employees.

The Hospital is an employer member of the Healthcare of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles.

(In thousands of dollars)

3. Cash

	2014	2013
	$	$
Cash - operations	**129,562**	117,501
Cash - redevelopment	**2,935**	2,833
Current	**132,496**	120,334
Restricted funds - redevelopment	**1,287**	1,287
Restricted funds - energy retrofit	**10,250**	14,433
	144,033	136,054

As outlined in the Development Accountability Agreement entered into September 22, 2009 with the MoHLTC for the development of the Oshawa site, $1,287 (2013 - $1,287) has been restricted through a deposit into a sinking fund.

In fiscal 2012-2013 the Hospital entered into an agreement to retrofit certain energy systems. Under the agreement $17,710 (Note 8) was borrowed and held in trust to finance the project expenditures. At March 31, 2014, $10,250 (2013 - $14,433) remained in trust.

4. Accounts receivable

	2014	2013
	$	$
Ontario Ministry of Health and Long-Term Care	**6,709**	156
Insurers and patients	**8,022**	8,815
Foundations	**390**	(43)
Other	**3,594**	10,897
	18,715	19,825
Provision for uncollectible accounts	**(1,763)**	(926)
	16,952	18,899

5. Capital assets

			2014	2013
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Land and land improvements	**7,054**	**4,051**	**3,003**	3,094
Buildings and building service equipment	**542,362**	**155,401**	**386,961**	396,359
Furniture and equipment	**166,473**	**138,877**	**27,596**	23,165
Construction in progress	**11,283**	**-**	**11,283**	11,494
	727,172	**298,329**	**428,843**	434,112

(In thousands of dollars)

6. Deferred capital contributions

Short-term

	2014	2013
	$	$
Contributions received for capital purposes - current year		
MoHLTC - redevelopment	**4,268**	29
Foundations - redevelopment	**-**	2,155
	4,268	2,184
Transfer to long-term	**(4,664)**	(5,780)
Net decrease for the year	**(396)**	(3,596)
Balance, beginning of year	**6,642**	10,238
Balance, end of year	**6,246**	6,642

Long-term

	2014	2013
	$	$
Contributions received for capital purposes - current year		
Foundations - redevelopment	**2,001**	-
Foundations - other	**1,221**	640
Other	**37**	2,001
Net increase for the year	**3,259**	2,641
Transfer from short-term	**4,664**	5,780
Less: amortization	**(15,696)**	(15,231)
Net decrease for the year	**(7,773)**	(6,810)
Balance, beginning of year	**348,587**	355,397
Balance, end of year	**340,814**	348,587

7. Derivative liability

The Hospital has a credit facility for the financing of construction of a Central Utilities Plant at one of the Hospital's facilities in the amount of $17,500. The Hospital entered into an interest rate swap agreement to modify the floating rate of interest on the loan from Bankers Acceptance rates of 1.20% to a fixed rate of 5.99%. The start date of this interest rate swap was October 1, 2004 with a maturity date of May 1, 2027. The notional value of the derivative financial instrument was initially $15,050 but was renegotiated to $17,500 and amortized monthly during the term of the interest rate swap. The fair value of the interest rate swap at March 31, 2014 is $3,142 (2013 - $4,048). The change in fair value during the year of $907 is recorded in the Statement of remeasurement gains and losses.

(In thousands of dollars)

8. Long-term debt

	2014	2013
	$	$
Loan bearing interest at 8.40% acquired for construction of parking garage, guaranteed by Oshawa General Hospital Foundation, repayable in blended monthly payments of $96. Loan will be paid in full as of December 31, 2016.	**2,834**	3,713
Loan for the purpose of financing the construction of a Central Utilities Plant at one of the Hospital's facilities. The loan bears interest at a floating rate based on Bankers Acceptance rates, of 1.20% during the year. Effective October 1, 2004, an interest rate swap in the amount of $15,050 was initiated and was renegotiated to $17,500 that modified the floating interest rate on the loan to a fixed rate of 5.99% (Note 7).	**13,669**	14,349
Fixed rate loan of $7,013 bearing interest at 5.07% to finance approved capital redevelopment projects. The loan is repayable in monthly payments based on a 15 year amortization.	**4,088**	4,536
Fixed rate loan of $12,500 bearing interest at 5.58% acquired for expansion of the north parking garage at the Oshawa site. The loan is repayable based on a 25 year amortization with interest only payments for the first 5 years. Principal payments commenced in January 2013.	**12,057**	12,412
Fixed rate loan of $17,710 bearing interest at 5.25% acquired for the retrofit of energy systems at the Hospital. The loan is repayable based on a 19 year term with the first payment scheduled to begin in January 2015.	**19,259**	18,276
	51,907	53,286
Less: amounts due within one year	**2,957**	2,340
	48,950	50,946

Interest expense on long-term debt was $3,046 (2013 - $3,183). Of this amount $983 has been accrued in respect of the retrofit of energy systems loan, as payment on this loan commences in January 2015. Interest paid during the year amounted to $2,058 (2013 - $2,271).

Principal repayments due in each of the next five years on long-term debt are as follows:

	$
2015	2,957
2016	3,051
2017	3,024
2018	2,371
2019	2,567

(In thousands of dollars)

9. Employee future benefits

The Hospital provides certain post-employment benefits to some of its employees. The most recent actuarial valuation for the Hospital was performed April 1, 2013.

Information about the Hospital's employee future benefits obligations, in aggregate, is as follows:

	2014	2013
	$	$
Employee future benefit liability		
Balance, beginning of year	**12,099**	10,525
Employer current service cost	**842**	694
Prior service costs	**132**	879
Amortization of actuarial losses	**71**	46
Interest cost	**546**	494
Benefits paid	**(631)**	(539)
Balance, end of year	**13,059**	12,099

	2014	2013
	$	$
Short-term portion included in accrued liablilites	**701**	631
Long-term portion	**12,358**	11,468
	13,059	12,099
Reconciliation of accrued benefit obligation		
Accrued benefit obligation	**14,005**	13,116
Unamortized experience losses	**(946)**	(1,017)
	13,059	12,099

The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit obligations are as follows:

	2014	2013
Discount rate to determine accrued benefit obligation	**4.00%**	4.25%
Dental cost increases	**4.00%**	4.00%
Extended healthcare cost escalations, decreasing by 0.25% per annum to an ultimate rate of 5.0% in 2019 and thereafter	**7.25%**	7.50%
Expected average remaining service life of employees	**15**	15

(In thousands of dollars)

10. Net assets invested in capital assets

	2014	2013
	$	$
Capital assets (Note 5)	**428,843**	434,112
Less: amounts financed by		
Deferred capital contributions (Note 6)	**(340,814)**	(348,587)
Long-term debt (Note 8)	**(51,907)**	(53,286)
Other	**-**	566
	36,122	32,805

11. Internally restricted

The Hospital has restricted $170 (2013 - $170) for major capital refurbishment of the parking garage. The Hospital has also restricted $68 (2013 - $68) for the replacement of specialized cancer related equipment at the McLaughlin Durham Regional Cancer Centre.

12. Net change in non-cash operating items

	2014	2013
	$	$
Decrease (increase) in assets		
Accounts receivable	**1,947**	7,465
Inventories	**871**	858
Prepaid expenses	**(946)**	(50)
	1,872	8,273
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	**(50,613)**	13,036
Deferred contributions - other	**1,346**	315
	(49,267)	13,351
	(47,395)	21,624

13. Purchase of capital assets net of change in accounts payable related to capital asset acquisitions

	2014	2013
	$	$
Purchase of capital assets	**16,107**	14,869
Change in accounts payable related to capital asset acquisitions	**(49)**	(495)
	16,058	14,374

(In thousands of dollars)

14. Lease commitments

The Hospital is committed under operating leases for various facilities until 2018. Minimum payments due in each of the next four remaining years of the leases are as follows:

	$
2015	1,186
2016	578
2017	231
2018	58
	2,053

15. Pension plan

Substantially all of the employees of the Hospital are members of the Healthcare of Ontario Pension Plan (the "Plan") that is a multi-employer final average pay contributory pension plan. Employer contributions made to the Plan during the year by the Hospital amount to $17,686 (2013 - $17,265) and are recorded as compensation and benefits. The most recent actuarial valuation of the plan as at December 31, 2012 indicates the plan is fully funded.

16. Contingent liabilities and guarantees

Due to the nature of its operations, the Hospital is periodically subject to lawsuits in which the Hospital is a defendant, as well as grievances filed by its various unions. In the opinion of management, the resolution of any current lawsuits and/or grievances would not have a material effect on the financial position or results of operations.

In the normal course of business, the Hospital enters into agreements that meet the definition of a guarantee. The Hospital's primary guarantees are as follows:

a. Indemnity has been provided to all directors and officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Hospital. The maximum amount of any potential future payment cannot be reasonably estimated.

b. In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Hospital from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Hospital has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the statement of financial position with respect to these agreements.

(In thousands of dollars)

17. Risk management

Credit risk

Credit risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and incur a financial loss. The Hospital is exposed to credit risk on its accounts receivable.

Interest rate risk

Interest rate risk relates to the potential for financial loss caused by fluctuations in fair value of future cash flows of financial instruments because of changes in market interest rates.

The long-term debt generally bears interest at fixed rates, except for the loan for purpose of financing the construction of a Central Utilities Plant. The Hospital mitigates interest rate risk on the loans through a derivative financial instrument that exchanges the variable rate inherent in the long-term debt for a fixed rate (see Note 8). Therefore fluctuations in market interest rates would not impact future cash flows and operations relating to long-term debt.

18. Related party transactions

Foundations

The Hospital is related to the Lakeridge Health Foundation (formerly The Oshawa Hospital Foundation), The Memorial Hospital Foundation - Bowmanville, Port Perry Hospital Foundation and Lakeridge Health Whitby Foundation ("Foundations"). The Foundations raise funds to support projects of the Hospital.

The Hospital does not exercise control or significant influence over the Foundations; consequently these financial statements do not include assets, liabilities and activities of the Foundations.

Amounts received or receivable from Foundations related to capital are as follows:

	2014	2013
	$	$
Lakeridge Health Foundation	**358**	(81)
The Memorial Hospital Foundation - Bowmanville	**16**	9
Port Perry Hospital Foundation	**16**	14
Lakeridge Health Whitby Foundation	**1**	15
	391	(43)

Shared services

The Hospital is a member of Plexxus, a not-for-profit shared service organization with 11 hospital owner/members (of which the Hospital is one). Funded by the members, the objective of Plexxus is to work collaboratively with stakeholders to deliver cost efficient services.

In the fiscal year, Plexxus replaced the purchase price improvement savings with an annual membership fee based on the services provided to the individual member hospital.

19. PCOP surplus revenue

Included in MOHLTC revenue is $42,140 (2013 - $11,532) of Post Construction Operating Plan (PCOP) surplus funding which has been recognized into income as a result of an MOHLTC reconciliation.